TEEKAY LNG PARTNERS L.P.

Moderator: Peter Evensen
July 28, 2005
12:00 p.m. CT

Operator: Thank you for standing by, everyone, and welcome to the Teekay LNG Partners second quarter 2005 earnings release conference call. During the presentation all participants will be in a listen-only mode. We will have a Q&A session after the presentation.

At that time if you do have a question you'll need to press star one. Just as a quick reminder, this conference is being recorded. Now at this time for opening remarks and introductions I'd like to turn the conference over to Mr. Peter Evansen. Please go ahead, sir.

Scott Gayton: Before Mr. Evensen begins and before I read the forward-looking statements, I would like to direct all participants to our Web site at www.teekaylng.com, where you will find a copy of the second quarter of 2005 earnings presentation. Mr. Evensen will review this presentation during today's conference call. I will now read the forward-looking statements.

Please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the company and the shipping industry constitute forward-looking statements for purposes of the Safe Harbor provision under Private Securities Litigation Reform Act of 1995.

Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our registration statement on Form S-1 dated May 4, 2005 on file with the SEC. I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, Scott. I'm very pleased to report to you the results of our first quarter as a publicly traded partnership. With me today from Teekay Shipping Corporation are Vince Lok, Treasurer; and Brian Fortier, Corporate Controller.

Turning to slide three of our presentation and reviewing the second quarter highlights, on May 5th we commenced trading on the New York Stock Exchange after pricing our offering at $22, which was at the top of the range. This was following a road show, which saw strong support from retail, institutional and existing Teekay Shipping investors.

Our share price opened at $24.90 and has not dipped below $24. That the share price is trading around $33 to $34 indicates the strong growth prospects that investors see in our partnership and LNG Shipping in the years ahead. We're pleased to report to you that the results for the period from May 10th to June 30, 2005 were in line with expectations.

The partnership generated $7.4 million of distributable cash flow. As expected, we declared a cash distribution of $7.3 million or 23.57 cents per unit for this specific period, representing an annualized distribution of $1.65 per unit. The cash distribution is payable on August 12th to all unit holders of record on August 5th.

Finally, I'm pleased to confirm to you that Teekay Shipping Corporation, which owns our general partner, has been awarded contracts to build two LNG vessels, which will be operated on 20-year fixed rate contracts beginning at each vessel's delivery in late 2008 and early 2009.

The Tangguh project, which will be operated by BP Berau Limited, a subsidiary of British Petroleum PLC, will ship gas from Indonesia to Korea and to a terminal being constructed in Northern Baja Mexico, where it will be transported by land pipeline to Southern California by Sempra Energy.

An Indonesian partner has agreed to take a 30 percent ownership stake in the vessels. As for the terms of the agreement the partnership has with Teekay Shipping Corporation the 70 percent ownership that Teekay has in these two vessels will be offered to the partnership before delivery.

Turning next to slide four and reviewing the distributable cash flow and cash distribution, we generated $7.4 million of distributable cash flow. Distributable cash flow represents net income before non-cash items, such as depreciation and amortization, foreign exchange gains, gain on vessel sales, and income tax recovery.

Distributable cash flow also deducts estimated maintenance, capital expenditures, which represents dry docking expenditures and the cost of acquiring vessels, which maintain the operating capacity of our fleet. Because the timing of our maintenance cap ex can vary significantly, we are required by the partnership agreement to deduct an estimate of the average maintenance cap ex each period to maintain the operating capacity of our fleet.

As a result of the distributable cash flow generated, we've declared the cash distribution of $7.3 million or 23.57 cents per unit for the period from May 10th to June 30th. The amount of this distribution is equal to the minimum quarterly distribution disclosed in our prospectus.

Turning next to slide five and reviewing the income statement figures from May 10th, the date of the partnership IPO, to June 30th and then comparing them to the forecast for the same periods. The forecast presented is based on the forecast included in the partnership's prospectus for the 12 months ending March 31, 2006, prorated for the 52 days. During the period from May 10th to

June 30th all of our Suez-max tankers and all of our LNG carriers were on hire and thus we achieved 100 percent utilization during this period.

Net voyage revenues were consistent with our forecast overall. However, there were several offsetting variances. The early sale of the Granada Spirit in May 2005 resulted in net voyage revenues being lower than forecast by $900,000. However, the sales price of the Granada Spirit was increased by $1.1 million to compensate the partnership for the early delivery. This amount is not included in the calculation of distributable cash flow.

Offsetting this is an unforecasted $700,000 increase in revenue earned by one of our Suez-max tankers, which operates under a charter contract that includes a profit share component if stop charter rates exceed a certain level. Vessel operating expenses were lower than forecast by $500,000, due primarily to the early sale of the Granada Spirit.

Depreciation and amortization is lower than forecast by $400,000, again due primarily to the sale of the Granada Spirit and the timing of dry docking expenditures. We expect depreciation and amortization to increase slightly over the next three quarters as certain of our vessels complete their first dry dock.

