TEEKAY LNG PARTNERS LP

Moderator: Peter Evensen
May 16, 2008
10:00 a.m. CT

Operator: Ladies and gentlemen, welcome to Teekay LNG Partners' first quarter 2008 earnings release 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 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, Chief Executive Officer of Teekay GP, LLC.

Please go ahead, sir.

Male: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekaylng.com, where you will find a copy of the first quarter 2008 earnings release.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from those projected by these forward-looking statements as a result of various important factors. Additional information concerning these factors is contained in our earnings release available on our Web site.

I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Scott).

For this quarter, we thought it would be more constructive to focus today's call on the strategic opportunities that lie ahead for Teekay LNG Partners and to a eliminate the detailed discussion and analysis of the financial statements from the formal part of the call.

As a result, we have not prepared a slide presentation, however we are happy to take – more than happy to take any financial or strategic questions you have as part of the Q&A session.

Overall the results for the quarter were inline with expectations. We generated 21.9 million of distributable cash flow, up 22 percent from the same quarter of the prior year. This increase was primarily the result of additions to the fleet during the past year.

We declared a cash distribution of 53 cents per unit for the first quarter, which is up 14.6 from one year ago. The cash distribution is payable on May 15th to all unit holders of record on May 8th.

As previously announced, we acquired the two key Kenai LNG carriers from Teekay corporation for 230 million in early April. These ships are on 10 year fixed rate time charters to Teekay with options to extend up to an additional 15 years.

As a result of this acquisition, management intends to recommend that the board of directors increase the quarterly cash distribution by four cents – by four percent, excuse me, from 53 centers to 55 cents per unit, commencing with the second quarter distribution to be paid in August.

We completed a $200 million follow on equity offering of $28.75 per unit, which will be used to pay down debt associated with the acquisition of the Kenai ships in April and to help fund the acquisition of the RasGas 3 carriers.

Our general partner, Teekay Corporation, subscribed to $50 million of the offering, which further demonstrates their confidence in the future prospects of Teekay LNG.

As a result, part of the follow on offering, a new $172 million debt facility relating to the Kenai vessels will be in place shortly. Teekay LNG's liquidity is over 650 million and this strong liquidity position provides us with a lot of financial flexibility to make further acquisitions.

We took deliver of the first RasGas 3 LNG carriers in early May and anticipate taking deliver of the other three vessels late in the second and early in the third quarters of this year.

We intend to recommend to the board of directors a further increase in the quarterly cash distributions after delivery of all the RasGas 3 vessels.

And lastly, the partnership announced this week, it has agreed to acquire two advanced 12,000 cubic meter multigas ships which can transport LNG, LPG and ethylene for a total delivered cost of approximately $94 million.

Teekay Corporation has agreed to take over the existing shipbuilding contracts from these vessels from (IM Skogin) and Teekay LNG has agreed to acquire the vessels upon their delivery.

The vessels are expected to deliver in the first and second quarters of 2010, at which time they will immediately commence service on 15 year, fixed rate charters to (Skogin) which will collectively generate approximately $9.5 million per annum in operating cash flow.

This acquisition increases the partnership's LPG fleet to a total of six vessels including three other LPG new buildings scheduled to deliver over the next 15 months.

With the two LPG carriers delivering in 2010, we are now in a position to continue the growth path we set in motion when we launched Teekay LNG three years ago, with visible growth opportunities each year through 2011.

In addition, we intend to further supplement this with strategic acquisitions of existing assets as you saw with the Kenai acquisition.

I'd like to take a few minutes to describe to you some of the exciting opportunities we see developing in the future, which is, in addition to our business of the LNG ship – participating in LNG shipping tenders.

There are a number of new specialized gas projects which are being developed and Teekay LNG is well positioned to participate in these.

One of the more exciting opportunities Teekay Corporation is exploring for us is to move the liquefaction process and facility offshore using floating liquefaction plants. These ships would liquefy the gas on board and then offload to larger LNGs using ship to ship transfer. The unique containment systems on our two Kenai vessels are well suited to floating LNG projects.

Another opportunity has rise in part due to an environmental pressures in the offshore sector. The compressed natural gas marine transport industry is still embryonic, but it has a promising future because it offers economic gas transport of smaller amounts of gas over shorter distances and it can help our customers monetize offshore gas which normally would be flared or have to be reinjected into reservoirs.

