Teekay LNG Partners L.P.
Form 20-F
April 16, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

For the transition period from __________ to __________

Commission file number 1- 32479

TEEKAY LNG PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

(Address and telephone number of principal executive offices)

Mark Cave

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

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(Contact information for company contact person)

Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
Common Units	**New York Stock Exchange**

Securities registered, or to be registered, pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each issuer s classes of capital or common stock as of the close of the period covered by the annual report.

69,683,763 Common Units

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨	Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board ¨	Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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PART I

This annual report of Teekay LNG Partners L.P. on Form 20-F for the year ended December 31, 2012 (or *Annual Report*) should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this prospectus to Teekay LNG Partners, we, us and our and similar terms refer to Teekay LNG Partners L.P. and/or one or more of its subsidiaries, except that those terms, when used in this Annual Report in connection with the common units described herein, shall mean specifically Teekay LNG Partners L.P. References in this Annual Report to Teekay Corporation refer to Teekay Corporation and/or any one or more of its subsidiaries.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words expect, intend, plan, believe, anticipate, estimate and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

our ability to make cash distributions on our units or any increases in quarterly distributions;

our future financial condition and results of operations and our future revenues and expenses;

growth prospects of the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping and oil tanker markets;

LNG, LPG and tanker market fundamentals, including the balance of supply and demand in the LNG, LPG and tanker markets;

our ability to conduct and operate our business and the business of our subsidiaries in a manner than minimizes taxes imposed upon us and our subsidiaries;

the expected lifespan of our vessels;

the expected source of funds for short-term and long-term liquidity needs;

estimated capital expenditures and our ability to fund them;

our ability to maintain long-term relationships with major LNG and LPG importers and exporters and major crude oil companies;

our ability to leverage to our advantage Teekay Corporation s relationships and reputation in the shipping industry;

our continued ability to enter into long-term, fixed-rate time-charters with our LNG and LPG customers;

our expectation of not earning revenues from voyage charters in the foreseeable future;

the recent economic downturn and financial crisis in the global market and potential negative effects on our customers ability to charter our vessels and pay for our services;

obtaining LNG and LPG projects that we or Teekay Corporation bid on or that Teekay Corporation has been awarded;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

expected purchases and deliveries of newbuilding vessels and commencement of service of newbuildings under long-term contracts and our ability to obtain long-term contracts on our newbuildings;

the expected timing, amount and method of financing for the purchase of five of our leased Suezmax tankers;

our expected financial flexibility to pursue acquisitions and other expansion opportunities;

our ability to continue to obtain all permits, licenses, and certificates material to our operations;

the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;

the expected cost to install ballast water treatment systems on our tankers in compliance with IMO proposals;

the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;

- the adequacy of our insurance coverage for accident-related risks, environmental damage and pollution;
- the future valuation of goodwill;
- our expectations as to any impairment of our vessels;
- our involvement in any EU anti-trust investigation of container line operators;
- our expectation regarding our vessels ability to perform to specifications and maintain their hire rates;
- anticipated taxation of our partnership and its subsidiaries; and
- our business strategy and other plans and objectives for future operations.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to those factors discussed in Item 3: Key Information Risk Factors , and other factors detailed from time to time in other reports we file with or furnish to the U.S. Securities and Exchange Commission (or the *SEC*).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business prospects and results of operations.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay LNG Partners and its subsidiaries for the fiscal years 2008 through 2012, which have been derived from our consolidated financial statements. The following table should be read together with, and is qualified in its entirety by reference to, (a) Item 5. Operating and Financial Review and Prospects, included herein, and (b) the historical consolidated financial statements and the accompanying notes and the Report of Independent Registered Public Accounting Firm therein (which are included herein), with respect to the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010.

