TEEKAY LNG PARTNERS

Moderator: Peter Evensen
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8:00 a.m. PT

Operator: Welcome to Teekay LNG Partners third quarter 2007 earnings release 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 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. David Drummond, and afterwards we will hear from Mr. Peter Evensen, Chief Executive Officer of Teekay GP LLC. Please go ahead, sir.

David Drummond: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekaylng.com where you will find a copy of the third-quarter 2007 earnings presentation. Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind that you discussion today contains forward-looking statements. Actual results may differ materially from those projected by those forward-looking statements as a result of various important factors. Additional information concerning these factors is contained in our earnings release and the earnings release presentation available on our Web site.

I'll 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 third-quarter results conference call. With me today are Vince Lok, the Chief Financial Officer of Teekay Corporation; and (Brian Forteay), the Corporate Controller.

Turning to slide three of the presentation in reviewing the third-quarter highlights. Overall the results for the third quarter were in line with expectations. We generated $20.4 million of distributable cash flow, down from 22.2 million in the second quarter. This decrease is primarily the result of 31 days of off-hire for a scheduled dry dock of one of our LNG carriers, the Hispana Spirit, and the decrease in the profit share earned by one of our Suez Max tankers, the (Teed Spirit). The time charter for the (Teed Spirit) contained a profit share component beyond the fixed higher rates when spot market rates exceed a certain threshold level. Spot tanker rates declined in the third quarter of 2007 mainly due to seasonal factors, but have increased since the latter part of October. We declared a cash distribution of 53 cents per unit, representing an annualized distribution of $2.12 per unit and a total cash distribution of $20.6 million. The cash distribution is payable on November 14 to all unit holders of record on November 7. Excluding the unrealized foreign exchange loss of $21.6 million, net income was 8.8 million, or 24 cents per unit.

Turning now to slide four and reviewing the distributable cash flow and cash distribution for the quarter. We generated 20.4 million of distributable cash flow which resulted in a coverage ratio of 0.99. With no scheduled dry dockings planned for the fourth, we expect our coverage ratio will be in excess of 1.0 for Q4.

Turning now to slide five and reviewing the operating results for our two segments. Overall, cash flow from vessel operations amounted to $46 million compared to 47 million in the second quarter. The partnership's cash flow from vessel operations for our liquified gas segment decreased to 33.5 million for the third quarter of 2007 compared to 34.1 million for the second quarter of 2007 primarily due to the Hispana Spirit being off hire as I discussed earlier. The partnership's cash flow from vessel operations from the Suez Max tankers decreased to 12.4 million for the third quarter of 2007 compared to 13.2 million for the second quarter of 2007 primarily due to the decrease in the profit share revenues earned by the (Teed Spirit) as mentioned earlier.

Moving now to slide six and reviewing the income statement for the third quarter of 2007 and comparing it to the last quarter. Except for the scheduled dry dock of the Hispana Spirit, our fleet achieved 100 percent utilization. Again, the 1.6 million decrease in net voyage revenues for the second quarter -- from the second quarter is primarily due to the scheduled dry dock of the Hispana Spirit and the decrease in the profit share on the (Teed Spirit). Vessel operating depreciation and general and administrative expenses for the third quarter were consistent with the second quarter. The 2.4 million decrease in net interest expense is primarily due to a change in the mark to market value of a portion of our interest rate swaps which are not designated as hedges for accounting purposes.

We incurred an unrealized foreign exchange translation loss of 21.6 million primarily due to the effect of the change in the euro to the U.S. dollar exchange rate on our euro denominated debt.

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

Turning next to slide seven, we've presented our September 30 balance sheet. With the partnership's agreement in November to acquire Teekay's 70 percent and 40 percent interest in the (Tangu) and (Raskas) Three projects respectively, 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 our balance sheet. Other assets of increased from the last quarter primarily as a result of advances made to the (Raskas Three) joint venture, additional ship yard installments made for the (Tangu) new buildings, and mark to market valuation of our interest rate swaps in an asset position.

Long-term debt related to new building vessels increased from last quarter reflecting the installment payments made toward the (Raskas Three) and (Tangu) vessels. And as of September 30, the partnership had total liquidity of 486.3 million compared other total liquidity of 451.8 million in the previous quarter. This increase in total liquidity is primarily the result of the partnership receiving its portion of the tax lease benefits on the (Raskas Two LNG) carriers in the third quarter.

Turning to slide eight, I want to again close by showing you our multi-year built-in growth profile. We currently have another six LNG and three LPG new buildings under construction and these are scheduled to deliver during 2008 and 2009.

