TEEKAY LNG PARTNERS

Moderator: Peter Evensen
August 8, 2008
10:00 a.m. CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teekay LNG Partners second 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 a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder, this call is being recorded.

And now, I would like to turn the call over to Peter Evensen, Chief Executive Officer of Teekay GP L.L.C. Please go ahead, sir.

Kent Alekson: 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 second 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 those forward-looking statements as a result of various important factors. Additional information concerning factors is contained in our earnings release available on our Web site.

I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Kent. Good morning, ladies and gentlemen, and thank you for joining us for our second quarter earnings call.

This morning, I am joined by Teekay Corporation's CFO, Vince Lok; and its Corporate Controller, Brian Fortier, who are on line from Vancouver.

Before I begin, I would like to note that we have determined that we will need to restate our historical financial results from the second quarter of 2004 to the current period to adjust for our accounting for certain derivatives under hedge accounting rules. The results presented in our Q2 earnings release do not reflect these adjustments and should be considered preliminary. I will discuss this issue on more detail at the end of the call but it is important to note that the re-statements are all non-cash adjustments and therefore will not affect the partnerships' distributable cash flow, liquidity or partners' equity at June 30th, 2008.

As we did last quarter, I am going to focus on today's call on the strategic opportunities that lie ahead for Teekay LNG Partners rather than have a detailed discussion of the finance results during the formal part of the call. As a result, I have not prepared a slide presentation. However, I am more than happy to take any financial strategic questions as part of the Q&A session.

Looking at the second quarter results, we generated 24.4 million of distributable cash flow which is up 11 percent from the previous quarter. This increase was primarily due to the acquisition of two Kenai LNG carriers on April 1st partially offset by a much higher than usual number of scheduled drydocking in the quarter.

During the second quarter we drydocked a total of five vessels which included two LNG carriers, two Suezmax Tankers and one LPG carrier giving rise to a total of 115 off-hire days. It just so happen that four of these drydocks were scheduled to occur in the same quarter and we had one of the drydocks moved from the fourth quarter of this year to the second quarter because of a customer request.

The good news is that this leaves us with a very light drydocking schedule in the second half of 2008 with none scheduled in the third quarter and only one Suezmax Tankers scheduled for – in the fourth quarter.

We declared a cash distribution of 55 cents per unit for the second quarter which is up four percent from the previous quarter. The cash distribution is payable on August 14th to all unit-holders of record on August 7th. This increase is a result of the acquisition of the two Kenai LNG ships early in the second quarter.

On May 6th we acquire a 40 percent interest in the four RasGas 3 vessels upon the first vessels delivery. The remaining three LNG vessels will be delivered over the course in June and July and have been delivered.

This acquisition is dollar terms with a single biggest new building project Teekay has ever undertaken so the entire project team should be proud of their accomplishments.

As a result for this acquisition, we intend to recommend an additional distribution increase to our board which we expect will be effective for the third quarter distribution paid in November.

We also agreed in the quarter to acquire two multigas ships and their associated 15-year contract from Teekay upon the vessels delivery expected in 2010. These vessels are expected to generate approximately nine-and-a-half million in annual operating cash flow. With the two LPG carriers delivering in 2010, we are now in a position to continue the growth plan we set in motion when we launch Teekay LNG three years ago. As we have visible growth opportunities each year through 2011. In addition, we intend to further supplement this with strategic acquisition of existing assets on an opportunistic basis as we did with the Kenai acquisition.

I would like to take a few minutes to discuss our plans to restate our financial results from the second quarter of 2004 through to the end of the second quarter of 2008. During the process of finalizing our second quarter results, it was determined that certain of our derivative instruments did not technically qualify for hedge accounting treatment under SFAS 133, the accounting standard for derivative instruments and hedging activities. These derivative instruments were used to hedge our interest rate risks and tanker freight rate risk on one of our vessels. And to date have been accounted for as hedges.

Accounting for hedging activities is an extremely complex area. In excess of 100 implementation guidelines have been issued in addition to the SFAS 133 standard. We recently discovered that the hedge documentation we prepared in relation to certain of our derivatives did not meet all of the strict technical requirement of SFAS 133.

Accordingly, we will have to restate our financial results to recognize the change in the fair value of such derivatives through the income statement rather than as a component of accumulated other comprehensive income which is part of the partners' equity on the balance sheet. As a result, the reinstatement will result in greater fluctuations in reporting net income but will not have an impact on our cash flows distributable cash flow or liquidity or total partner's equity at June 30th, 2008. Also, this restatement will not have any effect on our financial (governance) on our loan documentation.

It is important to note that this is strictly a change in accounting treatment for such derivatives. The derivative instruments that are subject to this restatement have provided and continue to provide effective economic hedges even though they do not technically qualify as hedges for accounting purposes. Economic hedges are important for our partnership given the fix rate long-term nature of our revenue streams and we will continue to enter into interest rate hedges as we deemed prudent to manage our interest rate risk.

As the necessity for restatement was discovered very recently, we and our auditors are currently reviewing all of the hedge documentation and we will finalize (through) statement amounts for the current period and applicable periods as soon as possible. We will release the restated results and file amendments to our previous filings with the SEC as required.

