TEEKAY LNG PARTNERS L.P.

Moderator: Alana Duffy
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10:00 am CT

Operator: Welcome to Teekay LNG Partners fourth quarter and fiscal 2010 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, participants will be asked to press star 1 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.

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.

(Ken): 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 fourth quarter and fiscal 2010 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 could cause actual results to materially differ from those in the forward-looking statements, as contained in the fourth quarter and fiscal 2010 earnings release and earnings presentation available on our Web site.

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

Peter Evensen: Thank you, (Ken). Good morning everyone and thank you very much for joining us on our annual investor conference call. I'm joined today by Teekay Corporation's Chief Financial Officer, Vince Lok, and MLP Controller, David Wong.

On slide 1, you see a magnificent picture of the Madrid Spirit, one of the first LNGs we acquired, which is on long-term contract to Repsol.

Turning now to slide 3 of the presentation; we generated distributable cash flow in the fourth quarter of $39.3 million, up from $33.5 million generated in the same quarter last year. And based on the cash flow generated, we declared and have now paid the fourth quarter distribution of 63 cents per unit, an increase of 5% or 3 cents per unit from last quarter's distribution of 60 cents per unit.

We completed the acquisition of a 50% stake in one LNG carrier, and one floating storage re-gas unit or FSRU, which represents a new business line for Teekay LNG and one that we're excited about as I'll elaborate on in a moment.

Looking at a few of the highlights for the past year; we acquired three ships from Teekay Corporation for a total cost of $160 million. In the first quarter of 2010 we increased the distribution 5.3% to 60 cents per unit. And as I have already mentioned, commencing with the fourth quarter's distribution, we increased the distribution again to 63 cents per unit.

For fiscal 2010 we had an annual coverage ratio of 1.0 three times, which we feel is sufficient given the stability of our long-term contract business. In one way, I like to sum up the year, our units were up 46% in the last 12 months, and we paid out $2.43 per unit in distributions.

I'd like to take a few moments to review our 2011 priorities with you, starting with slide number 3. Our first priority is to execute on near-term growth opportunities we've been offered from our sponsor, Teekay Corporation. We are scheduled to take delivery on one LPG carrier and two multi gas carriers, all of which commence 15-year time charters upon their delivery from the shipyard.

In addition, we've been offered Teekay's 1/3 interest in four LNG carriers, which upon their delivery later in 2011 and 2012 will commence service under long-term contracts to the Angola LNG supply services, which is a consortium backed by Chevron BP. The conflicts committee and the board are currently analyzing this project, as we hope to have something to report when we report on our first quarter earnings, if not beforehand.

On slide number 4, I have highlighted our second 2011 priority, to participate in the expected increase in point-to-point tendering we see ramping up in 2011. After a few years of minimal point-to-point LNG tendering activity, we're now starting to see new tenders emerge for conventional LNG tanker requirements, as well as floating LNG solution requirements.

The slide shows that the healthy pipeline of tenders, which are expected to come onto the market over the next 7 years. Over and above these tenders, we expect that there will be tender and niche opportunities for new floating LNG solutions, both production as well as (re-gasification). We're already seeing some point-to-point tender stated on the slide currently being tendered for.

This trend highlights the fact that the long-term fundamentals for natural gas and LNG demand remain intact. And Australia is likely to present several exciting opportunities for point-to-point LNG business in the future.

Turning to slide number 5, we expect to see an increase in FSRU projects in the near-term which we are now actively participating in, including new tendering activity, having entered the LNG (re-gasification) market late in 2010 by purchasing a 50% stake in an Exmar vessel.

We are excited about the potential future opportunities in the floating (re-gasification) space. These projects are growing in popularity around the world, because they present a fast track, cheaper and more flexible solution to customers, compared to onshore facilities and represent a low cost option for accessing new markets as can be seen on slide number 6.

This slide depicts the inventory of existing FSRU projects in yellow, and more importantly, the large number of proposed projects across the world in red. We believe this presents an exciting new avenue for Teekay LNG to move across the gas logistics chain, and generate growth over and above the point-to-point LNG business which we began the partnership on.

Another priority for Teekay LNG is to build on our (recent Ex) success in acquiring existing LNG vessel assets as we did most recently with a 50% Exmar JV. And pursue potential consolidation opportunities as described on slide number 7. Teekay is now the third largest independent LNG tanker owner, with one of the strongest balance sheets in the industry. Teekay LNG has consistently shown it can find innovative ways of deploying capital to grow in an accretive manner.

