



TEEKAY OFFSHORE PARTNERS' FOURTH QUARTER AND FISCAL 2018 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay Offshore Partners LP

Date: Thursday, 2nd February 2019

Conference Time: 12:00 CT

Operator: Welcome to Teekay Offshore Partners' Fourth Quarter 2018 Earnings Results conference call. During the call, all participants will be in a listen-only mode. Afterwards, we will be... 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. Now for opening remarks and introductions, I'd like to turn the call over to Ingvild Sæther, Teekay Offshore Group's President and Chief Executive Officer. Please go ahead.

Jan Rune Steinsland: 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 fourth quarter 2018 earnings presentation. Ingvild and I 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 statement is contained in the fourth quarter 2018 earnings release and earnings presentation available on our website. I will now turn the call over to Ingvild to begin.



Ingvild Sæther: Thank you Jan Rune. Hello everyone and thank you for joining us on our fourth quarter investor conference call. With me today I have Jan Rune Steinsland, the CFO of Teekay Offshore Group. During 2018 and in the fourth quarter, we experienced great progress both operationally and commercially. Teekay Offshore generated adjusted EBITDA of 290 million this quarter, which is up 117 million or 68% from the prior quarter. The primary driver of this significant increase over the third quarter is related to the Petrobras settlement and higher earnings in our shuttle tanker fleet.

As we announced previously, we came to a positive settlement agreement with Petrobras for a total of 96 million. 55 of the settlement has already been received with the remainder to be received in 2020 and 2021. Today we announce a contract extension for up to three years on the Piranema Spirit FPSO with our existing customer Petrobras, which I will speak more about later in this presentation. Our shuttle team was also very busy this quarter securing five new shuttle CoA contracts, primarily renewals to existing customers servicing existing fields. And our towage segment was awarded a towage and installation contract for Total's Kaombo Sul project where we had used five of our vessels in January, and the project will require a total of 300 to 350 vessels days. I will now turn it over to Jan Rune to go over the financial results.

Jan Rune Steinsland: Thank you Ingvild. I would first of all like to draw your attention to the fact that in the fourth quarter 2018, we had made certain changes to our non-GAAP financial measures to more closely align with internal management reporting, annual reporting with the SEC under Form 20-F and metrics used by our controlling unit holder. Primarily, cash flow from vessel operations CFVO from consolidated vessels and total CFVO are replaced with consolidated adjusted EBITDA and adjusted EBITDA respectively.

Distributable cash flow is no longer reported. Adjusted net income is reported with a modified definition. Please refer to definitions and non-GAAP financial measures in the earnings release for definitions of



these non-GAAP financial measures, and in Appendix E of the earnings release for the reconciliations of the new to the old metrics.

We will now turn to slide four. Adjusted total EBITDA of 290 million in the quarter was up 117 million or 68% over the last quarter and up 147 million or 103% over the same period last year. This is primarily driven by the recognition of 91 million of revenue related to the Petrobras settlement and the contract start-up of growth projects during 2017 and '18. But is also driven by a solid operational performance in fourth quarter.

Our FPSO segment recorded an adjusted EBITDA of 109 million up 16 million from the third quarter. 14 million was attributable to accelerated non-cash in process revenue in relation to the current Piranema contract that expires end of January. The balance is related to ongoing operations that for the FPSOs were basically in line or slightly better than third quarter.

Our shuttle tanker segment adjusted EBITDA came in at 124 million, which represented an increase of 59 million compared to last quarter. This segment benefited from the recognition of 55 million of the 91 million Petrobras settlement, which is related to the HiLoad DP unit. In addition, operations during the quarter were solid with both higher fleet utilisation and higher average tanker rates compared to the third quarter.

Our FSO segment adjusted EBITDA of 26 million was up 5 million, primarily driven by lower of hire, lower repair cost and a contract amendment on the Randgrid FSO. The contract amendment will remove certain performance criteria that in the past has resulted in lower commercial uptime for this unit. Our UMS segment adjusted EBITDA of 35 million improved by 36 million reflecting primarily the recognition of 37 million of the 91 million Petrobras settlement related to the Arendal Spirit UMS.

