# TEEKAY LNG PARTNERS L.P.

## Moderator: Emily Yee
## February 26, 2015
## 10:00 am CT

Operator: Welcome to Teekay LNG Partners First Quarter 2014 Earnings Results Conference Call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in the 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 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. Peter Evensen, Teekay LNG Partners' Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I'd like to direct all participants to our website at www.teekaylng.com, where you'll find a copy of the first quarter 2014 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 first quarter 2014 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, Ryan. Good morning everyone and thank you for joining us on our first quarter Investor Conference Call.

I'm joined today by Teekay Corporation's CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid; and MLP Controller, David Wong. During our call today, I will be walking through the first quarter 2014 earnings presentation, which can be found on our Website.

Turning to Slide Number 3 of the presentation, I will review some recent highlights. The partnership's portfolio of long-term fixed rate contracts continued to provide stable cash flows during the first quarter generating distributable cash flow of $60.1 million; up 12% from the same quarter of the prior year.

The year-over-year increase is mainly due to cash flows from the partnership's 50% investment in the Exmar LPG joint venture and the acquisition and fixed rate charter-back of two LNG carriers with Awilco LNG in 2013, partially offset by the sale of two 2000-built conventional tankers in December 2013 and February 2014 respectively.

With the 100% of Teekay LNG's on-the-water LNG operating fleet operating under fixed rate contracts with an average duration of 12 years, the partnership is largely insulated from short term LNG shipping rate fluctuations.

For the first quarter of 2014 the partnership declared and paid a cash distribution of $69.18 per unit consistent with the prior quarter.

I'm pleased to confirm the Teekay LNG Partners, through a new 50/50 joint venture, recently signed a letter of intent to provide six icebreaker LNG carriers for the Yamal LNG project.

Through the new joint venture Teekay LNG will invest approximately $1 billion to construct these newbuilding LNG carriers which will complement Teekay LNG's existing pipeline of growth projects scheduled to deliver between 2014 and 2018.

Marking a milestone in the partnership's LPG growth strategy in early April our Exmar LPG joint venture took delivery of the Waasmunster, the first of 12 mid-size LPG carrier new buildings that are delivering over the next four years.

And as I reported in previous quarters we continue to be involved in a significant amount of LNG and FSRU project tender activity and our business development group is actively evaluating bidding on several of these with expected delivery dates in 2016 and beyond when new gas liquefaction projects are scheduled to come on stream.

Turning to Slide Number 4 I'd like to take a moment to provide some - excuse me - preliminary details on our recent signing of a letter of intent, or LOI, to provide six icebreaker LNG carriers for the Yamal LNG project in Northern Russia through a new 50/50 joint venture between Teekay LNG Partners and the China-based LNG shipping company.

The total cost for the six newbuilding LNG carriers is approximately $2 billion with our share being approximately $1 billion. The Yamal LNG project is an international joint venture consisting of Russia-based Novatek, who own 60%, and Total and China National Petroleum Corporation which will own 20% each.

The Greenfield facility which is scheduled to start up in late 2017 will consist of three LNG trains capable of generating 16.5 million metric tons of LNG per annum.

This is a large project. As illustrated on the math on the bottom right of this slide, LNG from the project is located on the Yamal Peninsula in Northern Russia.

Due to the cold Arctic climate where the project is situated the LNG carriers servicing the project will need to have icebreaking capabilities in both the forward and reverse direction. During the Northern Hemisphere summer months LNG from the facility will be transported either to Asia via the Northern Sea Route or to Europe.

However during the winter months when the Northern Sea Route is unnavigable, the LNG will be transported to a transshipment terminal in Europe from where it will then be re-transported by conventional LNG carriers to its final destinations.

Through our new 50/50 joint venture we're currently in the process of negotiating terms of the agreement with the Yamal LNG project including shipbuilding contracts and charters which are expected to be finalized during 2014.

These six LNG new buildings are expected to deliver between 2018 and 2020 and operate under fixed rate charters with contract durations ranging between 25 and 27 years.

The Yamal LNG project will also require a number of conventional LNG carriers which we will also have the opportunity to bid on later this year. I look forward to updating you on this exciting growth project in the coming quarters.

Turning to Slide Number 5 we take a look at developments in the LNG and LPG shipping markets. LNG shipping spot rates, as shown by the chart at the top of the slide, are currently on the decline due to a combination of limited cargo availability and fleet growth.

Having peaked at approximately 150,000 per day in the middle of 2012 both spot rates and 12-month time-charter rates have now dipped under $75,000 a day and continue to show weakness.

Ongoing product outages at various liquefaction projects around the world have recently limited the supply of LNG with no new projects due for startup until later this year.

At the same time more than 30 new LNG carriers are due to be delivered into the fleet this year of which about half are uncommitted to long-term projects. We therefore anticipate LNG shipping rates will continue to stay soft and may decline in the near term due to a surplus of vessels compared to the demand.

