TEEKAY LNG PARTNERS LP

Moderator: Peter Evensen
August 4, 2006
10:00 a.m. CT

Operator: Welcome to Teekay LNG Partners LP Second Quarter 2006 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, you will need to press star one. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Mr. Scott Gayton. Afterwards, we will hear from Mr. Peter Evensen, Chief Executive Officer of Teekay GP L.L.C. Please go ahead, sir.

Scott Gayton: 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 2006 earnings presentation.

Mr. Evensen will review this presentation during today's conference call. I will now read the forward-looking statement.

Please allow me to remind you that various remarks we may make about future expectations, plans and the prospects for the Partnership 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 most recent annual report on Form 20F, dated September 31, 2005 on file with the SEC.

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

Peter Evensen: Thank you, Scott and thank you for joining us today on our second quarter results conference call. Turning to the presentation and to slide number three of our presentation and reviewing the second quarter highlight, consistent with the previous quarter, we declared a cash distribution of $16.5 million or 46.25 cents per unit for the second quarter of 2006, representing an annualized distribution of $1.85 per unit.

Distributable cash flow generated in the quarter declined to $14.2 million, from $17.6 million in the previous quarter. The decrease was mainly due to the scheduled dry-docking of one of our LNG carriers, the Catalunya Spirit, and the subsequent extension of that dry-docking when unforeseen repairs had to be carried out.

While in dry dock, damage was discovered during the inspection process on certain sides of the membrane walls within the cargo tanks and the latent defect was discovered in the propeller. Importantly, the cost of the repairs, including the corresponding loss of revenue, is covered under our insurance policy.

However, the Partnership is responsible for the insurance deductibles, which were $1 million, relating to the cost of the repairs, and the first 14 days of off hire, which also amounted approximately to $1 million.

Together with the scheduled dry docking, which took 19 days, the vessel was effectively off hire for a total of 33 days in the quarter. Subsequent to June 30, the Catalunya Spirit has resumed regular operations

We have reviewed the operating history of our other LNG carriers, and we believe that the specific conditions that caused the damage to the cargo tanks on the Catalunya Spirit has not occurred on these vessels.

As previously announced, the Partnership has agreed to purchase Teekay 70 percent interest in Teekay Nakilat Corporation, which owns the three LNG new building carriers that will be chartered to RasGas II in Qatar under 20 year fixed rate contracts.

Under generally accepted accounting principles in the United States, the Partnership is required to consolidate Teekay Nakilat at this time, although we will not formally purchase the vessels until the fourth quarter of this year, upon delivery of the first vessel.

I'm pleased to report that the second and third vessels are expected to deliver ahead of schedule, and thus all three vessels are now expected to be on charter by the end of the first quarter of 2007, rather than the second quarter as originally expected.

We are reaffirming our previously provided guidance of $1.85 per unit in annualized cash distributions through the second quarter of 2007 and an additional 14 percent increase to $2.10 per unit commencing in the third quarter of 2007.

Turning next to slide number four and reviewing the distributable cash flow and cash distribution for the quarter, we generated $14.2 million of distributable cash flow, resulting in a coverage ratio of 0.86 times, compared to 1.07 times in the previous quarter.

Of course, the low coverage ratio in the second quarter was due to the scheduled dry-docking of the Catalunya Spirit and the unexpected repairs that were required to be completed.

Despite this, we expect our overall coverage ratio for fiscal 2006 will not be materially different from what we had guided at the beginning of the year, which is 1.05 times.

Turning next to slide number five, in reviewing the income statement for the second quarter of 2006 and comparing it to last quarter – during the second quarter other than the Catalunya Spirit being off hire for 33 days to complete repairs and a scheduled dry-dock, our LNG carriers and Suezmax tankers again achieved 100 percent utilization.

Primarily due to the Catalunya Spirit, net voids revenues decreased by $2 million from last quarter. Special operating expenses increased by $800,000, compared to the first quarter, due to the cost of the insurance claim deductible relating to the repairs. Depreciation in general in administrative expenses were consistent with last quarter.

That interest expense from last quarter was up by $800,000.00, primarily due to an increase of $400,000.00 relating to higher floating interest rates related to our five Suezmax tankers, uncharted (Esepsa), which is offset by higher revenues as (surlated) time charter rates adjust in accordance with changes in floating interest rates.

So, therefore there's no effect on our cash flows or net income, and an increase in non-cash interest expense of $200,000.00 relating to an increase in debt in Teekay Nakilat.

Since Teekay Nakilat is consolidated with Teekay LNG for accounting purposes only, the increase in interest expenses in Teekay Nakilat has also no effect on the Partnership's cash flows.

