

## TEEKAY LNG PARTNERS

**Moderator: Peter Evensen**  
**November 9, 2012**  
**10:00 am CT**

Operator: Good day ladies and gentlemen, and welcome to the Teekay LNG Partners Third Quarter 2012 Earnings Results conference call. During this 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 1 to register for a question. For assistance during the call, please press star 0 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. Peter Evensen, Teekay LNG Partners' Chief Executive Officer. Please go ahead Mr. Evensen.

(Ryan): Before Mr. Evensen begins, I would like to direct all participants to our Web site at [www.teekaylng.com](http://www.teekaylng.com), where you will find a copy of the third quarter of 2012 earnings presentation. Mr. Evensen 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 third quarter of 2012 earnings release and earnings presentation available on our Web site.

I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Ryan). Good morning everyone and thank you for joining us on our third quarter of 2012 Investor conference call. I'm joined today by Teekay Corporation's Chief Financial Officer, Vince Lok, Chief Strategy Officer, Kenneth Hvid, and MLP Controller David Wong. If you turn to slide number 3 of the presentation, I'll review some recent highlights.

The partnership generated distributable cash flow of \$57.8 million in the third quarter of 2012, up 32% from the same quarter last year, when we generated \$43.7 million. The year-over-year increase highlights the growth of our fleet that has been experienced over the past year, including the recent deliveries of our new building gas carriers and our accretive acquisition in February 2012 of a 52% interest in the six Maersk LNG carriers.

On that last point, I'm pleased to report that the technical management of those six LNG carriers has been fully integrated into Teekay in September. For the third quarter, we declared and today paid a cash distribution of 67-1/2 cents per unit, which is consistent with the last quarter. In September, we successfully raised a \$182 million of net proceeds in follow-on equity offering, which is targeted for future investment.

Over the past several months, we've seen a significant increase in the number of LNG project tenders in the marketplace. We're actively bidding on several on the water and new building LNG projects, as well as floating storage and regas projects or FSRUs. And with available liquidity of \$559 million, which includes the proceeds from the September equity offering, the partnership is well positioned for investment in one or more of these quality growth opportunities.



Turning to slide number 4, we want to take a look at recent developments in the LNG shipping market. LNG shipping spot rates are currently around \$110,000 per day, a decline from a high of over a \$140,000 per day earlier in the year but still well above the long-term average.

The recent decline in rates is partly due to seasonally lower demand for LNG, but is also due to lower LNG supply as a result of production outages and plant maintenance. In addition, the arbitrage in LNG prices between the Atlantic and Pacific has narrowed, with Asian prices falling to around \$13 per million Btu from \$18 earlier in the year.

With European prices currently around \$10, the reduced arbitrage does not support the large movement of spot cargoes from the Atlantic to the Pacific. On the fleet supply side, there's been a noticeable slowdown in new vessel orders during 2012. A total of 19 LNG carriers have been ordered since the start of the year, down from 53 orders in 2011.

The LNG carrier order order-book currently stands at 77 vessels, which appears sufficient to meet demand requirements over the next three years and could even lead to an oversupply of vessels if new projects are slow to come on line, which is common with liquefaction projects.

However, from 2015 onwards we believe that the demand for LNG shipping will ramp up significantly once new LNG liquefaction projects in Australia and North America start production. We estimate that up to 100 additional LNG vessels over and above the current order book could be required in order to satisfy the demand that will come post 2015.

With the time to delivery for a new ship of around three years, some of these vessels will need to be ordered in the coming months if they're to be ready in time to serve new LNG projects. In fact, as I noted at the start of the call, we're already starting to see an increase in tendering activities for some of these new plants coming online, and we expect more LNG shipping tenders to emerge in 2013.



Tuning to slide number 5, I will review our consolidated operating results for the quarter, comparing an adjusted Q3 income statement against an adjusted Q2 income statement, which excludes the items listed in Appendix A of our earnings release, and reallocates realized gains and losses from derivatives to their respective income statement line items.

Net voyage revenues increased by \$1.8 million primarily due to an increase in revenue generating days in Q3 as a result of one additional calendar day in the third quarter, and a scheduled dry-docking of one of our LNG carries during the second quarter and its corresponding off-hire days. For the fourth quarter of 2012, there are 12 off-hire days expected on one of our conventional tankers due to a scheduled dry-docking.

Vessel operating expenses increased by \$1.9 million as a result of higher crew manning costs due to the timing of crew joining and departing our vessels and the timing of purchase and use of spares. Depreciation and amortization and general and administrative expenses remained relatively constant with Q2 as expected.

Equity income increased by \$2.4 million, primarily due to a full quarter at the increased charter rate on the Methane Spirit, and an additional calendar day in the quarter. Net interest expense increased by \$1.1 million primarily due to a full quarter of interest expense related to the Norwegian Krone bond issued in Q2.