The good news for our partnership is that Teekay LNG's on-the-water fleet is a 100% fixed through 2015, after which we expect that new LNG supply will soak up available fleet capacity and create new demand for the LNG carriers.

At the bottom of this slide we take a look at developments in the LPG shipping market. Rate for medium gas carriers or MGCs remained relatively stable in the first quarter of 2014 at approximately 840,000 per month or $27,600 per day.

You can see that MGC rate show far or less volatility compared to very large gas carriers or VLGCs and it's worked well for Teekay LNG as it means our large fleet of MGCs jointly owned with Exmar should continue to deliver stable cash flows, which is the basis of our partnership.

Looking at the grey line on the chart you'll see that VLGC's spot rate have risen to record high levels. However rates have since come down to between $1.8 million and $2 million per month or $60,000 to $70,000 per day.

In April VLGC's spot rates increased sharply as a result of the West-East arbitrage opportunities and tight vessel supply due to congestion delays that tied up portions of the VLGC fleet at Indian ports.

Although VLGC rates are coming down the upward trend in VLGC earnings over the past year is due, in our opinion, to the impact of growing LPG exports from the United States.

With raising US shale gas production leading to a surplus of LPG available for export at prices which are competitive to those in the Middle East, the increase in US LPG production is expected to continue in the medium term and could add significantly to ton mile demand in the coming months and years. While these exports primarily benefit the VLGC market we also can see that these effects help the smaller ranges including the MGC segment.

Turning to Slide Number 6, we've shown that how Asia is largely responsible for the increasing global demand for liquefied gases. To cut emissions from coal-fired power plants and to reduce dependence on oil imports, China has made natural gas and LNG a cornerstone of their energy mix.

China began importing LNG in 2009 and in five years has already become the world's third largest importer of LNG behind Japan and South Korea, consuming approximately 8% of global LNG import.

In India a shortfall of domestic gas production is also requiring increased LNG import. Due to a lack of natural gas pipelines from other regions India is largely reliant on LNG with the imports now responsible for over 35% of India's annual gas consumption.

So to meet this raising import demand China and India are increasing their re-gasification capacity. As shown in the chart at the bottom left of this slide, China and India had a combined LNG import capacity of approximately 43 million tons per annum in 2013.

Another 36 million tons of import capacity is already under construction or approved for startup by 2016 and a further 52 million tons is proposed for startup by 2018.

By 2016 China and India’s LNG import capacity will roughly double and may in fact triple by 2018 if all proposed projects perceive. This investment in import capacity illustrates the expected increase in Asia’s demand for LNG for the remainder of this decade and our new 50/50 joint venture for the Yamal project positions us well to capitalize on this growth.

Turning our attention to long-term LPG demand, the chart at the bottom right of this slide shows the potential for increased LPG consumption in China and India.

On a per capita basis China and India’s consumption of LPG is well below that of several other countries but with the growth of China’s petrochemical industry and the use of LPG as a feedstock China’s per capita consumption is expected to grow substantially.

In the long-term should China’s per capita LPG consumption reach the same level as the United States it would increase global LPG demand by roughly 50 million metric tons which is almost as much as the entire seaborne LPG trade of 63 million tons that we had in 2013.

With the growing fleet of medium size LPG carriers, our joint venture is well positioned to serve this increasing seaborne LPG trade especially on a regional basis.

Turning to Slide Number 7 we've summarized the expected supply demand balance for LNG carriers over the next several years. As you can see from the chart between now and 2016 we anticipate that the LNG shipping market will be somewhat oversupplied with vessels since there is a lack of new LNG supply in the near term to absorb the large number of new buildings coming into the market.

This will be particularly problematic for ships that are uncommitted to projects during this period and we expect fleet utilization and therefore spot rates to fall during this time.

However from 2016 onwards we think the market will start to tighten again as new LNG liquefaction plants start to come online. By 2017 we estimate this supply and demand will balance once again and result in a vessel deficit meaning that the new LNG carriers will be needed to meet demand.

This timing coincides well with the delivery of our three uncommitted LNG newbuilding carriers that are currently scheduled to deliver in the 2017, 2018 timeframe. And we remain confident that our ships will deliver and drove firming market and with their state-of-the-art fuel efficient MEGI engine design, secure long-term employment at attractive rates.

On Slide Number 8 I'll review our consolidated results for the quarter comparing the adjusted income statement for the first quarter of 2014 against an adjusted income statement for the fourth quarter of 2013 which excludes the items listed in Appendix A of our earnings release.

Starting at the top of the income statement, net voyage revenues decreased by approximately $4.5 million primarily due to the sale of the Tenerife Spirit and Algeciras Spirit, Suezmax tankers in December and February respectively and higher off-hire days due to scheduled dry-docking and repairs to one of our LNG carriers.