We incurred an unrealized foreign exchange translation loss of $20.3 million, primarily due to the effect of the change in the Euro to the U.S. dollar exchange rate on our Euro- denominated debt.

As a reminder, our Euro-denominated revenues currently approximate our Euro-denominated expenses and debt service costs. As a result, we are not exposed materially to foreign currency fluctuations, and there's no impact on our cash flows.

However, for accounting purposes, we are required to re-value all of our foreign currency denominated monetary assets and liabilities at each reporting period. This re-valuation does not effect our cash flows or the calculation of distributable cash flow, but it does result in the recognition of unrealized foreign exchange gains or losses and given the recent volatility in FX rate, you should expect to report a net income to fluctuate from quarter to quarter to reflect this.

Turning next to slide number six, we presented our June 30 balance sheets showing separating the consolidation of Teekay Nakilat and comparing it to the March 31 quarter. Under terms of the U.K. leases for the three RasGas II LNG carriers, Teekay Nakilat is required to have on deposit an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases.

On June 30, this amount was $433 million. These cash deposits are restricted to being used for capital lease payments and have been fully funded by Teekay Nakilat, with term loans and loans from its joint venture partners, which is shown here as debt related to new building vessels to be leased.

Other long-term assets, long-term liabilities and equity of Teekay Nakilat primarily reflect the interest rates ((inaudible)) related to the LIBOR based debt, the capital lease obligations, and restricted cash deposit which ensures that we don't have any interest rate exposure on Teekay Nakilat.

The balance sheet remains strong with net debt capitalization, that is, net of restricted cash remaining at 44.5 percent, and the Partnership had total liquidity of $234 million at June 30.

This liquidity is expected to increase by an additional $200 million by next quarter, as we're in the process of refinancing the revolving credit facilities on two of our L&G vessels.

Despite the temporary setback due to the Catalunya Spirit, we continue to execute on our plans to increase the Partnership's distributable cash flow, both through acquisitions and building L&G carriers against long-term contracts.

As you can see from slide number eight, our portfolio of contracts puts us in a position to grow each year from 2006 to 2009.

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

Operator: Thank you. If you'd like to ask a question, please press star one on your touch-tone telephone. If you're using a speakerphone, please make sure your mute signal is turned on to allow your signal to reach our equipment. Once again to ask a question today, please press star one.

We'll take our first question from Yves Siegel with Wachovia Securities. Please go ahead.

Yves Siegel: Thanks. Good morning, Peter and Scott. Could you just review what was specific to the Catalunya Spirit that caused the problems and why you think that won't be a problem for the other vessels?

Peter Evensen: Sure, Yves. When we took the ship into dry dock, we went down and looked at the tanks, and we discovered that some of the insulation boxes had suffered some damage, which tells us – while we don't have the final study done, that's been going on – which tells us that there was some sloshing in the tank.

When we went to discharge at one of the ports, they couldn't accept all of the cargo, so we had to take back some of the cargo, and that – given the weather patterns we looked at – looks like it resulted in some sloshing because we had a parked cargo. We think that's what caused some of the indentation of the membrane system.

So we looked and working with the class, as well as manufacture of the membrane system, we went and we repaired the insulation boxes that were slightly damaged. In other words, there was a little indentation, if you will, in the wall.

And so when we reviewed the records, we haven't found another instance where we had to take a parked cargo or where we had that – at that level – or where we had those kind of weather conditions.

Yves Siegel: So, Peter that's not, does that have anything to do with potentially a manufacturing defect or is it just a confluence of circumstances that doesn't look like it will be repeated?

Peter Evensen: Well, the study hasn't been completed yet, but right now it looks like it was just a situation where we had the parked cargo, and we had some adverse weather conditions. But we were still within the specs of how much parked cargo we can take. So that was clearly what we were allowed to do from the manufacturer. But we're working with the manufacture and looking at the study of what is involved there.

Yves Siegel: Thanks Peter. And just the last question, any commentary on a potential for third party acquisitions. Has the environment changed any?

Peter Evensen: Well, we've been working on projects, more organic projects. We've also been looking at some acquisitions. I won't comment on exactly what they are and specifically.

But what we have observed is there has been a little bit of delay in the tendering process. In other words, rather than being in a tight three or four month period of time, we've observed that they're being extended a little bit more. I think that's a general reflection of the difficulty of getting engineers to finish liquification plans.

You know, when you look at an LNG train, you need the ships, you need the liquification, you need the regasification. Trying to get all those things to line, there is some delay that's going on in some of these projects.

But – so, I would say probably the shipping part is the easiest part right now – working with the shipyards. So, we have a number of tenders that we're working on right now. We have been on some in which we've been unsuccessful, but we are very adamant that we need to get our price in order to have an agreed of transactions.

