TEEKAY OFFSHORE PARTNERS LP

Moderator: Peter Evensen
May 16, 2008
11:00 a.m. CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teekay Offshore first quarter 2008 earnings release conference call.

During the call, all participants will be in a listen only mode, afterwards, you will be invited to participate in a Q&A session.

At that time, if you have a question, participants will be asked to press star one to register their question and for assistance during the call, please press star zero on your touchtone phone.

As a reminder, today's call is being recorded. Now for opening remarks and introductions, I would like to turn to pull over to Mr. Peter Evensen, Chief Executive Officer of Teekay Offshore GP, please go ahead, sir.

(Scott): Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekayoffshore.com where you'll find a copy of the first quarter 2008 earnings release.

Please allow me to remind you that our discussion today contains forward-looking statements.

Actual results may differ materially from those projected by those forward-looking statements as a result of various important factors. Additional information concerning these factors is contained in our earnings release available on our Web site.

I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Scott). For this quarter, we thought it would be more constructive to focus today's call on the high-level results of the first quarter and the strategic opportunities for the partnership rather than have a detailed discussion of the financial results, which is already provided in our earnings release.

As a result, we have not prepared a slide presentation, however, we are more than happy to take any financial or strategic questions as part of the Q&A.

The results from our conventional tanker segment and FFO segment were inline with the previous quarter; however, the results for the shuttle tanker segment came in below expectations primarily due to non-recurring operational issues, which I will explain later on.

During the first quarter, we generated 6.8 million of distributable cash flow and declared a cash distribution of 40 cents per unit, which is up 14.3 percent from one year ago.

The cash distribution was payable on May 15 to all unit holders of record on May 8.

I'm excited to announce that the partnership has received an offer to acquire an additional 25 percent interest in Teekay Offshore Operating LP also known as OPCO from the parent of our general partner, Teekay Corporation.

As a reminder, Teekay Offshore Partners currently owns a 26 percent interest in OPC and Teekay Corporation owns the remaining 74 percent.

The terms of the offer and timing of completing the acquisition have not yet been finalized by ourselves with the seller.

If the offer is accepted by our Board of Directors and Conflicts Committee, Teekay Offshore's ownership of OPCO will increase to 51 percent.

During the first quarter, we encountered some operational issues with the shuttle tanker fleet that I'd like to elaborate on.

The number of off hire days during the quarter was abnormally high for the following reasons, two of OPCO's shuttle tankers incurred a total of 102 scheduled off hire days during the first quarter due to unexpected repairs, which resulted in a reduction in net voyage revenues of approximately $3.8 million.

In addition, we incurred 1.4 million in customer related claims primarily relating to speed and performance issues, which are of a nonrecurring nature.

Our revenues in the second quarter are expected to increase from the first quarter levels given the absence of the previously mentioned nonrecurring items.

However, some of these is expected to be offset by higher operating expenses in the second and third quarters as we move into the usual summer maintenance season in the North Sea.

However, the current strong spot tanker market should allow us to redeploy some of our access shuttle tankers days at very attractive rates during the upcoming oilfield maintenance period.

I'd also like to take this opportunity to update you on some of the developments in the offshore segment and how our sponsor, Teekay Corporation is actively pursuing opportunities in the space on our behalf.

As a reminder, Teekay is obligated to offer Teekay Offshore all shuttle tanker, floating storage and FPSO projects, which have contracts in excess of three years.

The Siri FPSO which is owned by a joint venture between Teekay and its 65 percent owned subsidiary, Teekay Petrojarl is currently stationed in the combos basin in Brazil in the Campos basin in Brazil and this unit went on hire with Petrobras in April and is now pioneering the offshore production of heavy oil with an API below 12.

Teekay Corporation continues to see a lot of opportunities in offshore. Teekay Petrojarl is actively bidding on new FPSO projects but they're continuing their disciplined approach in an environment where many of their competitors are experiencing cost overruns and project delays on projects.

Teekay Petrojarl is confident they can compete in this space as illustrated in the recent bid for the 2P project in Brazil, both that contract was awarded to another contract who had one of the few existing idle FPSO units.

We know from the subsequent publication by Petrobras of all bids, the Petrojarl submitted the most competitive bid among those offering a conversion solution.

Petrobras has indicated they will require several more FPSOs over the next few years to service their massive newly discovered oilfields and Teekay recently established an office in Brazil to increase their marketing in this important offshore oil and gas growth market, which we are targeting.

