TEEKAY LNG PARTNERS LP

Moderator: Peter Evensen
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9:00 a.m. CT

Operator: Welcome to the Teekay LNG Partners LP Partners second quarter 2007 earnings release conference call. During the call all participants will be in the listen-only mode. Afterwards, we will invite participants in a question and answer session. At that time, if you have a question you will need to press star one on your touch-tone phone and if you should require operator assistance please press star zero on your touch-tone phone. As a reminder, this call is being recorded. Now, I would like to introduce your host Mr. Peter Evensen, Chief Executive Officer of Teekay GP LLC. Please go ahead sir.

(Dave): Before Mr. Evensen begins and before I read the forward-looking statements, I would like to direct all participants to our website at www.teekaylng.com where you will find a copy of the second quarter 2007 earnings presentation.

Mr. Evensen and Mr. Lok will review this presentation during today's conference call. I will now read the forward-looking statement.

Please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the partnership and the shipping industry constitute forward-looking statements for the purposes of the safe harbor provision under the Private Securities Litigations Reform Act of 1995.

Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors including those discussed in our most recent annual report on form 20-F dated September 31st 2006 on file with the SEC. I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you Dave. Good morning and thank you for joining us today on our second quarter results conference call. With me today are Vince Lok and Brian Fortier from Teekay.

If we turn to the presentation and to slide three of it in reviewing the second quarter highlights, overall the results for the second quarter were in-line with expectations. We generated 22.2 million of distributable cash flow up from 17.9 million in the first quarter.

This increase is the result of obtaining the full financial benefit of the remaining two RasGas LNG carriers in the second quarter which were delivered in early January and late February and commenced service under fixed-rate 20 year charters to RasGas II, a company owned by Exxon and the government of Qatar.

We have increased our quarterly cash distribution by 15 percent to 53 cents per unit representing an annualized distribution of $2.12 per unit reflecting the delivery of the three RasGas LNG carriers and the acquisition of an LPG carrier in January.

As a result, we declared a total cash distribution of $20.6 million for the quarter. The cash distribution is payable on August 14th to all unit holders of record on August 9th. Excluding the unrealized foreign exchange loss of $5.7 million, net income was with $8.1 million or 23 cents per unit.

As of June 30th the partnership had total liquidity of $452 million compared to total liquidity of $377 million in the previous quarter.

This increase in total liquidity is primarily the result of our follow-on offering of 2.3 million units which we completed in May and subsequent to June 30th the partnership received it's portion of the tax lease benefit on the RasGas II LNG carriers and as a result the partnership's total liquidity was approximately $500 million at the end of July.

We currently have another six LNG and three LPG newbuildings under construction which are scheduled to deliver during 2008 and 2009. For the past year you've heard me talk about the pace of new long-term LNG shipping contracts being slow due to delayed development of key LNG projects.

This period is now ended with several projects now being awarded in recent months and this shows that the projects do eventually come and that the fundamental demand for LNG shipping remains strong.

On Wednesday this week Teekay Corporation announced that a consortium in which it had a 33 percent interest had signed a letter of intent to charter four new building LNG carriers for a period of 20 years to the Angola LNG project which is being developed by subsidiaries of Chevron, Sonangol, BP and Total.

Final award of the contract is still subject to certain conditions which we expect to be met by September 30th 2007. There is no financing condition on our part.

The vessels will be chartered at fixed-rates with inflation adjustments commencing upon delivery in 2011 and in accordance with existing agreements Teekay Corporation is required to offer our partnership its 33 percent interest in these vessels and related charter contracts no later than 180 days before the scheduled delivery date of these vessels.

Turning now to slide four and reviewing the distributable cash flow and cash distribution for the quarter quickly; we generated $22.2 million of distributable cash flow which results in a coverage ratio of 1.08 times.

Turning now to slide five and reviewing the operating results for our two segments; overall the cash flow from vessel operations amounted to $47 million compared to $41 million in the first quarter.

The partnership's cash flow from vessel operations for our liquefied gas segment which includes LNG and LPG carriers increased to $34.1 million for the second quarter of 2007 compared to $27.5 million for the first quarter due to the full financial benefit of the two RasGas II LNG carriers which delivered earlier this year but were realized fully in the second quarter.

The partnership's cash flow from vessel operations from the Suezmax tankers for the second quarter was unchanged from the previous quarter. Moving now to slide six and reviewing the income statement for the second quarter and comparing it to last quarter; except for the Madrid Spirit one of our LNG carriers, our fleet achieved 100 percent utilization.

On March 29th the Madrid Spirit sustained damage to its engine boilers. As a result, the vessel was off-hire for a total of seven days which is net of our off-hire insurance recovery of which 4.2 off-hire days were in the second quarter and 2.8 in the first quarter as it underwent repairs.