From time to time we purchase vessels from Teekay Corporation. In 2008 and 2010, we acquired two LNG carriers and three conventional tankers from Teekay Corporation, respectively. These transactions were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method whereby our financial statements prior to the date these vessels were acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. As a result, our consolidated statements of income (loss) for the years ended December 31, 2010, 2009 and 2008 reflect the results of operations of these five vessels, referred to herein as the *Dropdown Predecessor*, as if we had acquired them when each respective vessel began operations under the ownership of Teekay Corporation, which were December 13 and 14, 2007 for the two LNG carriers, and between May 2009 and September 2009 for the three conventional tankers. Please refer to Item 5 Operating and Financial Review and Prospects: Results of Operations Items You Should Consider When Evaluating Our Results of Operations .

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

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(in thousands of U.S. Dollars, except per unit and fleet data)	Year Ended December 31, 2008 $	Year Ended December 31, 2009 $	Year Ended December 31, 2010 $	Year Ended December 31, 2011 $	Year Ended December 31, 2012 $
Income Statement Data:					
Voyage revenues	314,404	343,048	374,008	379,975	392,251
Operating expenses:					
Voyage expenses(1)	3,253	2,034	2,042	1,387	1,772
Vessel operating expenses(2)	77,113	82,374	84,577	89,046	86,347
Depreciation and amortization	76,880	82,686	89,347	91,919	99,825
General and administrative	20,201	19,764	23,247	24,120	27,149
Write down of vessels					29,367
Gain on sale of vessel			(4,340)		
Restructuring charge		3,250	175		
Goodwill impairment	3,648				
Total operating expenses	181,095	190,108	195,048	206,472	244,460
Income from vessel operations	133,309	152,940	178,960	173,503	147,791
Equity income(3)	136	27,639	8,043	20,584	78,866
Interest expense	(138,317)	(60,457)	(49,019)	(49,880)	(54,211)
Interest income	64,325	13,873	7,190	6,687	3,502
Realized and unrealized loss on derivative instruments(4)	(99,954)	(40,950)	(78,720)	(63,030)	(29,620)
Foreign currency exchange gain (loss)(5)	18,244	(10,806)	27,545	10,310	(8,244)
Other income (expense)	1,250	392	615	(37)	1,683
Income tax expense	(205)	(694)	(1,670)	(781)	(625)
Net (loss) income	(21,212)	81,937	92,944	97,356	139,142
Non-controlling interest in net (loss) income	(40,698)	29,310	3,062	7,508	15,437
Dropdown Predecessor s interest in net (loss) income	894	5,302	2,258		
General Partner s interest in net (loss) income	11,989	5,180	8,896	11,474	21,303
Limited partners interest in net (loss) income	6,603	42,145	78,728	78,374	102,402
Limited partners interest in net (loss) income per:					
Common unit (basic and diluted)	0.63	0.86	1.46	1.33	1.54
Subordinated unit (basic and diluted)	(0.29)	0.80	2.04		
Total unit (basic and diluted)	0.36	0.85	1.48	1.33	1.54
Cash distributions declared per unit	2.1800	2.2800	2.3700	2.5200	2.6550
Balance Sheet Data (at end of period):					
Cash and cash equivalents	117,641	108,350	81,055	93,627	113,577
Restricted cash(6)	642,949	611,520	572,138	495,634	528,589
Vessels and equipment(7)	2,207,878	2,077,604	2,019,576	2,021,125	1,949,640
Net investments in direct financing leases(8)		421,441	415,695	409,541	403,386
Total assets(6)	3,432,849	3,578,411	3,547,395	3,588,734	3,785,446
Total debt and capital lease obligations(6)	2,199,952	2,257,604	2,137,249	1,962,278	2,050,927
Partners and Dropdown Predecessor equity	805,851	903,231	896,200	1,113,467	1,212,980
Common units outstanding	33,338,320	44,972,563	55,106,100	64,857,900	69,683,763
Subordinated units outstanding	11,050,929	7,367,286			
Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	149,570	171,384	174,970	122,046	192,013
Financing activities	403,262	(10,060)	(167,746)	7,174	30,374
Investing activities	(527,082)	(170,615)	(34,519)	(116,648)	(202,437)
Other Financial Data:					
Net voyage revenues(9)	311,151	341,014	371,966	378,588	390,479

