TEEKAY SHIPPING (CANADA) LTD.

Moderator: Emily Yee
May 15, 2014
10:00 am CT

Operator: Welcome to Teekay Corporation's First Quarter 2014 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, sir.

(Ryan): 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 First Quarter 2014 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 First Quarter 2014 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, (Ryan). Good morning, everyone, and thank you for joining us today for Teekay Corporation's First Quarter 2014 earnings call. I am 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 we will be taking you through the First Quarter 2014 earnings presentation, which can be found on our Web site. Beginning on slide 3 of the presentation I will briefly review some recent highlights for Teekay Corporation.

For the First Quarter of 2014 Teekay Corporation generated $265 million of total consolidated cash flow from vessel operations for CFVO, an increase of 37% from the same period of the prior year.

Teekay Corporation reported consolidated adjusted net income of $3-1/2 million or 5 cents per share for the First Quarter compared to a consolidated adjusted net loss of $11.7 million or 17 cents per share in the same period of the prior year.

The increase in our adjusted net income is mainly attributable to stronger spot tanker rates, interest income recorded on our investment in three term loans, contributions from acquisitions and organic growth project that delivered during the past year.

And savings resulting from the redelivery of six chartered and conventional tankers since the start of 2013, which was partially offset by lower revenues from our FPSO fleet due to operational issues and idle time between contract.

During the quarter we continued to execute on our strategic objective of having our ships and offshore units owned at the daughter company level. In late February Teekay Parent co-created and invested in Oslo listed Tanker Investments Limited or TIL to which we sold our last four directly owned Suezmax conventional tankers.

In addition Teekay Parent agreed to sell a 50% ownership interest in its conventional tanker commercial and technical management operations to Teekay Tankers for $15.6 million. As consideration for the sale Teekay has agreed to take back additional Class B multi-voting shares in Teekay Tankers.

As a result of these transactions Teekay Parent has further reduced its direct exposure to the volatility of the conventional tanker market and is another step closer to its goal of owning vessels directly at the daughter company level while still maintaining upside exposure to an expected tanker market recovery.

In April 2014 we completed required operational testing on the Voyageur Spirit FPSO and the unit received its certificate of final acceptance from the charter effective as of February 22.

Receiving final acceptance marks the end of Teekay Parent's indemnification obligation related to the sale of the Voyageur Spirit to Teekay Offshore. After taking into account the total indemnification payments of $38.4 million made to Teekay Offshore, Teekay Parent sale price to Teekay Offshore was still approximately $37 million higher than the cost incurred to acquire and upgrade the unit.

Turning to slide number 4 I will review some recent highlights from our three publicly traded daughter companies. Overall our two publicly traded MLPs continued to execute on their respective business plans during the quarter and Teekay Tankers enjoyed a resurgence in spot tanker rates in the First Quarter of 2014.

For the First Quarter Teekay LNG Partners declared a cash distribution of 69.18 cents per unit. Based on our GP and LP ownership interest in TGP, the cash flows received by Teekay Parent totaled $25 million for the quarter.

In late March Teekay LNG Partners through a new 50/50 joint venture with a China-based LNG shipping company signed a letter of intent to provide six internationally flagged icebreaker LNG carriers to the Yamal LNG project located in Northern Russia.

The project which is being developed by Novatek, Total, and China National Petroleum is currently scheduled for start up in late 2017 and is expected to produce 16-1/2 million metric tons of LNG per annum through three trains once operating at full production

LNG from the new liquefaction facilities will be transported primarily to Europe and Asia. The six vessels are expected to deliver between 2018 and 2020 at which point they will commence their respective 25 to 27 year time charter contract plus extension options. Teekay LNG Partners' investment in these vessel is expected to total approximately $1 billion for its 50% ownership interest.

In early April Teekay LNG Partners LPG joint venture with Exmar took delivery of the first of 12 midsized LPG carrier newbuildings marking a milestone in the LPG joint venture's growth strategy.

Looking at results for our other MLP. For the First Quarter Teekay Offshore Partners declared a cash distribution of 53.84 cents per unit. Based on our GP and LP ownership interest in TOO, the cash flows received by Teekay Parent totaled $17.7 million for the quarter.

Just this week Teekay Offshore Partners signed a letter of intent to acquire Logitel Offshore Holdings, an offshore floating accommodation company carved out of our 43% owned affiliate Sevan Marine.