Substantially all of the cost of the repairs is covered by insurance, but there is a $500,000 deductible which we have expensed in this quarter. The ship is now back and operating.

The $6.9 million increase in net voyage revenues from the first quarter of 2007, the $700,000 increase in depreciation and the $3.5 million increase in net interest expense are all primarily due to the inclusion of the two RasGas II vessels for a full quarter.

We incurred an unrealized foreign exchange translation loss of $5.7 due to the effect of the change in the euro to U.S. dollar exchange rate on euro denominated debt and as a reminder our euro denominated revenues currently approximate our euro denominated expenses and debt service costs.

So as a result, we are not exposed materially to foreign exchange currency fluctuations and there is no impact on our cash flows. However, for accounting purposes, we are required to re-value all of our foreign currency denominated monetary assets and liabilities at the end of each reporting period.

This reevaluation does not affect our cash flows or the calculation of distributable cash flow, but it does result in the recognition of unrealized foreign exchange gains or losses and given the recent volatility in foreign exchange rates, you should expect the net income to fluctuate from quarter to quarter to reflect this.

Turning next to slide seven we presented our June 30th balance sheet with the partnerships agreement in November to acquire Teekay's 70 percent and 40 percent interests in the Tangguh and RasGas 3 projects. The partnership is required to consolidate these entities under U.S. GAAP.

We've shown separately on this slide the impact that these two projects have on the partnership's balance sheet. Other assets increased from the last quarter primarily as a result of advances made to the RasGas 3 joint venture, additional shipyard installments made on the Tangguh new buildings and the market to market valuation of interest rate swaps in an asset position.

Long-term debt related to newbuilding vessels increased from last quarter reflecting the increase in debt for the RasGas 3 and Tangguh vessels and other long-term liabilities increased from last quarter primarily due to the market to market valuation of derivatives in a liability position.

Minority interest includes 100 percent of the equity interest in the Tangguh project and the 40 percent equity interest in the RasGas 3 project. These projects are not currently owned by the partnership but the partnership has agreed to purchase them at delivery.

And finally partner's equity increased from last quarter primarily due to the net proceeds from our follow-on offering. Turning to slide eight I want to again close by showing you our multi-year built-in growth profile.

The business development people at Teekay are actively pursuing several new projects to further increase this portfolio. We continue to execute on our plans to increase the partnership's distributable cash flow both through acquisition and building of gas carriers again with long-term contracts.

The increase to our annualized distribution this quarter to $2.12 per unit represents the 28 percent increase from our initial distribution of $1.65 two years ago and as you can see our portfolio of contracted new building projects puts us in a position to grow further for the next several years.

Thank you all for listening and operator I am now available to take questions.

Operator: Thank you sir. Ladies and gentlemen if you would like ask a question please press star one on your touch-tone phone but remember if you are on a speakerphone you will need to lift the handsets and then press the star touch features and to withdraw press the pound sign.

Please press star one now if you do have a question. And our first question will come from (Paul Sankei) of Deutsche Bank. Please go ahead.

Paul Sankei: Hi guys. Can you hear me? Hello?

Peter Evensen: Yes, we can hear you.

Paul Sankei: Excuse me, sorry. Peter, congratulations on the Angola win. Firstly, this is a high-level question; you said that your business development people are out there looking for more projects. Would we expect any future wins to be in the 2011 and beyond timeframe, or is that the prospect of some nearer term project wins? Thanks.

Peter Evensen: Well, the earliest new building slots are 2010 and 2011 so you shouldn't see any newbuildings unless we make a acquisition but we are conscious of the fact that we want to fill the 2010 slot but we are working on and have tenders outstanding now.

In other words we've bid on them we're waiting to hear particularly in the – in West Africa where you're seeing a lot of projects in Nigeria going forward. So we feel pretty good about the Angola project because it's the first time we're involved in West Africa.

Paul Sankei: Yes. Sure, specific to that one is this certain conditions you referenced, is that final investment decision for Angola that you're talking about or is it something else?

Peter Evensen: Yes, it's FID.

Paul Sankei: OK, and so basically what you're saying is we can expect that by September?

Peter Evensen: Yes.

Paul Sankei: If I could ask you a couple of detailed questions; firstly, could you just – I don't want to be too pedantic but the boiler problem that you spoke about – could you just give a little bit more detail on exactly what that was and what the damage was how it occurred?

Peter Evensen: Yes, in the boilers where we had some pipes, we got a hole and so it took us a while to find where exactly that hole was and then we had to take the ship across the Atlantic to have it repaired in Spain and so whereas the accident occurred in the Caribbean.