Teekay Petrojarl is also actively discussing revised terms on some bids existing out of the money FPSO contracts looking to reprice inline with today’s stronger market.

And finally, as I mentioned earlier, Teekay Corporation has offered TOO the opportunity to acquire an additional 25 percent in interest in OPCO and this transaction is expected to be accretive to TOO if consummated.

So in summary, we are excited about an additional 25 percent of OPCO and the future prospects of acquiring FPSO units from Teekay. Thank you for listening and operator, I'm now available to take questions.

Operator: Thank you, sir, ladies and gentlemen, if you do have any questions at this time, please press star one on your touchtone phone and remember if using a speakerphone, it is preferable to lift the handset first.

To withdraw a question answered, press the pound sign. Please press star one now if you do have any questions. And our first question will come from (Martin Malloy) of Johnson Rice, please go ahead.

Maartin Malloy: Good morning.

Peter Evensen: Hi.

Maartin Malloy: In terms of the operating cost in the industry, can you talk about what you're seeing out there crew cost, et cetera?

Peter Evensen: Yes, actually, it's a combination of two things, one there is stress on manning costs as it relates to in local currency and also because most of the seamen for example in our North Sea fleet are paid in either Norwegian kroner, well mostly Norwegian kroner so we get a double head, if you want to call it which is that the cost are going up in Norwegian kroner and they're going up absolutely.

So that's the stress that's going on, we think that will start to soften itself out because – and that's been caused, at least in Norway, by the tremendous move to expand offshore, and there's only a certain amount of people that you can train up at any one time, so we have steps that we're taking in order to blunt that operating cost increase but it is a reality.

Maartin Malloy: OK, could you talk about dry docking schedules …

Peter Evensen: I should also say, sorry, I should also say that the operating cost escalators that we have in our contracts, they just don't provide us enough of an escalation to take account of that.

Maartin Malloy: OK could you talk about the dry docking schedule for the remainder of this year and what you're seeing in terms of the shipyards, are they just taking longer now to do the same type of work?

Peter Evensen: Yes, I'll cover the second half and then I'll ask (Brian Fortier) to comment on the exact dry dockings.

They actually are taking longer in order to do the work because they too are feeling the huge expansion that is going on so the costs are going up from a steel plate point of view, you know the cost of steel is going up and we are finding that dry docks that we thought would take a certain amount of time are expanding by a few more days so in some cases what we would have thought would have taken 20 days might take us 22, 23, 24 days.

Brian, you want to give the schedule and dry-docking?

(Brian Fortier): Sure, in the second quarter, we have two vessels scheduled to dry dock, we have four in the third quarter and one in the fourth.

Maartin Malloy: Thank you.

Peter Evensen: Thank you.

Operator: Thank you and our next question will now come from (Darren Horowitz) of Raymond James, please go ahead.

Darren Horowitz: Good morning Peter, how are you?

Peter Evensen: Fine, how are you, Darren?

Darren Horowitz: Good thank you, I had a question for you regarding that 25 percent interest in OPCO, can you give us a little bit of color as it relates to financing plans?

I know that when we look at your current liquidity, you've got about 138 million in cash and also some spare capacity on the revolver, I believe to the tune of about 115 million but can you give us some insight into how you want to juggle that balance?

Peter Evensen: Yes, we think that having liquidity is very important in these markets so with that acquisition, we would expect to finance it with equity and as you saw, we filed a shelf offering a few weeks ago, so we would anticipate that there would be an equity offering attached to that acquisition.

Darren Horowitz: OK, switching gears over to some of the more granular detail, can you give us an update on average (day rates) right now for the shuttle tankers and also secondly, the FPSO market, I know that at the parent level, one vessel was completed I believe in the February, March timeframe of this year, can you give us an update there so potential for that to be folded into the TOO format?

Peter Evensen: Yes, most of our shuttle tankers are fixed so for our Aframaxes, we're in the mid 40's on a fixed rate and for our Suezmaxes, we're in the mid 50's as it relates to that on a time charter basis.

If we can reemploy them in the spot market, our Suez is then we can get you know 60 to 90,000 and on the Aframaxes well basically it's the equivalent right now.

So hopefully, when we have a few idle days in the second quarter, we will be able to actually employ them at higher rates, I know that sounds strange but …

Darren Horowitz: Sure.

