Company: Teekay Shipping (Canada) Ltd

Conference Title: Teekay Corporation's Fourth Quarter and Fiscal 2016

Moderator: Kenneth Hvid

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Operator: Welcome to Teekay Corporation's Fourth Quarter and Fiscal 2016 Earnings Results Conference Call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time if you have a question participants will be asked to press star one to register for a question. For assistance during the call please star zero on your touchtone phone. As a reminder this call is being recorded. Now for opening remarks and introductions I'd like to turn the call over Mr Kenneth Hvid, Teekay's President and Chief Executive Officer. Please go ahead.

Ryan: Before Mr Hvid begins I would like to direct all participants to our website at www.teekay.com where you will find a copy of the Fourth Quarter and, of 2016 Earnings Presentation. Mr Hvid 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 differs from those in the forward-looking statements is contained in the Fourth Quarter 2016 Earnings Release and Earnings Presentation available on our website.

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

Kenneth Hvid: Thank you, Ryan. Hello, everyone and thank you for joining us today for Teekay Corporation's Fourth Quarter 2016 Investor Conference Call. I'm joined this morning on what will be my first Teekay Quarterly Conference Call by our CFO, Vince Lok. During our call today we'll be taking you through the earnings presentation which can be found on our website.

Turning to slide 3 of the presentation I will briefly review some recent highlights for Teekay Corporation. During the fourth quarter we generated consolidated capital from vessel operations, or CFVO, of approximately $290 million. Teekay's gas and tanker businesses performed in-line with our expectations in the fourth quarter of 2016. However, the results from our offshore business were affected by certain events which included an operational incident in November 2016 relating to Teekay off shore's Arendal Spirit UMS and related suspension of the charter hire revenue since that time.

As Ingvild said and highlighted on yesterday's Teekay Offshore Earnings Call, we have maintained an ongoing dialogue with Petrobras and our main priority is to address their concerns and return the unit to operation as soon as possible.

While Q4 2016 was a challenging quarter on the offshore front, we have made good progress on the cost-saving initiatives throughout the year. For instance, daily operating expenses for FPSO fleet has declined approximately 18% and our consolidated GMA expenses decreased by approximately 16% in 2016 compared to the prior year.

Teekay Corporation reported a consolidated adjusted net loss of approximately $19 million or $0.22 per share in the fourth quarter of 2016 and we declared a cash dividend of $0.055 per share, consistent with the previous quarter's dividend.

Since reporting earnings in November 2016 we have seen the oil price stabilise in the mid-$50 range which has had a positive impact on the sentiment of the industry. And I'm pleased to report that we signed heads of terms to extend the firm contract periods on the Banff and Hummingbird Spirit FPSO units until the third quarter of 2018 and September 2020, respectively.

As you may recall in mid-2016 when oil prices were in the low $40 range we agreed with Centrica, who is the charter of the Hummingbird Spirit, to reduce the fixed charter rate, which for all intents and purposes was rate holiday, to avoid a production shut-in and to incentivise the charter to reinvest in the field. Now with oil prices in the mid-$50 range we have agreed heads of terms with Centica to extend the firm contract period out to September 2020 at a slightly higher fixed charter rate plus further upside through an enhanced oil price and production tariff. The new terms will take affect from 2017 and will give Teekay production and oil price upside whist covering – whilst recovering our OPEX plus a minimum agreed CAPEX rate throughout the charter period.

The Banff FPSO has been operating on the Banff fields since its delivery nearly 20 years ago under a charter contract with CNR in the UK sector, where CNR could terminate the contract at any time with six months' notice. In order to upgrade the certainty and to better align both parties we entered into a heads of terms to ensure that the unit will stay on the current field at least until the third quarter of 2018 by revising the charter restructure to include a variable component through an oil price and oil production tariff in addition to a minimum fixed charter rate. At current oil price and production levels the future CFVO under the new contract is not expected to be materially different from the current CFVO before this latest amendment.

On slide 4 I'll review some recent highlights from our three publicly traded daughter entities. For the fourth quarter Teekay LNG Partners generated distributable cash flow, or DCF, of $50 million. Resulting in DCF per limited partner unit of $0.63. The partnership continued to generate stable cash flow during the quarter, including a full quarter contribution from the delivery of our second MEGI LNG carrier new buildings, the Oak Spirit, which commenced its five-year charter contract Cheniere Energy in early August.

For the fourth quarter Teekay LNG declared a cash distribution of $0.14 per unit resulting in a strong distribution coverage ratio of 4.4 times. Teekay LNG continues to make significant progress on securing long-term financing for its growth projects that deliver through early 2020 and bolstering its liquidity position. During the fourth quarter the partnership completed approximately $1.7 billion in debt and equity financings, including approximately $1 billion in long-term financings relating to its committed growth projects. With the remainder of the financings on track to be completed in the second half of 2017.

