TEEKAY LNG PARTNERS L.P.

Moderator: Peter Evensen
November 3, 2005
12:00 p.m. CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Teekay LNG Partners third quarter 2005 earnings release conference call.

During the presentation, all participants will be in a listen-only model. 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 conference is being recorded.

Now for opening remarks and introductions, I would like to turn the conference over to Peter Evensen, Chief Financial Officer and Chief Executive Officer of Teekay LNG Partners; please go ahead, sir.

(Scott): 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 third 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 partnership and the shipping industry constitute forward-looking statements for purposes of the Safe Harbor Provision under the 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 F-1, dated November 2, 2005 on file with the SEC.

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

Peter Evensen: Thank you, Scott. I am very pleased to report to you today the results of our second quarter as a publicly traded partnership.

With me today from Teekay Shipping are Vince Lok, Treasurer; and Brian Fortier, Corporate Controller.

It we turn to slide three of the presentation and review the third quarter highlights, we're pleased to report that the results for the third quarter of 2005 were inline with the expectations. The partnerships generated 13.7 million of distributable cash flow.

As expected, we declared a cash distribution of 12.8 million or 41.25 cents per unit for this quarter, representing an annualized distribution of $1.65 per unit. The cash distribution is payable on November 14, to all unit holders of record on November ninth.

Consistent with our strategy of acquiring vessels that have long-term contracts, the partnership has agreed to purchase from Teekay Shipping Corporation three double hull Suez Max class crude oil tankers, and related long term fixed rate time charters, for an aggregate purchase price of 180 million, which I would note is a little less than the price of one conventional LNG carrier.

These vessels are similar in size to the partnerships five existing crude oil tankers, and will provide additional cash flow, which can be used to increase the size of our LNG fleet.

The tankers have an average age of two years, and are chartered through a subsidiary of Conoco-Philips, an international integrated energy company. Each time charter has a remaining scheduled term of approximately 10 years. And Conoco-Philips has the option to extend the charters for up to an additional six years. We believe this transaction will be accretive to Teekay LNG's net income and earnings before interest, taxes, depreciation and amortization or EBITDA. And intend to finance the acquisition with the net proceeds of a proposed public offering of the partnership's common units, together with borrowings under its revolving credit facility, cash balances or both. The partnership has filed a registration statement with the SEC for the public offering of up to four million common units. And the acquisition of the vessels will take place upon completion of the offering.

If you would like more information I would refer you to the registration statement, which can be found on the SEC Web site.

During the quarter, Teekay Shipping Corporation announced it had been awarded contracts to charter a total of six LNG new buildings for periods of from to 20 to 25 years, related to the (Ras Gas III) Project in Qatar, and the Tangu Project in Indonesia. Teekay has a 40 percent interest in four of the vessels and a 70 percent interest in the other two vessels. These new building vessels are scheduled to deliver commencing in mid 2008, and extending into the first quarter of 2009. In accordance with existing agreements Teekay is required to offer its interest in these vessels and contracts to the partnership.

Turning next to slide four and reviewing the distributable cash flow and cash distribution. We generated 13.7 million of distributable cash flow, resulting in a coverage ratio of 1.07 times. The coverage ratio improved from 1.01 in the second quarter. Distributable cash flow represents net income adjusted for depreciation and amortization, non cash interest expense, foreign exchange gains, and income tax recovery. Distributable cash flow also deducts estimated maintenance cap ex which represents die docking expenditures and the cost of acquiring vessels which maintain the operating capacity of our fleet. As a result of the distributable cash flow generated, we declared a cash distribution of 12.8 million or 41.25 cents per unit for the third quarter. The amount of this distribution is equal to the minimum quarterly distribution disclosed in our perspective.

Turning next to slide five, and reviewing the income statement for the third quarter of 2005, and then comparing it to the quarter ended June 30, 2005. The second quarter of 2005 income statement on the slide, has been based on the 52 day post IPO period of May 10 to June 30, and we've extrapolated for a full quarter. During the third quarter of 2005, our LNG carriers and our Suez Max tankers again achieved 100 percent utilization. In August, we took delivery of our new Suez Max tanker, the Toledo Spirit, which commenced its long-term charter to (Sepsa) with the first laden voyage from the Persian Gulf.

