



TEEKAY OFFSHORE PARTNERS' FIRST QUARTER 2018 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Offshore Partners

Date: Thursday, 17th May 2018

Conference Time: 12:00 ET

Operator: Welcome to Teekay Offshore Partners' First Quarter 2018 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 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 the call over to Ingvild Saether, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead, ma'am.

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 first quarter 2018 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 first quarter 2018 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 first quarter investor conference call. With me today, I have David Wong, CFO of Teekay Offshore Group, and Scott Gayton, Teekay Corporation's VP, Finance.

Please turn to slide three of the presentation and I will review some of Teekay Offshore's recent highlights.

In the first quarter, the partnership generated total cash flow from vessel operations, or CFVO, of approximately \$162 million and distributable cash flow or DCF of approximately \$40 million, resulting DCF per LP unit of \$0.10, an increase of 11% and 14% from the previous quarter, respectively. The cash flow increase during the quarter was mainly driven by the delivery and contract start-up of our many recent growth projects.

With the contract start-up of Petrojarl I FPSO and the final two East Coast Canada shuttle tanker newbuildings, we have now completed all our near-term growth projects, supporting \$200 million of incremental CFVO.

In April, we completed the previously announced contract extension of the Voyageur Spirit FPSO until at least April 2019. As communicated last quarter, the new contract is at the lower fixed charter rate. However, we have potential for some additional upside based on oil production and oil price.

As of 31st March, we had total liquidity of \$350 million, which includes an 18-month unsecured revolver provided by our sponsors, Brookfield and Teekay Corporation, who are committed to providing us with financial flexibility.



Turning to slide four, CFVO growth in the quarter was driven by our core segments of FPSOs and shuttle tankers. Our FPSO segment, whose CFVO was up 18% over the same period last year, benefited from the contract start-up of the 50% owned Libra FPSO in November.

Our shuttle tanker segment, while benefiting from the ramp up of cash flow from our East Coast Canada shuttle tankers, was negatively impacted by non-recurring repair and maintenance cost and the dry-docking of a shuttle tanker during the quarter. Our floating storage and off-take segment, whose cash flow rose over 200% year-over-year, benefited from the contract start-up of the Randgrid FSO on Statoil's Gina Krog field.

Although our results significantly improved during the first quarter, we are expecting softer results in the next couple of quarters partly due to seasonal factors and timing differences and partly due to certain contract rollovers at lower rates. Many of these factors are detailed in our Q2 outlook slide included in the appendix to this presentation.

Looking ahead to the second half of 2018, we expect our results to normalise in Q4 after the completion of seasonal oil field maintenance period and our heavy dry-dock schedule for the shuttle tanker fleet both in the second and third quarters.

Turning to slide five. This is an important slide that we have shown many times over the past year or so, and I am pleased to report that we have now completed all our near-term growth projects, some of which have not yet been fully reflected in our financial results. The cash flow from the projects will allow us to replace cash flow from expired contracts and to naturally de-lever our balance sheet.

As I noted in my opening remarks, the final two East Coast Canada shuttle tanker new buildings, the Norse Spirit and Dorset Spirit, commenced their long-term charter contracts. We took delivery of our final state-of-the-art towage newbuilding, the ALP Keeper. With a large modern fleet, our towage subsidiary ALP is starting to see the benefits from our fully delivered fleet of 10 towage vessels. Five of those vessels



were performing towage and field installation for the Kaombo Norte FPSO project in Q2, our largest towage contract to-date, which is expected to use a total of 330 vessel equivalent days. Lastly the Petrojarl I FPSO achieved first oil and commenced its charter contracts, as I will discuss on the next slide.

If you now turn to slide six, recently, we have completed two major projects in Brazil, which has expanded our presence in the fast-growing Brazilian market and propelled us into market-leading position with a total of five FPSO operating in Brazil today. First, the Petrojarl I FPSO on the Atlanta field, our most challenging project to-date, achieved first oil and commenced its five-year charter with QGEP in May. It is currently running at 100% uptime and it's ramping up production. In addition to the fixed rate for Petrojarl I, as outlined on this slide, the charter contract also includes some additional upside potential from oil price tariffs.

Second, the Libra FPSO, which was a very successful project that was generally on time and under its \$1 billion budget, achieved first oil and commenced its 12-year charter contract in late November last year on the large Libra field with a consortium of international oil companies and is also operating to our expectations producing over 40,000 barrels per day.

