TEEKAY OFFSHORE PARTNERS' FOURTH QUARTER AND FISCAL 2017 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay Offshore Partners**

Date: **Thursday, 22nd February 2018**

Conference Time: **12:00 ET**

Operator: Welcome to Teekay Offshore Partners' Fourth Quarter and Fiscal 2017 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 any assistance during the call, please press star zero on your touchtone phone. As a reminder, this call is being recorded.

Now, for opening remarks and introductions, I would like to turn the call over to Ingvild Saether, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead.

Scott Gayton: Before Ingvild begins, I would like to direct all participants to our website at www.teekayoffshore.com, where you will find a copy of the Fourth Quarter of 2017 Earnings Presentation. Ingvild 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 Fourth Quarter of 2017 earnings release and earnings presentation available on our website. I will now turn the call over to Ingvild to begin.

Ingvild Saether: Thank you Scott. Hello everyone, and thank you for joining us on our Fourth Quarter conference call. With me today, I have David Wong, the CFO of Teekay Offshore Group and Scott Gayton, Teekay Corporation's V.P. Finance. If you now please turn to slide 3 of the presentation, I will review some of Teekay Offshore's recent highlights. In the fourth quarter, the partnership generated DCF of $34 million or $0.08 per unit and cash flow from vessel operations or CFVO of $145 million. DCF increased by 157% and CFVO by 17% over the previous quarter. Cash flow growth during the quarter was mainly driven by the delivery and contract start-up of two of our key growth projects. We expect this trend will continue as more of our growth projects start contributing to our financial results.

Since October, the Randgrid FSO, the Libra FPSO and two shuttle tanker newbuildings for East Coast Canada commenced contracts. We also took delivery of the final two state-of-the-art towage vessels. In November, we declaredoptions for two additional shuttle tankers from Samsung that will service our CoA market in the North Sea on the back of strong demand from our customers.

In December, we completed the upgrades on our most challenging project, the Petrojarl 1 FPSO. In January, we entered into a contract extension for the Ostras FPSO unit and are close to executing the previously announced contract extension for the Voyageur Spirit FPSO. In February, we were awarded our largest towage contract to date to perform towage assistance and field installation services, which I will discuss in more detail later in the presentation.

If we turn to slide 4, we have now pivoted from project execution to harvesting cash flows since many of our growth projects have delivered. The projects are expected to collectively provide approximately $200 million of annual CFVO. This is an increase of approximately 25-30% from the annualized third quarter of 2017 CFVO taking into account the expected reduction in cash flow from the recently renegotiated FPSO contracts.

As I noted in my opening remarks, the Randgrid FSO commenced this three-year charter contract plus 12 one-year extension options in early October with Statoil. The Gina Krog field is producing very well and when Statoil officially opened the field several months ago, they made a public statement that they expected the field to produce for at least 15 to 20 years. The Libra FPSO commenced its 12-year charter contract with the consortium of international oil companies in late November, and therefore only contributed one month of cash flow in the fourth quarter of 2017.

The first two shuttle tankers for East Coast Canada commenced their 12-year charter contract with the consortium of nine oil companies in late December and January 2018 respectively, with the third vessel scheduled to commence this charter contract in May 2018. We also took delivery of our final two state-of-the-art towage newbuildings. We are already starting to see benefits from our fully delivered fleet of 10 towage vessels. With the larger modern fleet, our towage company ALT Maritime can provide customers with a one-stop shop for towage and installation services.

The recent contract award that I mentioned in my opening remarks is a great example of this, where we will perform towage assistance and field installation for the Kaombo North FPSO project. This includes towage assistance from a South East Asian shipyard followed by installation, which will employ five of our towage vessels for a total of 330 vessel equivalent base.

Lastly, the Petrojarl 1 FPSO is in Brazil undergoing field installation and testing and is expected to commence a charter contract in late Q1 '18 or early Q2. Its charter is expected to generate annualized CFVO of $25 million for the first 18 months, after which the contract will increase to annualized CFVO of $60 million, plus upside from oil price tariffs. It is important to note that a significant portion of the cash flow growth from these projects has not yet hit our financial results. The full-quarter contribution of these projects will start positively impacting our results in the coming quarters. In addition to these projects nearing completion, we have also added some new projects.