Logitel currently owns two floating accommodation units, which are based on the Sevan Marine cylindrical hull design and are currently under construction at the COSCO Shipyard in China. Logitel has options to order up to an additional six floating accommodation units from COSCO.

The first newbuilding accommodation unit has already secured a 3-year charter contract plus extension options with Petrobras in Brazil and we expect to secure a charter contract for the second newbuilding prior to its scheduled delivery. Both units are scheduled to deliver in 2015.

The floating accommodation market represents an exciting adjacent growth opportunity for Teekay Offshore, with potential synergies in the partnerships existing operations, opportunities to gain additional business from our existing customer base, and another application of Sevan's innovative cylindrical hull design technology.

Based on the Logitel opportunity alone, Teekay Offshore Partners' investment in the floating accommodation market could be up to $1-1/2 billion if all the options are exercised.

In March Teekay Offshore Partners completed its $261 million acquisition of ALP Maritime Services, a Netherlands-based provider of long-haul ocean towage and offshore installation services to the global offshore oil and gas industry.

As part of the transaction, Teekay Offshore Partners and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art Ulstein Design long distance towing and anchor handling newbuildings, which are scheduled to deliver in 2016.

Lastly in May 2014 Teekay Offshore Partners secured a 10-year contract extension with Apache Energy for the 1987 built and Dampier Spirit FSO, which will continue to operate on stag oilfield in Western Australia.

The unit is expected to enter into drydock in the Second Quarter for upgrades of approximately $11 million. Under the contract extension, the unit is expected to contribute approximately $5.7 million in annual cash flow from vessel operations or CFVO.

This is another example of how Teekay Offshore Partners can invest a small amount of CAPEZ to extend the life of its existing older tonnage. Upon completion of the 10-year contract extension, this FSO unit will have been in operation for a combined 37 years, which includes 11 years as an Aframax tanker an 26 years as an FSO unit.

Finally looking at Teekay Tankers in the First Quarter, the company 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.

Teekay Tankers generated cash available for distribution or CAD of 36 cents per share in the First Quarter of 2014 or three times the 12 cents per share the company generated in the Fourth Quarter of 2013 mainly due to higher average realized spot tanker rates and interest income recognized on its investment in term loans.

During the First Quarter crude tanker rates reached the highest levels since the Third Quarter of 2008 mainly due to higher crude oil imports into China and increase in long-haul crude oil movements from the Atlantic Basin to Asia, combined with seasonal factors.

In late March Teekay Tankers assumed full ownership of two 2010 build VLCCs which had previously secured its $115 million investment in two term loans that were in default. In early May Teekay Tankers sold these vessels to TIL for an aggregate purchase price of $154 million, which resulted in Teekay Tankers earning a total return of 12% per annum on these investments since their inception in July 2010.

Slide 5 provides an updated overview of our portfolio of growth projects across the Teekay Group. We continue to make progress on our existing portfolio of growth projects and have also added some new projects since we updated you last quarter. I won't cover all the projects on this slide, however I would like to provide you with a brief update on a few of the projects shown.

At Teekay Parent we are primarily focused on completing the construction of the Petrojarl Knarr FPSO newbuilding and the repairs and reinstallation of the Petrojarl Banff FPSO. These are progressing well and I will talk more about these projects in a moment.

At Teekay Offshore the Remora HiLoad Dynamic Positioning Unit is on location in Brazil undergoing operational testing, which I am pleased to report is progressing well. The unit remains on track to commence full operations under a 10-year time charter contract with Petrobras in the Second Quarter of 2014 following completion of these operational tests.

The Teekay group also continues to add new projects, however what's different from the past is that the new projects are being done directly at the daughter level rather than by Teekay Parent.

Turning to slide number 6 I will provide a brief update on Teekay Parent's current FPSO projects. The Knarr FPSO newbuilding our largest FPSO project to-date remains on track for its scheduled sail away in late June 2014 from the Samsung Shipyard in South Korea for the Knarr oil and gas field in the North Sea.

Following field installation and production testing, the unit is expected to commence its 10-year charter with BG in the latter part of the Fourth Quarter, at which point the unit will be eligible for sail to Teekay Offshore. As you can see from the picture at the top right of the slide, the Knarr had its naming ceremony at the Samsung Shipyard on February 28.

The repairs and upgrades to the Banff FPSO were completed and the unit was towed to the Banff field in the North Sea for reinstallation in the First Quarter. The unit is currently finishing up its field installation and is expected to recommence its charter contract with CNR in the latter part of the Second Quarter.

