



**TEEKAY OFFSHORE PARTNERS LP**  
**Moderator: Emily Yee**  
**May 16, 2014**  
**11:00 am CT**

Operator: Welcome to Teekay Offshore Partners 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 zero 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 Offshore Partners chief executive officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I'd like to direct all participants to our Web site at [www.teekayoffshore.com](http://www.teekayoffshore.com), where you'll find a copy of the first quarter 2014 earnings presentation. Mr. Evensen 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 Evenson: Thank you, Ryan. Good afternoon, everyone, and thank you for joining us on our first quarter 2014 investor conference call. I'm joined today by Teekay Corporation CFO, Vince Lok;

chief strategy officer, Kenneth Hvid; and MLP Controller, David Wong. During our call today, I'll be walking through the first quarter of 2014 earnings presentation, which can be found on our Web site.

Starting on slide #3 of the presentation, I'll briefly review some of Teekay Offshore's recent highlights. The partnership generated distributable cash flow of \$51.1 million in the first quarter, a 22% increase from the same quarter of the prior year, primarily due to the acquisitions of two FPSO units and delivery of four new building shuttle tankers throughout the past year.

For the first quarter of 2014, the partnership declared and paid a cash distribution of 53.84 cents per unit consistent with the last quarter. We are excited to announce that we recently signed a letter of intent or LOI to acquire Logitel Offshore, an emerging player focused on the high-end floating accommodation market. I'll provide more detail on this transaction and the strategic rationale in a moment.

This acquisition marks our entry into the global offshore floating accommodation market, which we believe could represent a billion dollar plus business segment for Teekay Offshore over the near to medium term. In March, we completed the \$261 million acquisition of ALP Maritime Services, a provider of long-haul towage and offshore installation services to the global offshore oil and gas industry.

As part of the transaction, we entered into an agreement with Niigata Shipbuilding of Japan for the construction of four state-of-the-art Ulstein Design long distance towing and anchor handling new buildings, which are scheduled to deliver in 2016. This business is the natural complement to Teekay Offshore's existing project offerings, utilizing a similar skill set and servicing the same customer base, and will provide the partnership with another channel of accretive growth.

Finally, in early May, we signed a contract extension for the Dampier Spirit FSO with the existing charter Apache Energy for an additional 10 years. I'll provide some more detail on this contract extension on a subsequent slide. Turning to slide #4, I'll provide an overview of the LOI we signed with Logitel this week and why believe - why we believe this is an exciting opportunity for our partnership.

Logitel, an offshore floating accommodation company carved out of Sevan Marine, currently owns two floating accommodation units that are under construction at COSCO shipyard in China. The design is based on Sevan's patented cylindrical hull and will have dynamic positioning capabilities. Logitel also has options to order an additional six floating accommodation units from COSCO, which depending on this - specification can cost between \$200 and \$250 million each.

The first new building accommodation unit has secured a three-year charter contract plus extension options with Petrobras in Brazil and is scheduled for delivery in the first quarter of 2015. We expect to secure a charter contract for the second new building prior to its scheduled delivery in the fourth quarter of 2015.

We believe the floating accommodation market represents an attractive and complementary new channel for accretive growth for our partnership, and we have to grow this business to a billion dollar plus segment over the next couple of years. That's our aspiration. In addition, there are potential synergies with the partnership's other offshore businesses, which I'll touch upon later in the presentation.

On slide #5, we've provided an overview of the demand and supply fundamentals in the floating accommodation market, which we believe will create future opportunities for our recent acquisition. Floating accommodation units are used on offshore oil fields, where there's a need for additional accommodation, storage and support.

They are most commonly chartered during the maintenance and modification phases of existing offshore installations, with approximately 75% of demand coming from such projects. Floating accommodation units are also utilized during the hookup and installation of new offshore units, which accounts for approximately 20% of demand, while the decommissioning of old units accounts for the remaining 5%.

There are currently 23 floating accommodation units in service worldwide, most of which are deployed in the North Sea and Mexico. Brazil is emerging as a growth region for accommodation units, while West Africa and Asia may also be growing markets in the future. A total of 14 units are currently on order, which at first glance looks like a large order book compared to the current fleet size.