Lastly, we held the naming ceremony for our third MEGI LNG carrier last week the Torben Spirit, named after Teekay's founder Torben Karishoej. This vessel is expected to deliver from PSME in

South Korea at the end of February and immediately begin its ten-month charter plus an extension option to a major energy company.

For the fourth quarter Teekay Offshore Partners generated DCF of approximately $22 million resulting in DCF per limited partner unit of $0.15. For the fourth quarter Teekay Offshore declared a cash distribution of $0.11 per unit. Although we had anticipated better results in Q4 from, some key factors negatively affected our results including a temporary suspension of operation for the Arendal Spirit UMS as the charter performs an operational review and higher operating costs in the shuttle fleet mainly due to further upgrade of the Navion Anglia for trade in the North Sea after returning from her charter in Brazil in mid-2016.

While Q4 was a challenging quarter for Teekay Offshore the partnership made good progress on initiatives to further reduce costs from its operations. In early January Teekay Offshore completed the sale of a 1995-built shuttle tanker, Navion Europa, for net proceeds of approximately $14 million and recorded a gain of approximately $7 million. I'm pleased to report that after having secured a three-year charter, three-year CoA contract for the Glen Lyon Project in September 2016, Teekay Offshore is now close to a new five-year, plus extension options, shuttle tanker contract of affreightment in the North Sea. We are encouraged by the continued strong fundamentals in our shuttle tanker business where we are the market leader.

Teekay Tankers reported adjusted net income of approximately $5 million or $0.03 per share, and free cash flow of approximately $34 million. The fourth quarter results were positively impacted by seasonal strength in the tanker market and increased oil exports out of Nigeria, Libya and the Baltic Sea. Tanker rates continued to be seasonally strong early in the first quarter of 2017, however rates have recently begun to soften due to several factors including regional refinery maintenance, and increasing number of newbuilding tanker deliveries and the effect of OPEC supply cutbacks on overall tanker demand, especially in this Arabian Gulf. Yesterday, Teekay Tankers declared a cash dividend of $0.03 per share, representing the minimum quarterly dividend according to the company's policy. Lastly, given our view on the softer 2017 tanker market, Teekay Tankers secured three out-charters for firm periods of 12 months at an average rate of $20,800. These charters increase our fixed rate cover to approximately 40% over the next 12 months.

The fourth quarter was an active one across our businesses and companies, and I expect this to be, to continue.

On slide 5 we have laid out the Teekay Group's top business priorities for the rest of 2017 and into 2018. At the Teekay Corporation level we need to renew charters for remaining directly-owned and in-chartered assets. And, as I mentioned earlier, we have made good progress with two of Teekay's directly-owned FPSOs which are expected to provide us with greater cash flow certainty in the form of a cash flow floor with upside exposure to future increases in the oil price. Secondly, given the challenges we've had with some of our offshore projects, we believe that it will be important for us to further strengthen our project management and execution capabilities to ensure our projects deliver on time and on budget.

Teekay LNG has made great headway towards completing its financing, however, there is more to be done before taking delivery of its 19 new buildings.

Teekay Offshore is focussed on taking delivery of its various projects and securing charter extensions for its FPSO contracts that are coming up for renewal in 2018 and 2019. And, as Ingvild mentioned on the Teekay Offshore call yesterday, we are also in the process of optimising our asset portfolio which may include certain asset sales and/or seeking joint venture partners which will help further strengthen TOO's barrel seed and liquidity position. In the face of a challenging offshore market we remain focussed on strengthening Teekay Off shore's financial position so that it can take advantage of opportunities as the offshore market recovers.

The tanker market is expected to be challenging in 2017 and we have focussed on ensuring Teekay Tankers is positioned to not only weather potential market weakness, but also position TNK to benefit from an expected market recovery starting in 2018. Part of that includes expanding TNK's service offerings to customers through its commercial pools, and importantly as US exports are increasing rapidly, expanding its ship-to-ship lightering services which earns a premium to current spot market rates.

Turning to slide 6. As you heard on the Teekay LNG and Teekay Offshore calls yesterday, across the organisation today we're working hard on executing on our committed growth which involves taking delivery of 33 newbuilding oil conversion projects in our gas and offshore businesses. The majority of these projects are being managed by Teekay, involving hundreds of people on our project teams, and thousands of people at the yards where we're building in China, Korea, Japan, the Philippines, Holland and Singapore. Once all these, all of the projects have delivered our assets space will grow by $3.5 billion by 2020. And they're expected to contribute an additional $450 million of cash flow from vessel operations. Of the projects that will go on long-term charters, they provide cash flows for them as they are starting up oil production or gas liquefaction plans.