General and administrative expenses were consistent with our forecast. Net interest expense is $300,000 higher than forecast, due primarily to the timing of certain long-term debt and capital lease repayments, which were partially offset by the timing of the Toledo Spirit delivery in July 2005.

We recognized an income tax recovery of $1.7 million during this period. This is primarily due to a tax shield from interest expense deductions generated from loans between certain subsidiaries of the partnership. We incurred a foreign currency translation gain of $23 million, primarily due to the euro denominated debt on two of our LNG vessels.

On a normalized basis for this quarter we would exclude the income tax recovery of $1.7 million and the foreign exchange gain of $23 million. This would have resulted in net income for this post IPO period of approximately $4 million or on a full quarter basis $7 million or 23 cents per unit. Going forward, you should continue to use the run rate for the forecast contained in the prospectus.

Turning now to slide six, we presented a table of our vessels and the currency of their related cash flows so that we can further explain our exposure to foreign currencies, particularly the euro. Two of our LNG carriers earned revenues in euros while the rest of our vessels earned revenues in U.S. dollars.

The euros we received from these two LNG carriers are used to pay for our euro-denominated operating expenses on all nine of our Spanish flag vessels and the euro-denominated interest and principle repayments on these two LNG carriers.

The partnership's euro-denominated revenues currently approximate its euro-denominated expenses and debt service cost. As a result, the partnership currently is not materially exposed to any foreign currency fluctuations on a cash basis.

However, for accounting purposes the partnership is required to revalue all foreign currency denominated monetary assets and liability based on the prevailing exchange rate at the end of each reporting period, which results in the recognition of unrealized foreign exchange gains or losses in the income statement. This revaluation has no impact on the partnership's cash flows or the calculation of distributable cash flow.

Turning to slide seven, we've presented our June 30, 2005 balance sheet and compared it to the December 31, 2004 balance sheet. During December 2004 Teekay Shipping advanced $100 million to the partnership for the repayment of term loans and interest rate swap settlements. These repayments and settlements took place in April 2005 and, as such, our cash balances had decreased by $100 million during the six months ended June 30th.

Upon the closing of the partnership's initial public offering, the partnership agreed to purchase a 100 percent ownership interest in a subsidiary of Teekay Shipping, which is contracted to have built the three RasGas II LNG carriers. Under U.S. GAAP the partnership is required to consolidate this company, and consequently the amount of new building installments and minority interest on our June 30th balance sheet have both increased by $140 million.

During April 2005 we repaid $337 million of term loans and settled interest rate swaps at a settlement cost of $143 million. These transactions resulted in corresponding decreases to our long-term debt and other long-term liability.

Immediately preceding the initial public offering, Teekay Shipping contributed $634 million in equity to Teekay LNG. This equity contribution, along with $135.9 million from the initial public offering, were the primary reasons for the $806 million increase in partner's capital.

For the purpose of this summarized balance sheet we've netted restricted cash deposits of $387 million against long-term debt, which includes vessels financed under Spanish capital leases. We've netted these restricted cash deposits against our long-term debt as the restricted cash deposits, together with interest earned on those deposits, are required to be able to pay the remaining amounts we owe under these lease agreements on two LNG carriers.

In closing, let me say that we appreciate the positive response from the investor community to Teekay LNG. We think we're off to a great start. And our mission is to continue to grow the distributions by building LNG vessels with a diverse portfolio of long-term contracts.

With all of the LNG liquification plants that are planned in the next several years we're seeing a lot of opportunity to build and operate vessels to carry LNG to import terminals in Asia, Europe and the United States. I am now available to take questions.

Operator: Thank you very much, sir. At this point if you would like to ask a question you may do so by pressing star one on your telephone keypad. If you're using a hand-free phone or a speakerphone, please pick up the handset when asking your question.

And, once again, if you do have a question that's star one. And we'll pause for just a moment. Just as another quick reminder that's star one if you do have any questions or comments. Our first question will come from Yves Siegel with Wachovia Securities.

Yves Siegel: Thank you. Good afternoon. Two questions. The first is can you just – maybe just review the economics on the Tangguh vessels? I assume that they're probably in line with the other LNG new builds. But, if you could, just in terms of the cost and perhaps EBITDA contribution that you think. That would be number one.

And then, number two, if you could, when you look at the opportunities ahead and you sort of weigh new builds versus acquisitions can you maybe just handicap where acquisitions may fall within the longer-term thought process of the partnership?

Peter Evansen: Sure. In terms of reviewing the economics of the Tangguh we are not at present giving guidance on those vessels, which are delivering in late 2008 and early 2009. Likewise, we haven't given specific guidance on the RasGas II vessels, which are delivering in late 2006 and in the balance of 2007.

But we plan to begin giving earnings guidance at the end of the year, which will start to bring that in. But you can take that the economics of Tangguh are roughly equivalent to the existing LNG vessels that we have going forward. And that's how we look at it.

In terms of the opportunities in terms of acquisitions as well as organic growth by building vessels on a build to suit basis, we're interested in both. Right now we're seeing a lot of inquiry for Teekay to bid on vessels which we will build and put on long-term contracts.