Going forward with a large percentage of the fleet by smaller independent owners, we are well positioned to acquire cash generating assets from these smaller ship owners who may look to exit from the space, or even oil companies who may wish to outsource the capital and expertise required to run LNG carriers.

Looking at the broader LNG market on slide number 8, the long-term fundamentals of the natural gas LNG market remain firm. As the slide shows demand for the underlying natural gases expected to grow by 1.4% all the way out to 2030 while the trade in LNG is expected to grow even faster, at a rate of 3.3% per (anum).

The inter-regional imbalances are expected to be the main driver of the LNG trade which will drive the growth in (sea-born) at a much faster pace compared to pipeline. And while not directly related to our long-term fixed rate business, slide number 9 illustrates the increase in rates for spot LNG tankers since early 2010.

Rates have increased substantially since bottoming out in the summer and are currently earning approximately $65,000 per day. Much of the strength in LNG carrier spot rates involved traders arbitraging the high price of oil versus the low gas prices, underpinned by cold weather in the Northern Hemisphere and the potential for disruptions due to increased tension in the Middle East.

This may be an indication that there is sufficient demand to absorb the existing LNG fleet, leaving room for more new buildings to serve the new point-to-point projects I just mentioned. Again, all our vessels are on contract, so we are not directly affected by the (spot) market, but a positive spot market does provide support for increased tendering activity.

Turning now to slide number 10, I will review our consolidated operating results for the quarter. In order to present the results on a comparative basis, we have shown an adjusted Q4 income statement against an adjusted Q3 income statement, which excludes the items listed in appendix

A of our earnings release, and reallocates realized gains and losses from derivatives to their respective income state line items.

Net ((inaudible)) revenues increased by 3.5 million as a result of an annual profit share revenue recognized of 1.7 million from one of our Suezmax tankers, and 1.8 million due to 75 less off hire days in the fourth quarter compared to the fourth quarter related to scheduled dry dockings. For the first quarter, we are projecting 34 days of off hire for dry-docking.

As expected, all of our operating expenses remained relatively consistent from the third quarter. Net interest expense has also remained consistent with the prior quarter. And equity income increased by $700,000 due to earnings from the two 50% owned LNG vessels, acquired as part of the Exmar joint venture in November of 2010.

Other expenses, primarily due to current tax expense of $900,000 related to our (Tango) U.K. entities, becoming taxable in 2010, and 700,000 relating to a tax provision from our Spanish operations. Non-controlling interest expense decreased as a result of the tax provision on the (Tango) U.K. entities.

Turning to slide number 11, Teekay LNG Partners is starting 2011 from a strong financial position. We have over $460 million of liquidity, with no requirement to tap the equity markets. We have no covenant concerns on any of our debt facilities, and a strong debt profile. We're close to signing a term sheet that when finalized will refinance the balloon that is due in 2012 on one of our loans which will further strengthen our credit profile.

In closing, we're confident that Teekay LNG Partners remains well positioned to continue to generate distributable cash flows, and create long-term unit holders value.

Operator, I'm now available to take questions.

Operator: Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press star 1 on your touch-tone phone. To withdraw your question, please press the pound sign. If you are using a speakerphone, please lift the handset before entering your request. Please standby for the first question.

The first question comes from Darren Horowitz from Raymond James. Please go ahead.

Darren Horowitz: Got a couple quick questions. First, and I appreciate the color on the global LNG market, but as it relates to interregional demand for LNG and what it could mean for fleet growth, you mentioned that it's possible demand could outpace the supply of new vessels. And I am just curious, how much vessel capacity is expected to come online in the next few years, and how much more incremental capacity do you think is going to be necessary to keep pace with that demand trend that you outlined?

Peter Evensen: Well, I can't – I can't predict exactly how many new buildings will be required when we look at it. But the fact is that the amount of new buildings that have been on order, we had up to 50% of the fleet on order, whereas today we have 363 LNGs, and 26 are on order.

But if you go back to the last two years, for example, a total of only 10 new buildings have been placed since the end of '08. Well two units were sold for scrap. So what you see is that the pace has gone down of supply. So that's why demand will catch up and therefore that will lead to more ships being ordered.

Darren Horowitz: Okay. I appreciate the color. Switching gears a little bit, can you elaborate a bit more on the point-to-point LNG opportunities that you see in the Australian market?

Peter Evensen: Yes. That's of course a play mostly on cold bed methane that's coming out online. And so the question is, to what extent, or how fast some of these projects come on. We saw an announcement from ConocoPhillips that they're moving forward on their project this week. And we're also seeing of course (Gorigan) is already moving forward. Which side is moving forward on their project? And (BT) has every intent of going forward as well.