This was partially offset by a full quarter of revenues from the second Awilco LNG carrier and additional revenue earned on the Hamilton and Bermuda Spirit which benefited from higher Suezmax tanker spot rates in the first quarter.

Looking ahead to the second quarter 23 off-hire days are expected for scheduled dry-docking on one Suezmax tanker. In addition to Huelva Spirit Suezmax current contract is expected to be terminated and the vessels sold by mid-2014. For an overview of the scheduled dry-dockings for the remainder of 2014 please refer to the Appendix on this earnings presentation.

Vessel operating expenses decreased by $900,000 primarily due to the sale of the two Suezmax tankers. Depreciation expense was consistent with the prior quarter.

General and administrative expenses increased by $1 million primarily due to timing of recognition of long-term incentive compensation which are typically higher in the first quarter of each year.

Equity income decreased by $900,000 primarily due to nine dry-docking days from the Magellan Spirit, which is within our MALT joint venture and lower revenues in the RasGas 3 joint venture.

Net interest expense decreased by $700,000 primarily due to lower interest from lease obligations associated with the sale of the two Suezmax tankers partially offset by a full quarter of interest expense related to the second Awilco LNG carrier. Finally income tax expense increased by $700,000 mainly due to tax provision adjustments in the fourth quarter.

I won't walk through all of Slide Number 9 which was including our recent earnings release, however I'll note a coverage ratio of 1.02 times for the first quarter. This decrease from the fourth quarter coverage ratio of 1.08 times due to the items I just discussed.

On Slide Number 10 with our portfolio of long-term fixed rate contract we believe our partnership remains largely insulated from the short term rate fluctuations in the LNG shipping market and well positioned for expected future growth.

We're pleased to have been selected for the Yamal LNG project and look forward to finalizing this opportunity in the coming months, as the six new buildings to be constructed for this project will complement our existing pipeline of growth projects scheduled to deliver between 2014 and 2018.

And based on this strong long-term fundamentals for the LNG and LPG we believe our newbuilding order book shown on this slide will provide an attractive pipeline of distributable cash flow growth over the next few years.

Before we open the call to questions I would just like to turn your attention to Slide 11. I'm pleased to inform you that the Teekay Group's 2014 Investor Day is scheduled for the morning of Tuesday September 30 and will take place at the St. Regis Hotel in New York. At this even we'll provide a more detailed presentation of Teekay LNG covering our strategy, financial position and market outlook.

The event will be webcast live for all interested investors and while this event is still several months away, we encourage everyone to mark this date in their calendar and we look forward to presenting and meeting with investors at that time.

Operator, I'm now available to take questions.

Operator: Thank you. If you would like to ask a question please signal by pressing the star key followed by the digit 1 on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow your 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'll pause for just a moment to allow everyone the opportunity to signal for questions.

The first question comes from Michael Webber of Wells Fargo. Please go ahead.

Sumeed Musvee: Hi, Peter, this is Sameed on again for Michael. How are you?

Peter Evensen: Fine. Thanks.

Sumeed Musvee: So our first question is really on the LNG and FSRU tenders you noted in your prepared remarks. I believe that a recent facility opening in Glasgow, Teekay noted you are looking at approximately 25 LNG carriers adding on to the fleet by the end of the decade. How should we think about potential spot availability of the yards for you guys right now to potentially order those vessels?

Peter Evensen: Well first of all if we order a ship now we'll get it in 2017 or more likely 2018. So we're talking about tenders that we're competing on over the next two, three years in order to get that availability. We can see that coming especially with US and Australian exports that they're going to need dedicated tonnage. And that is of course on top of the conventional tonnage that the Yamal project will take.

So that's a goal of ours to basically double the fleet. We think it's possible given the tenders that are out there. But a key requirement for us isn't to have more vessels, it's to have vessels under contract. So if the contracts are there then we're building vessels against them and that's the key requirement. But we can see based on our conversation that there is going to be a requirement for that many ships and we want our fair share.

Sumeed Musvee: Got it. And in terms of geographies you noted the US and Australia and potentially Canada I would assume as well but are there any other geographies involved in potential tenders you guys are looking at right now?

Peter Evensen: It's really the US and Australia that are featuring right now in addition to of course the Yamal project.

Sumeed Musvee: Got it.

Peter Evensen: Mozambique, BC they're too far off, they haven't actually taken FID. And so the - people are not starting to negotiate the shipping requirement yet.

Sumeed Musvee: Got it. Makes sense. And switching onto LPG growth, in your prepared remarks you noted that VLGC rates have risen to record highs recently. The majority of Teekay's LPG JV with Exmar has MGC vessels. How do you think about potentially looking at a VLGC asset and adding that onto that fleet?