Our conventional tanker and towage segments adjusted EBITDA were both negative by 1 million in the quarter, which is in line with the third quarter. Looking ahead, we expect that our conventional tanker



segment will no longer have any operations from second quarter 2019 as we plan to re-deliver both tankers to their owners in March 2019. I then turn it back to you Ingvild.

Ingvild Sæther: Thank you Jan Rune. Turning to slide five. We continue to focus on securing charter contract extensions and new contracts for our existing FPSO units. The contract extension with Petrobras we announced today is for up to three years for the Piranema Spirit FPSO. This extension allows production on the existing Brazilian field out to as late as early 2022. Petrobras has a termination right with a ten-month advance notice. We do not expect any offsets against the recent Petrobras settlement for this contract extension. The new contract is expected to improve adjusted EBITDA by 25 million in 2019 compared to decommissioning the unit and going into lay-up mode.

Last quarter, we announced a conditional seven-year charter agreement with Alpha Petroleum for the use of the Varg FPSO for the Cheviot oil field development. We continue to monitor and work with Alpha in their efforts to list the remaining condition precedent including completing financing and securing government approval. Although there has been more delays than we expected, we remain optimistic that this important project will commence in the near future.

Looking at slide six. Our shuttle tanker segment delivered strong results this quarter. In our CoA segment, which makes up about 30% of our shuttle fleet, we signed five new contracts. The contracts range in length from one to five years with rates in line or better than our recent fixtures and this is confirming the tightness in this segment. The combined volume is equivalent to 0.6 vessel demands in 2019.

We are making good progress on our new buildings, which were order over the last 18 months. The vessels continue to be on time and on budget and we are looking forward to their delivery later this year and early into 2021. We have received two innovation awards for these groundbreaking vessels. The environmental footprint from the new shuttle tankers are only 50% of the vessels they are replacing measured in CO2 equivalent emissions. We expect to complete the long-term financing of all six new builds in the second quarter.



As announced previously and as detailed on slide seven, we successfully entered into a settlement agreement with Petrobras related to the early termination of the Arendal Spirit UMS and HiLoad DP units. We agreed on a settlement of 96 million with Petrobras and have already received 55 million of this during the fourth quarter.

Future payments will be received by the end of 2020 and 2021. Should Petrobras enter into new contracts with us on certain assets, a portion of the 41 million in future payment to us can be offset against the revenue paid by Petrobras under a new contract. We are excited by the future offshore projects for shuttle tankers and FPSO in Brazil, and therefore very pleased with the outcome of this settlement and our continued strong relationship with Petrobras.

Turning to slide eight. Our large and diversified portfolio of forward revenues stands at year-end at approximately 5.7 billion. This provides significant cash flow stability to Teekay Offshore and it is before including any contracts options or upside from oil price and production tariffs on certain FPSO contracts. On top of this stable portfolio, we have additional upside to earnings from redeployment opportunities and improving market fundamentals. I would also like to underline the low counterparty risk from working with a very strong customer base we are engaged with under these contracts.

Then to conclude this presentation, I want to take the opportunity to remind you of our top business priorities. We have talked about this in 2018 and it remains our focus also in 2019. Maintain safety standards and operational excellence, secure FPSO charter extensions and redeployment, increase profitability in the existing business, execute contemplated financing initiatives, strengthen balance sheet through delivering.

Although some one-time settlements made 2018 a very strong year, it is good to know that also the underlying regular cash flow now benefits from all the large capital projects we have delivered in 2018 and in 2017. Even without the recognition of the Petrobras settlement, our results are up 30% or about



170 million in adjusted EBITDA over 2017. All the new assets are operating well with high uptime and to the customers' satisfaction. As our core customers are increasing their investment budgets in our core markets of North Sea and Brazil, we are quite optimistic about the opportunities we expect to see for Teekay Offshore, the recent extension of the Piranema FPSO being one of those opportunities. Operator, we are now available to take questions.

