TEEKAY LNG PARTNERS L.P.

Moderator: Peter Evensen
November 11, 2011
10:00 am CT

Operator: Welcome to the Teekay LNG Partners Third Quarter 2011 Earnings Results conference call. During the call, all participants will be in a listen-only mode. Following the presentation, you will be invited to participate in a question and answer session.

At that time, you will have a question – to press star one to register for a question. For assistance during the call, please press star zero for an operator. 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. Please go ahead, sir.

(Dave): Before Mr. Evensen begins, I would like to direct all participants to our website at www.TeekayLNG.com where you will find a copy of the third quarter of 2011 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 2011 earnings release and earnings presentation available on our website.

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

Peter Evensen: Thank you, (Dave). Good morning everyone on Veterans Day and thank you for joining us on our third quarter investor conference call. I'm joined today by Teekay Corporation CFO, Vince Lok and MLP controller, David Wong.

If we turn to slide number three of the presentation, the partnership generated distributable cash flow in the third quarter of $43.7 million, up 19 percent from the same quarter last year, the year-over-year increase highlights the growth our fleet has experienced over the past year due to the recent delivery of new building gas carriers and our accretive ((inaudible)) joint venture acquisition in November 2010.

We believe that a strong fundamental outlook of the LNG shipping sector provides a sound basis for continued growth in the sector looking forward.

For the third quarter, we declared a quarterly distribution of 63 cents per unit which will be paid to unit holders on November 14th. In October, we agreed to acquire through a newly formed joint venture with Marubeni Corporation ownership interests in eight LNG carriers from 18 Moller-Maersk.

I'll talk more about this transaction and our strategic rationale in a moment. Last week we completed a five and a half million common unit public equity offering with a portion of the $180 million of net proceeds used to finance the partnership's pro rata equity contributions for the Maersk LNG acquisition.

In 2011 to date, we've taken delivery of the first three of four Angola LNG carriers in which the partnership owns the 33 percent interest and two Skaugen multi-gas LPG carriers, all of which are now operating under fixed rate contracts and contributing to the partnership's distributable cash flows.

The Angola LNG carriers are operating under 20 year fixed rate charters to the Angola LNG project which is a consortium including subsidiaries of Chevron, Sonangol, BP, Total and Eni. And the LPG multi-gas carriers are operating under 15 year bare boat charters to I.M. Skaugen.

Our final Angolan LNG carrier is expected to deliver in January next year. The partnership remains financially well positioned. At – our total liquidity stood at $477 million. And taking into effect our recent new building deliveries, the expected completion of the Maersk LNG transaction and our recent equity offering, our liquidity would still be approximately $460 million on a pro forma basis.

Finally, as a result of the strong distributable cash flow growth from the recent delivered new building, combined with the expected contribution from our joint venture interests in the Maersk LNG carriers, we intend to recommend to the Teekay LNG board of directors a distribution increase of seven percent subject to closing the Maersk LNG transaction, commencing with the first quarter of 2012, distribution that will be payable in May 2012.

Turning to slide number four, we have provided an overview of the Maersk LNG transaction. In October, we announced we had agreed to acquire the fleet of modern LNG carriers through a newly formed venture with Marubeni Corporation for a total purchase price of $1.4 billion.

The transaction includes a 100 percent ownership interest in six LNG carriers and a 26 percent ownership interest in two additional LNG carriers. Two of the vessels, the Magellan and the

Methane, are currently on short-term contracts which allow us to tactically manage these vessels within the strong LNG rate environment.

The remaining portion of the fleet comes with long-term fixed rate charters that fit nicely into our existing fleet ((inaudible)) profile. Five of the eight vessels are operating under long-term contracts with average remaining durations of 17 years and all of these have at least 10 years of extension options.

The remaining three LNG carriers are currently operating under short-term time charters; however, one has a charterer's option to extend another 18 years which we expect to be exercised.

Given the strong rate environment in the (Staub) LNG shipping market at the moment, which is now in excess of $120,000 per day, we are comfortable taking on the additional exposure of these short-term charters.

However, our medium term goal would be to secure new long-term contracts for these LNG carriers as this is more in line with the risk profile of our partnerships.

While the partnership in Marubeni will own 52 percent and 48 percent of the joint venture respectively, on an economic basis, control will be shared.

As a result, we will account for our share of the joint venture using the equity method and the joint venture will not be consolidated in the partnership's financials.

After a transition period of approximately six to nine months, our sponsored Teekay Corporation expects to take over the technical management of all the vessels.

Of the $1.4 billion purchase price for Maersk LNG carriers, the joint venture has secured loan commitment of approximately $1.2 billion. Of the $280 million of equity required, Teekay LNG's portion based on our 52 percent ownership is $146 million.

And this amount has already been financed using a portion of the net proceeds from the $180 million public equity offering we completed earlier this week.

So subject to charter's consensus regulatory authority approvals and other conditions, we expect to close this transaction in early 2012.

Turning to slide number five, the Maersk LNG fleet to be acquired is a good fit with our existing fleet profile. First, the transaction further strengthens our position as a global top three independent operator of LNG carriers and further broadens our customer base – transaction provides us with an increased profile in the global LNG shipping market and should enhance our ability to secure a new business going forward.

Second, the Maersk LNG fleet is a well-maintained modern fleet purchased from the seller with a strong reputation for building quality ships. And with an average age of approximately four years, these vessels have a lot of useful life ahead.

The diversity of our fixed rate business is a key contributor to the stability of our distributable cash flow and that enables us to target a coverage ratio of 1.05 times, but it also lowers our risk profile which underpins our low cost to capital.

Since five of the acquired vessels come with long-term contracts with an average remaining duration of 17 years, it's very much aligned with our existing portfolio of long-term fixed rate charters.