Other expenses increased by \$0.7 million due to a change in deferred income taxes relative to the prior quarter. Non-controlling interest remained relatively consistent with Q2. I won't walk through all of slide number 6, which was included in our recent earnings release, however, I would like to point out that our third quarter coverage ratio of 1.09 times was quite strong despite the fact we issued equity in September and had not yet invested those proceeds.



If we were to exclude the distributions from the September equity offering, our coverage ratio would have been 1.17 times in the third quarter. The fact that we've been able to substantially grow our fleet and maintain the strong coverage ratio speaks to the cash flow stability of our large fixed rate contract portfolio. Operator, I'm now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question please signal by pressing the star key followed by the digit 1 on your telephone keypad. If you're using a Speakerphone, please make sure that your mute function is turned off to allow the signal to reach our equipment.

If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal. We will pause for just a moment to allow everyone an opportunity to signal for questions. And our first question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey good morning guys, how are you?

Peter Evensen: Good, thanks.

Michael Webber: Long time no speak. Peter, just wanted to delve into some of the projects you guys are bidding on. You mentioned you're active on carriers and FSRUs. I'm just curious if you can give a little bit of a breakdown in terms of, you know, how many carrier projects versus FSRUs and just maybe a little color there.

Peter Evensen: Sure. Actually most of the projects we're bidding on are point-to-point LNG, and they really come in two forms. One is that they're dedicated to an existing project that's coming on line post 2015. And the other is from traders who want to try to secure tonnage...

Michael Webber: Okay.



Peter Evensen: ...because they see that there will be a little bit larger spot market going forward, and more trading. So it really breaks into those two. And then we actually don't bid on all the FSRU projects, we only bid those that we think suit us. And just to maybe get ahead of you, we haven't been successful on the FSRUs, we only have one in our fleet right now.

And I think we've just been a little bit conservative about that, because the FSRU market is moving much more towards new builds, and we're seeing that people, that there isn't the conventional or a standard type of FSRU. The size is getting a little bigger. And so we're trying to wait and do it on a build-to-suit basis.

Michael Webber: Got you. Now - that's helpful. I guess if you just focus on the point-to-point, because that seems like where you get to the busiest. Hey, you mentioned new builds post 2015, you know, kind of meeting criteria there, would be placing a small spec new build order at TGP something you guys would consider, and in the process kind of aiding some of these tendering process?

Or is that something that still falls outside the guidelines that what you guys would be willing to do?

Peter Evensen: No. As we said last quarter, that's something we're actively looking at. The shipyards are keen, and the type of vessel is starting to standardize around an Atlantic Max, which is a 170,000, 173,000, which is the biggest that can get through the Panama Canal post 2014.

And when you think about it from a trader's point of view, the ability to have a bigger cubic vessel with a more fuel friendly engine, I think if we order, it will put its best ahead of the line compared to the existing ships that are out there. There's about 77 ships out there right now, and 32 do not have contracts.

Michael Webber: Got you. All right, I mean along those lines, I mean, how many kind of spec new builds would you be comfortable with holding at TGP?

Peter Evensen: Well, we're a pretty conservative group, so what we would do is probably order two, with options for more. And the thing that we do that I think is little different is that we go out and we're, we canvas the customers, because we have a big customer base, and find out exactly what kind of ships they need.

And that gives us a confidence that we're not really ordering speculatively, that we have projects that we know our customers would want to use those vessels for us.

Michael Webber: Great. Now, I just - just one more and I'll turn it over. Along the on the water stuff, I mean obviously, it would take a pretty big deal to kind of move the needle for TGP. In terms of what you guys are seeing on the water right now, are those mostly one-off vessels? Or are there larger, kind of on-block fleets that are floating around - maybe not side of Maersk, but something that would be a little bigger that could provide some near-term juice for TGP?

Peter Evensen: Well, as I said in the prepared remarks, we are looking at existing - or acquisitions of existing fleets.

Michael Webber: Yes.

Peter Evensen: And so we're confident we'll be able to use the money we raised in September. And that would not be for new buildings, that would be for on the water acquisitions.

Michael Webber: Okay. And by fleets, I'm assuming that multiple assets that are floating around out there.

Peter Evensen: That's right.

Michael Webber: Great. All right, thank you for the time guys. I appreciate it.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen as a reminder, if you'd like to ask a question, please signal by pressing the star key followed by the digit 1 on your telephone keypad. We have no further questions at this time. Please continue.

Peter Evensen: Okay. Thank you very much, and we look forward to reporting back to you next quarter.  
Thank you.

Operator: Thank you. Ladies and gentlemen, this does concludes your conference call for today. We thank you for your participation. You may now disconnect your lines and have a great day.

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