# TEEKAY LNG PARTNERS LP

## Moderator: Peter Evensen
## February 26, 2015
## 10:00 am CT

Operator: Welcome to the Teekay LNG Partners' Third Quarter 2014 Earnings Results 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 participant will be asked to press star 1 to register for a question. For assistance during the call please press star 0 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.

Scott Glayton: Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekaylng.com where you will find a copy of the third quarter 2014 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 that could cause actual results to materially differ from those in the forward-looking statements is contained in the third quarter 2014 earnings release and earnings presentation available on our website.

I'll now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you Scott. Good morning everyone. And thank you for joining us on our third quarter investor conference call. I'm joined today by Teekay Corporation's; CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid; and MLP Controller, David Wong. During our call today, I will be walking through the earnings presentation, which can be found on our website.

Turning to slide number 3 of the presentation, I will review some of Teekay LNG's recent highlights. For the third quarter of 2014, the partnership generated distributable cash flow of $64.2 million, which was in line with the same period of the prior year. For the third quarter of 2014, the partnership declared a cash distribution of 69.18 cents per unit, consistent with the prior quarter.

The partnership's efforts to pursue additional accretive growth opportunities continued to yield results. Last week, Teekay LNG agreed to acquire from I.M. Skaugen, the Norgas Napa, a 2003-built LPG carrier for $27 million along with a five-year charter back to Skaugen at a fixed-rate plus potential upside through a profit sharing component.

This on-the-water vessel, which we take delivery out in mid November, is another example of how the partnership can deliver near-term growth in addition to our existing $2.5 billion of organic growth projects delivering between 2015 and 2020. Whereas our new building projects typically have a lead time of 30 months to 36 months from award, vessel acquisitions like the Norgas Napa provide immediate accretion to the partnership's distributable cash flow.

In September, Teekay LNG's LPG joint venture with Exmar took delivery of Waregem, the third of its 12 midsize LPG carrier new buildings as part of the LPG joint ventures; fleet renewal and growth strategy.

Prior to this, in August, the Exmar LPG joint venture sold one of its older LPG carriers for which Teekay LNG realized an $8 million gain based on its 50% ownership interest. Our LPG business has been steadily developing and is consistent with the rest of Teekay LNG's fixed rate contract business.

Our LPG joint venture has been very successful with chartering at second hand LPG carriers and the charters recently agreed on the new buildings have exceeded expectations.

Turning to Slide Number 4, with the reduction in global oil prices narrowing the price arbitrage created by the oil and natural gas price in Asia over the past few months it's important to highlight that Teekay LNG's revenues are derived from long-term fee based contracts with no exposure to commodity pricing on our part.

As we summarized on the slide, TGP's portfolio of forward fee based revenues currently totals approximately $10.8 billion. With an average remaining contract life of approximately 13 years, our diverse portfolio of contracts with strong counterparties provides stable, consistent cash flows for the partnership. The key takeaway is that the recent decline in oil commodity prices will not have an effect on Teekay LNG's cash flows.

On slide number 5, I will review our financial results for the third quarter of 2014 as compared to the second quarter of 2014. You will notice that in the quarter we have changed the format of our financial results slide to focus more on distributable cash flow rather than net income. For a reconciliation of distributable cash flow to net income please refer to Appendix B of our earnings release.

Starting at the top of the statement. Net voyage revenues increased slightly due to higher revenue on the Hamilton and Bermuda Spirit as a result of third -- of higher third quarter Suezmax spot tanker rate, partially offset by higher dry docking activity in the third quarter and the sale of Huelva Spirit Suezmax tanker in August 2014.

Vessel operating expenses decreased by $800,000, primarily due to the sale of the Huelva Spirit Suezmax tanker. Maintenance capital expenditure reserve was consistent with the prior quarter.

General and administrative expenses decreased by $675,000, primarily due to higher business development costs incurred in the second quarter related to the Yamal LNG project and BG joint venture. During the third quarter, we realized the restructuring charge of $2.2 million due to seafarer redundancy costs associate with the sale of the Huelva Spirit.

