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TEEKAY OFFSHORE PARTNERS LP  
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## TEEKAY OFFSHORE PARTNERS LP

**Moderator: Peter Evensen**  
**November 25, 2014**  
**11:00 am CT**

Operator: Welcome to Teekay Offshore Partners Third 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.

Scott Gayton: Before Mr. Evensen begins, I'd like to direct all participants to our website at [www.teekayoffshore.com](http://www.teekayoffshore.com), where you'll find a copy of the third 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 third quarter 2014 earnings release and earnings presentation available on our website.

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

Peter Evensen: Thank you, Scott. Good afternoon everyone and thank you for joining us on our third quarter 2014 investor conference call. I am joined today by Teekay Corporation's CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid; and MLP Controller, David Wong. During our call today I'll be walking through the earnings presentation which can be found on our website.

Starting on Slide 3 of the presentation, I will briefly review some of Teekay Offshore's recent highlights. The Partnership generated distributable cash flow of \$45.2 million in the third quarter, up 5% from the same period of prior year.

The increase is mainly due to the delivery of the three BG shuttle tankers in August and November 2013 and January 2014 respectively and the delivery of the Suksan Salamander FSO in August of 2014. This was partially offset by the expiration of time charters for three of our existing shuttle tankers since the fourth quarter of 2013.

For the third quarter of 2014, the Partnership declared a cash distribution of 53.84 cents per unit. During the quarter, TOO continued to secure growth for both its offshore production and offshore logistics businesses. Lastly, TOO's wholly-owned subsidiary ALP Maritime agreed to acquire six on-the-water long-distance towing and anchor handling vessels from a consortium of German KG owners for approximately \$220 million.

In early October, Teekay Offshore's 50/50 joint venture with Odebrecht signed the letter of intent with Petrobras for a 12 year FPSO contract commencing in 2017 for the Libra pre-salt oilfield in the Santos Basin in Brazil. The FPSO will be converted from an existing TOO shuttle tanker for totally fully build-up cost of approximately \$1 billion, with TOO's 50% fortune being approximately \$500 million.

Finally, the Petrojarl Knarr FPSO which arrived in Norway in September is anticipated to achieve first oil in December of this year. In September, TOO received an offer from Teekay Corporation

to acquire the Knarr FPSO for Teekay Corporation's build-up costs of approximately \$1.16 billion. The offer is currently being reviewed by the Conflicts committee of TOO's board of directors.

Turning to Slide 4, I will provide some additional details on ALP's accretive acquisition of six long-distance towing and anchor handling vessels. Last week ALP agreed to acquire six dynamically positioned or DP II vessels all built between 2006 and 2010 from a consortium of German KG owners for an en bloc purchase price of approximately \$220 million. These on the water vessels are well-known to ALP which it previously commercially managed these vessels from 2010 to 2012.

Under the purchase agreement, the six vessels will all be acquired by ALP during the remainder of the fourth quarter of 2014 and the first quarter of 2015. However ALP will have delivery flexibility to provide time to market the vessels for prospective contract and will benefit from certain performance clauses which would provide for a reduction in vessel purchase price in the event that earnings over the first year of operations are unable to meet certain minimum thresholds.

Combined with ALP's four new-buildings on order delivering in 2016, this transaction positions ALP as a clear market leader in the long-distance DP II towing segment with the fleet of 10 vessels.

We acquired ALP earlier this year with the intention of providing TOO with an additional channel for growth. And this transaction complements ALP's existing new building program and kickstarts our ambition to become the premier provider of vessels capable of both high-and long-distance towage and offshore installation and decommissioning work.

Turning to Slide 5, I will provide a brief update on the Libra FPSO project. As I noted in my opening remarks, in October, our 50:50 joint venture Odebrecht signed a letter of intent with Petrobras for a 12 year early well test FPSO on the Libra field. This Libra field is currently

considered to be the largest oilfield and offshore Brazil containing an estimated \$8 billion to 12\$ billion recoverable barrels of oil.

The contract with Petrobras is expected to commence in early 2015 following the completion and delivery of a new FPSO that will be converted from existing an 1995 built TOO's shuttle tanker, the Navion Norvegia. In October, the joint venture signed a contract with Jurong shipyard in Singapore to complete the conversion project for totally build up cost of approximately \$1 billion, of which our share is half of it.

