TEEKAY OFFSHORE PARTNERS LP

Moderator: Peter Evensen
February 29, 2008
11:00 a.m. CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Teekay Offshore fourth quarter year end 2007 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 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 press star zero on your touch-tone phone.

As a reminder, this call is being recorded. For opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Chief Executive Officer of Teekay Offshore GP. Please go ahead, sir.

David Drummond: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekayoffshore.com where you will find the copy of the fourth quarter 2007 earnings presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that our discussions today contain forward looking statements. Actual results may differ materially from those projected by said forward looking statements as a result of various important factors. Additional information concerning these factors is contained in our earnings release and the earnings release presentation available on our Web site.

I'll now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, Dave. Good morning, and thanks for joining us today. With me today from Teekay Corporation are Vince Lok, its Chief Financial Officer; and Brian Fortier, its Corporate Controller.

If we turn to slide three, let me review the fourth quarter highlights. On October 1st, we acquired from Teekay Corporation the Dampier Spirit, which is a floating storage unit on charter to Apache Corporation in Australia for a period of seven years. As the results of the acquisition of the Dampier Spirit, we increased our quarterly cash distribution by 4 percent to 40 cents per unit, representing an annualized distribution of a $1.60 per unit, and a total cash distribution of $8 million. The cash distribution was paid on February 14th to all unitholders of record of on February 8. Including this distribution increase, the partnership has raised its quarterly distributions by 14 percent since its IPO in December 2006.

Despite the addition of the Dampier Spirit, distributable cash flow for the fourth quarter declined to $6.5 million from $7.3 million in the third quarter. The additional cash flow from the Dampier Spirit and fewer drydockings in the fourth quarter was more than offset by higher vessel operating expenses and lower revenues from the FSO Navion Saga, which received a one-time $3.5 million mobilization fee in the third quarter.

If we turn now slide four and review the distributable cash flow and cash distribution for the quarter, we generated $6.5 million of DCF which resulted in a coverage ratio of only 0.82 times, primarily due to an increase in costs, most of which were one-time as I will explain in a minute. However, the coverage ratio for the entire 2007 year was still above 1.0 at 1.03 times.

Turning next to slide five and reviewing the operating results for our three segments, overall cash flow from vessel operations or CFVO amounted to $64 million compared to $67 million last quarter. Our shuttle tanker segment generated CFVO of $40.2 million, virtually unchanged from the third quarter. During the fourth quarter, the Partnership's vessel operating expenses increased primarily due to an increase in seafarer salaries, including $1.5 million in one-time bonuses and an increase in repair and maintenance work.

During the fourth quarter, we incurred a number of unexpected repairs in our shuttle tanker fleet totaling approximately $2 million which we consider to be a non-recurring expense. The increase in vessel operating expenses was partially offset by higher revenues due mainly to fewer drydockings during the fourth quarter and the inclusion of results of the Navion Gothenburg for one full quarter, compared to only two months in the previous quarter. Also in the fourth quarter, we only had two scheduled drydockings in our shuttle tanker fleet compared to the second and third quarters, when we completed a total of seven drydockings.

During the first quarter 2008, we have only two scheduled drydockings, which should allow us to continue to benefit from the good winter market. Our conventional tanker segment generated CFVO of $13.7 million, down from $15.1 million in the third quarter, and this was primarily due to an increase in seafarer salaries and the timing of services and repairs.

Looking at our FSO segment, it generated CFVO of $9.7 million, down from $12.2 million in the third quarter. As mentioned earlier, the additional cash flow from the Dampier Spirit was offset by the reduction in revenue from the Navion Saga, which received the one-time $3.5 million fee in the previous quarter from the successful mobilization and hook-up of the unit.

Turning next to slide six, reviewing the income statement for the fourth quarter and comparing it to the last quarter, I've already discussed the income from vessel operations so let me touch on some of the items in the bottom half of the income statement.

Net interest expense increased slightly as a result of the $30 million acquisition of the Dampier Spirit on October 1st. The foreign exchange gain of $2.2 million is primarily the results of the translation of certain balance-sheet items from Norwegian kroner to US dollars. The majority of this amount is unrealized and does not impact our distributable cash flow, and the income-tax recovery at $13.6 million results from changes to our deferred tax balances which is impacted by foreign exchange fluctuations. Again this amount is a non-cash item and does not impact distributable cash flow.

So turning to next, to slide seven, we presented our December 31st balance sheet alongside this September 30th balance sheet. As we consolidate 100 percent of OPCO, Teekay Corporation's 74 percent interest in the net assets and liabilities have been shown as a non-controlling interest on the balance sheet. The Partnership have total liquidity of $287 million at the end of the quarter and, as a result, the Partnership is in a strong position and has the capacity to take advantage of acquisition opportunities which we fully intend to do so in 2008.

As we show on slide eight, high oil prices continue to stimulate offshore development in a much higher level of offshore activity than we would have thought a year ago. Increased deep-water drilling sets the stage for future FPSO demand and the pace of growth is increasing. As you can see from the chart, between 107 and 127 floating production units are going to be needed over the next five years. Some of these will be redeployment of existing units but most is going to be new units.

