

TEEKAY LNG PARTNERS L.P.**Moderator: Peter Evensen
May 15, 2015
10:00 am CT**

Operator: Welcome to Teekay LNG Partners' First Quarter 2015 Earnings Results conference call. During the call, all participants will be in a listen-only mode. Afterwards, you'll be invited to participate in a question and answer session.

At that time, if you have a question presenters 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, sir.

Ryan Hamilton: Before Mr. Evensen begins, I'd like to direct all participants to our Web site at www.teekay.com, where you'll find a copy of the first quarter 2015 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 2015 earnings release and earnings presentation available on our Web site.

I'll 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; and MLP Controller, David Wong. During our call today, I will be talking you through the earnings presentation, which can be found on our Web site.

Turning to Slide 3 of the presentation, I will review some of Teekay LNG's recent highlights. For the first quarter of 2015, the Partnership generated distributable cash flow of \$66.2 million, an increase of 10% from the same period of the prior year.

We achieved a coverage ratio of 1.04 times, which was negatively impacted by an off-hire dispute we are currently involved in with the charter of the 52% owned Magellan Spirit.

During the first quarter, the Magellan Spirit was involved in a grounding incident and the charter subsequently claimed that the vessel was off-hire for an aggregate period, which they believe gives them the right to terminate the contract. We're disputing the off-hire claim and the right to terminate the contract, which would have otherwise expired in September of 2016.



For accounting purposes, we've taken a conservative approach and did not approve the disputed off-hire period and related cargo boil-off costs, which reduced the Partnership's cash flow by approximately \$3 million in the first quarter. For the first quarter of 2015, the Partnership declared a cash distribution of 70 cents per unit, consistent with the previous quarter.

In January of this year, Teekay LNG's LPG joint venture with Exmar took delivery of the fourth of its 12-midsized LPG newbuildings, which formed part of the joint venture's fleet renewal and growth strategy. And lastly, in early May, Teekay LNG successfully completed a \$130 million unsecured Norwegian bond offering at an all-in interest rate of 5.92% expressed in US dollars.

Turning to Slide 4, the pictures on this slide show the Keel Laying at the top and the installation of an M-type, Electronically Controlled, Gas Injection or MEGI engine at the bottom of this slide is the world's first MEGI LNG carrier, the Creole Spirit, which delivers in the first quarter of 2016.

Following delivery, the Creole Spirit will commence a five-year charter contract with Cheniere Energy exporting LNG primarily from Cheniere's Sabine Pass LNG liquefaction facility in Louisiana.

The Creole Spirit, which is the first of nine MEGI LNG newbuildings, which will be delivered to our Partnership between 2016 and 2018. As announced last quarter, we've



already signed contracts with Shell for five of the MEGI LNG newbuilds and we're actively bidding on long-term charters for the remaining two MEGI newbuildings.

Turning to Slide 5, we take a look at both the current and long-term market for LNG shipping. The current weakness in the LNG shipping market is due to an increase in the number of vessels available on the short and spot market against the minimal increase in global LNG trade.

Several factors have led to an increase in the supply of vessels on the spot market. Since the start of 2014, we've seen the delivery of 15 new uncommitted LNG carriers into the global fleet. In addition, outages at LNG export facilities in Yemen and Angola have temporarily added vessels to the spot market.

Finally, the LNG vessels that will serve the new Australian export projects have started to deliver, and these vessels are currently available on the spot market until the liquefaction plants start production later this year.

Overall, there's roughly 45 vessels currently available on the spot market, which is more than the 10 to 20 vessels that were typically available during 2014.

While the supply of vessels has increased, the volume of LNG traded has not. Total LNG trade increased by only 1% in 2014. In addition, as shown in the chart at the top right of this slide, the price difference between LNG in the UK and Japan has decreased from roughly \$6 per million Btu to near zero today.



This has reduced the arbitrage trading between the Atlantic and Pacific basins resulting in less long haul trade and weaker ton-mile demand in the first quarter of 2015.

As a result, short-term charter rates from other LNG vessels have decreased to less than \$30,000 per day. Despite this near-term weakness, the long-term growth of LNG export remains on track and we expect to see LNG vessel utilization improving from late 2015. More than 120 million tons of future LNG export capacity has already reached FID and is in various stages of construction.

Four separate projects are scheduled to start up in the second half of 2015 followed by the startup of Cheniere's Sabine Pass project in early 2016. In addition, new export projects in the US continue to be developed.

Cheniere recently made its final investment decision to proceed with Corpus Christi export one and two and they also intend to make a final decision on expanding the Sabine Pass project by the end of 2015.