Since this vessel delivered half way through the third quarter, we will see the benefit of a full quarter of cash for the Toledo Spirit starting in the fourth quarter. Net voyage revenues were lower than last quarter, by 900,000, primarily due to an additional $1 million in revenue received in the second quarter from one of our Suez Max tankers, which operates under a charter contract that includes a profit share component if spot charter rates exceed a certain level. In the seasonally low third charter, spot charter rates declined to a level just above the threshold.

With Suez Max charter rates seasonally strong in the fourth quarter, we'd expect the fourth quarter profit share amounts to be at least as much as the $1 million received in the second quarter. Vessel operating expenses were inline with the second quarter.

Depreciation and amortization is higher than the last quarter, by 400,000 due primarily to the delivery of the Toledo Spirit during the third quarter. General and administrative expenses were higher than last quarter by 500,000. The second half of 2005 will have a slightly higher run rate, as the annual cost resulting from becoming publicly traded are being incurred over the seven month period following the IPO. Net interest expense is consistent with the last quarter which recognizes our fixed grade interest rates.

We recognized an income tax recover of 1.6 million during this quarter. This is primarily due to a tax shield from interest expense deductions generated from loans between certain subsidiaries to the partnership. We incurred an unrealized foreign currency translation gain of 1.3 million, primarily due to the effect of the change in the euro to US dollar exchange rate, on our euro denominated debt.

On a normal up basis, we would exclude from net income, the income tax recovery and the foreign exchange gain of 1.3 million. This would have resulted in net income for the quarter, of approximately six million or 19 cents per unit.

Turning now to slide six, we presented our September 30, 2005 balance sheet, and compared it with the previous quarter. Vessel line equipment have increased by 61 million from last quarter, due to the delivery of the Toledo Spirit during the third quarter. Advances on new building contracts consist of the new building installments incurred on the three (Ras Gas II) LNG carriers. Upon the closing of the partnerships IPO, the partnership agreed to purchase a 100 percent ownership interest in a subsidiary of TK Shipping which is contracted to have built the three (Ras Gas II) LNG carriers. Under US GAAP, the partnership is required to consolidate this company and consequently the amount of new building installments and minority interest on our balance sheet, reflect 176 million in building installments incurred up to September 30.

For the purposes of this summarized balance sheet on the slide, we've netted restricted cash deposits of 390 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 the deposits are required to be applied to pay the remaining amounts we owe under lease arrangements for two LNG carriers.

Long term debt has increased by 30 million from the last quarter, primarily due to the delivery of the Toledo Spirit which has a capital lease arrangement in place, similar to those of our other Suez Max tankers. Partially offsetting this increase are debt and capital lease repayments made during the quarter.

In early 2006, we plan to begin giving annual guidance to you on our budget, and distributable cash flows for the coming year. At that time, we will include the expected economics of the three (Ras Gas II) LNG vessels in which we hold a 70 percent share. At the present time, we are completing UK lease arrangements, to finance these three vessels. If successful, the financial returns would be enhanced on this project, as the equity contribution required by the partnership would reduce by approximately $40 million from the current estimate of 92.8 million, while only reducing the annual EBITDA attributable to the project by approximately three percent.

In closing we're executing on our plan to increase the partnership's distributable cash flow both through acquisitions, and building LNG carriers against long term contracts. Our portfolio of contracts puts us in the position to grow in 2006, 2007, 2008 and 2009.

I'm now available to take questions.

Operator: Thank you, sir. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach out equipment. We also ask that anyone using a hands free phone or speakerphone to please pick your handset when asking your question. Once again, that is star one.

First, we'll go to Jon Chappell with JP Morgan.

Jon Chappell: Good morning, guys. Peter, there's been some talk in the news about some install (membering) issues with some of the new LNG carriers. Can you just give us a status update on Teekay LNG's new building projects? Are they being built in the shipyards where these issues have come about? And you know, what's your confidence that the issues have been rectified before your ships get delivered?