Turning to slide seven. We look at future growth opportunities in Brazil. According to EIA, Brazilian oil production is expected to grow by just over one million barrels per day by 2023. Developing these fields will require a large number of FPSOs and Petrobras has stepped up its tendering activity recently. Last year, Petrobras awarded its first FPSO contract in almost three years and currently has tenders out for five more units.

The opening of Brazilian offshore fields to foreign operators is a positive development. International oil companies have shown renewed interest in Brazil and recent offshore licencing rounds have been a great success. As an indicator of the level of interest, Brazil recently received a record 16 expression of interest for the upcoming pre-salt auction in June. Although it will take several years for these fields to be



developed, the opening up of the Brazilian offshore market is a positive development and should lead to an increase in tendering activity for the FPSOs in the coming years.

Turning to slide eight. We look at the development in the shuttle tanker market. As shown by the chart on the slide, oil production from fields which use shuttle tankers as an off-take solution, is set to increase significantly in the next few years. This is primarily driven by Brazil, which is the largest region for shuttle tanker growth. We forecast an approximately 60% increase in production from Brazilian oil fields, which will require shuttle tankers by 2025 creating demand for upwards of 20 shuttle tankers in the coming years.

The North Sea is a more mature market and production from North Sea fields that use shuttle tankers is expected to remain relatively flat in the next few years. However, there will be significant need for new vessels to replace aging tonnage with 13 of the 30 vessels currently trading in the North Sea reaching 20 years of age in the next five years. So, in sum, we are highly encouraged by the increase in the tendering activity for both shuttle tankers and FPSOs in our core geographical market and believe that this will provide new growth opportunities for Teekay Offshore in the coming months and years.

If you now turn to slide nine, overall, we believe higher oil prices is driving contract extensions and redeployment opportunities. I will touch on a couple of these. Premier extended the contract on Huntington field for the Voyageur FPSO and the higher oil price makes it more profitable to invest to keep the field producing for longer. On redeployment of the Varg FPSO, Alpha Petroleum is in the final stages of discussions with their key financiers and expect a decision to be made in the near future. We have worked cooperatively with our client to mature the concept through an extensive FEED period and are confident that the project is technically robust and properly specified to allow the project to proceed.

In the current environment with significantly higher oil prices, we are more comfortable with our redeployment opportunities and believe that they, in the medium and longer term, can provide meaningful upside to Teekay Offshore.



In closing, we have now completed all our near-term growth projects. As we discussed last quarter, there was a different sentiment in the industry and we see more opportunities in our core markets than what we would be able to digest of new growth. This allows us to be disciplined and selective for the next projects we engage in. With market-leading positions, a stronger balance sheet, access to capital and strong operational platforms, we believe we are well-positioned to benefit from the future opportunities as the global energy markets recovers.

Operator, we are now available to take questions.

Operator: Thank you. And as a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. Again, that is star one. And we'll pause for just a moment to allow everyone an opportunity to signal for questions.

And we will start with our first question from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes. Hi, guys. Thank you. I want to ask you about the potential expansions of some of the FPSO projects that, potential redeployment of some of the FPSOs that are idle. If you have any update about the Varg? Or if you any update about the Rio das Ostras? If you can give us an outlook of how you think these vessels will be utilized in the future?

Ingvild Sæther: Thank you, Fotis. Yes, I can talk a bit about the redeployment opportunities. And if I first start with the Varg, we have been talking about the project that we are working on with Alpha Petroleum for quite some time. Technically, the project has been developed to a stage where we are comfortable with proceeding with the project and now Alpha Petroleum are in the final stages of concluding their financing. So, if they are able to get everything in place, we would expect that this project can be completed quite soon.



We also see that there is a lot of inbound inquiry on the Varg asset. That's a very flexible asset that can operate both on the Norwegian sector, because it is Norsok compliant, and on the UK sector. So, in the case that the Alpha project is not going ahead, we have other opportunities for that asset as well.

For the Ostras, that unit is still in Brazil on the Ostras field. Petrobras has the option to extend until the middle of this summer. They are working through their decommissioning activities for the field. As long as the unit stays in Brazilian and with the oil price at a level we see now, we are always hopeful that there are opportunities that can come up. We know many oil companies are reviewing their portfolios with these oil prices and see if they would have opportunities that looks different at this price level. And as we know, this is an early well test unit that can quite quickly be redeployed on a new field. But at the moment, we don't have anything firm for the Ostras.

Fotis Giannakoulis: And can you talk a little bit more about the future opportunities that they might arise for Piranema and the Voyageur Spirit that they expire next year? Do you think that this will be extended at the current fields? Or they will you have to be looking for different field for deployment?