Under its current contract rates, the Banff FPSO will operate at near cash breakeven level. However starting in January 2015 there will be a rate step up, which will result in significantly improved cash flows at which time the unit will become eligible for drop-down to Teekay Offshore under the omnibus agreement with Teekay.

Turning to slide 7, I will provide a brief update on the status of Teekay Parent's three remaining on-the-water FPSOs. In late February production was halted on the Foinaven FPSO due to continued issues with units only operating gas compressor while the unit's second gas compressor was still under repair.

The shutdown resulted in lost production of 32 days in the First Quarter and an estimated 37 days in the Second Quarter. Repairs will be completed in the next week and the unit is expected to recommence operations using its one compressor at approximately 2/3 of targeted production.

In late June we expect repairs on the second compressor to be completed, at which point the unit will be capable of producing at its targeted production levels. Although the shutdown is unfortunate, we are working closely with the charterer to minimize the planned shutdown period in Q3 to recoup as much lost production as possible.

In May 2014 the charter contract for the Hummingbird Spirit FPSO was extended to December 2015 and with extension options out to March 2017. We have an active dialogue with Centrica looking at future options for this oilfield which include the Hummingbird Spirit and hope to report back to you on the longer-term outlook for this unit later this year.

Lastly the Petrojarl 1 FPSO which completed its previous contract with Statoil in 2013 is now in lay-up. We continue to evaluate potential redeployment opportunities or a potential sale to a third-party.

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

Vince Lok: Thanks, Peter, and good morning, everyone. Starting with slide 8, I will review our consolidated results for the quarter, comparing the adjusted income statement for the First Quarter of 2014 against an adjusted income statement for the Fourth Quarter of 2013, which excludes the items listed in Appendix A to our release and later on I will also provide our outlook for the Second Quarter of 2014.

Starting at the top of the page net revenues increased by $10 million primarily due to the strong spot tanker rates in Q1 and a $12 million increase in interest income recognized on our three term loans upon assuming ownership of the three VLCCs in March as vessel values have appreciated during Q1.

These increases were partially offset by a decrease in revenues from our FPSO units primarily due to incremental revenues from the Foinaven FPSO contract related to the annual true up amount typically recognized in the Fourth Quarter of each year. Net of $7 million commercial settlement received in Q1 in relation to the Foinaven's 2013 production.

Vessel operating expenses decreased by $4 million mainly due to the sale of six conventional tankers in the Fourth and First Quarters and lower repairs and maintenance costs on our FPSO units.

Time charter hire expenses decreased $8 million due to the redelivery in the Fourth and First Quarters of five in-charter vessels, partially offset by an increase in spot in-chartering costs in our shuttle tanker fleet.

Depreciation and amortization decreased $6 million due to the sale of four conventional tankers to TIL and the impairment charges recognized in the Fourth Quarter of 2013, which reduced the book size of two shuttle tankers.

G&A expenses increased by $2 million, partly due to the timing of recognition of long-term incentive compensation expenses which are typically higher in the First Quarter of each year.

Interest expense was consistent with the prior quarter and interest income decreased $3 million primarily relating to the settlement of a joint venture loan in the Fourth Quarter of 2013.

Equity income decreased $3 million primarily due to lower income from Sevan and scheduled drydockings.

Income tax expense increased by $8 million mainly due to adjustment to certain of our freight tax accruals in the prior quarter.

Non-controlling interest expense increased by $9 million mainly as a result of higher adjusted earnings in Teekay Tankers compared to the Fourth Quarter.

And looking at the bottom line adjusted net income was 5 cents per share in the First Quarter up from the previous quarter's adjusted net income of 2 cents per share. And as noted above interest income from our VLCC loans contributed approximately 12 cents per share in consolidated net income in Q1 and a $7 million Foinaven commercial settlement contributed about 10 cents per share in consolidated net income in Q1.

Now turning to slide 9 we have provided some guidance on our consolidated financial results for the Second Quarter of 2014.

Revenue from the fixed-rate fleet are expected to decrease as a result of the following. A $15 million decrease due to interest income reported on the VLCC term loans in the First Quarter, $9 million of which was recognized in TNK and the remaining $6 million in Teekay Parent, a net $8 million decrease from the shuttle tanker fleet due to lower COA activity and higher drydocking activity.

Partially offset by the commencement of the HiLoad unit charter affected from mid-April, an $8 million decrease related to the Foinaven FPSO primarily due to the commercial settlement received relating to prior year's production, a $5 million revenue decrease from the conventional tanker fleet due to higher drydocking activity in the Second Quarter and from recent tanker sales.