This will be the second FPSO project for Teekay Offshore Partners joint venture with Odebrecht and demonstrates the value of this partnership for new offshore business development in Brazil. The establishment of the site office at Jurong Shipyard is well underway with many of the project team now on-site. With the large portion of the project team coming from our Knarr FPSO project team, we expect to benefit from a significant amount of project knowledge transfer between the two projects.

Turning to Slide 6, I will provide a brief status update on the Knarr FPSO. Since arriving in Norway the unit has been undergoing testing and I am pleased to report we've now received our required Norwegian regulatory approvals and the unit is currently in transit to its field in the North Sea.

Following field installation and testing, the unit will commence a 10-year contract with BG. Although December 2014 continues to be our anticipated timeframe for commencement of the Knarr FPSO, this timing remains subject to favorable weather conditions during the field installation and offshore testing.

In accordance with our omnibus agreement with Teekay Corporation, in September Teekay Offshore received an offer from Teekay Corporation to acquire the Knarr FPSO for its fully built-

up cost which is currently estimated to be approximately \$1.16 billion. The acquisition which remains subject to TOO board approval is currently being reviewed by TOO Conflicts Committee.

Once the acquisition of the Knarr FPSO is completed, the unit is expected to contribute approximately \$70 million of annual distributable cash flow to Teekay Offshore and will be a key driver for the Partnership achieving the illustrative 7.5% distribution growth target for 2015 that we provided at our recent investor day.

On Slide 7, I will review our financial results for the third quarter of 2014 as compared to the second quarter of 2014. You will notice this quarter we changed the format of our financial results slide to focus more on distributable cash flow instead of net income. For a reconciliation of distributable cash flow to net income, please refer to Appendix B of our earnings release.

Starting at the top of the statement. Net revenues increased by \$14.7 million primarily due to the settlement of outstanding claims with the charterer of the Voyageur Spirit, higher utilization of the shuttle tanker fleet and the commencement of the 10-year charter contract with the Suksan Salamander FSO in August. These were partially offset by the scheduled dry-docking of the Navion Saga FSO in the third quarter.

Vessel operating expenses increased by \$3.5 million primarily due to higher repair and maintenance costs on the FPSO units, partially offset by a decrease in crewing expense on the shuttle tanker fleet. Time charter hire expenses increased by \$2.1 million mainly related to the schedule dry-docking of two in-chartered vessels during the second quarter.

Maintenance CAPEX expenditures increased by \$600,000 mainly related to the commencement of operations for the Suksan Salamander FSO in the third quarter.

General and administrative expenses decreased by \$4 million primarily due to a business development fee paid to Teekay Corporation during the second quarter related to the acquisition of ALP and higher business development costs to support our FPSO tenders during the second quarter.

Our share of distributable cash flow related to our equity accounted joint venture net of estimated maintenance CAPEX decreased by \$1.5 million primarily from higher repair and maintenance cost for the Itajai FPSO in the third quarter.

Interest expense increased by \$1.6 million, primarily due to a full quarter of interest expense on the \$300 million bonds issued during the second quarter.

Income tax expense increased by \$1.3 million, primarily due to a full quarter of earnings on the Dampier Spirit which commenced its new 10-year charter contract extension after completing an upgrade in the second quarter.

Capitalized distributions related to equity financing of new buildings and the conversion cost decreased mainly due to the delivery of the Suksan Salamander during the third quarter. As a result, our coverage ratio improved to 0.89 times during the third quarter compared to 0.79 times in the second quarter.

Turning to Slide 8, with the reduction in global oil prices over the past few weeks, it's important to highlight that Teekay Offshore's revenues are generated from fee-based contracts with no exposure to oil commodity pricing and as a result the Partnership's business is largely insulated from oil price movement.

As we indicated on this slide, TOO's business is almost exclusively focused on the production portion of the oil value chain, which is much more insulated from oil price driven cuts in the industry's E&P budget.

The main reason for this is that existing production units and the peripheral transportation and storage assets, they continue to operate at relatively lower marginal cost on fields that have already been developed. Even fields which have successfully completed the exploration phase will likely move in to production phase over the next few years even in a lower oil price environment.

In contrast to the exploration part of the oil value chain, which TOO is not really involved with, deals with the development of new oilfields which expenditure decision can more easily be postponed due to lower oil prices or other profitability factors. The important takeaway here is that the recent decline in oil commodity prices has had no effect on Teekay Offshore's earnings or cash flows.