During the fourth quarter, we ordered two additional shuttle tankers from Samsung, bringing our total order up to four vessels to be delivered in 2019 and 2010. We see strong fundamentals in the shuttle tanker market in all three geographical areas we are operating in. In the North Sea fleet, renewal is necessary to replace tonnage that we will retire due to age and it is encouraging to see how many new fields are sanctioned, which will underpin the shuttle tanker demand longer term. Over the last couple of years, we have secured several new shuttle tanker CoA contracts at higher rates and built the largest and most diversified CoA contract portfolio in the North Sea. The Glen Lyon, Kraken and Catcher fields are now all producing and adding demand for our existing fleet. In Brazil, we expect to see even stronger growth with Petrobras currently in the market tendering for new shuttle tankers from 2020 onwards.

If you now turn to slide 5, I will provide more details on our contract extensions, which I touched on in my opening remarks and provide a general update on some other assets. I am not going to talk to all the assets on this slide, instead I will just provide an update on the new contract extensions recently completed. I look forward to providing updates on the other assets in the coming quarters. For the Ostras FPSO, which is an early well test unit, we have extended the contract by four months plus an option for a further two months. This will allow Petrobras to work through the decommissioning process for the unit.

In the meantime, we continue to actively seek redeployment opportunities not only in Brazil, but worldwide for this versatile, early well test FPSO. For the Voyageur Spirit FPSO, we are nearing completion of a contract to extend the production on the Huntington Field in the UK sector from April 2018 until at least April 2019. There is also a potential for production to go beyond April '19 depending on field life and oil prices at that time.

From early 2019, Teekay Offshore and Premier will both have a three-month termination right. We are pleased that we have found a mutually beneficial solution where the interest of Premier and Teekay Offshore are aligned. Premier needs flexibility to extract maximum value from the reservoir and we can keep the unit in operation while at the same time, prepare for the next employment of the unit. We see clear signs of an improving macro picture in the offshore energy market and the flexibility we now have to find the next employment for the unit is valuable.

I will now turn it over to David to discuss our outlook for the first quarter of 2018.

David Wong: Thank you, Ingvild. If you turn to slide 6, we expect an increase in cash flows for the first quarter of 2018, primarily due to the continued start-up of our growth projects, including a full quarter from the Libra FPSO and the two East Coast Canada shuttle tanker newbuildings. Our first quarter cash flows also will not include some one-time expenses we incurred in the fourth quarter of 2017 related to the maintenance on redelivered shuttle tankers in order to prepare them for trade in the conventional market. These increases are partially offset by a reduction in the Ostras FPSO charter rate for the extension period and annual FPSO production bonuses earned in Q4. Overall, we expect DCF to increase by approximately $8 million in the first quarter of 2018 compared to the fourth quarter of 2017, and this is expected to grow further as the remainder of our near term growth projects begin to generate cash flow. I will now turn it back to Ingvild to conclude.

Ingvild Saether: Thank you, David. If we now turn to slide 7, we look at some of the positive recent developments in the offshore space, in particular in our core markets of North Sea and Brazil. Starting with the macro picture, crude oil prices reached $70 per barrel in January for the first time since late 2014 and as shown by the chart on the top left side of the slide, the oil companies have a higher cash flow at $60 to $70 per barrel today than what they had at an oil price of $100 per barrel in 2014. This is positive as it puts the oil companies in a better position to invest in exploration and the production projects. In fact, we are already starting to see evidence of increased activity in our core markets.

In the North Sea, Norwegian authorities received 10 new offshore development plans in 2017, double the amount received in the previous year. When these fields come into production in the period of 2019 to 2021, it translates into more than 1,500 days per year of shuttle tanker demand, or four to five vessels. In addition, Norway awarded 75 offshore oil exploration licenses in January 2018 and this is the highest number of licences ever awarded. We are also seeing positive developments in Brazil with Petrobras awarding three FPSO contracts in 2017. Petrobras has several FPSO tenders out and a further 10 to 12 potential FPSO projects are in the planning stage, which may be awarded in the next five years.