These decreases are partially offset by an expected $6 million increase from the remaining FPSO fleet primarily due to higher expected production and a $4 million increase from the LNG fleet from fewer expected drydocking days and repair days in the Second Quarter.

Spot revenue days are expected to remain consistent with Q1. So far in Q2 we have fixed approximately 55% of our spot Aframax and Suezmax revenue days at average TCE rates of $15,800 per day and $17,200 per day respectively.

Although the spot rates have declined from the highs of Q1, spot rates so far in Q2 are relatively stronger than the Second Quarter of 2013 where Aframax and Suezmax rates averaged just over $12,000 per day in Q2 of 2013.

Overall vessel operating expenses are expected to increase by $3 million in the Second Quarter due to high repairs and maintenance on the FPSO fleet and the delivery of the HiLoad unit in mid-April partially offset by the recent sales of five conventional tankers.

Time charter hire expense is expected decreased by $6 million as a result of lower expected spot in-chartering activity and scheduled off-hire relating to our shuttle in-charter shuttle tanker fleet.

Depreciation and amortization is expected to increase by $2 million related to depreciation on the HiLoad unit and the Shoshone Spirit VLCC, which Teekay Parent assumed full ownership of in March in settlement of its term loan investment. This vessel is currently trading in the spot tanker market and is a potential conversion candidate for an FPSO project which Teekay Offshore is bidding on.

We expect G&A to decrease by approximately $1 million in the Second Quarter due to certain equity compensation expenses that were recognized in the First Quarter which I referred to earlier, partially offset by shore base annual salary increases which became effective on April 1.

Net interest expense in Q2 is expected to remain consistent with Q1 as interest expense related to the HiLoad unit is offset by reduced indebtedness relating to the recent sale of five conventional tankers.

Equity income is expected to decrease by $2 million mainly due to scheduled drydockings and certain incentive related revenues received in Q1.

Income tax expense is expected to be consistent with Q1 and non-controlling interest expense is expected to be between $42 million and $44 million in Q2, which is lower than Q1 primarily as a result of lower expected earnings in Teekay Tankers from the softening spot tanker rates and return on interest income TNK recognized in the First Quarter.

Overall we are expecting weaker results in the Second Quarter compared to the First Quarter, mainly as a result of lower spot tanker rates in Q2 and the income from the VLCC loans recognized in Q1.

However looking ahead into the second half of 2014, we should expect our results to improve as the Banff FPSO returns to operation, the Foinaven FPSO increases its production, and with the scheduled start up of the Knarr FPSO towards the end of the year.

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

Peter Evensen: Thanks, Vince. Turning to slide 10 I am pleased to inform you about the Teekay Group's 2014 Investor Day, which is scheduled for the morning of Tuesday, September 30 and will take place at the St. Regis Hotel in New York.

At this event we will provide a detailed presentation for the Teekay Group of companies covering our strategy, financial position, and the market outlook for Teekay Corporation and our three publicly traded daughter companies.

The event will be webcast live for all interested investors. While this event is still several months away, we encourage everyone to mark this date in their calendars and we look forward to presenting a meeting with investors at that time.

So to wrap up, lots of great activity going on all around Teekay and all around the world. 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're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal. We'll pause for just a moment to allow everyone the opportunity to signal for questions. Our first question comes from Michael Webber of Wells Fargo. Please go ahead.

(Sumeer): Hey, guys. This is actually Sumeer on for Michael. How are you?

Peter Evensen: Fine.

(Sumeer): So our first question really is on the FPSOs at Teekay just wanted to get a sense. Now that in our perspective we think the Knarr is potentially the next drop down to TOO as it delivers closer to Q4, but given all the activity for all the other FPSOs, the Banff having a new contract and potentially the Hummingbird extending its contract with Centrica post-March, how should we think about the order of drop downs post the Knarr to TOO?

Peter Evensen: We haven't changed our strategy, which is when the FPSOs become eligible, and by eligible we mean they have the right kind of contract, that's when we drop them down. So as I said in my prepared remarks, the (Banff) will go back on its original charter and what we are waiting for is a step-up in the rates that happens January 1, 2015.

And then it becomes eligible in our minds, for dropping down because it is an accretive transaction. And the Hummingbird depends upon the outcome of our discussions that we have with Centrica because we would prefer to have a longer-term contract on that before it drops.