As I reported last quarter, Teekay Corporation announced a consortium in which it has a 33 percent interest that signed a letter of content to charter four new building, 160,000 LNG carriers for a period of 20 years to the Angola LNG project, which is being developed by subsidiaries of

Chevron, (Sun and Gold), BP, and Totale. The final award of these charter contracts is still subject to certain conditions, but we expect them to be met by the end of 2007. It's important to know that 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 their 33 percent interest in these vessels and related charter contracts no later than 180 days before the scheduled delivery date of these vessels. And in addition, we're actively pursuing new projects in LNG and LPG and acquisitions that will further increase our portfolio. We continue to execute on our plan to increase the partnership's distributable cash flow and our annualized distributions now are $2.12 per unit, which is a 28-percent increase from our initial distributions 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 the distribution further for the next several years.

Thank you all for listening. And operator, I'm now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, press star one on your touch-tone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. Please stand by for your first question.

Your first question comes from (John Chapelle), JPMorgan. Please go ahead.

(John Chapelle): Thank you. Morning, Peter.

Peter Evensen: Hi, John.

(John Chapelle): As we look at this growth trajectory on the last slide, there seems to be a little bit of a gap in 2010. As you look at that year, it's probably too late I would think for new projects to be announced and specifically built new builds being used in that time of -- type of timeframe. Is there a liquid second-hand market whether it's in LNG or LPG that would provide you an opportunity to grow the fleet in 2010?

Peter Evensen: Yes, there is. I mean, we are actively looking at acquisitions of LNG and LPG vessels. But it's important to know that we're looking for ones that have existing contracts.

(John Chapelle): OK

Peter Evensen: And we have to find ones that fit our ability to increase the distribution. And so while we're sitting in 2007, I think it's wrong to get concerned about what would happen in 2010. But you're absolutely right that the ship building slots are by and large sold out for 2010. And more importantly, you know, these LNGs go on to projects. And we don't see as we sit here now any projects that would come online in 2010 that don't have LNG carriers already ordered for them. So we'd have to go and get existing vessel in order to go through that. But as you saw last year at about this time, in December we announced the (Scougan) transaction, which was a sale lease back of three LPG carriers which were already on order.

(John Chapelle): Right.

Peter Evensen: So I remain confident we'll be able to find something that will grow the distribution in 2010.

(John Chapelle): OK. Would it be right to think that as far as second-hand assets were concerned with existing contracts, LPG would be more of a preference for you rather than LNG? So you could actually build the LNGs to your specs and to your customers' specs for specific projects.

Peter Evensen: No, not necessarily. Right now, for example, there's actually a surplus of LPG vessels, especially in the large sizes. And so I -- we really can't find a good LPG vessel whose -- which we can buy which has a good long-term contract that would be accretive. So I would have to say that the preference right now would probably be more toward buying existing LNG vessels.

(John Chapelle): OK.

Peter Evensen: And those vessels already have been contracted with specs for the customer.

John Fogarty: Yes. OK and then just finally, if you can just give a brief update on the industry -- LNG industry in general, contracts being pushed out. Are the Qataris still trying to keep a lot of the transportation ownership in-house rather than putting it out to bed.

Peter Evensen: Yes, there's a number of factors going on. First of all, there's about 242 existing vessels with 138 vessels on order, and most of those are -- have long-term projects put against them. But the spot market has really improved. There's a number of various reasons. There's longer hauls going, there's more LNG trading. Japan has needed more LNG with the nuclear reactors being shut down for inspections. So actually the spot market has improved more.

Having said that, a lot of the LNG projects -- for example, in Qatar the projects are delayed and the ships were already going to come early. So a lot of those ships which are bigger ships, these so called (QFlex) type of ships, those are just being delivered. And while they're paying the charter, they don't really have any work being the gas hasn't started to be delivered. So what you're seeing across the whole oil and gas spectrum is ships -- or as projects are not coming in on time, but because of the nature of contracts that isn't a concern for us. We get paid whether we're working or whether we're at anchor.

(John Chapelle): Right.

Peter: But I'd have to say that actually you're seeing actually -- rather than just the point-to-point type of large LNG projects, you're starting to see more of a splintering of the market. For example, Brazil has done something we called floating storage re-gas units, or FSRUs. And we think that's a trend that probably will come on, which is that people will be moving gas and then having offshore floating terminals. And that -- those will either be purpose built FSRUs or older vessels that are converted. And so what we're seeing is that people are trying to -- there's some innovation going on here, in part because it's hard to site LNG terminals on land for the usual (Nimbi) issues.

(John Chapelle): Right.

Peter Evensen: And so we're seeing a lot more innovation coming into the market.

(John Chapelle): OK, sound great. Thanks for the update, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Your next question comes from (Darren Horowitz), Raymond James. Please go ahead.

(Darren Horowitz): Good morning. Thank you. Peter, you mentioned the amount of capacity that's coming on line over the next couple years. Just as a follow-on to a previous question. When you look at the LNG market demand over the next decade or so, is that sufficient capacity to move lockstep with demand, or is there a risk potentially of supply exceeding demand?