Peter Evensen: Well actually our Exmar LPG joint venture has a couple of VLGCs. So we are benefiting from that. But it is not a area that we plan to grow on. And the reason is because we're looking for more stable cash flows so it isn't to try to - that doesn't suit our partnership, our partnership wants long-term contracts.

What we liked about the mid-size is it underpins or is underpinned by longer term contracts as opposed to the VLGC where it's time-charter and short term contracts. So while on the face of it, it looks attractive, there is much greater scope for over tonnage-ing in the VLGC market as for example you've seen a lot of VLGCs ordered.

So I really see the VLGC market as being the opposite of the LNG market. We see softness in the LNG market for the next two years but then we see strength in the LNG market. And the VLGC market, in our opinion, looks the opposite, we see strength in the next two years and then we see too many ships coming.

But on the mid - and so we're benefiting right now from the VLGCs that the two that we have but I think ultimately we won't expand inside VLGCs because it doesn't fit the stable contract nature of our partnership.

Sumeed Musvee: Got it. And the final question is really on the Yamal LNG project. As you mentioned in your prepared remarks, I mean, looking at potentially six icebreaking LNG carriers through a JV which Teekay is investment would be about $1 billion or about say, about $333 million per vessel. How should we think about the potential risk associated with that project?

We obviously know that those are longer-term charters, 25 to 27 years, but how does Teekay think about the potential risk associated with those assets?

Peter Evensen: Well clearly there is a whole bunch of different risks. But let's start with the project. The project actually has low cost gas so as opposed to some other projects that where the cost of the gas after liquefaction is quite high Yamal, because it's rich gas, it is very low and by our judgment it's actually the lowest compared to Qatar.

And then we look at the need for the vessels. These vessels that we're building are absolutely critical because of the ice nature, so they cost more than a conventional LNG but they're absolutely critical for the project if they're going to export.

And then we get to the politics that are going on in Russia right now and I don't think my opinion is any better than other people about that, about the politics.

But this project has been going on for four or five years and what we do note is that they've taken FID and there is a - and they're moving forward on the development of it. So that's how we see the project. We're convinced that it will come to fruition.

Sumeed Musvee: Got it.

(Crosstalk)

Peter Evensen: And I would also note that this project is an old style project in that they have already sold well over 12 million tons of the 16.5 million tons per annum which is an incredible figure. It is truly an incredibly large figure.

And that's where, I think, it's done much better than some of the other export projects that you see that you mentioned BC, Mozambique, some of the US projects where they haven't sold all of the gas.

Sumeed Musvee: Got it. I appreciate the color. I think that's pretty much all I have in line. I'll turn the call over.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions please press star 1 at this time. The next question comes from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, good morning, Peter and thank you. I want to ask about the announcement of Enterprise Product Partners. There is a lot of discussion in the shipping industry about the long-term contracts for ethane vessels. Is this something that you might have some interest and you might be considering over building ethane capable vessels to charter them to the Enterprise project?

Peter Evensen: Yeah, I'm not sure Enterprise will be the charterer, but we're very interested in moving into the ethane market in order to provide transportation. And we have noted some of our competitors that want some of those projects and that will need a different kind of vessel.

Obviously with our ethylene ships were familiar with the type of ships that need to be built but they need to be built in bigger volumes. So the short answer is yes. That's a project our business development teams are looking at.

Fotis Giannakoulis: Shall I assume that if you're going to go ahead with a project like that this is going to be through the Exmar JV? And what type of vessels, what is the size of the vessels that you are expecting to be suitable for a project like that and what are the economics that you expect to see on those type of contracts?

Peter Evensen: For competitor reasons I won't go into the returns that we expect to see. But it actually revolves around who is the end-user. You're seeing projects all the way from Europe where you would probably use a smaller size vessel but somewhere around 20,000-30,000 to the longer haul out to Asia where you'd have a bigger ship and I'm talking cubic.

Fotis Giannakoulis: Thank you, Peter. One last question about the Yamal project. That's definitely a great success for your company. What was the competitive process and what was the differentiating factor that made you win such a significant portion of this project?

Peter Evensen: Well it's speculation on my part, but I would say it was Teekay's operating record. And the fact that we know they're convinced that we have the ability to train up the crews, we have the icebreaking capability and over the two years plus that we talked with them, they were very concerned with the operational excellence of the charters that we are chosen.

So we're one of three groups that have been chosen to supply the first 16 and I would say it was much more the commitment to training the crews to having the icebreaking capacity and be there for 25 to 27 years that were important.

Fotis Giannakoulis: Okay. Thank you very much for your answers.

Peter Evensen: Thank you, Fotis. Have fun in Posidonia.

Fotis Giannakoulis: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you do have a question please press star 1 at this time. There are no further questions at this time. Please continue.

Peter Evensen: Alright. Thank you very much. We look forward to updating you on all the new projects that our business development teams are working on in the future. Thank you.

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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