Lastly, Sempra Energy has recently requested the approval to add two more liquefaction trains at their Cameron export project, which is already under construction.

So the final point I'd like to make is as I noted last quarter, we continue to see an upside from lower LNG prices. Lower prices encourage LNG demand in new and existing import countries, which supports the long-term growth of LNG trade and creates an expanding market for Teekay LNG services.



On Slide 6, I'll review the financial results for the first quarter of 2015 as compared to the fourth quarter of 2014. For reconciliation of distributable cash flow to net income, please refer to Appendix B of our earnings release.

If we start at the top of this statement, net voyage revenues decreased due to too fewer calendar days in the first quarter and the weakening of the euro against the US dollar on euro denominated revenues. Partially offset by scheduled and unscheduled off-hire days related to two vessels in Q4 and the acquisition of the Norgas Napa in November of 2014.

Vessel operating expenses decreased due to the foreign exchange impact on euro denominated operating expenses and higher maintenance campaigns in Q4. General and administrative expenses increased due to the timing of recognition of long-term incentive compensation expenses, which are typically higher in the first quarter of each year.

The partnership's share of distributable cash flow related to our equity accounted joint ventures net of estimated maintenance CAPEX reserve decreased by 5-1/2 million primarily due to the grounding incident and related off-hire dispute on the Magellan Spirit.

The scheduled expiration of the Methane Spirit charter in mid-March and repairs on the Woodside Donaldson, all three of which are part of our 52% owned joint venture with Marubeni Corporation.



These decreases were approximately offset by the delivery and charter of our fourth LPG newbuilding carrier in our 50% joint venture with Exmar. In the second quarter, the distributable cash flow from our equity accounted joint ventures is expected to decline by a further 5 million mainly due to the full quarter impact of both the Methane Spirit and the Magellan Spirit being off-hire.

We have secured short-term charters for both of these vessels commencing in September of 2015 and we're actively seeking to secure additional employment for these vessels until September 2015.

Interest expense decreased resulting from the RasGas II lease terminations and associated debt refinancing last quarter. As a result, our coverage ratio decreased to 1.04 times during the first quarter compared to 1.09 times in the prior quarter. Our Q2 coverage ratio will likely dip below 1 times as a result of the Magellan Spirit and Methane Spirit that I discussed earlier.

Wrapping up on Slide 7, Teekay LNG's total committed growth CAPEX now stands at approximately \$3.4 billion. One project I would like to point to on this slide is the Yamal LNG project.

During Novatek's earnings conference call this week, they mentioned that the project is progressing well and they are at a very advanced stage of negotiations regarding external debt financing for the project. And the project's sponsors Novatek, Total and CNPC have invested approximately \$9.2 billion into the Yamal LNG project as of the end of the reporting period, which is up from 7.6 billion at the end of December 2014.



Going forward, we'll continue to update our investors on the progress of this important project and our ships which will serve as a vital link between the project and their customers.

Moving on, despite the current weakness in the spot and short-term LNG market, the long-term fundamentals of both the LNG and LPG shipping markets remains strong, and we believe our strategy of preordering optimally sized MEGI LNG carriers will continue to serve us well as these vessels are attractive to a wide range of potential LNG and FSRU projects.

The robust pipeline of growth projects that's shown on this slide will provide Teekay LNG with steady and consistent distributable cash flow growth over the next several years, and we continue to bid on new growth opportunities.

Thank you for joining us on the call today. And operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, we will now conduct the question and answer session. If you have a question, please press the star followed by the 1 on your touch-tone phone. If you're using a speakerphone today, please lift your handset before pressing the keys.

Your first question today will come from Spiro Dounis with UBS Securities. Please go ahead.

Spiro Dounis: Good morning, gentlemen. Thanks for taking my question. I just want to follow up on Magellan Spirit and Methane Spirit. It sounds like you kind of answered this in the prepared remarks.

But, I guess between now and September when those charters start, how should we be thinking about these vessels? Are they undergoing maintenance or could we actually see them do a spot voyage in between before the charter commences?

Peter Evensen: You could actually see them do spot voyages. We're tendering them on short-term voyages right now and we expect to employ them. The only - but they're on spot short-term voyages 14 days up to 30 days, and we're using it in order to position them in on charters. But, at the same time, we continue to assert our legal claims on the Magellan Spirit.

Spiro Dounis: Great. Okay, that makes sense. And then just - you mentioned preordering before, so in terms of FSRUs and as a practice that's been in play by other owners has been to preorder the FSRU then go to bid on a contract. I guess it makes it look more attractive. You know, I guess, one, have you explored doing this to maybe win one of these bids and could the DSME, the four options there, could one of those be converted to an FSRU if you were to win a bid?