Peter Evensen: Well, there is the risk -- I mean, certainly some vessels have been ordered with -- on speculation. And they are ordered under the idea that as the projects de-bottleneck they actually start to produce more than what they have allotted. And we consistently see that. And so they are -- they are playing -- the people are speculating -- and let me emphasize, we are not speculating. We order against contract. They are speculating that there will be longer haul distances and there will be actually more gas out there now.

What's happened in the LNG trade right now is there just isn't enough gas. There isn't enough gas for people to buy and there isn't enough gas totally to transport, which is why you see the spot market going up and down with a lot of volatility. So, yes, there is the possibility that there will be too many ships. I mean, it was -- last year we had like 20 ships anchored. Teekay of course didn't have any of those issues, because all our ships are on long-term contract going forward. But, yes, that possibility exists, which is why we have build to suit model.

(Darren Horowitz): Sure. When you look out over the next decade, in terms of delivery dates, is there a year or two when you think that new entrants into the market excess supply is going to be at its greatest? Like is there a bit of a hurdle that we need to overcome?

Peter Evensen: Well, I think it's wrong to look out over the whole decade. It's impossible to forecast that. In particular, nobody really knows when like the (Shtockman), project in Russia will come on. That has the ability to feed at least 40 vessels coming on. And so there's these tremendous amounts of projects and nobody really knows exactly when they're going to come out. But what we do see is that there are enough new projects coming that there probably will be a lot more gas in 2012 than what we have today. So I expect that somewhere around at least by 2012 any surplus vessels would be -- would be sopped up by that new gas coming on.

(Darren Horowitz): OK. That's helpful. I appreciate it and then just looking at the 31 days of off hire for the schedule and down-time. Can you give us a bit of a snapshot as to what's scheduled over the next 12 months?

Peter Evensen: I don't have those figures here. We don't have any in the fourth quarter. But that was a little bit of a longer leg that we had. We have to take the vessel off and then -- and it was about seven days transit in order to get it to the yard when it -- where it went into dry dock.

(Darren Horowitz): OK and then one quick just housekeeping question. You mentioned the net interest expense due to the swaps. What's the best way to look at that or try and forecast that going forward?

Peter Evensen: Well, it's kind of difficult. We just have a little bit too much of -- when we were putting together the financing for the (Raskas Two) we actually achieved much more fixed rate yard financing. So we've been trying to agree with our Qatari partners on unwinding part of the fixed rate debt in order -- and so hopefully that will become something that we won't see going forward. Or else we'll get another project that we can apply that debt -- that fixed rate swap to. Right now we don't have enough -- I mean, we're basically over swapped. But once we get another project coming on, we anticipate that we'll Europe use that up or we'll reverse it away.

(Darren Horowitz): OK. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star one at this time.

Your next question comes from (Ron Lund) from Wachovia. Please go ahead.

(Ron Lund): Thanks. Hi, Peter.

Peter Evensen: Hi, Ron.

(Ron Lund): Curious. A lot of my questions have been answered already. But there was a study that came out yesterday concerning demand for LNG in South America, Brazil and Chile and Bolivia, saying that some of the -- some of the LNG that might find a home during the summer, you know, for storage in the U.S. would possibly go down to South America because that's, you know, their winter season, when we have summer they have winter and that given some of the shortfalls that they're looking at in traditional gas production they might need to do some LNG regasification projects down there. Have you heard anything about this? And, you know, what's your view it and how might it affect the tanker business going forward?

Peter Evensen: Well, I haven't had a chance to -- or -- to read that study or hear about that study. But I can tell you from what we're seeing we know that Brazil, as I mentioned, they have contracts for three floating storage re-gas units. So they really have to bring gas in, which is something quite -- kind of extraordinary that they need more gas coming in. But there -- but there have been lots of instances.

Bolivia wanted re-pricing and the depletion rate is quite high there. And then between Argentina and Chile there is a lot more of a move that Chile needs much more gas going forward. So, yes, everyone wants this clean burning fuel. But what we focus on isn't where people need the fuel. What we focus on is when there's an actual project. And so there's always a lot of talk several years before a project totally materializes. But we -- we sort of wait until we actually see the dollars being expended and all the approvals going forward. Because if you actually look out for the whole thing -- for example, the U.S. East Coast, there's a huge compelling economic reason to import LNG to the U.S. East Coast.

But having said that, that doesn't mean that it'll all necessarily take place. So we try to discount those and start to work on them when we see an actual transaction.

(Ron Lund): OK, very good. Thanks.

Operator: Thank you. There are no further questions at this time. I'd like to turn the conference back to Mr. Evensen.

Peter Evensen: OK. Well, thank you very much and have a good day.

Operator: Ladies and gentlemen, this concludes the conference call for today. You may now disconnect your line, and have a great day.

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