Ingvild Sæther: Yes. If we start with the Piranema, that is operating in Brazil at the Piranema field and as we have talked about earlier, Petrobras have options to extend that unit further than next year. Petrobras has put the field out for sale. So, they are soliciting interest for other buyers of the field and if the sale takes place, then Piranema FPSO would be an important infrastructure asset for the further development of the area. So, that's really where we are today on that unit.

On Voyageur, we have extended with Premier for minimum a year until April 2019. And again, with the oil prices we see now there is more room for the oil companies to further invest in this field, that is in the final stages of production. So, I wouldn't think that it's unlikely that it could produce longer on that field.



We are also seeing a lot of activity, especially in the North Sea on development of smaller fields that are ideal for redeployments and that will not sustain a newbuilding. So, we have a number of fields that are in the planning stage for 2020, 2022.

Fotis Giannakoulis: Thank you very much for this answer. Can we switch towards the least favourable sectors and try to see how we can think of the earning capacity of the towage vessels? These vessels seem to defy the movement in oil prices. What do you think these vessels can earn? And when do you expect that the earning capacity of these assets will be normalised? And also, if you can talk also about the UMS unit. If there is any development there? If the increase in oil prices has increased the probability of getting a new employment?

Ingvild Sæther: Yes. I can try to address that. So, if we start with the towage segment. That has been quite challenging, both in terms that there has been lower rates and lower utilisation. As we discussed last quarter, we have just got on a big project that required five of those vessels employed at the same time with more than 300 vessel days at quite decent rates. So, Q2 is picking up in activity. And the summer months are usually the higher activity levels for these vessels.

It could still be some time before we see that fleet at the high utilisation, but generally when the activity picks up in the industry, these vessels will also benefit from that. There will be more rig moves and more activity in general. And now when we have ten vessels, the contribution from this segment will actually be quite meaningful when the activity picks up and the rates hopefully picks up with it. So, it's a combination of utilization and rates. Rates are actually not so bad but utilization has been low.

Fotis Giannakoulis: Yes. Sure.

Ingvild Sæther: Did you have a follow-up question before I go ahead?

Fotis Giannakoulis: No. Please go ahead. Sorry about that.



Ingvild Sæther: The accommodation segment is based in the same situation where there is still some overcapacity overall in the market. This is also a niche segment with only 25 to 40 units and activity has started to pick up in all the markets. The main markets for these units are the North Sea, Brazil and Mexico and we are seeing renewed activity in all those markets.

One of the main drivers for demand for accommodation unit is maintenance and modification and we know that the activity level in those areas has been quite low, when the oil price was low and the oil companies tried to preserve cash. So, we expect that there is actually quite a big overhang of maintenance work that needs to be done. So, we are confident that this market will come back at healthy levels. But we still think it can take some time. At the moment, the unit is in lay-up and we are bidding on a couple of contracts that would have start-up in the next 12 months.

Fotis Giannakoulis: Thank you. One last question about the upcoming refinancing. Can you remind us what is the outstanding of the Arendal Spirit and the Voyageur Spirit? And how do you expect these vessels or when do you expect these vessels to be refinanced since the current debt is maturing soon?

David Wong: Hi, Fotis. So, for Arendal Spirit, we currently have \$75 million on our balance sheet at 31st March. That continues to amortize out. As you saw in the press release that we are in discussions with our lenders to further extend the loan, with a prepayment in 2018 September, then see if we can find a contract to further extend the loan. So, we have an agreement in principle to extend that out for the year with a small prepayment.

Related to the Voyageur, the Voyageur had a bullet in April, around \$80 million. That was paid down and then we refinanced that at around \$40 million.

Fotis Giannakoulis: And can you give us an idea of how the repayment of these loans, the new loans will be? What kind of profile they are going to have?



David Wong: Yes. For the new Voyageur loan, it will be one year. And then as Ingvild mentioned, we are in dialogue with Premier to look at extensions. So, related to that and possible opportunities to do other opportunities with that asset, it could mean further extensions or upsizing depending upon the activity that we find in recontracting.

Fotis Giannakoulis: Thank you very much. I appreciate your answers.

Operator: There are no further questions at this time. I would now like to turn the conference back to Ms Sæther for any additional or closing remarks.

Ingvild Sæther: I just wanted to say thank you for everyone for taking the time with us today and have a great day.

Operator: This concludes today's presentation. We thank you for your participation. You may now disconnect.