When in operation, these FPSOs will also create shuttle tanker demand. We also expect to see some demand coming from new operators with foreign companies now being able to operate fields in the Brazilian pre-salt for the first time. In sum, we are encouraged by recent developments in the offshore space and we are convinced that this will translate into new opportunities in our core markets in the coming years.

Getting to our final slide, 2017 represented a challenging but transformative year for Teekay Offshore. In late September, we closed our strategic partnership with Brookfield, which stabilized Teekay Offshore, strengthened our balance sheet and overall financial position. We are already starting to see the benefits of this partnership as we now have the capacity to invest in our leading market positions with the recent ordering of four high-spec next-generation LNG-fueled shuttle tanker newbuildings. The incremental cash flow from our growth projects will naturally delever Teekay Offshore. With this deleveraging combined with our new partnership with Brookfield, we believe we are very well positioned to benefit from the future opportunities as the global energy market recovers. Operator, we are now available to take questions.

Operator: Thank you, and as a reminder, to ask a question, please signal by pressing star one. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment.

And we will take our first question from Spiro Dounis with UBS. Please go ahead.

Spiro Dounis: Hey Ingvild, hey David, how are you?

Ingvild Saether: Good morning, Spiro.

David Wong: We are good, thank you.

Spiro Dounis: Good, good. I just wanted to start off with what was mentioned there at the end, just around heading into this cash harvest period and maybe how I should think about cash flow deployment. I know you mentioned deleveraging naturally over time and, you know, I don't get the sense that you are ready to bring distribution back yet, but how do you think about capital allocation beyond just deleveraging? Is it really putting back into some of the projects that you have already ordered or you are looking at deploying some into new projects going forward?

Ingvild Saether: Well, as we talked about, we have already ordered four new shuttle tankers and we see quite healthy growth opportunities in both our core segments, which is the shuttle tankers and the FPSOs. We will naturally delever with the cash flow we now have from the growth projects that are coming into operations last quarter and this quarter and over time, that will give us the capacity to maintain our market leading positions in our core segments.

Spiro Dounis: Got it and then just with the perspective of the Arendal Spirit, yes, I am a little surprised to see that you are already out there bidding on contracts again, so that is clearly incrementally positive, but obviously I think you have got a loan, yes, coming due there in around September unless you get a new charter, so I guess what I am wondering is how much flexibility is there on the lender's side, maybe extend that deadline if you are maybe in the final innings of negotiating something?

David Wong: Hey Spiro. I would say right now we are in dialogue with our lenders. Obviously, all of us want to achieve a re-charter for that unit. That dialogue will continue over the several months and as you are correct, it's early in the course, in September we will probably have more information related to that.

Spiro Dounis: Understood. Appreciate the color. Thanks, guys.

Ingvild Saether: Thank you.

Operator: Our next question comes from Michael Webber with Wells Fargo Securities. Please go ahead.

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

Ingvild Saether: Good morning Mike, how are you?

Michael Webber: Good. Ingvild, I wanted to follow up on Spiro's question around capital allocation, but I guess within the context of maybe some of your upcoming maturities. You have a pretty healthy amount of bonds coming due in early '19, they got to $127 in Jan and about $300 in July of '19. So you have got - appreciate its a year, if not 18 months out, but I am just curious what the plan is to try to get ahead of those or any thought process around refinancing now?

Scott Gayton: Hey Mike, this is Scott here.

Michael Webber: Okay.

Scott Gayton: Yeah, we are actively working through our options with respect to these bonds. It will likely involve approaching the rating agencies and looking at getting something from them that will help to roll what we have coming to in '19. I think importantly as Ingvild mentioned with a positive backdrop that we are currently seeing in the offshore energy space, our rapidly delevering in our increasing fixed rate cash flow, we do expect to see a fairly warm reception from the agencies and then ultimately from the investors as well.

Michael Webber: Got you. And that process you think starts – starts now or this summer, or is there a limit to how far ahead of it you can really work I guess, so that's sometime first half of the year?

Scott Gayton: Yeah, I would say it is in the first half of the year and we have already started putting plans in place.

