TEEKAY OFFSHORE PARTNERS' SECOND QUARTER 2018 EARNINGS RESULTS CONFERENCE

Company: **Teekay Offshore Partners LP**

Date: **Thursday, 2nd August 2018**

Conference Time: **12:00 ET**

Operator: *Welcome to the Teekay Offshore Partners Second 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, 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: *Thank you operator. Before Ingvild begins, I would like to direct all participants to our website, www.teekayoffshore.com, where you will find a copy of the second quarter 2018 earnings presentations. 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 as contained in the Second 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 second quarter investor conference call. With me today I have Tim Cowan, the interim CFO of Teekay Offshore Group.*

*Please turn to **slide 3** of the presentation. I will review some of Teekay Offshore's recent highlights:*

- *In the second quarter, the Partnership generated total cash flow from vessel operations, or CFVO, of approximately $162 million and distributable cash flow, or DCF, of approximately $25 million, resulting in DCF per LP unit of 6 cents. Our results came in better than our previous guidance driven mainly by stronger than expected results from our shuttle tanker contract of affreightment, or COA, fleet and lower operating expenses on various FPSO units.*
- *However, as expected, our overall financial results were down from the previous quarter primarily driven by lower rates on two FPSOs, resulting from contract extensions, higher interest expense, partially offset by the start-up of the Petrojarl I FPSO in May 2018.*
- *In July, we entered into a further contract extensions on the Voyageur Spirit and Ostras FPSOs, which will result in higher rates in subsequent quarters, commencing in July 2018 for Ostras and January 2019 for Voyageur Spirit.*
- *Also in July, we refinanced our 2019 bond maturities and a $200 million promissory note, which significantly improving the Partnership's debt maturity profile.*
- *Finally, last week, we ordered two additional vessels for our shuttle tanker franchise with the order of two LNG-fueled [750,000 barrel], DP2 shuttle tanker newbuildings, bringing our total orderbook up to six shuttle tanker newbuildings.*

*Turning to **slide 4** – CFVO growth compared to the same quarter last year was driven by the recent delivery of our capital projects which more than offsets lower cash flows from our recent FPSO contract extensions.*

Our FPSO segment CFVO was up 13% over the same period last year and benefited from the contract start-up of the Petrojarl I FPSO in May as well as a full quarter contribution from the Libra FPSO. The increase was partially offset by lower charter rates from contract extensions on the Voyageur Spirit and Ostras FPSO units.

Our Shuttle tanker segment, while benefiting from additional cash flows from the start-up of our last two East Coast Canada shuttle tankers, was negatively impacted by the redelivery of two DP1 shuttle tankers, and the sale of an older shuttle tanker during the quarter.

Our FSO segment, whose cash flows rose over 250% year-over-year, benefitted from a full quarter contribution of the Randgrid FSO.

As we stated last quarter we expected Q2 and Q3 to be weaker due to the seasonal oil field maintenance period and our heavy dry-dock schedule for the shuttle tanker fleet. However, performance in Q2 came in better than expected, driven mainly by stronger than expected results from our CoA fleet, which has pushed more of the seasonal factors and timing differences into Q3, further impacting our results. However, we expect results to normalize in Q4 after the completion of seasonal oil field maintenance period and our heavy dry-dock schedule for the shuttle tanker fleet in the third quarter.

Turning to ***slide 5*** *– I will review the details of our recently secured new FPSO charter contract extensions.*

We completed a further one-year contract extension to April 2020 with Premier Oil for the Voyageur Spirit FPSO on the Huntington field in the UK sector of the North Sea. This new extension, which takes effect in April 2019, maintains the same fixed-charter rate and oil production tariff elements, however it provides additional potential upside based on oil price.

Additionally, we completed a contract extension to November 2018 with Petrobras on the Ostras FPSO, with options to further extend the charter to January 2019, at an increased rate relative to that in the option period of the previous contract extension.

Combined, these valuable contract extensions represent material future cash flows totaling over $70 million in forward revenues with no incremental investment by the Partnership. These activities also extend the timeframe available to secure appropriate future redeployment opportunities, which we are continuing to explore for both assets.

*Turning to **Slide 6** we believe our current portfolio of existing assets provides upside to potential earnings from contract extensions, redeployment opportunities and improving markets.*

The Piranema Spirit FPSO is scheduled to end its firm charter period with Petrobras in February of 2019. We are aware of a process being undertaken by Petrobras to divest its interest in the field, and we believe any purchaser would be strongly motivated to continue employing the Piranema Spirit on this field. Consistent with our Redeployment Management Process, we have commenced an evaluation of alternative employment opportunities for the unit should the sale and new contract opportunity not eventuate.

On the redeployment of the Varg FPSO, we are in the final stages of discussions with Alpha Petroleum and expect to make a decision shortly for this project on the Cheviot field.

We continue to bid on various tenders throughout the globe for the Arendal Spirit accommodation unit. In the meantime, we have extended the mandatory prepayment date on its debt facility to September 30, 2019 in exchange for a principal prepayment of $18 million, which is expected to be paid in the third quarter of 2018.