But we were covered by insurance because we have business interruption or in shipping parlance, loss of hire insurance. So the ship was off and now it's back and operating again.

Paul Sankei: I guess the point is whether or not there's a fleet risk in the problem that you found or whether it was very specific.

Peter Evensen: Yes, we looked at that, but we think it's actually specific because some material in the building process got into the boilers and that's what caused the – it to get a hole. So, it doesn't look like it's a fleet problem.

Similar to some of the things you read about the coatings on LNG vessels, right …

Paul Sankei: OK.

Peter Evensen: …this was in the boiler so we don't see it as being on any of our other ships but of course we have looked we have looked and asked people to check in particular the filters so nothing gets through.

Paul Sankei: Is that the first instance of this kind you've had? I mean, can you explain if there has been other incidences where the ships have not been available for hire – whether this is a typical kind of thing you get or is this just a one off instant this occur?

Peter Evensen: Well, this was the first time we had a problem with the boilers and our new ships don't have boilers they're dual fueled diesel electric or slow diesel but you know, shipping you have to keep the ships going and while we have a high operating standard you have to expect that there will be times that you'll have operational issues which is why we carry the loss of hire insurance which kicks in after 14 days.

Paul Sankei: I got you. Just on credit markets, is there anything to say about what's going on – you mentioned the word debt quite a few times.

Peter Evensen: Well, we have for all of our projects – not the Angola yet – but for all of our projects we already have fully committed debt financing and we've already swapped all the interest rates.

So we don't have an issue on our firm order book but we think that our model which is long-term contracts with inflation adjustments – which are basically bonds – we haven't found that any issue with the banks trying to withdraw credit or anything like that.

Paul Sankei: OK and last off from me thanks the last one from me; one of the great advantages is that you're pretty much doing this alone in terms of being an MOP structure in LNG shipping. Is there any prospect that you know about of others entering as MOPs to start doing this? And I'll leave it there, thanks.

Peter Evensen: I have no knowledge of anyone else trying to do it, but it isn't just to be an MOP, you also need a project organization to get these projects and then you need a good sponsor who can warehouse these projects. So, it isn't just a matter of floating your LNG.

Paul Sankei: Sure, OK thanks, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen if there are any additional questions please press star one on your touch-tone phone and remember to lift the handset first if you're on a speakerphone. And our next question will now come from Yves Siegel from Wachovia Securities. Please go ahead.

Yves Siegel: Good morning, Peter.

Peter Siegel: Hi Yves.

Yves Siegel: Peter, in terms of the new-build opportunity for you, a couple of questions; number one, I assume it's similar types of rate of return that you've historically received, number one and number two if that's correct and number two, could you also comment on the size of the vessels, anything new about the new-build versus what's in your fleet currently?

Peter Evensen: Sure, we haven't given guidance, but it'll be about the same accretion effect as what we have now on our current contracts; that's point one. On the sizing of it, these are 160,000 and so they're what they are basically calling Atlantic-Max; in other words the biggest ships that can go into most ports in the Atlantic.

We are building some ships that are a little bit bigger called the Q-Flex that are 210,000 cubic and so those would be about you know, almost three NFL pitches or NFL football pitches so those are a little bit bigger but these are your more conventional four cargo tanks as opposed to those which are five cargo tanks.

But what people are coming up with is that – and the propulsion on them will be dual fuel diesel electric so they can either burn LNG or they can burn diesel and that and that actually is where the where the industry is going toward because it's become quite expensive to burn the cargo given that the cargo has so much value.

Yves Siegel: Has the price-tag risen above 300 or is it still …

Peter Evensen: No, the price-tag hasn't risen up. The price-tag is about 230 million for these kinds of vessels on a contract price and then of course you have to add on for the delivery but no, it's actually that's one of the good things.

Although ship prices have risen around the world, because there was this delay in LNG call it projects, a lot of the slots that the shipyards had thought that would go to LNGs they've had to rededicate to other things. So they haven't put up the price of LNGs as much as other ships.

Yves Siegel: OK, and then, Peter, you mentioned trying to fill the 2010 slot; can you generally talk about what you're seeing in the acquisition market, how active the acquisition market looks like, what kind of pipeline there might be there?

Peter Evensen: Well, we – there are other projects and with our superior cost to capital we continue to look at acquisitions, but we're kind of very finicky meaning that we have very strong price points for how accretive we want our acquisitions to be.

I would say that it's easier to buy LPGs with contracts than it is to buy LNGs because there are just more LPGs out there. But we're much more focused in on making sure we have a good accretive transaction going forward for that. But I'm confident we'll be able to fill the 2010 vintage as I like to call it.

Yves Siegel: Last question then; in terms of the contract duration on LPGs could you comment on what you're seeing there if that would be the route that you would take?