As we take our new assets into service for our customers we will have an unwavering commitment to safe, reliable and efficient operation. In short, operational excellence. That has been our foundation from when we started this company over 40 years ago, and that will continue to be our focus going forward.

Turning to slide 7. Our footprint and customer relevancy has grown tremendously over the past two decades and, of course, everything starts with the customer. We service nearly all of the major oil and gas companies in one way or the other. Our customer base is truly global, diversified and it continues to evolve. Although it is difficult to predict the future of the energy markets, we are quite certain that global transportation of energy will be required for many years to come. We have strong presences in all three of the primary businesses that we're in, and we intend to navigate carefully to ensure that we are growing at the right pace and in the right areas going forward.

In closing, one of our key competitive advantages at Teekay is our people, and it is truly a privilege for me to now be leading this global team. Thank you for joining us on the call today. Operator, we're now ready to take questions.

Operator: Thank you. If you would like to ask a question please signal by pressing star one 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. Again, please press star one to ask a question. And we will pause for just a moment to allow everyone an opportunity to signals for questions.

And we'll take our first question from Michael Webber with Wells Fargo.

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

Kenneth Hvid: Good. How are you, Mike.

Vince Lok: Morning, Mike.

Michael Webber: Good, good. The story I want to get to – kind of a, I wanted to start with the FPSO amendments and extensions, probably the biggest piece of news from the suite of releases yesterday. Can you give a bit of colour, I guess starting with the Hummingbird, it seems like rate upside, which is certainly surprising, I guess, given the context, and that you're able to add a tariff. But can you maybe talk about the basis for that rate upside and other – I believe there were some kind of short-term extensions layered on there. So what I kind of want to understand how much upside would we be talking about? And, maybe just on a EBITDA level contribution of the parent for both of that asset and the Banff, for Charleston I'll ask about next.

Kenneth Hvid: Sure, Mike. I will let the, Vince speak a little bit to the numbers. But I think it's – what we're seeing, and what we've been talking about, that, on our calls during the year, and as you recall it's exactly a year ago we were sitting looking at $30, right, and everybody was talking about it could go down to $20 or could we, would we go to $40? And it's – we've been talking about improving the psychology in the market throughout here. And the conversations we're having with our customers have just continued to become better and better and I think the outlook is becoming more positive. And that's obviously what we need for all of the discussions on our FPSOs. So, we have been, we have started at one end – we have a number of active dialogues and we are progressing them, and

Hummingbird and the Banff are the first ones where we think we have a better structure now that reflects an new oil environment that will hopefully continue to improve.

Vince Lok: So, Mike, just a – these, as you know are on heads of terms with, on these contracts. So, we're just in the process of finalising them. So we can probably share a little bit more information once we finalise everything. But at a high level I think the key thing, if you look at the Hummingbird, as you know, it was due to come off the field in September of this year. And the key thing here was to make sure that that asset can stay on the fields for a longer period, in this case another three years, which would avoid a lot of lay-up costs, etcetera, and gives us that optionality. So it does give us, I would say, a slight increase to the minimum rate that kicks in in October 2017 and there's a tariff. And I'll talk about the tariff maybe more in a combined basis for the two assets, just given the commercial sensitivities.

On the Banff, as we indicated, there was again make sure we get the duration and the asset stays in the field. And the overall CFVO for that asset is roughly around the same, will roughly be around the same at current oil prices, with maybe a little bit more upside obviously with the tariff. So just in terms of sensitivity for the two combined assets – as a rough rule of thumb, for every $10 increase in the oil price going forwards it translates into an additional $15 million of CFVO for the two assets, just to give you a rule of thumb there.

Michael Webber: That's helpful. Just with the Banff, let me make sure, that was on actually till, it was on till 2019 but there was a 60-day, kind of, walkaway clause in the contract. So was that sliding it up to $18? Was that just a bit of kind of horse-trading to kind of firm-up the, I guess, the firm employment period? And did the talk and the conversations around what the actual useful life of that field, did that change at all? Is that still expected to run until 2019, and if you're looking at rewetting it again for a year after that firm period ends?

Kenneth Hvid: Yeah, as you know, when you come to the tail end of some of these large fields and that have been producing for a long time it's obviously getting harder and harder to say exactly how long the tail is, right, at the end of it. So what this gives us is the, is essentially instead of having the evergreen uncertainty, it gives us a fixed date that we can start planning around. And we'll of course continue to have the ongoing dialogue with the customer here in terms of their planning as we move forward. But at least we have a firm date where we can also go out and market these vessels and would have the option to take it away now. And the, that just gives us an ability to better plan for the assets. So, that's really the motivation for us going into this.