Peter Evensen: Sure. Well, the way we're looking at FSRUs, the market developed from conversions into people having newbuilding FSRUs. The type of projects we're bidding

on we can very well use our options or convert some of our existing orders into FSRUs, and it really goes to the timing of the project.

We're looking at longer term projects that would start in 2018, 2019, 2020, which is when our ships come on, and so we're not available for an FSRU project that would like to start up in 2016, but that's okay. We're content not to take bad risks as being an MLP.

Spiro Dounis: Got you. And then could you just remind us again when those options expire?

Peter Evensen: No, not for competitive reasons I won't tell you...

Spiro Dounis: Okay. Fair enough. I appreciate the color, guys. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Your next question will come from Matthias Detjen with Morgan Stanley.
Please go ahead.

Matthias Detjen: Thank you for taking my question. So, my question's on the - sort of on the demand side for LNG going forward. We have a lot of supply coming on and I was wondering if you can maybe comment on how - where you sort of see the demand coming from, and if you believe that all this supply will sort of be taken up somewhere?

Peter Evensen: Sure. Well, we do think that the short-term weakness that we have now, you know, 40, 45 ships according to some brokers that anchor, we can see the position list.



We think that will close and that'll close basically because they're going to restart Angola in the fourth quarter of 2015 according to Chevron. We think Yemen will come back and then we really have some Australian projects that are coming on and one in Indonesia.

So, when these big ones, the Gorgon, the Gladstone's come on as well as a deal or a liquefaction plant in Indonesia, these are significant tons coming on. And so that's going to soak up the market in 2015 or late 2015 into 2016. So we feel good about getting our ships in 2017 to 2019.

We only have two open ships right now, but we're actually quite pleasantly surprised that people wanting MEGI ships in that timeframes, because there's still export projects coming on in that time where they haven't locked up the tonnage. And they desire to have MEGI tonnage.

Matthias Detjen: Okay. And just - so that - because you're commenting on the MEGI tonnage, and one of your competitors ordered a different kind of vessel with the lowest pressure two-stroke engine. Could you maybe compare the two or is there a big difference between the two, or do you think that these will sort of be on par the two vessel types, in terms of demand?

Peter Evensen: Well, so there's two different engine manufacturers. The ones we ordered, as I mentioned, is the world's first, so that is - one is high pressure gas, one is low pressure gas. There really isn't any difference in what customers measure, which is the consumption.



The consumption or rather the amount of fuel that the ships burn whether they're either kind of two-stroke is materially better than dual fuel diesel electric, which is why these are preferred vessels by people.

And you've seen, for example, Shell take our vessels, BP ordered some vessels for their own account. So we're very pleased that the MEGI has become the standard. And so, what they're really saying is that the two-stroke engine is what the industry is moving toward.

Matthias Detjen: Okay, that's very helpful. And I guess one last question is on the lique. So we have the liquefaction supply coming on, but do you think there's also going to be enough demand for that LNG in end markets, I don't know, by utilities or those kind of things because we have this very large increase? Do you think all the capacity is going to be taken up?

Peter Evensen: Yes, I think it will because the gas price at \$13 to \$18, there's places like in India where they can't afford it, but when you put the price down because it's linked to oil, then we're seeing a lot more projects in places like South America and India where they can use more.

And if you look at other big trends that are happening, it was really nice to see that European LNG imports, and I don't know if that's a function of trying to reduce the dependence on Russia, but they actually increased 23% year-on-year.

And whereas what happened was, it was a pretty warm winter and South Korean imports actually dropped as well as in Japan. So, on the whole, if the arbitrage opens up again between the Atlantic and the Pacific, we should be fine.

Matthias Detjen: That was very helpful. Thank you, Peter.

Peter Evensen: Thank you.

Operator: Thank you. Your next question will come from Sunil Sibal with Global Hunter Securities. Please go ahead.

Sunil Sibal: Hi. Good morning, guys, and thanks for the color on the LNG markets. I just had a follow up on the different LNG ship designs. I think previously you guys have talked about MEGI versus DFDE design offering a fuel advantage of up to about \$25,000 a day.

I was just kind of curious, you know, what's kind of a good way to think about that number now that probably the fuel prices have come in significantly?

Peter Evensen: Yes. So, it does offer fuel savings and so it all depends at how fast you work it.

I would say that instead of 25,000 you're probably looking closer to 15,000 at these lower bunker prices.

Sunil Sibal: Okay. And so that's the advantage we will get with DFDE design also or what's the, you know...