But we – as we said during the road show, we're very much interested in making acquisitions. That's more on an opportunistic basis, but we definitely think that this sector is a sector that, like the on land pipelines, can be consolidated.

Yves Siegel: Thank you.

Operator: We'll next hear from Beekman Capital's Brandi Shaw.

Brandi Shaw: Hi. Great quarter. Thanks, guys. I was wondering if you can walk me through the financing from Teekay to you on the two ships.

Peter Evansen: Sure. What we have arranged with Teekay is that Teekay will warehouse the vessels until they're ready to be dropped into Teekay LNG at delivery.

Brandi Shaw: Right.

Peter Evansen: Having said that, we may – Teekay LNG may decide, as with RasGas II, to purchase the vessels and then pay for them at delivery. So, the – so what happens is that Teekay borrows up to 80 percent of the debt on a non-recourse basis to Teekay Shipping. And there's a preagreement with the banks that that debt will be transferred or novated to Teekay LNG Partners when the vessels are moved over at delivery.

Then Teekay makes the equity installments of 20 or 30 percent. And when it goes into Teekay LNG Partners, Teekay LNG Partners will either raise – sell units in order to pay cash to Teekay Shipping or Teekay Shipping may elect to take units itself for part or all of the consideration.

Brandi Shaw: OK. Thank you.

Operator: We'll next to go John Freeman of Raymond James.

John Freeman: Good afternoon. My first question had to do with on back when you all have originally provided guidance on kind of what the cost of these LNG vessels would be I think you all generally said the actual cost of the ship was around $170 million, $175 million. I was wondering if based on tons of decline we've continued to have in steel prices if the economics on that have changed materially.

Peter Evansen: Sure. There's a couple things that have happened. First of all, there's been a huge demand for – on behalf of yards to build LNG carriers. So, the price of LNG carriers has been going up, but so has the size of LNG carriers.

In our existing ships are 145,000 to 150,000 cubic meters, and we're now seeing the requirements in new tenders for ships at 165,000, all the way up to 225,000 cubics. So, it's a little bit like apples and oranges when you're seeing what's happening. But clearly shipyard prices have been going up.

But what happens is we take that ship price into account when we're bidding on our contracts. So, our EBITDA would go up or our cash flow from vessel operations would go up in order to compensate for that increased cost. We also, of course, take into account whatever the existing debt level is. And we try to fix our interest rate so that when we take delivery of a ship, like Tangguh or RasGas II, we've already fixed the interest rates ahead of time.

John Freeman: OK. And then can you give an update on – I know back in April you all had said that there were currently around the world had been about 108 new builds that were on order for delivery through 2009. Any update on that? Has that changed materially in the past four or five months?

Peter Evansen: Yes, there's about 120 on order right now. And that – and there's actually been more because some of the ones of the 108 have delivered as well.

John Freeman: And has any of that been speculative new building?

Peter Evansen: There are some speculative – of the current – of the new orders there haven't been any speculative orders that we're aware of. There were some existing speculative new orders, and they will be delivered in the next couple of years.

John Freeman: But any idea like what percentage of that number was just speculative? Was it a meaningful number of the 108 previously?

Peter Evansen: I would say roughly 10 percent is speculative.

John Freeman: OK. And then the last question I had was I would've thought that a big part of the operating expenses being lower than you all originally thought – I know you mentioned the sales you got out of Spirit, but I would have thought that just the big decline we've had in the euro would have been a big part of that with all of your operating expenses across your whole fleet in euros. Any breakdown on how much of that was just the Granada Spirit and how much was the devaluation?

Peter Evansen: No, I don't have any guidance for you on that, but it wasn't that material.

John Freeman: It wasn't. OK. That's all I needed. Thanks, guys.

Peter Evansen: Thank you.

Operator: Just as a quick reminder, that is star one if you do have any questions or comments. We'll next go to Ron Londe with AG Edwards.

Ron Londe: Thanks. A lot of my questions have been answered already, but I was just curious of those 120 ships that are on order right now what do you perceive is an amount of the vessels that you might be able to buy into an interest in? That's one way, as you said in the past, that you could grow, was to acquire interest in vessels that are already under construction. Do you have any of those negotiations going on? What's the potential there?

Peter Evansen: Well, I don't think I'm going to tip my hand at this point on what's going on. But clearly that would be an interest for us in making acquisitions, is to buy existing vessels or vessels that are going to deliver with contracts. What I will tell you is that we're not interested in purchasing vessels that do not have contracts. In other words, we're only interested in building vessels that are going to go onto long-term contracts.

Ron Londe: OK. Thank you.

Operator: There appear to be no further questions in the queue at this point. I'd like to turn it back to our speakers for any additional or closing remarks.

Peter Evansen: OK. Thank you very much. As I said earlier, I think we're off to a great start. And we look forward to reporting to you next quarter on how we're proceeding on an operating basis and on a business development basis. Thank you very much.

Operator: That does conclude this conference call. Thank you all for joining us, and have a wonderful day.

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