Michael Webber: Okay, fair enough. Two more quick ones and I'll turn it over. The inshore and LNG carriers, I believe one is still on a short-term contract and one's still laid up. Rates obviously have improved off the bottom over the past six months. What's the plan for that last asset? Would you throw that in a pool or would you look for a long-term storage? Play with that? I mean, like, what should we expect in terms of employment for that asset for the balance of 2017?

Kenneth Hvid: Yes, as we talked about on previous calls these are a little bit of a niche assets, right, that have been good on some of the shallow drops – trades that we've seen, especially occurring in China. So we are in dialogue now – certainly, the slightly better spot market has also helped here. Although, I will say, all the time these units have actually been a little bit separated from the rest of the pack because what they are good for is really transporting parcels in to terminals where the larger LNG carriers cannot go in because they still carry 80,000 cubic metres. So, they're good-sized niche vessels that have been able to command good rates. As you recall, we had them on to South America. The interest that we're seeing for the charters now are for some of the new terminals in China, and those discussions are appropriate.

Michael Webber: Fair enough. And, last one – actually, kind of, after your results were announced, that came out this morning, one of your investments, Sevan Marine, entered into a long-term framework agreement with Exxon, with it giving, to providing FLNG technology. And, like I'm saying, just what does this mean for your investment in Sevan? How does that impact you guys? And then is there any kind of timeline you can share or a framework you can share just to help us conceptualise whether this, how this changes your view on that investment – it seems like a pretty big deal.

Kenneth Hvid: Yeah, I think it's a great deal for Sevan in terms of further expanding the use of the technology there. Teekay has never had any special agreements around the FLNG technology, so that's something that Sevan has pursued for the past couple of years. And we've of course followed it, and we're encouraged by it. But other than that, I mean, we're really just an investor in Sevan. And, especially when it comes to the FLNG, they are developing it. And, as you know, Teekay is not active in the FLNG market today, and we don't have any plans to become an active player. You never if it changes down the road, but at present that's not a segment that we're focussed on.

Michael Webber: Gracias, okay. I'll turn it over. Thanks for the time, guys.

Kenneth Hvid: Thanks, Mike.

Operator: Again, that is star one to ask a question.

We'll take our next question from Soddos Gianocculis, please go ahead – from Morgan Stanley.

Soddos Gainocculis: Yes. Hi guys, and thank you. I would like to go on this announcing of the parent level. Can you tell us did you repay any debt during this quarter – the parent level?

Vince Lok: Hi, Soddos. Yeah, the main debt amortisation we have of the parent is the debt facility related to the three FPSOs. And so the quarterly amortisation is about $13 million, so that's the run rate.

Soddos Gainocculis: Okay, thank you. And what is the plan of the repayment of this debt, especially I'm talking about the 2020 loan, the market, the debt market is getting a little bit better right now. How do you envision repaying this loan? The second question I want to ask is at this point the cash flow of the parent is negative by $8 million, it was this quarter with this partially supported by dividend payment from the daughters. I was wondering what is the purpose of the parent underpaying a dividend right now?

Vince Lok: Well, I guess, maybe just to step back a bit, obviously it is a major focus of ours to continue to deliver the parent's balance sheet – that's always been our stated goal, to become close to net debt-free. I think, when you look at the free cash flow it was lower than what we expected for the fourth quarter, for sure. But I think when you look at free cash flow going forward and sources of cash flow to deliver on the parent's balance sheet there is kind of three main sources or catalysts. The first one is increasing distributions from daughters, as you said, including some intercompany loans from TOO, that's number one. The second is these Polar and Arctic Spirit LNG carriers, that Mike Webber just referred to earlier, that has a current drag on our CFVO, about $36 million a year. And we're targeting to get charters for those assets in the second half of this year. Those in-charters, as a reminder, do disappear in April 2018, they go back to TGP. And the third, I would say, are the three FPSOs, that we just talked a little bit about. We were able to get extensions on two out of the three with upside to oil prices. We still have the Foinaven, which is actually a drag on our cash flow right now. We are in discussions on redoing that contracting and extending that out, and ultimately to really sell those assets to continue to deliver the balance sheet. So those are really the three, I would say, the three key sources of cash flow and catalysts to the parent delivering them.

Soddos Gainocculis: So, is the asset sale that you mentioned for Teekay Offshore finding potential liquid investors, that those supplies for the PSOs at the parent level?

Vince Lok: Yeah, absolutely.

Soddos Gainocculis: Okay. Thank you very much, Vince. Thank you, guys.

Kenneth Hvid: Yeah, Soddos.

Vince Lok: Thanks.

Operator: That concludes today's question and answer session. Mr Hvid, at this time I'd like to turn the conference back to you for any additional or closing remarks.

Kenneth Hvid: Thank you very much for your questions. We look forward to reporting back to you next quarter.