So that's going to lead to a lot of different vessel requirements. Of course, it's all underpinned by the sale of gas. People don't develop these projects unless they have a long-term contract. And that's where China is really the big buyer going forward. And that's why you're seeing Chinese interests move much more into the ownership side of these projects, which is very positive.

Darren Horowitz: Just one final question from me from a housekeeping perspective. Can you just detail for us the off hire days that you're expecting the remaining three quarters of the year?

Peter Evensen: Sure. So we're expecting when we look at it, we're going to dock two ships in the first quarter. And that should be – well when we'll start in the first quarter. (David), do you have the exact numbers between the different quarters? We have a total of 134 days we have budgeted.

Darren Horowitz: All right. Okay. Thank you.

Male: I can express the days by quarter. We've got about 56 in the second quarter, none in the third, and about 40 in the last.

Darren Horowitz: Okay. I appreciate it. Thanks.

Operator: Thank you. The next question comes from Duncan Payne, a private investor. Please go ahead.

Duncan Payne: Good morning.

Peter Evensen: Good morning.

Duncan Payne: First, let me say I think you guys are doing a great job. I own shares in a number of your companies, and I can't tell you how much I appreciate the kind of (acumen) and expertise and success you guys bring to your operations. Particularly important to someone like me who is close to retirement and needs to rely on companies like yours to take care of what I need.

And so that brings me to my question, which is, since I depend so heavily on your distributions, in a time where for example with the ((inaudible)) (inflation) increases rapidly, how are your operations, and particularly, the ability to make distributions, or to increase distributions effected by a time of high inflation?

Peter Evensen: Hi, Duncan. Good question and thank you for your comments. The way our existing contracts are structured, we – which are 20 and 25-year contracts, we don't know exactly what the operating expenses are. So we have two methods of ensuring that inflation doesn't crimp into our margins.

We either index them to U.S. consumer price index or European consumer price index if we're accruing them with European crews. Or we have a pass through and a makeup where every five years we'll go back to the charter and review what our operating expenses are, and then true it up so that we start from a base.

And that way, we retain the cash flows or the EBITDA margins in order to be able to pay out a consistent distribution to unit holders. And because of that stability that we have on existing contracts, the only way we can increase the distributions is by entering into new contracts.

So we are insulated from for example, high oil prices. We're getting (more) gas prices because that's passed on to the charter. And in terms of operating expenses, as long as they move in line with inflation indexes, then we can retain our margins. But that's why we spend a lot of time on operations, and secondarily, we look to new growth in order to be able to increase the distribution systematically.

Duncan Payne: So basically, the inflation protection for someone like myself in the distribution side is new growth.

Peter Evensen: If you talk about – oh. So if you talk about inflation view that interest rates go up.

Duncan Payne: No, no, no. I – let's say that your distribution is a dollar a year in inflation. And now you're paying me – let's say you're paying me 10% yield. I'm getting a dollar yield. But then inflation goes up 10%. In effect I am staying even. So in order for me to be protected against that by an increase in your distribution, that has to come from growth as opposed to any writers in your contracts, and increase the revenue you get from them based on some increase in CPI as opposed to just protecting your expenses, which then get passed through.

Peter Evensen: That's right.

Duncan Payne: Okay.

Peter Evensen: Our revenues won't change in relation to that. So we're more consistent, but we don't have any inflation protection beyond operating expenses.

Duncan Payne: And I know that you're going to do (TOO) later. But I can ask the same question. I am assuming the same is true for (TOO). Except to the extent that since (TOO) has shorter-term contracts, then you have the ability to roll over the contracts more quickly than you otherwise would. Have with (TGGP).

Peter Evensen: That's right. If the general cost level goes up, TOO would reflect it faster in the fact that it would be able to roll over its contracts at a higher rate, because the replacement costs of assets would go up. So therefore we could charge more on our contracts.

Duncan Payne: Got you. Thanks, so much.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Barrett Blaschke from RBC Capital Markets. Please go ahead.

Barrett Blaschke: Hey guys. Just a quick question on the floating (re-gasification) vessel.

Peter Evensen: Yes/.

Barrett Blaschke: Is this something that – how much more competitive is the market for making acquisitions on that front, and I guess, is there any variability in the contract term, or anything near that can come up versus the traditional tanker market?