And in connection with this, in 2008 Teekay corporation signed a memorandum of understanding with a Canadian based company called SEA – S-E-A – NG, these are the developers of the (Cassell) SEA NG system. And (Maro Benny) SEA NG was the first company to gain international approval for its SEA NG ship design and they have a – what we judge as a unique first mover advantage. With their patented technology, they're currently in the advanced development stage of several projects worldwide, which Teekay would have the right to provide the shipping and participate in.

So in summary, our existing multiyear built in growth profile allows us to grow our fleet and our distributions, each year through 2011 and we hope to capitalize on some of these exciting opportunities I just spoke about in order to add to our established growth path.

Thank you for listening. And, Operator, I'm now available to take questions.

Operator: Certainly.

Ladies and gentlemen, if you wish to ask a question, please press star one on your touch-tone phone. To withdraw a question, please press the pound sign. If you're using a speaker phone, please lift your handset before entering your request. Please press star one now to register for a question.

So our first today comes from Jonathan Chappell of JP Morgan. Please, go ahead.

Jonathan Chappell: Thanks. Good morning, Peter.

Peter Evensen: Hey, Jonathan.

Jonathan Chappell: With this new floating LNG initiative, first of all, the Kenai vessels you said had the right containment systems for that, but they're already on existing contracts, can you just remind me when the Kenai contracts expire and would you look at putting those new ships into this floating LNG initiative, or do you think that new ships – or new assets might be the right way to go?

Peter Evensen: Let me explain the charter chain first to you, which is that Teekay LNG has chartered the ships for a minimum period of 10 years to Teekay Corporation, which has on chartered the ships to Conoco and Marathon for use in the Kenai Alaska to Japan run.

That charter that Teekay Corporation has is – goes through 2009 with options to extend as far as 2016. Although there's nothing definite at this point.

One of the key reasons behind purchasing those assets is that they have a containment system that is well suited for floating LNG. So when they come off charter, which we don't know exactly at this point in time, then they would be redeveloped as floating LNG type of projects.

And what we liked about these is if you compare the cost price of these ships compared to trying to build brand new floating LN G, they have a real advantage. And in floating LNG, the capital costs is a real key component in making it economic.

Jonathan Chappell: Yes, I was just going to ask about the capital costs actually as my follow up question. Do you just want to kind of get the Kenai ships out here to kind of dip your toe in the water, see what the returns are, see what the operational initiatives are, infrastructures whatever, before you would make more capital commitments for new dedicated ships to this industry?

Peter Evensen: No, not necessarily. I think you have to go down both lines at once. First of all there's some development work that's involved in the top sides on the floating LNG and people are trying to figure out what the optimal sizing is of a floating LNG plant as well as the technology of that. And so we're not exclusively looking at that, we have announced – Teekay Corporation has announced joint venture with ABS as well as with Mustang, an engineering group, to coordinate and work on the top sides of floating LNG.

So it's a nascent industry, but its and industry that we think will have a future because of the delays that you've seen in building liquefaction in a lot of remote places. It can be – you can be faster to market by building the liquefaction plant in a dedicated yard and then floating it to the area as opposed to trying to move all the resources into some of these more remote areas, especially for Greenfield projects.

So I would say that its – technically it probably is more expensive but you can get to market faster and you can develop smaller fields.

Jonathan Chappell: And when could you potentially get a new asset on line?

Peter Evensen: Well, that …

Jonathan Chappell: If you place an order today.

Peter Evensen: If you placed an order today, I think you could probably do one in 2010.

Jonathan Chappell: OK, so it fits with your time arrangement?

Peter Evensen: Yes, but again, we're not going to build opportunistically; we're going to build against a contract.

Jonathan Chappell: Same set up as the LNG carriers then.

Peter Evensen: Yes, we're not …

Jonathan Chappell: Are the contracts typically the 20- to 25-year length as well?

Peter Evensen: No, not necessarily. If you're looking at a smaller field, I think you could be looking at five to 10 years and then reemploy them.

Jonathan Chappell: OK.

Peter Evensen: It all depends upon the field and the nature of it.

Jonathan Chappell: All right. Great. Thanks, Peter.

Peter Evensen: Thank you.

Operator: Thank you.

Our next question today comes from Martin Malloy of Johnson Rice. Please, go ahead.

Martin Malloy: Good morning, on the – in liquefaction on (G carriers), you were just speaking about, are there specific geographic areas that you think they'd be well suited to?

Peter Evensen: I wouldn't – I would say more remote areas as well as places where there's a real press on development. In Australia, for example, they're looking at a floating LNG because there is up to 18 possible gas fields that want to be developed and they all can't be developed at once. And so there you're seeing it's a question of trying to jump the queue. Whereas in other areas, like Nigeria for example, then it's a question of being able to get there faster and develop fields that are offshore that – where trying to build the infrastructure and build liquefaction on land presents other problems. So obviously with a place like Nigeria, security is an issue, right?