Operator: Thank you. The question-and-answer session will be conducted electronically. If you like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you're using a speakerphone, please be sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one to ask a question. And we'll take our first question from Michael Webber with Wells Fargo.

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

Ingvild Sæther: Good morning Michael.

Michael Webber: I wanted to touch on the Piranema extension first. Can you maybe give us a cash-on-cash return level maybe just on kind of what would be FY1 cash flows? If I look at what you give in the deck, the \$25 million improvement on EBITDA, but I would imagine that's a net number and you're probably burning cash by keeping it off [inaudible]. I'm just curious what the annual contribution for that extension is and then where would you... you would put that on a kind of FY1 cash-on-cash basis.

Jan Rune Steinsland: Michael, I'll try to respond to your question. As you see, we have as normal for commercial reasons restricted our disclosure a little bit on this contract. The day rates are down somewhat from their regular period and when we say it will contribute 25 million versus going in to lay-up and a decommissioning process, that reflects of course that there would have been cost on that and that we would have been in normal operation in January. So...

Michael Webber: If you strip that out, I'm trying to get the actual EBITDA contribution from the contract.

Jan Rune Steinsland: Yeah, if you... I think somewhere between 10 and 20 million or in the middle of that range approximately would be kind of a rough guidance.

Michael Webber: So, 15 plus or minus a few... a couple of million is probably the right way to think about it?

Jan Rune Steinsland: Yeah, on an Ex G&A basis and as an annual contribution, yes. So...

Michael Webber: When you say Ex G&A, you're talking about Ex lay-up costs or Ex like a pro rata G&A or...

Jan Rune Steinsland: Ex any allocations from overhead, onshore overhead cost. That in basically would have been there anyway, but could also be distributed on this unit.

Michael Webber: Right. Okay, I can...

Jan Rune Steinsland: So, on a vessel basis... on a vessel basis in the middle of the range 10 to 20.

Michael Webber: Okay. The... and then I guess when you look at that asset like the... one of the hardest things we... the biggest problem that we have in terms of value TOO is obviously coming up with a realistic value for some of these relatively opaque FPSOs. If it's... if you're at 15... ballpark of 15, maybe a bit less than that, when you pro rata in SG&A and then you put a mid... a high single digit multiple on that asset. Is that the right way to think about what you think that asset is ultimately worth? Obviously, NAV is a pretty essential figure for us and so maybe you can... the pretty wide range of outcomes when you look at these, I'm just trying to think about... how do you guys think about the value of the Piranema within the context of a contract like this?



Jan Rune Steinsland: I think the extension is very important in terms of keeping the unit going being on positive cash flow and gaining more time for another long-term contract for the unit. And I think we... the alternatives we are working with going forward are good for that unit, for the Voyageur and others, and as we've seen for the Varg, probably provide better economics and that can go into your valuation. So, I think... and normal new contract would be... would provide better profitability than this one, but it... as such, it's very important... possible to get in place when we are rolling off contract.

Michael Webber: And the ability for Petrobras to walk from that with ten months' notice, that can start on day one theoretically? Is that my correct in interpreting that or is there specific events or criteria they would need to see for them to... to trigger that walk away?

Ingvild Sæther: No, that's a running ten-month notice period they have and we are already in to day eight of the contract.

Michael Webber: Congrats. No, no, just trying to think of like whether they think about it as a three-year contract or if that's kind of an ongoing... is it more like a three one year... one plus one plus one kind of a scenario, which just seems like it might be more apt.

Ingvild Sæther: Yeah, so what we do know is that this is a field that is on the divestment list of Petrobras and they are in dialogue with potential investors who are interested to invest in the field and develop the nearby fields. So, it's really to buy more time I think to find out best solution for the field from a Petrobras perspective. And for the potential buyers, an asset like Piranema is obviously a very important part of the infrastructure of the field. So, there could be also longer-term opportunities for the asset at the field.