EBITDA[10]	129,865	211,901	225,790	233,249	290,301
Adjusted EBITDA[10]	206,603	255,031	277,334	291,706	352,890
Capital expenditures:					
Expenditures for vessels and equipment	172,093	134,926	26,652	64,685	39,894
Expenditures for dry docking	11,966	9,729	12,727	19,638	7,493
Liquefied Gas Fleet Data:[11]					
Calendar-ship-days [12]	3,701	4,637	5,051	5,126	5,856
Average age of our fleet (in years at end of period)	4.4	4.6	5.3	5.8	6.6
Vessels at end of period	11	14	13	16	16
Conventional Fleet Data:					
Calendar-ship-days[12]	2,928	3,448	4,015	4,015	4,026
Average age of our fleet (in years at end of period)	5.5	5.1	6.1	6.9	7.9
Vessels at end of period	8	11	11	11	11

(1) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.

(2) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.

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(3) Equity income includes unrealized gains (losses) on derivative instruments of nil, $10.9 million, ($6.5) million, ($5.8) million and $5.5 million, for the years ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively.

(4) We entered into interest rate swaps to mitigate our interest rate risk from our floating-rate debt, leases and restricted cash. We also have entered into an agreement with Teekay Corporation relating to the Toledo Spirit time-charter contract under which Teekay Corporation pays us any amounts payable to the charterer as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us as a result of spot rates being in excess of the fixed rate. Changes in the fair value of our derivatives are recognized immediately into income and are presented as realized and unrealized loss on derivative instruments in the consolidated statements of income (loss). Please see Item 18 Financial Statements: Note 13 Derivative Instruments.

(5) Substantially all of these foreign currency exchange gains and losses were unrealized and not settled in cash. Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities, unearned revenue, advances from affiliates, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. Starting in May 2012, foreign exchange gains and losses included realized and unrealized gains and losses on our cross currency swaps. Our primary sources for the foreign currency exchange gains and losses are our Euro-denominated term loans and Norwegian Kroner-denominated (or *NOK*) bonds. Euro-denominated term loans totaled 296.4 million Euros ($414.1 million) at December 31, 2008, 288.0 million Euros ($412.4 million) at December 31, 2009, 278.9 million Euros ($373.3 million) at December 31, 2010, 269.2 million Euros ($348.9 million) at December 31, 2011 and 258.8 million Euros ($341.4 million) at December 31, 2012. NOK-denominated bonds were issued in 2012 and totaled 700.0 million NOK ($125.8 million).

(6) We operate certain of our LNG carriers under tax lease arrangements. Under these arrangements, we borrow under term loans and deposit the proceeds into restricted cash accounts. Concurrently, we enter into capital leases for the vessels, and the vessels are recorded as assets on our consolidated balance sheets. The restricted cash deposits, plus the interest earned on the deposits, will equal the remaining amounts we owe under the capital lease arrangements, including our obligations to purchase the vessels at the end of the lease term where applicable. Therefore, the payments under our capital leases are fully funded through our restricted cash deposits, and our continuing obligation is the repayment of the term loans. However, under GAAP we record both the obligations under the capital leases and the term loans as liabilities, and both the restricted cash deposits and our vessels under capital leases as assets. This accounting treatment has the effect of increasing our assets and liabilities by the amount of restricted cash deposits relating to the corresponding capital lease obligations.

(7) Vessels and equipment consist of (a) our vessels, at cost less accumulated depreciation, (b) vessels under capital leases, at cost less accumulated depreciation and (c) advances on our newbuildings.

(8) The external charters that commenced in 2009 with The Tangguh Production Sharing Contractors have been accounted for as direct financing leases. As a result, the two LNG vessels chartered to The Tangguh Production Sharing Contractors are not included as part of vessels and equipment.