Those are really the two. The Petrojarl 1, if it gets a new contract and as I said, we are in discussions with people in new contracts. Then when that gets put on to the new contract, that also gets eligible to be dropped down.

So we don't have a particular exact date for it. As you heard, there are lots of ways for Teekay Offshore to grow. So actually the drop downs with the exception of Knarr can be done on a more opportunistic basis.

(Sumeer): Got it. And regarding TOOs growth opportunities, the Logitel offshore deal which was announced today. In terms of the value of those floating accommodation units, I believe the value mentioned was $1.5 billion for eight floating accommodation units two under contract with six options.

So just want to get a sense of how we should think about the potential returns associated with those assets in comparison to say floating production and storage units and floating storage units?

Kenneth Hvid: Yes, it's Kenneth here. The order would be for - will be for three units firm and then we have a very long string of options that potentially could give us up to eight units.

And in terms of the valuation there if we look at the range potential and current markets that we have, then the longer-term contracts that you are seeing out and reported in the market at the moment, they are roughly trading at around six times cash flow.

(Sumeer): Got it. And in terms of potentially accretion associated with those assets, how should we think about that?

Peter Evensen: For competitor reasons since we are bidding on contracts, we are not giving out that information.

(Sumeer): Got it, and six of those are options to potential exercise. How should we think about the likelihood of exercising those options?

Kenneth Hvid: Well we will be bidding and we have a lot of flexibility on it. So we will be active in this new space and we will not be longer than what we are at present. So basically it will be as we are fixing them, we will be exercising options.

(Crosstalk)

Kenneth Hvid: It's entirely contract dependent as we go about the exercise. And again I want to stress that we have a lot of flexibility on the options. So they are non-contingent options that we have for the next number of years here. So it gives us great flexibility to pursue this market.

Peter Evensen: And what's common as we have our FPSO and our shuttle tankers is oil companies need certainty on their accommodation requirements as they plan outfield developments. So that gives us the chance to have greater forward visibility, which is what is required for us to clear the options.

So we are quite excited about this and I think the Sevan design actually is quite innovative to have been applied to the accommodation. And that's what we are hearing from customers that they really like the design.

(Sumeer): Got it. And on the topic of growth of the daughters, switching to the Yamal LNG project. Based on your announcement from today, $1 billion for the 50/50 JV that in our perspective comes out to about $330 million per vessel, which is quite expensive.

So just want to get a sense on how you guys think about the risk associated with the vessels in the project and if there are sovereign guarantee you guys have for the project? Or just how should we think about that?

Peter Evensen: Yes, I will give a little bit more detail on the project tomorrow on the Teekay LNG Partner's earnings call, but these are not conventional LNG vessels. They are icebreaking vessels that are capable of breaking through ice of 2 meters and therefore they cost more.

And so you are actually absolutely right. $1 billion, 50% of six is about $330 million on a fully built-up cost basis, but that represents the fact that these vessels are innovative and cost a little bit more. They will have the long-term contract and we expect them to be quite accretive when they get delivered.

(Sumeer): Got it. That's all the question I have for right now.

Peter Evensen: Thank you.

(Sumeer): I will turn the call over.

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

Gregory Lewis: Yes, thank you. Good morning, guys.

Peter Evensen: Hi, Greg.

Gregory Lewis: Peter, when we think about the - and congratulations on the Logitel deal. I think this is pretty exciting. I mean you guys must be really excited about it. When we think about that the move into this business, does this sort of signal a pivot away from the FPSO market?

Or is there a slowdown in the FPSO market? I am just trying to balance. I mean clearly FAUs seem like a natural extension of your business. But I mean I guess at the end of the day, you only have so much - you only have so many bullets to fire at sort of strategic growth. Could you just sort of balance those two?

Peter Evensen: Sure. Well first of all we are quite excited about the Logitel opportunity, but it all stems from actually listening to our customers. Because the same customers that need FPSOs are the same customers that need the accommodation units.

And so in true Teekay fashion, we were out talking with them and they were saying, "Hey, here is a need that we have, and if Teekay operates it and Teekay has a good design then that's something we are interested in."

So I actually have different teams working on the FPSOs than is working on the accommodation side. And so then if you back that down and look at it from Teekay Offshore Partners' point of view, Teekay Offshore Partners has to choose which project is the best one to develop.

And I actually think we spent a lot of time both at Teekay LNG and at Teekay Offshore at having different business streams that all around - revolve around the same customers on the offshore side.