The partnership share of distributable cash flow related to our equity accounted in joint ventures net of estimated maintenance CAPEX reserve increased by $1.9 million, primarily due to scheduled dry dockings of certain vessels within our Malt LNG joint venture during the second quarter.

Partially offset by a decrease from the Exmar LPG joint venture as a result for the sale for three older LPG carriers during the second and third quarter and higher scheduled dry dockings and lower VLGC rates in the third quarter.

Interest expense was consistent with the prior quarter. Interest income increased by $1 million, primarily due to interest earned on our advance to the Yamal LNG joint venture in the third quarter.

Capitalized distributions related to equity financing of new buildings increased by $1.3 million, due to additional installments paid on the new building MEGI LNG carriers and the Yamal LNG carriers in the third quarter using proceeds from our equity offering completed in July.

As a result, our coverage ratio improved to 1.05 times in the third quarter compared to 1 times in the second quarter. If we exclude the non-recurring restructuring charge of $2.2 million, our third quarter coverage ratio was 1.08 times.

Wrapping up on Slide Number 9, we updated the slide we presented at our recent Investor Day in September. Including the acquisition charter-back transaction with I.M. Skaugen, Teekay LNG's total committed growth CAPEX now stands at approximately $2.6 billion. As I noted in my opening remarks, this immediately accretive acquisition further complements our existing pipeline of growth projects, which is scheduled to deliver between 2015 and 2020.

In addition, to future potential projects, which may result from exercising our remaining three options for LNG carriers and this renewed LNG and FSRU contracts. Based on the strong long-term fundamentals in the LNG and LPG shipping markets, we believe our robust pipeline of growth projects presented on this slide will provide steady and consistent distributable cash flow growth over the next several years.

Thank you for joining us on the call today. And operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen on the phone lines, we will now begin the Q&A session. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure that your mute function is turned off to allow your signal to reach our equipment. Again please press star 1 if you have a question. Please stand by.

Your first question is from Michael Webber with Wells Fargo. Please go ahead. Mr. Webber your line is open, please go ahead. Mr. Webber your line is open, please go ahead. We'll move to the next question from Darren Horowitz with Raymond James. Please go ahead.

Darren Horowitz: Good morning Peter.

Peter Evensen: Good morning, Darren.

Darren Horowitz: A couple questions for you, and I know you covered some of this ground yesterday on Teekay Corp's call, but I'm just curious with regard to the ethane export opportunity, which you laid out in the Analyst Day for very large ethane carriers and midsized carriers, I think it was possible demand for somewhere in the order of either 40 or 50 vessels and I think the VLCCs, maybe there was a half a dozen on the order book and a dozen for the midsized carriers.

I'm just wondering if anything has changed from your perspective either with regard to incremental demand for additional vessels or possibly some shifting with regard to the construction timing or even the potential to acquire some of those boats, get them constructed the way you want them and use your operational expertise to get the associated contracts that you want that ultimately might support the next leg of growth for TGP?

Peter Evensen: Yes. So, on the ethane, we absolutely think it's going to be a great growth opportunity, but it's how you approach the market that I think is going to separate some of the competitors. We're going to adopt our build-to-suit strategy, which is what we've employed on the LNG side successfully when we started out, and that is that we're going to go get contracts and then we're going to build against the contracts.

What we're observing in the ethane is that there are several different sizes of ships. And the market hasn't stabilized out on what's the optimum ship. And therefore we don't know or we shouldn't order speculatively and figure out that later on something was better.

And in particular people are sizing for ports down in the US Gulf of Mexico and we think that could change over time. So, we're waiting until we get a long-term contract. But we are very hopeful that this will be another growth engine for the partnership in the coming years.

Darren Horowitz: Okay. And then as my follow-up, I'm just curious with regard to the financial strategy. And again, I know you discussed some of this on Teekay Corp's call yesterday, but with a lot of the volatility in the marketplace today with regard to cost of capital, obviously you've expanded the yield from an equity perspective, but that still remains very cheap.