Peter Evensen: Yes, there's two kinds of containment systems. We have the (Moss Rosenberg) or the spherical system, and then we have the more common one which is the membrane tanks. And there's two kinds of containment systems for the membrane tanks. There's something called a (Mark III) systems and those are for vessels built at Samsung and Hyundai. And then there's something called the (GT 96) which is built at (Daywoo). And there are seven existing vessels that have this (Mark III) system. And there has been a problem on the methane (Cari Ellen). So that's eight ships in total.

We have ordered – none of our existing ships have the (Mark III) system. And Teekay has ordered the (Mark III) system for delivery in 2008 on our (Ras Gas III). But we're confident that there will be sufficient time to incorporate the findings of the root cause analysis that is today being carried out by Samsung and its subcontractor on it. So we haven't – they haven't cut the steel yet on our (Ras Gas III) ships and we're confident that they'll have solved the problem by that time.

Jon Chappell: OK. Is there any chance of delays for delivery of these ships, because of these issues that have come up?

Peter Evensen: We've asked that question to Samsung, and they're confident that they'll be on time.

Jon Chappell: OK. And then just briefly on the industry as a whole, are there any new projects of major proportion that are being bid on currently maybe not specifically by you, but, you know, any of the major – oil majors or national oil companies or gas companies out there with major bids in the march right now?

Peter Evensen: Yes, there's lots of new projects. And in fact, with the high gas price, we're seeing people who are keen to try to accelerate a lot of the LNG projects going forward. So what we're looking at now is projects that will come online in 2009 and 2010. So they have to start planning for those now. So without going too specifically in, I would say we're seeing the – what we're seeing is a lot of upcoming projects in Nigeria, Angola, and of course Qatar, which is poised to become the biggest export, the center of LNG.

Jon Chappell: Great. Thanks, Peter.

Peter Evensen: So the whole market for LNG has only gotten better in the last three months.

Jon Chappell: Thank you.

Operator: We'll now move to John Freeman with Raymond James.

John Freeman: Good afternoon, guys.

Peter Evensen: Hi.

John Freeman: The first question I had, kind of maybe you could just walk through kind of the thought process on the purchase of the three Suez Max from TK. I'm kind of interested if – was Teekay shipping the one that was kind of pushing for this transaction? I'm kind of getting – wanted to get more of their thought process on why they wanted to do it. And if this is something we should be looking at. Obviously, there's got to be other (Suez Maxx) out there with long term charters that would potentially be (candid) for you all to purchase.

Peter Evensen: Well I can only speak for Teekay LNG on this call. And is related to that the Board took under consideration, it was offered by Teekay and the Board took under consideration whether this deal was the right deal for Teekay LNG. And it was felt by the Board that this met our requirements of having long-term contracts. It were – it was sister vessels to the existing five. And it would provide the cash flow that we could use to invest in the LNG projects. But nothing has deviated from the fact that the company is committed to growing in the LNG field, which is why the company is named Teekay LNG Partners.

John Freeman: Right. No. I definitely understand the thought process from you all standpoint. Are you aware of other, you know, (Suez Max), obviously you would be, that Teekay has that would kind of fit the bill or be similar to these three just purchased?

Peter Evensen: Teekay doesn't have any other (Suez Max) vessels. They have some other tankers and other fixed rate projects which have similar characteristics, but they are not under consideration by Teekay LNG to purchase.

John Freeman: OK. And should we assume the kind of cash flow impact on these (Suez Max) purchased is similar to the existing (Suez Max) that Teekay LNG all ready had?

Peter Evensen: I would refer you to the SEC document which details out all of the details on this project.

John Freeman: OK. And then could you briefly provide a little bit more detail on the profit share component of the one (Suez Max) that you mentioned?

Peter Evensen: Yes. For competitive reasons I'm not at liberty to tell you exactly where that level is. But the rates that we're seeing right now in the – or what we have off of that minimum charter rate is that we get a percentage of the difference between the market rate, and what our time charter rate is. And so at the end of the quarter, we along with the charter figure out what the spot rates are. And then we look at that rate, subtract what the base rate is and we get a certain percentage of that.

