

TEEKAY LNG PARTNERS L.P.**Moderator: Peter Evensen
February 24, 2012
10:00 am CT**

Operator: Welcome to Teekay LNG Partners fourth quarter and fiscal 2011 earnings results 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 touchtone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Peter Evensen, Teekay LNG Partners Chief Executive Officer.

David Rajanayagam: 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 fourth quarter and fiscal 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 fourth quarter and fiscal 2011 earnings release and earnings presentation available on our website.

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

Peter Evensen: Good morning everyone and thank you for joining us on our fourth quarter and fiscal 2011 investor conference call.

I'm joined today by Teekay Corp.'s CFO Vince Lok, and MOP Controller David Wong.

If you turn to slide number 3 of the presentation, I would like to run to some of our more recent highlights, as well as some key highlights from earlier in 2011. Most recently, the partnership generated distributable cash flow of \$44.1 million in the fourth quarter of 2011, up 12% from the same quarter last year. The year-over-year increase highlights the growth our fleet has experienced over the past year due to recent deliveries of our New Buildings gas carriers and our accretive Lexmark joint venture acquisition in November of 2010.

For the fourth quarter, we declared a quarterly distribution of a \$0.63 per unit, which was paid to unit holders on February 14. Together with our joint venture partner Marubeni Corp., we are on track to complete the acquisition of the Maersk LNG fleet.

Finally, as we communicated last quarter, based on the strong distributable cash flow from our recent delivered New Buildings, combined with the expected contribution from our joint venture interest in the Maersk LNG carriers, we intend to recommend to the Teekay LNG Board of Directors a distribution increase of 7%, commencing with the first quarter of 2012 distribution that will be payable in May of 2012.



Looking back at some of our other notable highlights in 2011, we acquired three LPG and multi-gas carriers and a 33% interest in three LNG carriers for a combined purchase price of approximately \$205 million. These vessels contributed to growth in our substantial portfolio of long-term stable contracts. And we took delivery of the fourth and last LNG that we own 33% of in late January of 2012.

Turning to slide number 4, as we announced last October, we have agreed to expand our LNG carriers through our acquisition of AP Moller-Maersk's LNG fleet with our joint venture partner Marubeni. Since then, there have been a few changes to the transaction that I'd like to take a moment to provide an update on.

When we first presented this transaction, it was for eight ships, including two 26%-owned LNG carriers. The majority owners of these two ships had preemption rights that they have since exercised. As a result, the transaction is now for six 100%-owned LNG carriers, and the total purchase price has been reduced to \$1.33 billion, or \$692 million for Teekay LNG's 52% share.

While the acquisition is slightly smaller than originally communicated, Teekay LNG's Management still intends to recommend a 7% distribution increase commencing with the first quarter of 2012 to be paid in May of this year.

Turning to slide number 5, I'm happy to inform you that the debt and equity required to complete the acquisition are in place and are ready to be drawn concurrent with the closing of the acquisition on February 28.

There have also been two positive contract amendments impacting two of the vessels included in the acquisition. The extension option on the Maersk Meridian was exercised by the charter Total, extending the fixed-rate contract on this vessel for an additional 18 years. And the Maersk Methane was previously on a charter that was set to expire next month.

This timing was fortuitous because we were able to take advantage of the strong spot LNG shipping rates, and we recently chartered this vessel for 3 years at a day rate of over \$130,000 per day.

In summary, all charter consents have now been received and we are ready to complete this acquisition, which we anticipate will now add approximately \$40 million to Teekay LNG's distributable cash flow for 2012, commencing from the closing date next week.

Turning to slide number six, we look at development in the LNG market. LNG spot rates are currently at record highs of around \$140,000 per day, which is an amazing turnaround given that rates were just \$25,000 to \$30,000 per day in 2010. This resurgence in rates is in large part due to the Fukushima nuclear crisis experienced in early 2011, which led to a 12% increase in Japanese LNG imports last year to 78.5 million tons. An increase in costs base and arbitrage movements from the Atlantic to the Pacific, strong growth in Chinese LNG imports, and a lack of available vessels for short-term business has also contributed to the strength in rates.