Peter Evensen: Yes, those would be a little shorter. Those are 10 to 15 years that we'd be looking for. With our model we're not interested in contracts of less than 10 years.

Yves Siegel: OK, and I apologize but my really last question; does it make sense to look at a portfolio approach that says the – our average contract life is 14 years so we can actually go in and maybe buy something with a five year contract life because it doesn't really pull down the portfolio or the duration of the portfolio all that much?

Peter Evensen: sure, we could do that in fact that would be an even more accretive deal, if we if we shortened up the time period but it would expose us to residual risk and right now we're quite comfortable being able to tell people that we have 10 to 25 year charters and we think that's a differentiating factor.

While that's a long time and people might say well there's no difference between five and ten years, we're managing this for the long term and we think that will ultimately give us a superior cost to capital.

So, yes, if we if we had to find something to grow the distribution, it would be very easy to find a five year contract and that in fact would be more accretive short term, but of course it would expose you to residual risk.

Yves Siegel: Great. Thanks so much.

Peter Evensen: Thank you, Yves.

Operator: Thank you. And our next question will now come from Ron Lundy of AG Edwards. Please go ahead.

Ron Lundy: Yes, maybe you can give us some insight into you know, your view of how you deal with the risk of operating from a project that's supposed to come up stream from in Angola and also maybe other West African countries that seem to have a lot of risk associated with them and in addition on a modeling basis, should we look at this as you adding net-net like one and a third LNG tankers in your mix?

Peter Evensen: Yes, hi Ron. To answer the last part first, yes, you should look at it that we're adding one and a third to LNG carriers; that's the first point. When we look at risk, there's – you're absolutely right, we actually spend a lot of time looking at the project.

The first question we have of course, is have they sold the gas because it isn't just a matter of building an LNG plant, you have to know that you've got some place to sell the gas so we look at the off-take; who's going to take the gas first.

Then we look at the project sponsors and then we look at what kind of project it is; are they already producing there? A lot of times they're producing oil like and in Angola they're already producing oil so they have well-established oil production in Angola and now they're adding on the gas.

That's better for us than say, a total Greenfield gas project and then in some cases we have to then look at what kind of country it is. I think we feel a little bit safer operating a ship that has to go in there both for our staff as well as – than we would if we were operating say the LNG or we had people on the ground there going forward.

But Angola is actually one of the really – is believe it or not quite much more stable than say Nigeria and they've really been increasing their oil production which has been very helpful given that Nigeria has lost about 500,000 barrels a day of production from various places.

So yes, we spend a lot of time on the risk questions and there are certain places in the world that we're not happy, but we are happy in Angola.

Ron Lundy: Right, given that Total and Chevron are involved, is most of that gas going to go to the (Shaneer) platform off of the coast of – of the Gulf Coast?

Peter Evensen: They haven't said definitively but we think that's where it's going, yes.

Ron Lundy: OK. Also, you know, your two partners in the deal; (Mitsuchi) and (YK), why did you – how did you get together with them, I mean what do they bring to the party?

Peter Evensen: Well, sometimes it's better to bid in a consortium because for us, it was the question of did we want to put four LNGs – we knew that in order to be the competitive we had to bid for at least four LNG carriers and that's $1.2 billion and to go back to your risk question, we were much happier having say one or two vessels rather than to have four vessels.

So, there is a risk mitigation and also we have been we think they are good people to team up with.

Ron Lundy: OK …

Peter Evensen: So, what I didn't say was that Teekay will operate two ships and NYK will operate the other two.

Ron Lundy: OK. Last question; do you see any other drop-downs from Teekay Shipping Corp?

Peter Evensen: That might happen, I don't exclude that that would happen, there are other assets which Teekay could – we look first of all to grow organically, but if we needed to we could drop some assets down and as you know, Teekay has two MLPs but they have several billion dollars of assets.

But as I was saying earlier with EASE, we would look for assets that had longer-term contracts like 10 years and so it isn't just a question of, hey let me go find an accretive asset.

Obviously, almost anything we buy is accretive but we're very finicky about getting the right assets with the right contracts. What we like about the LNG and what we have now is we have these inflation adjustments, right, and so that helps us on the operating cost basis.

Ron Lundy: OK, thank you.

Peter Evensen: Thank you.

Operator: Thank you. At this time, Mr. Evensen, we have no other questions sir I'd like to turn the meeting back to you.

Peter Evensen: OK, well thank you very much and we look forward to reporting to you next quarter and have a good summer. Bye.

Operator: Thank you. Ladies and gentlemen this does conclude your conference call for today. Once again, thank you for participating and we ask that you please disconnect your lines. Have yourself a great day.

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