So we can choose between a Remora HiLoad investment, a shuttle investment, an FPSO investment, or a accommodation unit. Now naturally going in to some of these new areas, it has to look better than the same - than the activities that we have both on a financial basis as well as on a customer basis and we think that's what we will get off the accommodation side.

We have a six times multiple on a cash-on-cash basis on the accommodation which sets up well for these kind of units. And so if you think about it from Teekay Offshore's point of view, we are diversifying our revenue stream, we get a bigger amount of portfolio, and then it's just a question of how much investment at any one time.

But as we said on slide 5, what we really like about these is that they fit in quite well in 2015 and looking out. So you are right. We haven't won any FPSO projects for a while. But that's because we are able to bid on just the projects that we want.

And that's what's - but I assure you that my FPSO team is bidding on projects, both in the North Sea as well as in Brazil and we actually think that continues to have a really great opportunity. All that drilling that you have had in the next two years is causing these fields to be put into production.

(Crosstalk)

Gregory Lewis: Okay. Great. And then just in thinking about the FPSO market, you know, I man clearly it seems like one of the issues has been historically these have been purpose built field development assets.

Now I mean, you know, cost in the offshore expensive. I think one of the things that the market is starting to talk about is some standardization coming across the FPSO for you and there is always going to be a degree to which you can be standardized and a degree which is going to be, you know, purpose project built.

Are you seeing projects or bids or is the team at Teekay thinking about trying to get more towards more of a standardized type FPSO that, you know, can maybe go from, you know, one field to another more relatively easier?

And the only reason I ask is I mean clearly the Petrojarl 1 is an older FPSO. So, you know, that was obviously purpose built and it seems like they are having issues, you know, with the longer-term viability of that, you know, in its - later in life.

So I am just trying to figure out if, you know, there is any way to sort of standardized the FPSO design going forward that makes it more, you know, it's a more, you know, this defensive asset because it can go from one field to another?

Peter Evensen: Yes. So that actually is a great question. We spent a lot of time talking with suppliers about that as well as with customers. And to use it in a metaphor the question is, can you have FPSOs that are 737s, some are 777s, some are 787s. The reality is no.

Because of the different kinds of reservoirs that you have, the size, the amount of storage capacity, the API of it, how much gas there is, how much water, how much produced water it is, you really don't - and it is impossible to get a standardized unit.

And the reality is people want to optimize the reservoirs that they have and therefore we are still in a situation where when we move from one field to another, we have to make modifications. We might have to add a heat exchanger. We might have to add some gas compression. And so I can't really see that that is going to happen.

What we are seeing though is that in - there is some standardization. For example in the pre-salt, Petrobras is trying to go with bigger units that are more or less sisters of them. But they can do that because it's the same field basically, and it's the same viscosity of the oil.

What we are seeing in the North Sea is an emphasis on more heavy - a smaller field, heavier oil and that actually sets up really well for Teekay because there are two kinds of really FPSOs or contracts.

There are the small contracts where you go and you are on a field for 3 to 5 years and you have to move on to another field. And we have purpose built our FPSOs so that they can be modified quite easily. Whereas if we had just about them - built them for the cheapest cost for a certain field, we would hurt their rollover opportunity or residual value risk.

So to answer your question, the Petrojarl 1 we are actively looking at projects all around the world. But the big question for us is should be in a hearty weather environment like the North Sea?

If it was we would have to do greater modifications given its age or move it to a more benign water out in Southeast Asia or Brazil. And given the configuration, it's much more better suited as an early well test ship given that it has a limited amount of risers coming up.

So that's a long explanation, but the answer is that the standardization is a long way away. But people frequently look at the drilling market and say we can do the same thing on the FPSO market and the response has really been from engineers, customers, suppliers, the answer is no.

Gregory Lewis: Okay. Well hey, thank you, guys, very much for the time. Congratulations on a good quarter.

Peter Evensen: Thank you, Greg.

Operator: Thank you. The next question comes from Taylor Mulherin of Deutsche Bank. Please go ahead.

Taylor Mulherin: Good morning, guys. How are you doing?

Peter Evensen: Great.

Taylor Mulherin: So I wanted to get just a little bit more color on that VLCC added to the Teekay Parent fleet in March. So, you know, it sounds like looking at options for FPSO conversion there. So just wanted to know if you could give any more color on how that thought process plays out.