Our towage segment continues to experience the challenges of a slower rig market, however, over past few months, five of our 10 towage vessels have been performing mobilization and field installation services for the Kaombo Norte FPSO, which is our largest contract to-date for a total of 330 vessel days. We continue to bid on projects of this size and we believe our *scale and modern vessels provide a strong competitive advantage to us and value to our customers.*

Turning to ***slide 7*** *we continue to invest in our market leading shuttle tanker franchise with an order for two, LNG-fueled Aframax DP2 shuttle tanker newbuildings from Samsung Heavy Industries. Upon delivery in late-2020 and early 2021, these two newbuild shuttles will be delivered into our CoA portfolio in the North Sea. These newbuildings, along with our four existing newbuilds under construction, are based on Teekay's New Shuttle Spirit design, which uses proven technologies to increase fuel efficiency and reduce emissions through the use of LNG as a fuel.*

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. It is encouraging to see the number of new fields being sanctioned, which will underpin shuttle tanker COA demand longer term. Fleet renewal is necessary to replace tonnage that we will retire due to age and enable us to serve our customers for the next 20 years.

If you look at the picture on this slide, you will see our shuttle tanker Scott Spirit loading at the Alpha fields in the Barents Sea. Lundin as operator is currently performing an extended work where the hydrocarbons are loaded into our shuttle tanker on a continuous basis for as long as the well test will take. This is an important project for Lundin and even the industry, exploring the new frontiers of the Barents Sea. We are very proud to have been choosing as a partner for Lundin on this operation, which has such a high focus on safety and environmental performance. And as you can see from the picture, the harsh environment is not always harsh.

I will now hand it over to Tim to talk about the recent bond refinancing.

*Thanks Ingvild. Turning to **Slide 8** following the recent completion of our new $700 million unsecured bond offering, we have de-risked our balance sheet and significantly improved the Partnership's debt maturity profile with the refinancing of our 2019 bond maturities and the $200 million promissory note due in 2022, which moved $623 million of debt maturities beyond 2022 as shown in the graph on this slide. Brookfield contributed $300 million of new capital into the offering which further highlights their continued strong support for the Partnership.*

Following the bond offering, Brookfield exercised its option to acquire an additional 2% of our general partner, bringing their ownership interest in the general partner to 51%. We look forward to continuing the pursuit of our near- and longer-term objectives with the ongoing support of our two sponsors, Brookfield and Teekay Corporation and with that, I will hand it back to Ingvild.

Thank you Tim. Our new CFO, Mr. Jan Rune Steinsland, will join us in early-September. His extensive financial experience gained through his role as CFO with several public, international companies and deep knowledge of the offshore energy industry makes him well-suited to serve as our new CFO. In addition, his proven track record in negotiations with yards and customers, as well as developing robust financial strategies, makes him a strong addition to the Teekay Offshore leadership team. We look forward to having him on-board.

In closing, we are encouraged by the level of activity in the industry and we are seeing more opportunities in our core markets, however, we will continue to be disciplined and selective on future projects. With a stronger balance sheet, market-leading positions, operational excellence and strong and supportive sponsors, we believe Teekay Offshore is well-positioned to benefit from the expected strong demand for offshore production, storage and transportation.

Operator, we are now available to take questions.

Operator: *Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad and if you are using a speakerphone, please make sure your mute function is turned off. And we will take our first question from Sam Cho with Wells Fargo Securities. Please go ahead.*

Sam Cho: *Hi, guys. Thanks for the call. Could you try to give us a little bit more colour on the outlook of the Piranema field and I guess what I am thinking is, you know, if the negotiations progress, you know, is there any participation that you are taking part of in the negotiations, where if it gets more mature, if the sale gets finalized, that, you know, the Spirit FPSO has, you know, a higher likelihood of staying on board?*

Ingvild Saether: *I am sorry, yes.*

Tim Cowan: *Let me just say, it is a little bit difficult to hear, hopefully the line was breaking up for us, I think we got the gist of your question being regarding the Petrobras sale process for the Piranema field, is that right?*

Sam Cho *Yeah, exactly, and I guess how involved or not involved you will be and kind of how you seethat process progressing?*

Ingvild Saether: *So, in the last quarter or in the previous quarter, to explore the divestments in the Piranema field and we know that there have been parties that are interested in investing in this. The FPSO would first be a very important infrastructure asset for anyone who would be continuing to invest in the field. The current production is low but for the results there are resources in the other parts of the field. So, although we don't have insight into the Petrobras process directly, we know that there is activity around this and that we are having dialogue with parties that are potentially interested.*

Sam Cho: *Got it, that's helpful. And then, I guess, I think you were able to earn some higher towage rates. So is that something that we can kind of expect going forward for the rest of the year or is that just kind of a quick demand spike because of the increased load there?*

Ingvild Saether: *Yeah, we had a pretty good Q2 for the towage. We had one big project on this Kaombo Norte FPSO. Both had the towing of the FPSO and also installation on the field, so it actually consumed five vessels over an extended period of time. So that has contributed to a stronger Q2. We are seeing more activity and uptake in the segment and it is working on quite short lead times. So, I think this segment can prove to be more exciting going forward.*

Sam Cho: *Great, thank you guys. I will turn it over.*

Operator: *And it appears there are no further questions at this time. I would like to turn the conference over to Ingvild Saether for any additional or closing remarks.*

Ingvild Saether: *Well, thank you for joining us today and I hope you have a continuous nice summer, everyone. Thank you.*

Operator: *And this concludes today's conference. You may now disconnect.*