Peter Evensen: Yes, and you could get even much bigger sums against steam, as in \$40,000 a day.

Sunil Sibal: Okay, got it. Then I guess it seems like on the FSRU markets, you're probably not bidding on any projects. But I was just curious I think we're seeing some activity on, you know, LNG liquefaction kind of ships. And I think previously with your Saban JV you had probably looked at that market. I was just kind of curious if you have any view on that market developing in this current environment.

Peter Evensen: Sure. Well, to go to the first part of your question, we actually are bidding on FSRU projects. We haven't won them yet but we continue to bid on FSRU as well as just floating storage projects using new buildings, because we think that's a market that will continue to grow and that allows gas to come more quickly into grids in developing countries.

As far as the opposite, which is the FLNG, we are not currently looking at that market. We are looking at - we're waiting for greater standardization in designs going on there.

But we are looking very carefully at that. You mentioned one of our companies that we have 43% on the Saban, so we know that that design can be used. But we think ultimately as you saw with the FSRU market, it will go toward near shore terminals that will be built in yards, and that's what happened with the FSRU market.

First you did conversions and then you went into new buildings. And that's the way to get the real efficiencies going forward.

Sunil Sibal: So I guess it's fair to assume that new builds will be probably more attractive to where you think the market will kind of go to once it matures?

Peter Evensen: Yes. So we're looking at designs and we're also working - looking at what the yards are coming up with. So right now people are doing conversions of existing but as you will know older ships don't have the same cubic capacity as the newer ships.

So, with our new ships being 174,000 cubic, it would make sense that you had FLNG that had closer to 160,000, 170,000 cubic rather than the smaller cubic sizes...

Sunil Sibal: Got it.

(Crosstalk)

Peter Evensen: ...conversion of an older unit.

Sunil Sibal: Okay. Thanks. Very helpful.

Peter Evensen: Thank you.

Operator: Thank you. Your next question will come from T.J. Schultz with RBC Capital Markets.

Please go ahead.

T.J. Schultz: Great. Thanks. So at the Analyst Day you guys provided some assumptions for Teekay Parent free cash flow growth and then 20% Teekay Parent dividend growth per year that contemplated distribution growth at TGP of kind of 2% to 4% per year basically increasing through 2018 to 4%.

So I guess I'm just trying to see if there's any change in those forecast assumptions on TGP distribution growth potential as you look at the CAPEX committed and kind of long-term outlook on LNG and LPG fundamentals, or do you think you need to be more cautious near term?

Peter Evensen: No. We continue to have that CAPEX that will give that. Obviously, we don't have much growth in 2015, T.J. And as I said, we have this dispute with the Magellan Spirit, which we see as a temporary factor. But we think - we're not accruing for it but we think we'll ultimately get the bulk of the loss revenues that we're not accruing back.

So for us that's a temporary phenomenon. But no, our projects that power that, which is Shell, which is Cheniere, which is in the later stages Yamal, they're still there.

But the good news is as you - since Investor Day, we've ordered one more ship, closed on the chartering obviously with Shell, and we continued to bid on new projects. So, we don't see any reason to move that.

T.J. Schultz: Okay. That's all I had. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Your next question will come from Ben Brownlow with Raymond James.

Please go ahead.

Ben Brownlow: Hi, thanks for taking the question. You commented on the LNG supply-demand balance possibly tightening in the second half of this year, but just to clarify, it sounds like you're not anticipating really an upward move in shipping rates until really kind of moving into 2016.

Are you expecting more rebound in the second half of this year or are you looking more for just the stabilization in rates?

Peter Evensen: We actually think you have to wait for the tightening to happen, the liquefaction plants to come on, so I would say you should expect it to be weak through 2015 and start to see it move in 2016.

Ben Brownlow: Understood. And I was just interested in...

Peter Evensen: And that's consistent with what we've been saying for about a year.

Ben Brownlow: Okay. And just what are your thoughts or kind of the key risks you see in terms of that being pushed back further later into 2016?

Peter Evensen: I think the risk is that the liquefaction plants that I mentioned in Australia and some of the other ones like Angola don't start up when they're supposed to. Some have already had delays incorporated into them.

But I think that's the risk that you don't get those liquefaction plants starting up. But - So we were happy that BG started up in Australia and we think the really big one, which is Gorgon and AP will come on as well.

Ben Brownlow: Great. Thank you.

Peter Evensen: Thank you.

Operator: We seem to have no further questions at this time. I'll turn the call back over to management for any closing comments.

Peter Evensen: All right. Thank you all very much for listening and we look forward to reporting back to you next quarter. Thank you.

Operator: Ladies and gentlemen, that does conclude our 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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