And I know in the Analyst Day when we were discussing the annual, if you will, kind of financial capacity of the daughter MLPs for the TGP, the thought process was about $500 million of equity capacity and, you know, maybe somewhere just north of $900 million of annual debt capacity.

Has that from a structural perspective changed at all with current cost of equity capital where it is today or is it still very much in place and that's going to be the financing structure in order to facilitate the growth?

Peter Evensen: Well, that's a very pertinent question given the volatility that we've seen on the Alerian MLP and Teekay LNG, but nothing has really changed for us. Most of our CAPEX is in a 2016 and beyond timeframe. And so, we're not -- we're of course looking at the volatility that's going on now, but we don't see a near term need to issue equity at Teekay LNG. And so, we can afford to be opportunistic on any equity raises.

I would say as I said yesterday that we're finding the debt providers are not in balance or are not aligned with the equity side. The debt providers are very keen to lend against some of our long-term contracts and we're in fact preferred. And so, we're watching debt margins come in and that's giving us that lower cost of capital which will make up for the equity side.

But those aren't things I can control on the equity side, but I personally believe that the market will recover, because people will find out that MLPs like Teekay LNG, we're not being affected by the volatility and oil prices. So as people realize that all MLPs aren't the same, that we aren't the same as some of the MLPs that are exposed to NGL pricing things, then I think people will gravitate to us.

Darren Horowitz: Okay. And I think that makes sense. And I appreciate that. I was thinking about it more from the perspective that if the annual investment capacity for TGP is somewhere around $1.43 billion or $1.45 billion, it's still fair for us to assume roughly a 35-65 split between equity and debt. It sounds to me like that's exactly what you're saying.

It's going to be on a fully weighted basis, maybe about the same because or even a bit better, I would argue, if you altered the structure or duration of your debt, you could probably even fully weigh to get a lower cost of capital if that mix stays the same. Is that fair?

Peter Evensen: Yes. In fact during the financial crisis, we made a strategic decision to use more equity and less debt than we had previously to 2009. And so we -- in a worst case, we could always go back and use more debt and less equity, but that isn't our preferred position, it's to stay at around 60%, 65% on the debt side.

Darren Horowitz: Okay. I appreciate it Peter. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. And the next question is from Matthias Detgen with Morgan Stanley. Please go ahead.

Matthias Detgen: Good morning, gentlemen. So I have a question about the LPG market and how you see that developing. I mean we know that the MGCs are less volatile than most of the other -- the larger asset classes but where do you sort of see that market going in 2016 when the larger order book is delivered? And if you could maybe give us some of your thoughts there?

Peter Evensen: Sure. Well, obviously we have through the Exmar LPG joint venture we have the biggest order book and as well as the biggest market position. And we've been really pleased that we are able to secure charters on a lot of our new buildings going out.

In fact some of them that haven't delivered we've already secured charters on. We don't talk about those charters for competitive reasons, but we're very happy that the fuel friendly new design that we have on these LPGs which are in a lot of environmentally controlled zones, they're preferred by the chatterers.

As it relates to the volatility we see that the base underlying demand for ammonia which is a play on the fertilizer trade as well as for regional LPG movements continues to show good growth. So, we think that the order book will be comfortably absorbed on the MGC side.

The VLGC side is a different kettle of fish that's more volatile and that's exposed more to oil prices. And we've actually been selling our older VLGCs and as I said getting really great gains. So, we've -- the whole strategy of Exmar LPG which was to order new ships and sell our older ships into a rising market has been quite successful.

Matthias Detgen: Thanks for that. And so maybe could you give us some color how long these MGC contracts are, although not to getting into the detail but how long the coverage would then be?

Peter Evensen: Sure. We're able to take some of our existing ships and sign contracts for anywhere from three to seven years.

Matthias Detgen: Okay. And then maybe there is one more or another question on the LNG carrier, so you have two coming up contract next year which are above market rates. Where do you sort of see them being -- at what rate do you see them being charged at, maybe if you could just give us your thoughts there?

Peter Evensen: Well, let's be very specific. We have two ships of which we own 52%, on a vessel equivalent basis, we only have net one ship. We have one ship coming off in March next year and we have one ship coming off in September of 2016.