Peter Evensen: Well there are two aspects there. We're not really looking to acquire existing floating storage re-gas units because there are so few of them. Instead, what we're looking to do is to grow through the new projects that are coming on. And we think that will give us the greatest profit margin to create new projects as opposed to buying existing units.

What was the second part of your question?

Barrett Blaschke: Basically, is there any difference in putting a contract on one of these vessels versus just more of the standard kind of ((inaudible)) type vessels.

Peter Evensen: Yes. It is more engineering intensive, because you can think about a conventional LNG carrier. And then you have (re-gasification) equipment on board, so you're in a terminal, and you're on a re-gas capacity, probably – most likely 24/7. And so therefore we need a little more extra crew. We need more engineering. And therefore the amount of competitors in the floating storage re-gas unit is less than in the point-to-point.

Barrett Blaschke: Okay. Thanks guys.

Peter Evensen: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you have a question, please press star 1 on your touch-tone phone.

The next question comes from Ron Londe from Wells Fargo. Please go ahead.

Ron Londe: Thank you. I know that you have (shiver) pay type of contracts in the LNG carriers. But I was curious, what you feel your exposure is to the Suez Canal. And the number of vessels it uses Suez Canal for transporting LNG.

Peter Evensen: Hi, Ron. That's an important question. And we actually think of two risks. One is the piracy that is below the Suez Canal, and then we think about the problems that are involved with going through the Suez Canal. Right now, we haven't had any problems going through the Suez Canal. It's all been going fine. And if we were to deviate around, we would be paid to deviate around. So it wouldn't affect our operations. But it would take another 11 or 12 days to go around Africa, as opposed to going through the Suez Canal.

So as a taxi service, we would still get paid to go through. The only risk is if the LNG (liquid faction) plant, ((inaudible)) were to be interrupted. And so far we haven't seen any sign of that.

Ron Londe: Okay. Thank you.

Operator: Thank you. The next question comes from Malcolm Day from Eagle Global Advisors. Please go ahead.

Malcolm Day: Yes. Good morning. Thank you for having the call. I want to ask you about the FSRU projects. I was wondering if you could kind of explain a little bit about sort of the amount of capital that it takes to build an FSRU, and what type of returns that you see, and you know how that compares with the point-to-point vessels that you you know traditionally have been buying or building.

Peter Evensen: Yes, hi, Malcolm. So if we think about the point-to-point tender, excuse me. We had – there was more competition that came into that, which was eroding the returns that we saw in point-to-point. So by moving up into more value-added or engineering intensive projects, like FSRU, we're in a position in order to have less competition, and gain higher absolute returns, which we think about as being our unlevered return on invested capital. So that's a big reason for us to increase our engineering resources and move into that.

The second reason is that – or second part of your question was how much was how much more does it cost? It depends upon the project, but it will be somewhere around $75 million to $100 million more than a conventional LNG in order to have re-gas on top.

Malcolm Day: Okay. So let me ask you a slightly different way. So if you, I don't know what the size of these different projects are. But if you – if you are putting in a – is it like a train? Would you build multiple re-gas vessels? What would you …

Peter Evensen: No. If you think about an LNG vessel, I think that we were on slide five. If you think about an LNG vessel, you are then having to put on more equipment in order to pump and – for both to re-gas the LNG which comes out you know very cold. Re-gas it and then pump it up to a pressure that you can pump it immediately into a pipe.

Malcolm Day: Yes, no, I think I understand the difference between the vessels. I was just asking if there was – you – or maybe you explained this. But you basically, you don't run a kind of a shuttle service. You just have one – typically one per field that you would operate in. Is that …

Peter Evensen: Yes. It is set on a terminal. So it is (moored). And it is set on a terminal close to shore, or at a (berth). And then you will bring in conventional LNGs. And those LNGs will dock, and you'll do a ship-to-ship transfer of the LNG from a conventional LNG onto the floating storage re-gas unit.

Malcolm Day: Okay. And so what is the kind of unlevered (IRRs) that you think this kind of business, what's the sort of range that you think these kinds of projects might be done at?

Peter Evensen: We're not really disclosing that to investors, because we're in tendering activity now. So for competitive purposes, I don't want to be drawn on that.

Malcolm Day: Okay.

Peter Evensen: Thanks.

Malcolm Day: Thank you.

Operator: Thank you. Mr. Evensen, there are no further questions at this time. Please continue.

Peter Evensen: Good. Thank you very much. Because of investor interest, we intend to have more than an annual call. We intend to talk to you every quarter. So we look forward to talking with you next quarter. Thank you.

Operator: Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your line, and have a great day.

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