Turning to slide number 7 and looking to the longer-term, demand for LNG shipping appears to be strong due to rising demand in Asia coupled with significant growth in LNG liquefaction capacity led by Australia. The chart on the slide shows expected LNG supply growth to 2020, after taking into account project cancellations and delays.

In the period to 2015, LNG supply grows at a relatively modest rate of 4.1% per annum, with relatively few new projects coming online. With 63 new LNG carriers due to deliver during this time, the strength in spot rates is going to largely depend on whether or not the Fukushima effect will persist into 2013 and 2014, or whether Japan will bring its nuclear plants back online and therefore reduce its LNG imports.



Looking to the period post-2015, we believe there is going to be a requirement for far more LNG carriers than are currently on order given the wave of new projects coming online and growing demand for LNG in Asia, and in particular, China.

LNG supply is expected to grow by 7.7% per annum in the period 2015 to 2020, and there's potential upside to this number if more US LNG export projects get sanctioned. Teekay LNG remains well-positioned to take advantage of this growth in LNG shipping demand in the coming years.

Turning to slide number 8, I will review our consolidated operating results for the quarter, comparing to an adjusted Q4 income statement against an adjusted Q3 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 slightly as a result of the delivery of our second multi-gas carriers on October 17, and a full quarter of revenue from our third LPG carrier, New Buildings, which delivered on December 15. Partially offset by 37 off-hire days this quarter compared to no off-hire days in Q3. For the first quarter of 2012, no off-hire days from dry dockings are scheduled. Vessel operating expenses remain consistent with last quarter.

Depreciation and amortization increased by \$1.3 million due to a full quarter of depreciation on our third LPG carrier, a partial quarter of depreciation on our second multi-gas carriers, and amortization on dry docking expenditures incurred during Q3 and Q4. General and administrative expenses remained relatively consistent with Q3. Net interest expense increased by \$1.2 million as a result of higher margins on a new debt facility, which was drawn during Q4 and higher LIBOR rates compared to Q3. Equity income increased by \$2.5 million, primarily as a result of a full quarter of equity income earned on our 33% interest on the first two Anglia LNG vessels and

62 days of income on the third Anglia LNG vessel. Non-controlling interest expense remained consistent with Q3.

I will not walk through all of slide 9, which was included as an appendix to our recent earnings release, however I would like to point out that our coverage ratio of 0.99 times for the fourth quarter comes in slightly lower than our targeted 1.05 coverage, primarily due to the timing of our recent equity offering, which we completed in early November. Had we not completed the equity offering when we did, our coverage ratio would have been a healthy 1.09 times.

With the recent New Buildings deliveries and the expected completion of the Maersk LNG acquisition next week, we anticipate a higher coverage ratio going forward, which supports our distribution increase recommendation for Q1 2012.

Turning to slide number 10, Teekay LNG Partners continues to be in a strong financial position. We finished the year with approximately \$540 million of liquidity and pro forma for closing the Maersk LNG acquisition next week, our liquidity would still be \$400 million. We have no covenant concerns on any of our debt facilities. Our current debt maturity profile is favorable, and now that we have finalized the refinancing of the Madrid Spirit loan that was originally maturing in 2012, our next significant debt maturity isn't until 2015.

Operator, I'm now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you like to ask a question, please press star one on your touchtone phone. To withdraw your question, press the pound sign. If you're using a speakerphone, please lift your handset before entering your request. We'll pause for a moment to assemble the queue.

Your first question comes from Darren Horowitz of Raymond James. Please go ahead.



Darren Horowitz: As it relates to discussion on LNG supply that you detailed on slide 7, beyond those 63 carries that you mentioned that are going to be entering the market, can you just give us a rough sense for vessel demand that you think is going to be necessary to keep up with that inflected supply growth in 2015 to 2020?

Peter Evensen: We think that there is good to be many more vessels. We're not exactly positive yet because we do not know exactly whether the US will come on. What we have seen over the last year is, it is the actual distances that have increased, and that is what has led to this increase in rates and this draw on supply. So, we have to see which liquefaction plants come on. If we see more plants come on in Asia, then there will be smaller distances, whereas if we see more plants come on in Nigeria and Angola, then will have greater distances.