(9) Consistent with general practice in the shipping industry, we use net voyage revenues (defined as voyage revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time-charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time-charters the charterer pays the voyage expenses, whereas under voyage charter contracts the ship owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although voyage revenues from different types of contracts may vary, the net voyage revenues are comparable across the different types of contracts. We principally use net voyage revenues, a non-GAAP financial measure, because it provides more meaningful information to us than voyage revenues, the most directly comparable GAAP financial measure. Net voyage revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net voyage revenues with voyage revenues.

(in thousands of U.S. Dollars)	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**	**Year Ended December 31, 2010**	**Year Ended December 31, 2011**	**Year Ended December 31, 2012**
Voyage revenues	314,404	343,048	374,008	379,975	392,251
Voyage expenses	(3,253)	(2,034)	(2,042)	(1,387)	(1,772)
Net voyage revenues	311,151	341,014	371,966	378,588	390,479

(10) EBITDA and Adjusted EBITDA are used as a supplemental financial measure by management and by external users of our financial statements, such as investors, as discussed below:

Financial and operating performance. EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA and Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization and realized and unrealized loss on derivative instruments relating to interest rate swaps and cross currency swaps, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net (loss) income between periods. We believe that including EBITDA and Adjusted EBITDA as financial and operating measures benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our common units.

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Liquidity. EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay distributions and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses, EBITDA and Adjusted EBITDA provides a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our cash distribution policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits investors to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including distributions on our common units.

Neither EBITDA nor Adjusted EBITDA, which are non-GAAP measures, should be considered as an alternative to net (loss) income, income from vessel operations, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net (loss) income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of other companies.

The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net (loss) income, and our historical consolidated Adjusted EBITDA to net operating cash flow.

(in thousands of U.S. Dollars)	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**	**Year Ended December 31, 2010**	**Year Ended December 31, 2011**	**Year Ended December 31, 2012**
Reconciliation of EBITDA and Adjusted EBITDA to Net (loss) income:					
Net (loss) income	(21,212)	81,937	92,944	97,356	139,142
Depreciation and amortization	76,880	82,686	89,347	91,919	99,825
Interest expense, net of interest income	73,992	46,584	41,829	43,193	50,709
Income tax expense	205	694	1,670	781	625
EBITDA	129,865	211,901	225,790	233,249	290,301
Restructuring charge		3,250	175		
Write down of vessels					29,367
Foreign currency exchange (gain) loss	(18,244)	10,806	(27,545)	(10,310)	8,244
Gain on sale of vessel			(4,340)		
Goodwill impairment	3,648				
Unrealized loss (gain) on derivative instruments	84,546	3,788	34,306	277	(6,900)
Realized loss on interest rate swaps	6,788	36,222	42,495	62,660	37,427
Unrealized (gain) loss on interest rate swaps in equity accounted joint ventures included in equity income		(10,936)	6,453	5,830	(5,549)
Adjusted EBITDA	206,603	255,031	277,334	291,706	352,890
Reconciliation of Adjusted EBITDA to Net operating cash flow:					
Net operating cash flow	149,570	171,384	174,970	122,046	192,013
Expenditures for dry docking	11,966	9,729	12,727	19,638	7,493
Interest expense, net of interest income	73,992	46,584	41,829	43,193	50,709
Income tax expense	205	694	1,670	781	625
Change in operating assets and liabilities	(34,450)	(28,788)	(6,657)	33,458	7,307
Equity income from joint ventures	136	27,639	8,043	20,584	78,866
Restructuring charge		3,250	175		
Realized loss on interest rate swaps	6,788	36,222	42,495	62,660	37,427
Unrealized (gain) loss on interest rate swaps in equity accounted joint ventures included in equity income		(10,936)	6,453	5,830	(5,549)

(loss)					
Dividends received from equity accounted joint ventures				(15,340)	(14,700)
Other, net	(1,604)	(747)	(4,371)	(1,144)	(1,301)
Adjusted EBITDA	206,603	255,031	277,334	291,706	352,890

(11) Fleet data does not include six LNG carriers (or the *MALT LNG Carriers*) relating to our joint venture with Marubeni Corporation, four LNG carriers (or the *RasGas 3 LNG Carriers*) relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation, four LNG carriers relating to the Angola Project (or the *Angola LNG Carriers*) and two LNG carriers relating to our joint ventures with Exmar NV (or the *Exmar LNG Carriers*), all of which are accounted for under the equity method.