Peter Evensen: … that's where it is. And the second part of your question was?

Darren Horowitz: Was looking at the FPSO market, the current (update) there …

Peter Evensen: Oh, yes.

Darren Horowitz: … and the vessel that was completed in the first quarter (to) parent.

Peter Evensen: Yes so we are anxious to complete our or to fulfill our strategy of getting some FPSOs into Teekay Offshore, that's a key requirement on my side as I look at that.

So we are looking at whether the Siri, which technically does not have to be offered to Teekay Offshore whether that would be an acquisition.

Right now, we're focusing on the OPCO transaction but looking forward, we are keen to try to get an FPSO into Teekay Offshore.

Darren Horowitz: Great and then finally a bigger picture question, when you take all these things in aggregate and you look at the accretion, the incremental interest in OPCO could (lend) to the bottom line, as we look at distribution increases, how do you view that DCF line per unit moving sequentially as we progress throughout this year?

Peter Evensen: We're still confident that we will reach our goal of increasing the distributions in the mid teens, that's our goal every year to increase Teekay Offshore’s distribution by the mid teens.

Darren Horowitz: As it relates to timing, is there any preference at this point as you see it in terms of consummating this deal that there might be a larger 4Q versus 3Q impact or vice versa?

Peter Evensen: No, we would ex – I think we would try to consummate it so that it would – we would be – be able to increase the distribution in the third quarter.

Darren Horowitz: OK, thank you very much, Peter, I appreciate it.

Peter Evensen: That’s because we’re kind of conscious of being able to increase it by 15 percent on you know per year quarter on quarter.

Darren Horowitz: OK, thank you.

Peter Evensen: Thanks.

Operator: Thank you and our next question will now come from (Ron Lundy) of Wachovia, please go ahead.

Ron Londe: There are some indications that StatoilHydro is going to have some shutdowns of 26 production platforms offshore off Norway in the third and fourth quarters supposed to be one of the largest maintenance shutdowns ever for Norway and I also you know noted in the Statfjord C platform that Teekay Petrojarl has an FPSO that is going to be closed for maintenance work this summer, how do you – do you think that this is going to have more of a negative effect on your second or third or fourth quarter comparisons than we've seen in the past?

Peter Evensen: Hi Ron, it's actually more of a second quarter and third-quarter effect.

Obviously, we can see it in the second quarter, which you know, is sitting here in the middle of May and we've been able to reemploy our vessels so that hasn't been an issue.

You're right that there is a heavy amount of maintenance that's going on in the third quarter so we've already made plans to redeploy our ships into the spot market and as I said earlier, I can't say exactly where those rates are but as of now, the rates we would get would be higher than what we're getting on the shuttle tanker.

Of course, I can't tell you exactly where rates will be in July and August and into September but it isn't as much of a fourth quarter event.

Ron Londe: OK thank you.

Operator: Thank you, ladies and gentlemen, if there are any additional questions, please press star one on your touchtone phone and remember to lift your handset first if on speakerphone.

And our next question will come from Martin Roher of MSR Capital Management.

Martin Roher: Thank you, Peter, what's the general rationale for move in the OPCO transaction from having Teekay Offshore going to 51 percent versus leaving it at the 26 percent level or alternatively going to a higher percentage in 51 percent?

Peter Evensen: Two reasons, first of all it is the long-term objective that all of OPCO will be owned by Teekay Offshore.

Martin Roher: Yes.

Peter Evensen: And secondly, just from a sizing point of view, it is more digestible given that we'll be doing an equity offering to look at 25 percent at this point in time when we looked at it and we believe as I said very earlier that the accretion will be substantial.

Martin Roher: So there's no legal or tax reasons beyond the financial objectives?

Peter Evensen: No Teekay Offshore Partners already consolidates all of OPCO, as you know.

Martin Roher: Yes.

Peter Evensen: And so it won't materially change – I mean what will really happen with the financials is we'll adjust the minority interest.

Martin Roher: Thank you very much and good luck.

Peter Evensen: Thank you.

Operator: Thank you and at this time we have no further questions so Mr. Evensen, I'll turn the meeting back to you.

Peter Evensen: Good, thank you all very much for listening and I look forward to reporting to you next quarter. Thank you.

Operator: Thank you, sir. Ladies and gentlemen; this does conclude your conference call for today. Once again, thank you for participating and at this time, we ask that you please disconnect you lines. Have yourselves a great weekend.

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