Darren Horowitz: Given how fragmented the market is for LNG carriers, I'm curious as to your outlook for other opportunities for growth, and also for are there any existing vessel orders that don't have charters as they sit today?

Peter Evensen: Yes, in fact most of the 63 aren't committed right now. So that isn't our model, our model is a build-to-suit model, but a lot of people have ordered LNG carriers with the idea that they will be able to charter them later on. That has been very favorable over the last year, but if you go back to 2008, 2009, the rates were low and vessels were in fact laid up.

So we think it is positive, but we are actually back to the point we were in pre- 2008 when there wasn't enough gas to move. If there was more to gas to move, then there would be more demand for vessels, so I was trying to point out on slide number 7 is there isn't that much new liquefaction coming online. So, we actually think the better delivery window is into 2015 rather than to get your ships in 2013 or 2014.



Operator: Thank you. Your next question comes from TJ Schultz of RBC Capital Markets. Please go ahead.

TJ Schultz: On the Magellan, on the Maersk Magellan, can you provide any context on current interest from charters on that vessel coming in late 2013. And then as you look at short-term versus long-term nature of rates, could you provide some detail on what you're seeing from the five-year contract rates, versus what you are able to put the methane out for three years, and how you balance that decision process as it relates to locking and the higher short-term rates, versus keeping a longer tenure on your contract structure?

Peter Evensen: We're already getting some interest in the methane, but to be honest with you, we think it is a little bit early in order to book. If you book now, you probably would get a lower rate than if you waited six to nine months in order to book it.

There are a fair amount of ships coming in 2013, but right now you would probably take a rate closer down to \$80,000 to \$85,000 if you were to book it for a different longer period of time. Will we look at the spot market, there is heavy backwardation. On the short-term rates you could get up to \$150,000, \$160,000 for two voyages. If you went out to three years, as we pointed out, we got about \$130,000, \$35,000. And then it decays down, so I would expect if you were doing 10 to 15 years, you'd be talking about \$80,000. So that is a heavy backwardation which reflects the market's view that rates are going to regress back to the mean.

But what's happening now is because of this positive arbitrage, the cargo owners are making so much money, if they can get ships and gas to take it to Asia, that they are willing to pay of \$150,000, \$160,000 a day, because it is still very profitable for them to resell their gas in Asia at far higher rates.



And Japan continues to take a fair amount of LNG, but it is very difficult to figure out how long, as I said in my prepared remarks, the Fukushima effect will take, because no one really knows, or at least that I have been talking to knows, how many nuclear plants will come back online. So we take a more conservative view and base it on the liquefaction gas that is available. A lot of people say that it is a question of if you had an extra ship, but we actually go back and look at the actual amount of cargo that can be moved.

TJ Schultz: Great. Thanks. Good color.

Operator: Thank you. Once again ladies and gentlemen, if you do have a question, please press star one at this time. The next question comes from Ron Londe of Wells Fargo. Please go ahead.

Ron Londe: Curious on your take on shipyard capacity to actually build the needed number of LNG tankers going forward?

Peter Evensen: We actually think there's an abundance amount of capacity. I think the big issue is, how many ships are going to be built in China. As we have seen in the dry bulk area, there is a preference by Chinese interests in order to build LNG carriers in China, whereas most of the ships have been built by the big three, DSME, Hyundai, and Samsung.

You can still get slots for 2014, 2015, so they have re-jigged their assembly line format in order to be able to build more LNGs, because that is far more profitable and they're not building very many takers or bulkers. So they've moved into much more specialized ships, such as offshore and LNG. So we have been surprised how much berth capacity they have been able to free up. They were a fair amount of people that held options. Not all of those options have been taken. But if you wanted to, you could book at one of the big three or even STX, where ((inaudible)) just booked for 2014, 2015.



Ron Londe: Thank you.

Operator: Thank you. There are no further questions at this time.

Peter Evensen: Thank you very much; we look forward to completing the Maersk LNG transaction, and then leveraging on our distribution increase in the first quarter. Thank you very much.

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

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