(12) Calendar-ship-days are equal to the aggregate number of calendar days in a period that our vessels were in our possession during that period (including five vessels deemed to be in our possession for accounting purposes as a result of the impact of the Dropdown Predecessor prior to our actual acquisition of such vessels).

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RISK FACTORS

We may not have sufficient cash from operations to enable us to pay the current level of quarterly distributions on our common units following the establishment of cash reserves and payment of fees and expenses.

We may not have sufficient cash available each quarter to pay the current level of quarterly distributions on our common units. The amount of cash we can distribute on our common units principally depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

- the rates we obtain from our charters;
- the charterers options to terminate charter contracts;
- the level of our operating costs, such as the cost of crews and insurance;
- the continued availability of LNG and LPG production, liquefaction and regasification facilities;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled dry docking of our vessels;
- delays in the delivery of newbuildings and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

The actual amount of cash we will have available for distribution also will depend on factors such as:

- the level of capital expenditures we make, including for maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations;
- our debt service requirements and restrictions on distributions contained in our debt instruments;
- fluctuations in our working capital needs;
- our ability to make working capital borrowings, including to pay distributions to unitholders; and

the amount of any cash reserves, including reserves for future capital expenditures and other matters, established by Teekay GP L.L.C., our general partner (or the *General Partner*) in its discretion.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

We make substantial capital expenditures to maintain the operating capacity of our fleet, which reduce our cash available for distribution. In addition, each quarter our General Partner is required to deduct estimated maintenance capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. These maintenance capital expenditures include capital expenditures associated with dry docking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in:

the cost of labor and materials;

customer requirements;

increases in the size of our fleet;

governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and

competitive standards.

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Our significant maintenance capital expenditures reduce the amount of cash we have available for distribution to our unitholders.

In addition, our actual maintenance capital expenditures vary significantly from quarter to quarter based on, among other things, the number of vessels dry docked during that quarter. Our partnership agreement requires our General Partner to deduct estimated, rather than actual, maintenance capital expenditures from operating surplus (as defined in our partnership agreement) each quarter in an effort to reduce fluctuations in operating surplus. The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the conflicts committee of our General Partner s board of directors at least once a year. In years when estimated maintenance capital expenditures are higher than actual maintenance capital expenditures as we expect will be the case in the years we are not required to make expenditures for mandatory dry dockings the amount of cash available for distribution to unitholders will be lower than if actual maintenance capital expenditures were deducted from operating surplus. If our General Partner underestimates the appropriate level of estimated maintenance capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed our previous estimates.

We will be required to make substantial capital expenditures to expand the size of our fleet. We generally will be required to make significant installment payments for acquisitions of newbuilding vessels prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our ability to make required payments on our debt securities and cash distributions on our common units may be diminished or our financial leverage could increase or our unitholders could be diluted.