However, looking at the chart on the bottom left of the slide, you can see that the current fleet is getting old, with an average age of 24 years, including many units, which do not have dynamic positioning. A portion of the order book can therefore be considered replacement supply for an older fleet and reflects a market transition to higher spec DP vessels, which can operate in deeper waters and harsher weather environments.

Furthermore, the demand fundamentals for floating accommodation units are strong. As the forecast in the chart at the bottom right of slide indicates, the number of offshore production units in operation is set to grow in the next few years, which will create demand for worker accommodation during the installation in hook-up phases. In addition, the existing fleet of offshore installations is getting older which creates an increasing need for maintenance and repair services which involve floating accommodation.

Furthermore, with enhanced oil recovery techniques becoming more widespread, there is expected to be an increase in life extension projects in fields which would otherwise be abandoned. We believe that we will be able to demonstrate to our customers that the Sevan

design has a number of advantages as a floating accommodation rig, as has been proven already in the FPSO and drilling segments.

Key features of an accommodation rig are excellent motion characteristics, large lay down working areas and the option to use its storage capacity, for example, for produced water. Overall we view demand fundamentals in the floating accommodation market to be positive. And we believe that Logitel provides Teekay Offshore with the right platform from which to take advantage of this positive market outlook.

Turning to slide #6, I'd like to take a moment to provide details of our recent accretive contract extension for the Dampier Spirit FSO. In May, we secured a 10-year contract extension with Apache Energy for the 1987-built Dampier Spirit FSO to continue to operate on the Stag oil field in Western Australia. The unit's presently being dry-docked in Singapore with upgrades of approximately \$11 million prior to recommencing operations under the extended charter.

Under the new contract extension, the Dampier Spirit is expected to contribute approximately \$5.7 million in annual cash flow from vessel operations or CFVO. This is another example of how we can invest a small amount of CAPEX to extend the life of our existing older assets. Upon completion of the 10-year contract extension, the FSO will have been in operation for a combined 37 years, which includes 11 years as an Aframax tanker and 26 years as an FSO unit.

On slide #7, I'll review our consolidated operating results for the quarter, comparing an adjusted first quarter 2014 income statement with an adjusted fourth quarter 2013 income statement, which excludes the items listed in Appendix A of our first quarter earnings release and reallocates realized gains and losses from derivatives to their respective income statement line items.

Starting at the top of the income statement, net revenues decreased by \$5.7 million, primarily due to a shutdown period experienced on the Voyageur Spirit FPSO in January, the Rio das Ostras

operating at a 95% standby rates during field relocation in the first quarter, and lower utilization of the CoA shuttle tanker fleet, partially offset by a full quarter of earnings from the last two BG shuttle tankers.

While our revenues decreased by \$2.2 million associated with the Voyageur Spirit shutdown in January, distributable cash flow remains consistent with the prior quarter due to the indemnity with Teekay Corporation. Voyageur Spirit FPSO received final acceptance from the customer during the first quarter. Vessel operating expenses decreased by \$1.2 million, primarily due to lower repair and maintenance costs, across all of our business segments.

Time-charter hire expense decreased by \$2.3 million, mainly due to the redelivery in the fourth and first quarters, with two in chartered shuttle tankers. Depreciation and amortization expense increased by \$3.8 million, primarily due to the write-downs of two shuttle tankers that occurred in the fourth quarter of last year.

General and administrative expenses increased by \$2.8 million, primarily due to the timing of recognition of long-term incentive compensation expenses which are typically higher in the first quarter of each year, and higher support costs in relation to greater operational and commercial activities in the partnership. Net interest expense was consistent with the prior quarter. Equity income increased by \$800,000, primarily due to annual incentive related revenues recognized in the first quarter from the Itajai FPSO.

And income tax expense increased by \$1.2 million primarily due to higher taxes from our Norwegian entities as a result of new tax legislations enacted in 2014. I won't walk through all of slide #8, which was included in our recent earnings release. However, I'd like to highlight the information in the box at the bottom of the slide. We generated approximately 51.1 million in distributable cash flow, which when compared to our distribution payout resulted in a coverage ratio of 1.0 times for the first quarter.