So, net-net, we don't have a lot coming off. And we're in active discussions with charterers on the first one that comes out in March of 2015. For competitive reasons, I'm not going to say where that one will -- where we're bidding that.

Matthias Detgen: Okay, well thank you very much, Peter.

Peter Evensen: Thank you.

Operator: Thank you. The next question is from Sunil Sibal. Please go ahead.

Sunil Sibal: Hi, good morning. My question was related to the FSRU market, I was wondering if you could talk a little bit about, you know, what kind of activity you are seeing in the FSRU market currently?

Peter Evensen: Yeah. So, we've seen some of our competitors have been successful by pre-ordering FSRUs and then putting them on the contract. Teekay has a more conservative philosophy of getting a contract and then building FSRU against that. We're working on a handful or less than five opportunities all around the world that would result in long-term contracts and we would build purpose-built FSRUs use against it.

I think what we've seen in the market is that the market has gone over the last four, five years from converting existing LNGs into FSRUs into using a new building FSRUs.

And so, I think our conservatism is going to pay off there, because the market is preferring ships of a 160,000 to 174,000. So, with our MEGI LNG, the 174,000, we're able to use those shifts to bid in on FSRU contracts. We haven't won any yet, but we're hopeful that we will be able to land a few in the coming one to two years.

Sunil Sibal: Okay. That's helpful. And then on the Yamal LNG project if you could talk a little bit about, you know, current status on that and if you expect to see the LNG carriers of that project being anytime soon?

Peter Evensen: If I expect -- I'm sorry, I didn't hear the last part of your question. If I expect what?

Sunil Sibal: In the LNG carrier side for the Yamal project, do you expect to see anything, any potential on that?

Peter Evensen: Yes. So, we signed the contract earlier this year in the summer and we raised the money to make our initial installment. We don't actually have to pay any more money until 2016. The discussions we've had on putting together a debt financing package on these long-term contracts is 25 years.

We're seeing good reception from the banks. It's early days, as I said; we don't have to make another payment till 2016. We're looking very carefully of course at not our financing, but the project's ability to raise finance.

This Yamal LNG project is strategically important to Russia. So, we are seeing that the government is hoping the private companies to arrange financing. Right now, it looks like they will use more equity in financing rather than debt financing than they had originally planned.

Sunil Sibal: Okay, thanks. Very helpful.

Peter Evensen: I would also note that -- and I think this is important, they have 25-year contracts all oil-linked pricing and that is very competitive gas on a price level.

Sunil Sibal: Okay. Thanks.

Operator: Thank you. The next question is from Faisel Khan with Citigroup. Please go ahead.

Faisel Khan: Thanks. Good morning. I just have a few follow-up questions and just some basic questions too, if you don't mind. On the four vessels from BG, you currently I think you stated the delivery date sort of one in '17, two in '18, and one in '19 based on your presentation. Can you give a little more granularity on sort of that delivery schedule, I mean are you sort of spread out? Is there any way you could give granularity on what quarter they come into?

Peter Evensen: Sure. We can do that offline with you.

Faisel Khan: Okay.

Peter Evensen: And then we can give you the exact delivery date or within the six-months window that we have.

Faisel Khan: That will be perfect. Is there any sort of guidance on the -- you talked a little bit about installment payments related to Yamal for these vessels, any guidance on the installment payments and sort of the timing of that related to these ships?

Peter Evensen: Yes. We've arranged debt financing on it and the initial payment has been made and it's a standard sort of -- I believe it's four times 10 plus 60. David, do you know better?

David Wong: Yes. That's correct, Peter.

Peter Evensen: Yes.

Faisel Khan: Thanks. And also I was just looking for clarity also on the delivery times for the Yamal LNG carriers too. Just on sort of more fuel efficient carriers, is there -- I mean how the rates work on the more fuel efficient carriers. Is that a complete pathway to the customer or do you get a better rates because -- do you get sort of better rates because you're saving on fuel?