In addition, one of the Maersk LNG carriers as I explained earlier is on a short-term time charter, but has an 18 year extension option. So that'll further extend the long-term charter portfolio.

And the two other LNG carriers are on short-term charters and that provides an opportunity to benefit from the strong rates we see in LNG shipping today.

The final point I'll make on the slide is that the direct acquisition of the fleet will be immediately accretive to the partnership upon completion. Based upon the cash flow of contribution from the LNG carriers from Maersk and the fixed LNG and LPG carriers, we have ownership interest in that have delivered in 2011 to date.

We intend to recommend to the board of directors a distribution increase of seven percent commencing with the first quarter 2012 dividends which is payable in May 2012 and this corresponds to a four and a half cent increase which would bring our quarterly distributions to 67 and a half cents a unit.

Turning to slide number six, I'll review our consolidated operating results for the quarter and compare it to an adjusted Q3 income statement against an adjusted Q2 income statement which excludes the items listed in Appendix A of the earnings release and reallocates realized gains and losses from derivatives to their respected income statement line item.

Net voyage revenues increased by $5.4 million as a result of having no off hire days this quarter compared to 96 days off hire in Q2 which was because of scheduled dry dockings of vessels.

A full quarter of revenue from the new multi-gas carrier, the Norgas Unicom, one additional calendar day this quarter and 15 days of revenue from our new LTG carrier, the Norgas Camilla, which delivered on September 15th.

For the fourth quarter, 31 off hire days due to dry dockings are scheduled. That's so operating expenses decrease by a million dollars primarily due to higher repair and maintenance costs incurred in Q2 since we had three ships dry dock last quarter compared to none in Q3.

Depreciation and amortization increased by 0.8 million due to the full quarter of depreciation on the Norgas Unicom, a partial quarter of depreciation on the Norgas Camilla and the amortization of costs associating with the dry docks in Q2.

General and administrative expenses decreased by 600,000 due to the timing of expenses. That interest expense remains relatively consistent from Q2. Equity income decreased slightly due to the charter hire rate adjustment from the four ((inaudible)) three LNG vessels which we reported in Q2 partially offset by the equity income earned during the month of September on our 33 percent interest in the first Angola vessel that delivered on August 30th.

Our investment in the Angola joint venture is accounted – and is not consolidated. Non-controlling interest expense remains relatively consistent from Q2.

And so our last earnings release in early August, LNG shipping spot charter rates have gained a further $20,000 a day and are now averaging around $120,000 per day.

This is a result of the higher demand for LNG vessels in recent months, particularly in the wake of the Fukushima nuclear crisis as well as the lower fleet availability as a number of idol units has fallen on the back of the increased shipping activity.

Long-term fundamentals for LNG demand remain attractive in our recent acquisition marks over the long-term liability of nuclear power in the wake of the Fukushima disaster and have only increased these expectations.

As a result, approximately 30 new LNG vessels without charters have been ordered by other owners since the start of the year in anticipation of future demand.

We believe that the future LNG demand will absorb this and already see increased fixing activity at higher rates.

I won't walk through all of slide number seven which was included in our recent earnings release; however, I would like to point out that our coverage ratio of 1.08 times for the third quarter comes in slightly higher than our targeted 1.05 coverage and up from the 0.93 coverage we reported in Q2 largely due to the delivery of new building vessels and the heavy dry dockings that we had in Q2.

With the recent new building deliveries and the expected completion of Maersk LNG in early 2012, we anticipate a higher coverage ratio still going forward which provides rationale for our distribution increase recommendation for Q1, 2012.

Turning to slide number eight, Teekay LNG Partners continue to be in a strong financial position, pro forma for the Maersk LNG transaction, new building deliveries in the fourth quarter and the November equity offering.

Our liquidity would still be a healthy $460 million. We have no coveting concerns on any of our debt facilities, have a favorable debt maturity profile and has now finalized the refinancing of the Madrid Spirit loan that was originally maturing in 2012.

Operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your touchtone phone. To withdraw your question, please press the pound sign. If you're using a speakerphone, please lift your handset before entering your request. Please stand by while we assemble the cue.

The first question comes from (Darrin Horwitz) from (Raymond James). Please go ahead.

(Darrin Horwitz): Good morning, Peter. How are you?

Peter Evensen: Fine, (Darrin). How are you?

(Darrin Horwitz): Good. Thanks. Just two quick questions for me. First, as it relates to the Maersk LNG transaction, what's the annual CFEL that you're expecting? Can you quantify the level of accretion to cash flow?

Peter Evensen: We haven't given out all that material yet because we haven't – we haven't determined what the two spot vessels will be, but I plan to do that in the future.

(Darrin Horwitz): Okay.

Peter Evensen: But we're confident enough in the long-term rates that we see on the two spot vessels to be recommending the seven percent distribution increase.

(Darrin Horwitz): Okay. As it relates to those two spot vessels, can you just give us a sense for where current vessels are achieving those fixed charters that you talked about?

Peter Evensen: Yes. If you're looking out from – so we have one vessel that is going to go spot in March 2012 and we have a second vessel that's coming spot in September of 2013.

The – and the interesting part is that we already have charterers asking us for the – both vessels. So that gives you an indication of the strength of the market.

Right now, we would see that on short-term charters one to three years you could do $120,000 a day and then we're looking and figuring out whether we would be better off as a partnership to be taking the short-term rates up at $120,000 or longer term rates which are somewhere around $80 to $90,000 for a much longer period.

(Darrin Horwitz): Sure. I appreciate the call. Thanks, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star one on your touchtone phone. There are no further questions at this time. Please go ahead.

Peter Evensen: Okay. Thank you all very much and Happy Veterans Day.

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

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