Teekay Corporation is actively pursuing selected projects on our behalf. With the trend toward deep-water production, Teekay's core strength and harsh environments and dynamic positioning technology are going to increasingly come into play we feel. Offshore activity is also expected to created related demand growth for FSOs and shuttle tankers.

In closing, we are pleased to have grown our distribution by over 14 percent in 2007, and we're going to continue to execute on our plan to increase the Partnership's distributable cash flow in 2008, both through acquisitions of shuttle tankers, FSOs and FPSO units, but against long-term contracts and additional interests in OPCO that Teekay Corporation may offer us.

Thank you all for listening and, Operator, I'm now available to take questions.

Operator: Thank you, sir. Ladies and gentlemen if you would like to ask a question, please press star one on your touch-tone phone. To withdraw your question, please press the pound sign. If you are using a speakerphone, please lift the handset before entering your request. Please standby for the first question.

The first question comes from Darren Horowitz from Raymond James. Please go ahead.

Darren Horowitz: Good morning, thank you. My first question is on the utilization and the drydockings. Specifically you had mentioned last time we spoke that you had hope to have about eight shuttle tankers in drydockings maybe one conventional tanker dock. Has that estimate changed at all and can you give us a better sense, aside from the two that are going to be dry dockings you want, how the remaining drydocking schedule should unfold in the back half of this year?

Peter Evensen: Vince, why don't you take that?

Vince Lok: Yes, we have two scheduled in the first quarter, and for the rest of the year, we have five other shuttle tankers scheduled to be drydocked.

Darren Horowitz: Any ideas to the timing by quarter for those dry dockings so we can get a better sense for utilization?

Vince Lok: Right now, we're estimating three of those would be in the second quarter and then one each in the third and fourth quarter.

Darren Horowitz: OK, thank you. And then switching gears over to the conventional tanker side for a minute, when you look at the income there on a sequential basis, it looks like it's been thrown off a bit. Can you give us a little bit more color as to what's happening in that segment, either from an operational standpoint or anything you're seeing out there in the market?

Peter Evensen: Well what has happened is that there's been a tremendous growth in the amount of ships that are being delivered and so the seafarer salaries have gone up. We've also seen an increase in drydocking costs, but it's mostly been in the seafarer side. We increased the salaries, in general in August of 2007, so we saw the full effect to that in the fourth quarter. So going forward, we'd expect to be at the same run rate going forward.

Darren Horowitz: OK.

Peter Evensen: So that's the guidance I can give you.

Darren Horowitz: OK, I appreciate that and then just one big picture question for you. When you're looking at, you know, in organic growth opportunities, obviously there's a tremendous potential for incremental interest from OPCO but, outside of that, has the market changed at all?

Peter Evensen: I don't think the market has changed. I think it's gotten better. Teekay Corporation has been – just delivered its first FPSO, which was the Siri which is going to be hooked up this week down in Brazil, and so we're very confident that there will be more projects coming out of Brazil as well as from the harsh weather environments in the North Sea.

I think from Teekay's viewpoint, we've been more conservative given that it's been harder to estimate some of the conversion costs and the delays you've seen across the whole offshore spectrum have impacted on a lot of costs. So we've probably been more conservative than some of the other people but I think we've taken steps to address that, and so we fully expect that the kind of projects we want to go for which play to our talents mostly harsh weather or with customers that we're familiar with. We will get our fair share going forward.

Darren Horowitz: Thank you. I appreciate it.

Peter Evensen: Thank you.

Operator: Ladies and gentlemen if you have any additional questions at this time, please press star one on your touch-tone phone. The next question comes on Ron Londe from Wachovia. Please go ahead.

Ron Londe: Yes. On the shuttle-tanker side, was there any variance, and what was your experience from the standpoint of volumes, you know, from formation of volumes during the quarter and maybe also during the first quarter?

Peter Evensen: What we had, strong – the fourth quarter and the first are generally the times when we have strong utilization and, when we don't have strong utilization, we try to trade them in the conventional tanker market. But we're – our capacity is so tight that really we don't have many vessels trading – taking conventional cargos, so we're pretty tight going forward. There were some outages on floating production in the north – or not floating production but offshore production in the North Sea in the fourth quarter – and there's a few in the first quarter but, in general, we're seeing strong utilization rates.

Ron Londe: What would you consider strong utilization rate?

Peter Evensen: Well, we move it back and forth but we generally try to have it somewhere around 85 – 85 to up to 90 percent during the winter season. We have slack season in the summer where we're – when you see production is down for maintenance and then we trade the ships in the conventional markets.

Ron Londe: All right. OK, thank you.

Peter Evensen: Thank you.

Operator: Mr. Evensen, there are no further questions at this time. Please continue.

Peter Evensen: OK. Thank you very much for listening and we look forward to executing on our plan this year to increase the distributions by double-digit rate. Thank you.

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

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