So as I said, we expect that we'll get at least $1 million from that in the fourth quarter, and possibly more because the fourth quarter right now is shaping up to be very strong for crude oil tanker.

John Freeman: OK. Thanks. And then just last question, can you just give me quickly what the current numbers are on how many LNG vessels are currently on order, and how many are currently out there?

Peter Evensen: Sure. There's 316 ships in the LNG fleet, and that consists of 188 existing vessels and 128 which are on order.

John Freeman: Great, I really appreciate it. Thanks a lot guys.

Peter Evensen: OK. Thank you.

Operator: Once again that is star one if you do have a question. We'll go to Ron Londe with AG Edwards.

Ron Londe: Thanks. Could you give us a little more insight into the lease financing that you're going to do on the (Ras Gas II)? And how that works and kind of just work it through for us?

Peter Evensen: Yes. We have employed lease arrangements, as you know, on several of our Spanish flag vessels. And so what we're trying to do is always to find the cheapest cost of capital. So in this particular instance, we're utilizing a UK tax lease, and we've been actually working on it for quite some time. So we're now finally in the final stage of documenting all of this. We have an investor for it. And for us, they will put it on lease and then we'll get it back at the end of the lease. And so we're able to get a savings on what the financing cost is because of the lease investor wants to be able to depreciate it.

Ron Londe: Can you give us a ballpark number on what the savings might be?

Peter Evensen: Not at the present time. We gave you guidance on the fact that it would result in a net present value benefit that would be approximately a reduction of $40 million in our equity components. So I guess I would look at that, and you would see that.

Ron Londe: OK.

Peter Evensen: So the fact that the equity – the debt level is unchanged. And that fact that I don't have to put up that equity of $40 million means that we save it.

Ron Londe: Looking at the disclosures that you made in the SEC filing F-1 for the offering, and just working through the numbers that are in there, we come up with an (accretiveness) of the acquisition of these three (Suez Max) tankers at around 18 cents a unit. And I think you also state in there that you would consider raising the distribution with the – I guess it would be the May payment, the May 2006 payment.

Can you give us a feel as to the amount that you might raise the distribution out there in ’06, whether you would consider that full (accretiveness) or some part of it?

Peter Evensen: I cannot give you guidance on how much we will raise it. What I will say is that we plan to – we will take this over, probably by the end of the year. And so it would begin from the beginning of ’06. And the – as we said in the offering, we plan to increase the distribution to take account of this project. And without specific about that, you would see that for the full year, you would have the full effect of this project in the numbers. So it would be in the first quarter payment.

Ron Londe: OK. Thank you.

Peter Evensen: Thank you.

Operator: And our final question today comes from Casey Borman with Strome Investment Management.

Casey Borman: Hi, guys. Congratulations on a good quarter. Can you tell me what is the appraised value on the $180 million acquisition?

Peter Evensen: The appraised value, which has been looked at is 180 million.

Casey Borman: And …

Peter Evensen: Including charter. If they did not have the charter, they would be at a much higher level.

Casey Borman: Got it. So it’s a below market charter – I mean it’s a below market charter, currently?

Peter Evensen: Well you're comparing apples and oranges because if you have a vessel that doesn't have a contract, it can earn a lot more. But these vessels have a long term contract, which gives them other benefits. So it's a little bit by saying what is short term interest rates compared to long term interest rates, because one is spot. The other has a 10 year contract.

Casey Borman: Got it. And has there been any ongoing communication with the US tax authorities? Or that's all been closed post deal?

Peter Evensen: Yes, we received a ruling from the IRS which says that we had no tax issues.

Casey Borman: Congratulations on that wonderful news.

Peter Evensen: Thank you very much.

Operator: Mr. Evensen, I'll turn the conference back to you for any closing or additional remarks.

Peter Evensen: OK. Well thank you very much. We're very excited about the growth in the LNG sector which, as I said, we have projects now that enable us to grow through 2009. And with the high gas prices that are existing right now, we're seeing more interest for LNG carriers, as the amount of projects tries to become accelerated up for 2009 through 2010 and 2011. So thank you very much for your support and we look forward to talking with you next year. Thank you.

Operator: Once again, that does conclude our conference. We thank you for your participation.

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