So, we're comfortable that there are a lot of projects out there, because we're being asked to tender on them, but the timing is a little delayed from what we've seen going forward.

Yves Siegel: So for these tenders – would the earliest that they could impact the financials, would that be 2009 or would it be pushed into 2010?

Peter Evensen: I would say there are still some for '09, but it's now more likely 2010, and we would look at acquisitions to grow in '07, '08, '09.

Yves Siegel: Thank you.

Peter Evensen: Thank you.

Operator: We'll take our next question from Jonathan Chappell with J.P. Morgan.

Jonathan Chappell: Morning, Peter. Just following up on the last issue – delays in infrastructure probably should have been anticipated, but the amount of assets that the (Qataries) are trying to keep in in-house probably wasn't anticipated to this level. Are you expecting the same type or, I guess the same magnitude – of tenders from the Qatar region, and if not, are there other reasons that may be surprising the (upside) with some of their new facilities?

Peter Evensen: Yes, I would say that the surprise, considering that we have seven vessels that we're building for Qatar right now, the surprise is that the (Qataries) have decided that they don't want to involve foreign ship owners right now. That could change, but that certainly was a surprise to us.

But that's being made up for by new projects that we're seeing in place in, more specifically, in Africa, as well as in South America. So, yes, that was a disappointment to us that Qatar isn't going to be a source of vessels for us in the future right now, but it's a tall order that they've decided to go it alone. So let's see how they go with that.

Jonathan Chappell: Yes.

Peter Evensen: Having said that, there are a number of projects, organic, plus I think there's, as we said before, there's a number of acquisitions we can look at.

Jonathan Chappell: Now with these RasGas II vessels that are going to be delivered before you previously expected – will they begin earning their charter revenue upon delivery or do they have to wait for the original time frame to start?

Peter Evensen: Good question. They will, we have reached agreement with the (Triber) that they will take this second and third vessel earlier, and therefore, we will be giving guidance next January on exactly when those ships are coming.

We are responsible for taking the vessel from the yard and putting it on station in the Gulf. But we've computed that into our numbers, but since the yard was ready to deliver earlier, we went to the charters and said, "Do you want these vessels earlier?" And they said "yes" that they do – that they need them.

So we will be getting our cash flow a little bit earlier than what we had anticipated.

Jonathan Chappell: So you could potentially hit that 210 CDU run rate by the second quarter instead of the third, or is that being a little aggressive?

Peter Evensen: Well, that's something for the board to take up after the ships deliver.

Jonathan Chappell: OK. And finally, just one follow-up on that same issue. Do you owe the shipyards any incentive award for getting the ships out ahead of time?

Peter Evensen: No, we don't.

Jonathan Chappell: OK.

Peter Evensen: In fact, we're doing them a favor by putting up the faith.

Jonathan Chappell: Great. Thanks a lot, Peter.

Peter Evensen: Thank you.

Operator: We'll go next to Ron Londe with AG Edwards.

Ron Londe: Yes. Curious if you've seen any increase in activity in Europe to acquire L&G regasifications sites, given their experience last winter with the Russians and they're turning off natural gas and the fear that Russia might be getting too big of a supplier of natural gas to Europe and to countries looking for diversification.

Peter Evensen: Yes. I'm not sure exactly what the cause is, if it was the Russia Ukraine thing, but definitely we see that Europe is probably a faster growing region than the United States, and that's because when last summer, for example, when gas moved to $12 here in the States, it was $18 in Europe.

So we're finding a lot more gas going to Europe, so in places like Spain and the U.K., there's a big push for more regasification, as well as in places like Italy. And there doesn't seem to be as much of a public outcry about regasification. It's something that they're more used to, so we don't have any sort of what we call, "NIMBY issues," to the same extent in Europe.

They want the gas, and they need the gas. And that's also because in Europe, you find gas used much more for electricity generation than you do here in the United States where there's more coal, so when they look at going forward, there's going to be more electricity generation with gas. So there's much more of a need for gas going forward in the United States – I mean, excuse me – in Europe, as well as Asia rather than in the United States.

Ron Londe: Thank you.

Operator: Thank you. If we have no further questions at this time, I'd like to turn the program back over to Mr. Evensen for any additional or closing remarks.

Peter Evensen: OK. Well, thank you all for listening. We are working hard, and while we did have a setback with the Catalunya Spirit, we're looking forward to getting our three new vessels starting in October, and that will power the company going forward for the next year. And then we're working on other things going forward. So, thank you very much for listening, and have a great summer.

Operator: This does conclude today's conference. You may disconnect your line at any time.

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