Michael Webber: Okay, and just one more from me and I'll turn it over. I believe this is the first quarter you've done this where you've pivoted away from reporting distributable cash flow and are kind of moving back towards an EBITDA and a net income... adjusted net income figure. Obviously, we're pretty far along the path of reduced distributions and kind of almost like a post MLP model for TOO, but I'm... is... the signal



would be that there any latent or minimal residual economic value associated with the IDRs you guys are kind of pivoting away from even reporting DCF would be pretty close to zero. Is that accurate or fair in your mind?

Jan Rune Steinsland: Yes, I think that's reflecting well. We have moved away from several of the characteristics from the MLP model. And as you point out, we have reduced the distribution to common unit holders to zero. And I would like to take the opportunity to say that we are not looking at doing anything similar to the preferred. But we take down the distribution to common unit holder in order to strengthen the balance sheet, build liquidity and improve financial flexibility going forward.

Michael Webber: Got it. Okay, yeah, but do you mean more for the parent than for TOO, but I appreciate it. I will stop there and turn it over. I appreciate your time guys. Thank you.

Ingvild Sæther: Thank you Mike.

Operator: And next we'll go to Fotis Giannakoulis with Morgan Stanley.

Fotis Giannakoulis: Yes, hi and thank you. I would like to ask you about investing [inaudible] of the new building shuttle tankers. If I calculate well, you are... you need an additional 750 to 800 million of remaining capex. How much of this capex can be financed based on the discussion that you have right now?

Jan Rune Steinsland: We're looking to raise the financing for the shuttles in two package, one for the first four and that will be in the range of plus minus 400; and for the latter two as a separate package, that will be about half of that.

Fotis Giannakoulis: Okay, thank you. And regarding the... there is an outstanding of the 2019 bond around 75 million. What are your plans of repaying that... this amount?

Jan Rune Steinsland: I think we will just end up paying that on maturity.

Fotis Giannakoulis: Okay. Thank you. And can you give us an update about the UMS in the towage business, where these two sectors are standing right now from a supply demand perspective, what are the opportunities to deploy these assets and how do you view the debt that these assets have and the ability to extend it further?

Jan Rune Steinsland: Before Ingvid takes that question, I think I said plus minus 400 and 200. In order for you not to have poor numbers in your spreadsheet, I think both financings are expected to be north of 400 and north of 200 for the latter to... just to clarify that.

Fotis Giannakoulis: Perfect, thank you.

Ingvid Sæther: Thank you Fotis. I'll try to answer your questions on the UMS segment and on the towage segment. So, on the USM... UMS segment, there has been increased activity in the last few months and we recently just a couple of weeks ago saw Petrobras out with three tenders for longer term contract... three-year contracts for the accommodation market. The competition on these contracts were quite intense and rates went a bit lower than we expected and it didn't make sense for us to compete at those levels with the mobilisation cost and everything we have. But the positive thing is that activity has picked up. And we are very focused on getting this modern unit back to work and are following closely all the potential contract and tenders and are in active dialogue on concrete opportunities. But as said, we saw that there were quite high competition for the three contracts from Petrobras lately.

On the towage segment, as we speak, we are doing a big project for Total for the Kaombo Sul installation and the towage of that FPSO from Singapore to Angola. So, that makes us basically sold out for January and February as the decent rates consuming as I said 300 to 350 vessel days. But it's fair to say that 2018 were quite challenging for the towage segment and we expect also 2019 to be a challenging year but somewhat better than 2018. And I think the positive we see is the ability we have with these new



future class vessels that are quite unique compared to competition in that segment; and that allow us to take project like the Total project for instance.

Fotis Giannakoulis: Are there any thoughts or any opportunities over disposing these assets? They seem that they are not the core assets at least as much as the FPSO and the shuttle tanker business. Have you thought about it and could you dispose these assets if you would choose it?

Ingvild Sæther: Yeah. So, I... we talk about how our shuttle tankers and the FPSO are the really core segments for TOO, and we would be looking at opportunities to divest for instance these assets at the right time. However, we don't feel that the time is right, right now because these are very modern, very good units and should have a significant value and we want to find the right time to capture that value when we think the time is right.