We make substantial capital expenditures to increase the size of our fleet. For example, on February 12, 2013, we acquired a 50% interest, through a joint venture with Exmar NV (or *Exmar*), to own and charter-in LPG carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity, called Exmar LPG BVBA includes 20 owned LPG carriers (including eight newbuildings) and five chartered-in LPG carriers. In addition, on December 12, 2012, we entered into an agreement for the construction of two 173,400 cubic meter LNG carrier newbuildings, with options to order up to three additional vessels. We expect these newbuildings to deliver in 2016. Please read Item 5 Operating and Financial Review and Prospects, for additional information about these acquisitions. We may also be obligated to purchase five of our leased Suezmax tankers upon the charterer s option, which may occur at various times from 2014 through to 2018 and which have an aggregate purchase price of approximately $165.5 million at December 31, 2012.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide the marine transportation requirements for new or expanding LNG and LPG projects. The award process relating to LNG transportation opportunities typically involves various stages and takes several months to complete. Neither we nor Teekay Corporation may be awarded charters relating to any of the projects we or it pursues. If any LNG project charters are awarded to Teekay Corporation, it must offer them to us pursuant to the terms of an omnibus agreement entered into in connection with our initial public offering. If we elect pursuant to the omnibus agreement to obtain Teekay Corporation s interests in any projects Teekay Corporation may be awarded, or if we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to buy Teekay Corporation s interest in these LNG and LPG projects or to build the LNG and LPG carriers.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for distributions to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our level of quarterly distributions to unitholders, which could have a material adverse effect on our ability to make cash distributions.

A shipowner typically is required to expend substantial sums as progress payments during construction of a newbuilding, but does not derive any income from the vessel until after its delivery. If we were unable to obtain financing required to complete payments on any future newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made.

Our ability to grow may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

Our substantial debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

As at December 31, 2012, our consolidated debt, capital lease obligations and advances from affiliates totaled $2.1 billion and we had the capacity to borrow an additional $381.4 million under our credit facilities. These facilities may be used by us for general partnership purposes. If we are awarded contracts for new LNG or LPG projects, our consolidated debt and capital lease obligations will increase, perhaps significantly. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and

- our debt level may limit our flexibility in responding to changing business and economic conditions.

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Our ability to service our debt depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our financing arrangements and any future financing agreements for us could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the arrangements may restrict our ability to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions when in default of the relevant loans;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

Some of our financing arrangements require us to maintain a minimum level of tangible net worth, to maintain certain ratios of vessel values as it relates to the relevant outstanding principal balance, a minimum level of aggregate liquidity, a maximum level of leverage and require one of our subsidiaries to maintain restricted cash deposits. Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, compliance with these covenants may be impaired. If restrictions, covenants, ratios or tests in the financing agreements are breached, a significant portion of the obligations may become immediately due and payable, and the lenders commitment to make further loans may terminate. We might not have or be able to obtain sufficient funds to make these accelerated payments. In addition, our obligations under our existing credit facilities are secured by certain of our vessels, and if we are unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets.

Restrictions in our debt agreements may prevent us from paying distributions.

The payment of principal and interest on our debt and capital lease obligations reduces cash available for distribution to us and on our units. In addition, our financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;

- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facility;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be materially correct;
- a change of control, as defined in the applicable agreement; and
- a material adverse effect, as defined in the applicable agreement.

We derive a substantial majority of our revenues from a limited number of customers, and the loss of any customer, charter or vessel, or any adjustment to our charter contracts could result in a significant loss of revenues and cash flow.

We have derived, and believe that we will continue to derive, a significant portion of our revenues and cash flow from a limited number of customers. Please read Item 18 Financial Statements: Note 5 Segment Reporting.

We could lose a customer or the benefits of a time-charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;

the customer exercises certain rights to terminate the charter, purchase or cause the sale of the vessel or, under some of our charters, convert the time-charter to a bareboat charter (some of which rights are exercisable at any time);

we decrease charter payments due under a charter because of the customer s inability to continue making the original payments;

the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or

under some of our time-charters, the customer terminates the charter because of the termination of the charterer s sales agreement or a prolonged force majeure event affecting the customer, including damage to or destruction of relevant facilities, war or political unrest preventing us from performing services for that customer.

If we lose a key LNG time-charter, we may be unable to re-deploy the related vessel on terms as favorable to us due to the long-term nature of most LNG time-charters and the lack of an established LNG spot market. If we are unable to re-deploy a LNG carrier, we will not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition. In addition, if a customer exercises its right to purchase a vessel, we would not receive any further revenue from the vessel and may be unable to obtain a substitute vessel and charter. This may cause us to receive decreased revenue and cash flows from having fewer vessels operating in our fleet. Any compensation under our charters for a purchase of the vessels may not adequately compensate us for the loss of the vessel and related time-charter.