As you can see from slide #9, we have a robust pipeline of organic growth projects over the next few years with the addition of Logitel and ALP, which diversifies the partnership's investment portfolio and expands its presence in the offshore oil production value chain. In addition, the partnership may have the opportunity to acquire up the five FPSOs currently owned by Teekay Corporation.

The largest of these, the Knarr FPSO newbuilding, remains on track for field installation and startup late in the fourth quarter of 2014. We expect to receive an offer to acquire the Knarr FPSO later this year. Turning to slide #10, I'd like to highlight that all of the growth on the previous slide could not be achieved without the collaboration from - that we have with our strategic partners, both new and existing.

The Logitel acquisition, which combines our strong operational platform and access to capital with Logitel's innovative accommodation rig design would not have been possible without the technology licensing and innovative cylindrical design provided by Sevan Marine, which is 43% owned by our sponsor.

The ALP acquisition combines our access to capital and leading offshore industry market position with ALP's operational capabilities and customer relationships in the long-haul towage business as well as Ulstein's X-BOW hull design. In addition to these acquisitions - these acquisitions - excuse me, in addition, these acquisitions introduce potential synergies with Teekay Offshore's existing operations and opportunities to gain additional business from our customer base.

Overall, these acquisitions, which involve collaborating with new partners, are natural complements for our existing offshore project offering and we believe will lead to new opportunities for accretive cash flow growth for the partnership. Before we open the call up to questions, I'd like to turn your attention to slide #11. I'm pleased to inform you about Teekay

Group's 2014 Investor Day, which is scheduled for the morning of Tuesday, September 30th and will take place at The Saint Regis Hotel in New York.

At this event we'll provide a detailed presentation of Teekay Offshore covering our strategy, financial position, and market outlook. 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 and meeting with investors at that time. Thank you all for listening. And Operator, I'm now available 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 one on your telephone keypad. If you are 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 one 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. Please go ahead. Once again if you do have a question, please press star one at this time. We have a question from Martin Roher of MSR Capital Management. Please go ahead.

Martin Roher: Thank you, Operator. I wanted to get a little better understanding of the Logitel acquisition. These, as I understand, are just basically very expensive and sophisticated floating hotels with some fabrication facilities on them, is that correct?

Peter Evensen: That's right. Some of - hi, Marty. That's right. They have numerous functions. When you're hooking up or doing maintenance on an oilfield, you need to bring out more engineers and have more bed. And the accommodation that is generally out on an oilfield is not sufficient.

So you charter a floating accommodation unit or floatel as it's called in the jargon. And therefore, you have engineers out there. You can also have cranes on board. And so when you're replacing steel or replacing units, you have the engineers as well as the equipment in order to do the maintenance as well as do life extension work as well as maintenance.

Martin Roher: So the length of the charters can vary but what's the typical charter length in the industry?

Peter Evensen: It all depends. I would say - so we see a few things coming out. For example, our first unit is Petrobras, and Petrobras, we use it on numerous fields. So just as we have with our FPSOs with Petrobras, they will move them around on various fields when they need them.

They - because of the large amount of infrastructure that Petrobras has, they will take a unit and then they'll figure - put it into their general maintenance and so we will move around as required, which is why the dynamic positioning is important. If you go back 10 or 15 years and look at the North Sea, which has fixed platforms, they used to use accommodation rigs in order to get the fixed platforms in place.

With the move to more FPSOs, there isn't as much of the need for it on our hookup basis. But at the same time if you're just commissioning for field, it'll be for say, summer work and - but in certain places like Mexico and Brazil, anywhere there's numerous fields, the state-owned oil company will take it for a period of years as opposed to in the North Sea where you're on a specific field for a certain amount of time.

Martin Roher: That's very interesting. I think you know this, but if you put up few slot machines on, it could increase the dividend coverage ratio?

Peter Evensen: Thanks, Marty, but I think they need their engineers to have their minds concentrated. But it's a good idea. It's a good idea.

Martin Roher: Well, thank you, and thanks for these for phone - four conference calls, much appreciated.

Peter Evensen: Thank you, Marty.

Operator: Thank you. There are no further questions at this time. Please continue.

Peter Evensen: Thank you all very much, and we look forward to reporting on our progress 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.

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