And then, you know, just sort of generally what's the timeline for something like that would be? And then the last one was, could this in some way be something that could be done directly at the daughter level, like you mentioned is a goal in the past?

Peter Evensen: Sure. So I think this is pretty fortuitous. Teekay Tankers made a loan secured by two VLCCs. They didn't want them and they could sell them profitably. So they went ahead and sold them to TIL. Teekay had a sister ship also took over ownership, but in that case we suddenly saw that we had a project that would require that VLCC to convert it to an FPSO.

So we are holding it and will bid it into that project. If we win that project, that project would be done down a Teekay Offshore. And then Teekay will sell that unit down to Teekay Offshore.

It's a real advantage when you are doing a conversion to have that unit in your operations because it gives us a much greater understanding of its requirements in order to convert it. Since it is in our operation, we can take much more detailed measurements and surveys of it and have a greater understanding, which helps us in the conversion process.

So it's being bid actively into an existing tender and hopefully we win and in which case it will be sold down into TOO as part of an FPSO conversion project.

Taylor Mulherin: It makes sense. And then this is something you alluded to earlier, but with the Hummingbird Spirit it just looks like the charter extended out to year-end '15, and then with that option for those 2 additional years, does that leave it in limbo in terms basically, you know, that contract duration being uncertain at this moment, you know, as far as a potential drop down? Are you in negotiations to get that a little bit more certain?

Peter Evensen: Yes. As I said in my prepared remarks, I think the good news is we are talking with Centrica and just as the Dampier Spirit got extended with Apache, the natural way is that this field will continue in operation and therefore the Hummingbird Spirit is the natural unit in order to continue on this field.

So since we - as with the Dampier Spirit, we got a net present value positive we want that amount to be represented in the drop down. So I don't want to sell it now. When it gets a better contract, then Teekay Parent can make more money by dropping it down because the fair market value will increase.

So as I like to tell everyone inside Teekay, a dollars is a dollar is a dollar. So we want to maximize these contracts before they get dropped down.

Taylor Mulherin: Makes sense. And then one just housekeeping item on the Foinaven. I just wanted to make sure I understood the sort of off-hire stuff. So is it going to be completely down in Q2 for 37 days and then after that be operating at 2/3 of production or is that 37 days of downtime a netting out for that reduced utilization?

Vince Lok: Yes. The 37 days is the estimated downtime for all of Q2.

Taylor Mulherin: Okay.

Vince Lok: And then for the remaining, you know, period of the Second Quarter, well actually from the remaining period starting from probably next week, we hope to start producing closer to the 2/3 of the targeted production.

Taylor Mulherin: Got it. Okay. Thanks for your time, guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Keith Mori of Barclays. Please go ahead.

Keith Mori: Hi. Good morning, gentlemen.

Peter Evensen: Good morning.

Keith Mori: You know, Peter, I just want to come back to the FPSO market. You know, we see today drilling rates kind of coming down, utilization coming down across the board. How do you see that kind of playing out on the FPSO market maybe over the next 2 to 3 years with drilling activity maybe swelling here?

Peter Evensen: So I see short-term effect and a long-term effect. On the short-term effect we never got those huge high-highs the drilling rates had where they were - you could get drilling rig rates that could repay it in 4 or 5 years.

When we are inside the logistic system, we have much more consistent nonvolatile rates. So they are coming back down a little bit to Earth, but what has been drilled up over the last few years will continue to be put in place. It's much more a function of oil price for us rather than drilling rig rates.

I think the good news that you are hearing is that as drilling rig rates come down, you will see an increased level of activity and that will lead to more development plans going forward.

The big complaint was as Greg was saying earlier, the high cost of developing oilfield and that high cost was preventing some fields from being put into development taking FID. And so with drilling rig rates coming down, which could be anywhere from 25% to 33% of the total field development, that will just actually mean that there will be more FPSOs, but that's a medium-term issue, not a short-term.

Keith Mori: All right. Thanks for that information. You know, I would like to shift over to the cash flow story. You know, Peter, you have a lot of growth projects coming online over the next 2 to 3 years and, you know, they are going to require a lot of capital commitments.

And I was just curious how your thought process is on Teekay kind of supporting some of those capital commitments in terms of ownership percentages and how we should think about that going forward?

Vince Lok: Well as we indicated in the past and today's call, you know, all the new projects are done directly at the daughter company level. And we have been warehousing these projects and making acquisitions directly there and financing it with, you know, existing liquidity as well as issuing equity along the way.