Michael Webber: Okay, perfect. Okay, thanks for that. And then Ingvild, around… I guess maybe the Voyageur, specifically. I know that you are finalizing the extension with Premier and I don't want to get ahead of ourselves, but that's - that's one of your big four assets really, pretty healthy contributor for me with our perspective and I am curious can you - given I guess the life of the field is winding down that it is servicing now, can you start marketing that, kind of for the post Premier time horizon? And if not, when do you think you could start doing that in order to give it, to get a bit more visibility and what the earnings profile for that asset is going to be, in the next maybe 12 to 18 months from now?

Ingvild Saether: Yeah, so the contract is extended from April 2018 until April 2019 and from January '19, we have flexibility to - and it might go on longer than April 2019, depending on how the reservoir is behaving and how much volume Premier is able to produce, but we have flexibility to work on the next opportunities from this asset and it is actually something we are already working on and with the renewed activity both on the Norwegian sector and the UK sector, we believe there will be opportunities for this asset going forward.

Michael Webber: I know it's - again, I know it's very early, but when you think about those opportunities, and if you think that that was an asset that went through some pretty heavy upgrades when you acquired it from Sevan. But in terms of the opportunities we are looking at for that now or maybe that early stage work, would that early - would those opportunities imply some more yard time or is it something that - are there opportunities out there now even if it's early that you think feasibly you could spin that into new business pretty quickly?

Ingvild Saether: I think it will require some time between contracts before you can go on a new field to stick the vessel to a new field. But we don't have any concrete plans yet for the next opportunity for that asset.

Michael Webber: Sure, okay, alright, that's helpful. Just one more for me on the shuttles and I know we heard one of your competitors kind of talking about this earlier in the week, and the dynamics certainly seem like they are improving, given the fact that there is a very limited or nonexisting orderbook, have you started to see kind of the cash on cash returns for shuttles actually start moving higher yet, I mean it looks like we are going to be as of now, short capacity over the next two or three years in a pretty favourable environment, but there is obviously not a lot of data points around that, so just some sense maybe of where we are in terms of cash on cash returns and if they have actually started to inflect or is that something you still think is ahead of us?

Ingvild Saether: Well, we have actually seen quite a healthy rate increase in the CoA market even in the last two, three years where rates increasing significantly and as I talked about, we have three new contracts that have come into operation in the last year, with the Glen Lyon, with the Kraken and with the Catcher fields and the increased rates from those contracts is just starting to hit our earnings. So there has definitely been an upward movement in the shuttle tanker rates. There are no speculative shuttle tankers on order, so and we know that there are a number of vessels that will go out due to age, so we see a quite tight shuttle market for the next few years.

Michael Webber: Great. Thanks for the colour, appreciate it.

Operator: Our next question comes from Fotis Giannakoulis with Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hi gentlemen and thank you. I want to ask you about how do you - what is the earning capacity of the older shuttle tankers, you have 12 or 13 which are above 15 years old and what kind of a rate differential they earn today versus your modern vessels? And if you can also comment about the earning capacity of the four recently ordered newbuildings, two of them they were acquired. The initial two have slightly higher price. If the charter rate that you expect for this two groups of vessels will differ according to the acquisition price?

Ingvild Saether: Yeah, so if we start with the first part of the question with the older shuttle tankers and if we look at the North Sea, all those vessels trading in the North Sea are required to meet the current contracts that we have. So they will have high earning capacity until they turn 20, when the oil companies typically will not allow them to trade as the shuttle tankers in the North Sea anymore. So all of that capacity will be fully utilized at the going shuttle tanker rates. We have some vessels in Brazil that could potentially come off contract and they will either go on new contracts as the shuttle tankers or they will have a secondary market in the conventional market and that will obviously have a bit lower earnings than in the shuttle tankers. For the newbuildings that we have ordered, two of them will go on to the master agreement that we have with Statoil and earn the rates that we have in that contract. So same - they will replace two vessels that will go out and the other two is for the CoA market, where we, as I said, have seen gradually higher shuttle rates over the last few years that will give a decent return on those newbuilding prices.