Peter Evensen: It's latter, we get a better rate because we are saving on fuel. From a charter of an LNG's point of view, they look at something that we call unit freight cost, which is composed of the time charter rate, it's composed of the cost of the fuel, which is where our MEGI is, say $15,000 to $20,000 a day over modern DFDs and then the boil-off rate, which is how much -- what's the amount of fuel that boils off and our newer ships are the most modern.

And so, from a chatterers' point of view, they add up all those. So, we are looking to get most of our fuel savings in a higher rate. And it's our view just as you've seen steam vessels be discriminated against as it relates to DFDs, we believe you will see the 174,000 MEGIs be preferred and get a higher rate than a 155,000, 160,000 DFDs and that's consistent with what the discussions we're having with our customers.

Faisel Khan: Okay. So, it's both the higher rates and there is no sort of change in OpEx then, right? OpEx, there is no OpEx reduction from fuel savings, it's the better way to your customers?

Peter Evensen: We think we will get slightly lower OpEx on running a two-stroke engine in a DFD, but that's not the material change. The material change is in the fuel. You will get 90%, 95% of the difference in the fuel savings.

Faisel Khan: Okay, great. Thanks. And I appreciate taking some of the other questions offline when you guys get a chance. Thanks.

Peter Evensen: Okay.

Operator: Thank you. And the next question is from Michael Webber with Wells Fargo. Please go ahead.

Michael Webber: Hey guys, sorry about that earlier, some technical difficulties. Hey, perhaps I was on the line Peter when you were touching on, I believe you were touching on ethane and the LPG opportunity.

We've heard on another call earlier that there's an expectation that a lot of this longer term ethane business could get sorted out within the next call it 6 to 12 months. Just curious as to whether or not that's something, the time frame you guys think is realistic for call it now the EPD target and whatever comes out of or two to kind of get sorted from a transportation perspective?

And then I believe your answer to the previous question was focused around midsized ethane carriers, and it seems like there is maybe a bit of a departure from I guess the conversation on larger ethane carriers or BLECs. Just wondering whether I'm interpreting that the right way?

Peter Evensen: Sure. So on the latter part, we can take ethane through a smaller Skaugen ship that we have, those are ethylene capable, they can take ethane. And they have the strength in the tanks to be able to take the specific gravity of the ethane.

On the bigger size, as I said, we're on more of a build-to-suit. I'm not sure people know exactly what the build out schedule is, I think it's really pretty much speculation at this point. So, I'm not really going to get on that. Obviously, we sit and look very carefully at the build out of the terminals and going forward, but until the contracts are put in place to buy it then the shipping doesn't get involved.

Michael Webber: Fair enough. One more from me and I'll turn it over, and I know how much you like to talk about FLNG. But I wanted to ask you about the scenario in which if we see a tighter LNG or we can make the case that coaling solutions on a lower cost basis start to make more sense.

And you guys obviously have a passive interest in Sevan and what they're to develop on the FLNG side. I'm just curious as to whether or not that's a line of thinking that you guys subscribe to, and whether it's something you're closely monitoring? And you made conversations with Sevan and whether or not that sort of activity and conversations have picked up?

Peter Evensen: Yes, so I don't think that the difference between oil and gas is going to reflect anything on whether FLNG solutions are preferred versus on land solutions. I think that's just a question of whether you can put in place something that's cost competitive.

And the real story on FLNG is whether you have -- can put on sufficient equipment in order to handle the kind of gas that you're going to have on certain stranded gas fields. And each gas field is generally the same. Obviously, if you have pipeline gas, that makes it far easier to put in place by a liquefaction solution.

But the reason you have big on land liquefaction is to able to handle things besides the natural gas like sulfur and other derivatives that you guys have in the gas. So we think we have solutions as to some of our competitors and we think it will be more bespoke solutions as we have with our FPSO because each gas field is a little bit different.

Michael Webber: Got you. That makes a lot of sense. Thanks for the time, guys.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, once again if you have a question please press star 1 at this time. There are no further questions at this time. Please continue.

Peter Evensen: Okay. Thank you very much.

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

END