So we don't intend to utilize the Teekay Parent balance sheet for those new growth opportunities. So the only remaining CAPEX to the parent really as summarized on page 15 of our presentation is the remaining $160 million of CAPEX related to Knarr FPSO. Otherwise everything else is really done at the daughter company level.

Keith Mori: Thanks. I think I should refine the question maybe a little bit. You know, I know that you will be raising equity over the next year or two. How do we think about Teekay maintaining its ownership percentage in the daughter company's as those equity proceeds are raised?

Peter Evensen: We look upon on the LP side or limited partner side, we look upon our investment in the MLPs, as well as any daughter on an investable basis. So if we think it makes sense then we will invest, but it actually hasn't been our plan to increase our investment on the LP side.

So we have a better use, which is we will raise the return on invested capital at Teekay Parent by having the GP value be a greater amount. And if we do that and reduce investments in other things then the return on invested capital at Teekay Parent naturally goes up and that's the greatest way we can create value for our shareholders.

Keith Mori: All right. Thank you for the time.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Urs Dür of Clarkson Capital Markets. Please go ahead.

Urs Dür: Good morning.

Peter Evensen: Hi, Urs.

Urs Dür: You guys did a great job talking about the FPSOs. I don't really have anything else to ask. I do note that you beat your revenue line very, very significantly on the guidance and it's not really to poke anything at. I think it's an excellent result. But what's your confidence level on the guidance for this coming quarter?

Vince Lok: Yes, as we laid out, Urs, guidance is on slide 9.

Urs Dür: Yes.

Vince Lok: You know, given the fixed-rate nature of the bulk of our revenues, we have, you know, very high confidence on the guidance we are giving for the Second Quarter. And as I mentioned I think the outlook is better for the second half of 2014.

Urs Dür: Okay. No, very good and thanks for all the info on the FPSOs. Thanks, guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Matthias Detjen of Morgan Stanley. Please go ahead.

Matthias Detjen: Good morning, gentlemen. Thank you for the update. I just have one quick question regarding TIL and the wider group. So a lot of the expansion of TIL has come from internal sales of tankers, and I was wondering if the future expansion is going to continue like that or if it is going to be focused more on external acquisitions?

Kenneth Hvid: In TIL we are almost entirely focused on external acquisitions. As you heard earlier, we have sold our last four Suezmaxes from Teekay now and we have one VLCC that we are holding for a potential FPSO project. So presently we are looking at the external market. In TIL, six of the 13 vessels that we own there you are correct, originated from Teekay, but that's only six of the 13.

Matthias Detjen: Okay. And from the wider group as well? Or just like - because some of them came from TNK, so I was wondering if there was any sort of thoughts there?

Kenneth Hvid: No. There are absolutely no plans of selling the assets from TNK to TIL.

Matthias Detjen: Okay. Great. That was actually it for me. Thank you very much. The rest have been asked. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time. The next question comes from Sameer Panjwani of Raymond James. Please go ahead.

Sameer Panjwani: Hey, guys. Good morning.

Peter Evensen: Hi, Sameer.

Sameer Panjwani: Hey, Peter. You know, just a little while ago you mentioned, you know, the Teekay Parent strategy of maximizing the GP value and, you know, obviously one of the ways you guys are going to do that is to become asset light at Teekay Parent.

And kind of to that point, you know, I saw, you know I guess compared to the Fourth Quarter presentation, in this quarter's presentation you have, you know, the KT Maritime towage newbuildings coming in at Teekay Parent.

So could you maybe, you know, elaborate where those assets are? Are they going to be housed? Or are they going to be at Teekay Parent? Or are they going to be dropped down somewhere?

Peter Evensen: Yes. So this is a relatively small investment compared to what we have been talking about today. It's about $50 million. It was created by our Teekay Australia unit. We are really proud of them that that they have, but we actually have only 50% of that $50 million investment.

So it's net $25 million. Ultimately it will not be a Teekay Corporation. We just haven't figured out exactly where it is. It's a towage operation. So it looks a little bit like offshore, but it relates to a LNG project. So that has aspects of Teekay LNG, but it's $25 million. So we haven't - we have time to figure out which daughter it belongs in.

Sameer Panjwani: Okay. All right. I appreciate the color. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you do have a question, please press star 1 at this time. There are no further questions at this time. Please continue.

Peter Evensen: Great. Thank you all very much. It was an active quarter and I'm really proud of the whole Teekay team all around the world. So we look forward to reporting back to you next quarter. Thank you.

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

END