Fotis Giannakoulis: Are of these two group of vessels of different specifications, or is just a fact that the last two were options that they were exercised and that's why you manage to get some discount?

Ingvild Saether: No, they are sister vessels. All four of them are the same. What is not yet decided on the two last vessels is the installation of VOC, which is an industry decision for the last two vessels. So the only difference in price is if the VOC equipment is not installed on the last two.

Fotis Giannakoulis: Okay, thank you. Can you also make a comment about your - the towage segment and earning potential of these vessels going forward? I understand that was - it has been a couple of tougher quarters, but how shall we think in the future the earning potential of this segment?

Ingvild Saether: So I would say that the towage segment is still quite challenging with the both lower rates and lower utilization. We were therefore very pleased to secure this big project taking of the five vessel capacity and it also proves our business model with having a bigger fleet with the different vessels that can take on a total installation and the towage job as this is and it will require as we said, a total of 330 vessel days in Q2, so that will be helpful for that quarter. It could be another year until we see fundamental improvements in our towage segment, but it is also important to remember that this provides a good upside when the market returns, so it is difficult to give visibility to how that market will develop, but in the meantime, we have to be creative like we have been on this latest field that we talked about today.

Fotis Giannakoulis: Thank you for that. One last question about the Petrojarl Rio das Ostras. This vessel, it's a conversion vessel, but it seems that it was doing some early testing work. I am wondering what is this - what are the opportunities that you are looking right now for this particular ship?

Ingvild Saether: Yeah, so the Ostras FPSO is an early well test that has produced on several fields for Petrobras. It's now extended for another four months from January and then Petrobras also has an option to further two months contract. We don't have any firm opportunity for the unit after that, but we are obviously working hard on looking at opportunities both in Brazil and worldwide.

Fotis Giannakoulis: If it moves away from Brazil or even in Brazil, does this - and it has been redeployed at a different field, does this vessel require additional upgrades or it can operate the way it is and do similar early testing work without additional capex?

Ingvild Saether: Yeah, so this unit has moved from field to field in Brazil and it is quite flexible for that, but it is a small asset so it has some limitations. I don't know if you have something to add there, David?

David Wong: Yeah, when - historically when we move it around for Petrobras, we have invested a couple of million dollars to do adjustments from field to field, so it is not the significant capital compared to large upgrade projects we see investing from other FPSOs.

Fotis Giannakoulis: Thank you very much, that's very helpful.

Operator: Our next question comes from Bendik Engebretsen with Danske Bank. Please go ahead.

Bendik Engebretsen: Yeah, thank you very much. Many of my questions have been answered already. Just two small questions from me. During the Q3 investor call, the company mentioned that the shuttle tanker deliveries in 2019 had not yet been financed. What is the financing status on these newbuildings as of today?

David Wong: Hey Bendik. We are still undergoing the process of working with commercial banks as well as export credit agencies to finance them. We expect to be doing that over the next period. We have meetings coming up next week in Norway to meet with a group of banks in the Nordic region. I would say that with the shuttle tanker revolver that we did back in September, it was oversubscribed and we had a lot of interest. We continue to get a lot of calls related to these so we are very confident given they are going to be in good markets as in North Sea as Ingvild mentioned, so we are working through it, but we are very confident of what we will be able to achieve with that.

Bendik Engebretsen: Alright, thank you. And lastly from me, could you elaborate on the recently awarded contract for the five towage vessels that are commencing work here in the spring this year? How much cash flow should we expect from 330 days in this towage segment?

David Wong: Yeah, as Ingvild said, it's the use of the five tows. The EBITDA estimation is around $4 million.

Bendik Engebretsen: Alright, thank you very much.

Operators: And we have no further questions at this time, so I would like to turn the conference back to Ms. Saether for any additional or closing remarks.

Ingvild Saether: Thank you. So after a year of heavy execution, we are now focused on safely and efficiently managing our assets, finding new redeployment opportunities for the assets coming off contract, use the cash flow to deleverage the company and then be in a position to pursue new growth opportunities in our core segments. So thank you for taking the time with us today and have a good day!

Operator: Ladies and gentlemen, this does conclude today's conference and we thank you for your participation. You may now disconnect.