So in summary, while this – while we take this accounting issue very seriously and are working diligently to address it, the issue does not affect the partnerships cash flows or distributable cash flow. I would like to reiterate that our existing multi year built and growth profile should enable us to grow our fleet and our distributions each year through 2011 and we retain significant liquidity in the partnership in the form of undrawn revolving credit facilities to take advantage of acquisition opportunities.

Thank you for listening and, operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star one on your touch-tone phone. To withdraw a request, please press the pound sign. If using a speakerphone, please lift your handset before entering your request. Please stand by for the first question.

For our first question today comes from Mario Ribera of Locust Wood Capital. Please go ahead.

Mario Ribera: Good morning, Peter. Quick question for you, given that all of the underlying company shares are down and Teekay (parents) shares are down, would it make sense for you to use TGP (force) and repurchase TEP shares given the yields where both the (MOPs) are trading currently with the wide source of abuse of capital or you are speaking to just repurchasing shares of the (parent) level?

Peter Evensen: I will only answer the questions as they relates to Teekay LNG. As it comes, Teekay LNG, we continue to be on a growth path and so we are going to be continuing to equity – to issue equity in 2009 and 2010 and 2011 for those projects. We have completed our need to raise equity in 2008. I do not think it make sense to look at repurchasing equity in 2008 if you know you are going to issue equity in 2009. While that might have a positive financial effect, I think that sends a wrong message to investors if we are buying back at one price and then look into issue at a different price.

What we are doing in this present economic environment is to do what we can do which is to execute on our growth plan, raise the distributions as per investors. As for the guidance we have given to investors and I think after that the unit price should take care of itself.

Mario Ribera: All right, thank you.

Operator: Thank you. Our next question today comes from Ron Londe of Wachovia. Please go ahead.

Ron Londe: You just – can you give us a feel for – from the standpoint of your derivative instruments and hedging activities. How much is oriented toward the interest rates and how much is oriented towards freight rate risk and maybe go into how you hedge freight rate risk just in general.

Peter Evensen: Sure. Hi, Ron. First of all, the hedge that we have concerns one Suezmax Tankers so it is actually pretty minor and great as you look at the whole portfolio of the ships we have. So it was a tanker that had a – that was really on a spot basis and we have the hedge to turn it into a fix rate business and so that – that is minor.

The greater variation is in the interest rate risk. So when we have a long-term contract we put in place long-term financing and then we put in place an interest rate swap because we borrow from the banks at floating rate (livewire) plus a margin. So then when we put that hedge in place, or that interest swap which effectively hedges it, then that preserves our financing margins. So that is – that is where you will see the greatest amount of change going through.

But as I have said, economically it does not have any effect for us. What is going to happen is we are going to have to pass the increase or decrease to mark the value of that interest swap through our balance sheet.

Similar to what you seen us have to do on the foreign exchange side in Teekay LNG, we have not hedged our Euro loans and, therefore, you have watched us take either FX gains or FX losses. Now we are going to have to do that the same thing on the interest rate side.

Ron Londe: And also going forward from a freight rate standpoint, you only not going to have much exposure there?

Peter Evensen: No. And we did not have to begin with. So we are a fixed rate model company. We have fix rates on all of our long-term contracts which stretch out over 10 years. So the interest rate financing that we have tried to do as well as the hedge on this one Suezmax Tanker was all geared toward building a fixed rate model.

Ron Londe: What do you say in – from standpoint of construction of LNG tankers now, have you seen some leveling off or do you see any opportunities to pick up some tankers that are under construction?

Peter Evensen: Yes, we – well, there is two kinds of LNGs under construction. There is about 113 vessels on order. Most of those are under long-term contract meaning that they have been chartered to someone and so we see an opportunity as we did with Kenai to buy some of those vessels with long-term contracts. We would not – with our fixed rate model – we are not contemplating buying vessels that do not have long-term contracts. And so even though that – that is one – you could say if those vessels become more cheaper that might be a good model, that is the model that Teekay LNG does. We will only go on a build to suit in other words, we either buy a ship with a contract or build a ship with the contract.

Ron Londe: OK.

Peter Evensen: Thank you.

Operator: Thank you. Our next question today comes from Emily Wang of Raymond James. Please go ahead.

Emily Wang: Hi, guys. I just have some general housekeeping questions. Is it possible for you guys to provide what the day rates are related to RasGas 3 vessels. I know that you said that they would be able to contribute about nine-and-a-half million in annual EBITDA but maybe more color on the day rates.

Peter Evensen: At this time we are not going to provide that as we have a joint venture partner on that and for competitive reasons, they do not want to provide that information.

Emily Wang: OK.

Peter Evensen: But it was just hard to see it come through on the equity income side on the RasGas 3.

Emily Wang: Right, exactly. Also, in giving you know the additional vessels, is it possible to provide maybe (DDNA) run rate going forward?

Peter Evensen: We will look into that, yes.

Emily Wang: OK. Thank you.

Operator: Thank you. Ladies and gentlemen, once again, as a reminder, to press star one if you wish to ask a question. There are currently no further questions. Please continue.

Peter Evensen: OK. Thank you, all, very much for listening and we look forward to reporting to you next quarter. Thank you.

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

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