Wrapping up on Slide 9, we provided an update to a slide we presented at our recent Investor Day. Including the six long distance towing and anchor-handling vessels, which will be acquired by ALP, Teekay Offshore's total committed growth CAPEX now stands at approximately \$3.5 billion.

This is another \$220 million of growth CAPEX above and beyond what was booked only a month ago, which when added to our existing pipeline of visible growth projects, will further contribute to our future increases in the Partnership's distributable cash flow.

Our business development teams in both the offshore production and offshore logistics are continuing to pursue attractive opportunities for accretive growth and I look forward to announcing additional TOO growth projects in the future quarters.

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 1 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 report the process now by pressing star 1 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.

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

Darren Horowitz: Hi, Peter. Quick question for you. There seems to be the comment theme on lot of the calls, but with regard to your comments around, you know, the FPSO market and sensitivity around oil prices, I know that at the analyst day you were looking at possibly bidding on three projects in the next 24 months in the North Sea and maybe another four projects additional in the next two years in Brazil.

And I'm just wondering as you're talking with producers with regard to the current forward curve oil prices, has anything changed in terms of scale or scope for those projects or more specifically around timing?

Peter Evensen: No, it hasn't. In fact, most of the exploration drilling has been done on these projects and on some of the projects we're engaged in feed study and I was just on a trip to visit some of our customers and I asked that question and the answer was no. They have spent enough money in the exploration phase that the production phase should go forward. In another words, it's already in the pipeline.



And so obviously people are looking at what can they do to reduce costs as part of the development plan, but that's something you would expect, but we haven't found that. And we just got the schedule, if you want to call it, of bids that will probably come from Petrobras and nothing has changed there either.

Darren Horowitz: Okay. So you're still comfortable with the opportunity set over the next five years maybe looking like 55 new FPSO projects?

Peter Evensen: Yeah. I think some in--I would say some projects that are further out there we think might be postponed. It isn't a question of how many projects, it's when the projects come. But we still see from our point-of-view that we have more opportunities that fit within our skill sets than we have capabilities.

Darren Horowitz: Okay. So as you're discussing with customers, is it getting to the point where they started to talk with regard to reducing costs, or they started to talk about a blend between duration and price in terms of what type of contracts you might look at because the way that we had almost modeled and thought about FPSO returns cash-on-cash was somewhere in that 11% to 13% or maybe 12% to 14% zip code and I'm just wondering if the discussions are happening now or are they starting to feel you out or push you a little bit on price?

Peter Evensen: No. I don't. We haven't changed our parameters for the kinds of returns that we want to have. What we're seeing is that through the whole supply chain people are saying what can we do to reduce costs going forward. The amount of profitability depends upon the competition.

And across the FPSO industry we still see that there is a limited number of players, there is a limited number of--well there is more opportunities for the sets going forward.

So the big question is can we get the conversion cost to become reduced? Can we get down some of the pricing that we have on compressors, on some of the other steel components that are going forward? So that's something you would normally expect in any industry, which is try to have efficiencies.

And so that has to do with the design, do they really want all the extra --we're looking at the sizing of generators, we're looking at the sizing of compressors and people are trying to get lower costs and efficiencies through that mechanism.

I think actually it sets up pretty well for us because we continue to have a units which are rolling over and what we're seeing is the replacement cost that FPSO has gone up and that gives us opportunities to reemploy our existing units, which set up quite well for some of the marginal oilfields that people are going to want a produce.

Darren Horowitz: That makes sense. I appreciate it. Thanks, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions please press star 1 at this time. The next question comes from Michael Webber of Wells Fargo. Please go ahead.

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

Peter Evensen: Fine.

Michael Webber: Hi. Peter. I wanted to touch base on the ALP acquisition. An article out in Trade press today around the operator of those assets contesting the sale, revealed I'm just curious as to

whether or not that's something new kind of post announcement whether that impacts the timeline on the deal or just any sort of color or commentary around where that deal stands?

Peter Evensen: Okay. So to be specific, the existing manager has threatened to sue the sellers of these six vessels that we're buying. They have a management agreement to manage the ships. But that's a matter between the sellers and their existing managers. It doesn't affect us. So it's unrelated to Teekay.

We have signed MoAs or purchase agreements with the sellers in order to buy the ships, we're going through a normal inspection process and I expect this to happen, but obviously they don't want to lose the management of the six ships.