Jan Rune Steinsland: To put in perspective, we last year had an annual EBITDA on the towage of minus 7 million and that was running at a utilisation of just north of 60%. So, there is a very good operational leverage in that segment, and we're very excited about seeing the market improve. That will take some time, but we are looking on working hard to get it EBITDA positive for 2019.

Fotis Giannakoulis: And thank you for your update. One last question about financings. The Piranema Spirit does not have any debt from what I understand now with the new extension. Would you be able to add some debt on... raise some debt on the back of this contract? And also, there is an outstanding... small outstanding for the UMS that matures this year. And if I am not mistaken a balloon... a portion... a tranche of the Knarr FPSO that is also maturing this year. Can you refinance these and extend this outstandings?

Jan Rune Steinsland: Let me first address the Knarr. That is... there are no maturities on the Knarr this year. The... on the...

Fotis Giannakoulis: I thought there was a \$40 million, one tranche \$40 million. This is not the case?

Jan Rune Steinsland: No, that's not the case for 2019.

Fotis Giannakoulis: Okay, thank you.

Jan Rune Steinsland: We can discuss that more in detail if we have the call, but on... let me focus on the FPSO's cost. That's where we are... or the other FPSOs, that's where we're putting in some work these days, and as you said, we just repaid now in January the Piranema loan. So, there is no debt on that unit. We also have the facility for the Varg, the Voyageur and the Ostras coming up for maturity in 20... or in April with a small balloon of I think 23 million or so.

And we're looking at putting these units together to a package to make a refinancing and currently we're looking whether we should have three or four of them in there. And that would be some kind of short finance probably while we're waiting for Piranema and Voyageur to enter on to longer contracts and while we are waiting for the Varg project to move forward and closer to First Oil when we would look at a separate refinancing of the Varg. So, while a relatively small facility that we are looking at now, it will still add quite a bit of liquidity in the near term.

Fotis Giannakoulis: Thank you very much. That's very helpful.

Operator: And next we'll go to Michael Webber for a follow-up from Wells Fargo.

Michael Webber: Yeah. Hey guys, sorry to hop back in, but just wanted to ask about additional FPSO units. I know that the remaining three FPSOs of the parent have been off the menu for TOO for several years and a lot of the premise behind that was that the contract structures didn't necessarily kind of fit an MLP model. As it stands now, I know there is some contracting work there, but considering that this... the TOO is owned and controlled by Brookfield at this point is... has the attitude or the thought process around those three-parent level FPSOs changed in any way if it's just purely a... maybe a return or residual value



trade that might be more suited to what TOO is now versus what it might have been four or five years ago? Is it more likely that we eventually see those assets at whatever... at the Teekay Offshore entity at some point in the future?

Ingvild Sæther: Well, we are obviously very coordinated with Teekay Corp on operation and business development of these FPSOs. The assets are interesting in the contracts and are producing well for the clients. But over the long term, we believe that certain of these assets may be that it's due to the poor employment in markets that we consider outside of TOO's core markets of the North Sea and Brazil and we don't have any immediate plans from a TOO perspective related to those assets.

Michael Webber: I see that the future of those assets might be in Southeast Asia effectively?

Ingvild Sæther: Well, it's hard to say where they will end up. Currently, they are... all three of them are on contract and producing on the fields that they are on. So... but we don't have any...

Michael Webber: Okay.

Ingvild Sæther: ...active dialogue on those assets for TOO at the moment because they...

Michael Webber: No, I appreciate...

Ingvild Sæther: ...further on their current fields.

Michael Webber: Okay, and I appreciate that kind of puts you in a tough spot, but I appreciate you answering that as best as you could, so thank you guys.

Jan Rune Steinsland: Okay.

Operator: And that does conclude today's question and answer session. I'd like to turn the call back over to Ingild Sæther for any additional comments or closing remarks.

Ingild Sæther: Yeah, thank you and thank you for joining us on this fourth quarter earnings release. It is really rewarding for the team here to see how the hard work from delivering all these growth projects into operation is finally starting to flow through, through our results. So, thank you for joining us today and have a good weekend.

Operator: And that does conclude today's conference. We thank you for your participation. You may now disconnect.