If we lose a key conventional tanker customer, we may be unable to obtain other long-term conventional charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase or force a sale of the vessel, we may be unable to acquire an adequate replacement vessel or may be forced to construct a new vessel. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of certain of our customers, time-charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

We depend on Teekay Corporation and certain of our joint venture partners to assist us in operating our business and competing in our markets.

Pursuant to certain services agreements between us and certain of our operating subsidiaries, on the one hand, and certain subsidiaries of Teekay Corporation and certain of our joint venture partners, on the other hand, the Teekay Corporation subsidiaries and certain of our joint venture partners provide to us administrative and business development services and to our operating subsidiaries significant operational services (including vessel maintenance, crewing for some of our vessels, purchasing, shipyard supervision, insurance and financial services) and other technical, advisory and administrative services. Our operational success and ability to execute our growth strategy depend significantly upon Teekay Corporation s and certain of our joint venture partners satisfactory performance of these services. Our business will be harmed if Teekay Corporation or certain of our joint venture partners fails to perform these services satisfactorily or if Teekay Corporation or certain of our joint venture partners stops providing these services to us.

Our ability to compete for the transportation requirements of LNG and oil projects and to enter into new time-charters and expand our customer relationships depends largely on our ability to leverage our relationship with Teekay Corporation and its reputation and relationships in the shipping industry. Our ability to compete for the transportation requirement of LPG projects and to enter into new charters and expand our customer relationships depends largely on our ability to leverage our relationship with certain of our joint venture partners and their reputation and relationships in the shipping industry. If Teekay Corporation or certain of our joint venture partners suffer material damage to its reputation or relationships it may harm our ability to:

renew existing charters upon their expiration;

- obtain new charters;

- successfully interact with shipyards during periods of shipyard construction constraints;

- obtain financing on commercially acceptable terms; or

- maintain satisfactory relationships with our employees and suppliers.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Our operating subsidiaries may also contract with certain subsidiaries of Teekay Corporation for the Teekay Corporation subsidiaries and certain of our joint venture partners for the subsidiaries to have newbuildings constructed on behalf of our operating subsidiaries and to incur the construction-related financing. Our operating subsidiaries would purchase the vessels on or after delivery based on an agreed-upon price. None of our operating subsidiaries currently has this type of arrangement with Teekay Corporation or any of its affiliates.

Our main growth depends on continued growth in demand for LNG and LPG shipping.

Our growth strategy focuses on continued expansion in the LNG and LPG shipping sectors. Accordingly, our growth depends on continued growth in world and regional demand for LNG and LPG shipping, which could be negatively affected by a number of factors, such as:

- increases in the cost of natural gas derived from LNG relative to the cost of natural gas generally;

- increase in the cost of LPG relative to the cost of naphtha and other competing petrochemicals;

- increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;

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- decreases in the consumption of natural gas due to increases in its price relative to other energy sources or other factors making consumption of natural gas less attractive;
- additional sources of natural gas, including shale gas;
- availability of alternative energy sources; and
- negative global or regional economic or political conditions, particularly in LNG and LPG consuming regions, which could reduce energy consumption or its growth.

Reduced demand for LNG and LPG shipping would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

Changes in the oil markets could result in decreased demand for our conventional vessels and services in the future.

Demand for our vessels and services in transporting oil depends upon world and regional oil markets. Any decrease in shipments of crude oil in those markets could have a material adverse effect on our conventional tanker business. Upon completion of the remaining charter terms for our conventional tankers, any adverse changes in the oil markets may affect our ability to enter into long-term fixed-rate contracts for our conventional tankers. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, including competition from alternative energy sources. Past slowdowns of the U.S. and world economies have resulted in reduced consumption of oil products and decreased demand for our vessels and services, which reduced vessel earnings. Additional slowdowns could have similar effects on our operating results.