Michael Webber: Got you. Okay. I'll keep an eye on that. I would touch on the Knarr drop and you mentioned as a bit on the parent call, but it's probably worth going over on a TOO call, but with all the chop in the equity and the energy markets where the questions around the Knarr is the equity portion of that funding and you mentioned on Teekay call potentially--you talked about the different leverage you have and potentially maybe looking at a one- or two-stage drop or maybe that all the doors are open but maybe a little bit of color around just how you think about that now and is there any different than it was a month ago?

Peter Evensen: Well. Yes. Let's just look at the facts. So the acquisition price is about \$1.16 billion. We have the ability to borrow \$815 million so the equity component is \$300 million.

As we said, our preference would be to drop it in one time and Teekay would probably take back some units, so the actually amount of equity that we would need be somewhere around \$100 million to \$200 million. Teekay can take it more if it wanted, or as we discussed yesterday we could drop it in two parts, but that isn't our preference.

But we have the ability to time out or time when we raise the equity, but nothing has changed to our strategy which is Teekay Offshore wants to buy this unit, it's natural home of it, and I actually think as the equity markets calm down, people see that we're not reflected -- we're not exposed to the oil prices as I said in my prepared remarks. The people will see that this is a good accretive deal and it's good for the unit holders. We do have contingency plans should that not be the case.

Michael Webber: Great. All right, thanks, Peter. That's all I've got.

Peter Evensen: Okay.

Operator: The next question comes from John Hopkins of Chartwell Investment Partners. Please go ahead.

John Hopkins: Hello, Peter. I was wondering if the skill set that you've kind of just picked up from the development of the Knarr would appreciably change the conversion cost of the Navion Norvegia.

Peter Evensen: No. First of all this is the second conversion that we're going to do it at Jurong shipyard. We did a conversion that resulted in the Itajai FPSO. So this is the second conversion we do for an FPSO that's going down to Brazil. We're moving the people down from the Knarr FPSO which is a new building.

This is a conversion, so we're seeing the knowledge we had from doing the previous conversion in Jurong and the skill sets of the people that we have on the Knarr, but the Knarr is a much more complicated FPSO than the Libra will be. The Libra is an early well test.

We don't have the same issues that we do on the Knarr where we have both to take oil, treat the gas, put the gas into a pipeline we don't have any of that that's involved on the Libra. So I don't

want to minimize it but it's an easier kid, if you will that we're going to go there. It's akin to what we're doing on some of the heavier oilfields that we are already operating on in Brazil.

John Hopkins: Got it. Thank you. Is it the price inflation then from, I mean the fact that this was going to be about a billion and the Knarr was 1.1 billion. Is that...

(Crosstalk)

Peter Evensen: Well. Yes. That's absolutely true. There has been inflation going up, but it's a different kid. There is heaters on it but absolutely we had seen inflation for three years or almost close to four years since we ordered the Knarr.

John Hopkins: Thank you very much.

Operator: Thank you. Our next question is a follow-up from Michael Webber. Please go ahead.

Michael Webber: Hey, guys. I apologize. I did have one more. During the quarter you're delaying and getting the HiLoad DP under contract and in the release, Peter, you mentioned additional testing we have made. Do you have a timeframe around when they would go on contracted that the decent chunk of DCF there? My apologies if you said that, somewhere I missed it.

Peter Evensen: Now, well, this is a new technology and it's going to require new testing. It isn't actually a large acquisition for Teekay Offshore, it's \$60 million, but as the original testing went on it was discovered that they wanted to see it in other environmental scenarios. So we've agreed to do increased testing.

As Vince said yesterday we don't anticipate that. We're being conservative and not anticipating that we will get any revenue on it in the fourth quarter, but as a reminder to everyone this is a

contract we signed with Petrobras for 10 years and we're still excited about the HiLoad technology, which has for customers the ability to load a conventional tanker directly from an FPSO and thereby saving the customer, in this case Petrobras and its field partners a significant amount of money.

Peter Evensen: Got you, so from a modeling perspective, Q1 '15 is the best estimated one that could go on contract?

Michael Webber: That's right.

Peter Evensen: Okay. Thanks.

Michael Webber: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if there are any additional questions please press star 1 at this time. There are no further questions at this time. Please continue.

Peter Evensen: Okay. Thank you all very much. We look forward to reporting back to you next quarter.

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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