And we have – for example, we have been working on several tenders in Nigeria and they've been – been delayed and so you have like Brass LNG and OK as well as tenders for – and then PC or Nigeria. And so those are areas where I think you could either supplement what is happening off – on land or possibly bring those – bring other fields in earlier.

Martin Malloy: Thank you.

Peter Evensen: Thank you.

Operator: thank you. Our next question comes from Steve Errico of Locustwood Capital. Please go ahead.

Steve Errico: Peter, how are you?

Peter Evensen: Hi, how are you, Steve.

Steve Errico: Good thank you. Just remind me, I've been away from the story for a while, but on the financing of the RasGas vessels, you've got 650 million in liquidity currently. Will we require – how will you finance the RasGas vessels over the course of the year as they've come in?

Peter Evensen: They have already been financed – first of all, we own 40 percent of them in a joint venture with Qatar and they've already been financed at 80 percent debt financing and so they'll take less than $100 million of liquidity for us to finalize that, which is basically about $20 million investment.

Steve Errico: Great.

Peter Evensen: And we have that cash.

Steve Errico: Terrific. Thank you very much.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, just as a reminder to press star one if you wish to ask a question.

So our next today comes from Wyatt McCormack of Raymond James. Please, go ahead.

Wyatt McCormack: Yes, hi. Good morning. I was wondering if you could expand upon the price of the new schedules of the (G carriers). I know these are larger than the previous contract and also more expensive. Can you state some of the reasons for that?

Peter Evensen: Sure, well, as you point out first of all, they are larger ships than what we had, but they're also faster and they have technology which allows them to carry LNG. The previous models were only with ethylene. And so when you're building these, these are ideally suited to be tenders or for short transport of LNG. And so therefore you have to have reliquefaction on board those, so that adds to the cost of them going up.

As well as the fact that ship prices are higher.

But that's minor compared to the extra technology that they have on board.

Wyatt McCormack: And these would be under a bareboat charter?

Peter Evensen: We have the option to either do them as bareboats or as time charters.

Wyatt McCormack: OK, that hasn't been determined yet. And I see you're increasing the distribution next quarter with the Kenai vessels, when could we maybe expect the distribution increase with the RasGas 3 then?

Peter Evensen: Well, depending on the delivery, we would hope to have that done in the third quarter, but if they deliver too late then we might have to wait until the fourth quarter to step a little bit third quarter, a little bit fourth quarter.

It's just that this year as a – I mean, If you look at the history of Teekay LNG, we've raised the distribution once a year, but this we're going to raise it two or possibly three times.

Wyatt McCormack: OK. Sounds great. And then just a little housekeeping question, your maintenance CapEx decreased this quarter, what was the cause – reason for that?

Peter Evensen: Brian, do you want to cover that?

(Brian): We review our calculation of that each year and we revise our estimate of both dry dock and our factor to calculate our replacement.

Wyatt McCormack: Great. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. So our last question for today comes from Ron Lunde of Wachovia. Please, go ahead.

Ron Lunde: Thanks, that's Ron Lunde. Just wanted to get your feel or insight into what's going on currently in Qatar that appears that they've made some announcements that they're going to start more aggressively developing gas reserves and drilling for gas. What's your insight into new projects coming on stream there?

Peter Evensen: Hi, (Ron). I'm not sure I have that much extra insight over what you read. I think the big question is that they want to figure out what – how much gas they want to see on long term contracts as opposed to how much they want to be at risk in the market. Because the long term price that people are willing to sign up for is less than the spot price. And so to develop these billion-dollar projects, they're getting to the point where they're saying how much do we want to have sort of exposed to the market.

And so that's the first point. The second point is that the liquefaction plants have been delayed there. and so there in fact, is a little too much shipping right now so several ships are at anchor, although I again want to say that we get paid whether we're full or empty or at anchor or moving under our contracts. So that's really what we see developing.

They still are committed to going forward and, for example, they want to continue to develop and bring gas into the U.S. as well as into the U.K., even though those may not be the highest prices areas.

Ron Lunde: OK. Thank you.

Operator: There are no further questions at this time, sir. Please go ahead.

Peter Evensen: OK. Thank you all very much and I look forward to reporting to you next quarter. Bye.

Operator: Ladies and gentlemen, that does conclude your conference call for today. We thank you for your participation. You may now disconnect your line and have a great rest of the day.

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