Growth of the LNG market may be limited by infrastructure constraints and community environmental group resistance to new LNG infrastructure over concerns about the environment, safety and terrorism.

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and LNG carriers. Existing LNG projects and infrastructure are limited, and new or expanded LNG projects are highly complex and capital-intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG infrastructure or disrupt the supply of LNG, including:

- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;
- decreases in the price of LNG, which might decrease the expected returns relating to investments in LNG projects;
- the inability of project owners or operators to obtain governmental approvals to construct or operate LNG facilities;
- local community resistance to proposed or existing LNG facilities based on safety, environmental or security concerns;
- any significant explosion, spill or similar incident involving an LNG facility or LNG carrier; and
- labor or political unrest affecting existing or proposed areas of LNG production.

If the LNG supply chain is disrupted or does not continue to grow, or if a significant LNG explosion, spill or similar incident occurs, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate LNG, LPG and oil charters. The process of obtaining new long-term charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Shipping contracts are awarded based upon a variety of factors relating to the vessel operator, including:

- shipping industry relationships and reputation for customer service and safety;
- shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;
- the ability to finance carriers at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

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We compete for providing marine transportation services for potential energy projects with a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the energy project requiring energy shipping services. Many of these competitors have significantly greater financial resources than we do or Teekay Corporation does. We anticipate that an increasing number of marine transportation companies including many with strong reputations and extensive resources and experience will enter the energy transportation sector. This increased competition may cause greater price competition for time-charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Delays in deliveries of newbuildings could harm our operating results and lead to the termination of related charters.

The delivery of newbuildings we may order or otherwise acquire, could be delayed, which would delay our receipt of revenues under the charters for the vessels. In addition, under some of our charters if delivery of a vessel to our customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double, the hire rate during the delay. For prolonged delays, the customer may terminate the time-charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages.

Our receipt of newbuildings could be delayed because of:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;
- bankruptcy or other financial crisis of the shipbuilder;
- a backlog of orders at the shipyard;
- political or economic disturbances where our vessels are being or may be built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to finance the purchase or construction of the vessels; or
- our inability to obtain requisite permits or approvals.

If delivery of a vessel is materially delayed, it could adversely affect our results or operations and financial condition and our ability to make cash distributions.

We may be unable to secure long-term charters for our LNG newbuildings before their scheduled deliveries.

On December 12, 2012, we entered into an agreement with Daewoo Shipbuilding & Marine Engineering Co., Ltd. of South Korea for the construction of two LNG newbuildings (with the option to order up to three additional vessels), without having secured corresponding long-term charters. The process of obtaining new long-term charters is highly competitive. Consequently, we may be unable to secure long-term charters for these or other newbuildings we may order before their scheduled delivery, if at all, which could harm our business, results of operations and financial condition and our ability to make cash distributions.

We may have more difficulty entering into long-term, fixed-rate LNG time-charters if an active short-term, medium-term or spot LNG shipping market develops.

LNG shipping historically has been transacted with long-term, fixed-rate time-charters, usually with terms ranging from 20 to 25 years. One of our principal strategies is to enter into additional long-term, fixed-rate LNG time-charters. In recent years the number of spot, short-term and medium-term LNG charters of under four years has been increasing. In 2012, they accounted for approximately 25% of global LNG trade.

If an active spot, short-term or medium-term market continues to develop, we may have increased difficulty entering into long-term, fixed-rate time-charters for our LNG carriers and, as a result, our cash flow may decrease and be less stable. In addition, an active short-term, medium-term or spot LNG market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for shipping LNG is depressed.

Over time vessel values may fluctuate substantially and, if these values are lower at a time when we are attempting to dispose of a vessel, we may incur a loss.

Vessel values for LNG and LPG carriers and conventional tankers can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in natural gas, oil and energy markets;
- a substantial or extended decline in demand for natural gas, LNG, LPG or oil;
- increases in the supply of vessel capacity; and