

TEEKAY CORP
Form 20-F
April 11, 2008

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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

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

For the fiscal year ended December 31, 2007

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 1-12874

TEEKAY CORPORATION

(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

(Address of principal executive offices)

Roy Spires

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Telephone: (441) 298-2530 Fax: (441) 292-3931

(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 Stock, par value of \$0.001 per share

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 of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

72,772,529 shares of Common Stock, par value of \$0.001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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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

Indicate by check mark whether 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 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

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

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

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PART I

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

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 growth prospects and strategic position;

expected increases in compensation costs;

tanker market fundamentals, including the balance of supply and demand in the tanker market, spot tanker charter rates, OPEC and non-OPEC oil production;

expected demand in the offshore oil production sector and the demand for vessels;

our expected benefits of the OMI acquisition;

the sufficiency of our working capital for short-term liquidity requirements;

future capital expenditure commitments and the financing requirements for such commitments;

the appropriateness of our liability insurance;

delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time-charter contacts;

future cash flow from vessel operations;

the adequacy of restricted cash deposits to fund capital lease obligations;

our ability to capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing freight forward agreements;

the ability of the counterparties to our derivative contracts to fulfill their contractual obligations;

growth prospects of the LNG shipping sector and including increased competition;

our ability to utilize the recently acquired LNG vessels in a new service offering after the expiry of the current time-charter in April 2009;

the expected impact of International Maritime Organization and other regulations, as well as our expected compliance with such regulations and the cost thereof;

the expected lifespans of our vessels;

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

the growth of the global economy and global oil demand;

our exemption to tax on our U.S. source international transportation income;

results of our discussions with a customer to adjust the rate under one of our floating production, storage and offloading contracts and the potential of a required write-down of the carrying cost of the vessel and related goodwill;

our ability to competitively pursue new floating production, storage and offloading projects; and

our competitive positions in the shuttle tanker market and in the Aframax and Suezmax tanker market.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will likely result, or words or phrases of similar meanings. These 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 below in Item 3: Key Information Risk Factors and other factors detailed from time to time in other reports we file with the SEC.

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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 Corporation together with its subsidiaries (sometimes referred to as Teekay, the Company, we or us), for fiscal years 2007, 2006, 2005, 2004 and 2003, which have been derived from our consolidated financial statements. The data below should be read in conjunction with the consolidated financial statements and the notes thereto and the Report of Independent Registered Public Accounting Firm therein with respect to fiscal years 2007, 2006 and 2005 (which are included herein) and Item 5. Operating and Financial Review and Prospects.

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

	2007	2006	2005	2004	2003
	(in thousands, except share data and ratios)				
Income Statement Data:					
Revenues	2,406,622	2,013,306	1,954,618	2,219,238	1,576,095
Total operating expenses ⁽¹⁾	(2,008,718)	(1,591,457)	(1,322,842)	(1,398,052)	(1,283,131)
Income from vessel operations	397,904	421,849	631,776	821,186	292,964
Interest expense	(287,558)	(171,643)	(132,428)	(121,518)	(80,999)
Interest income	82,158	56,224	33,943	18,528	3,921
Foreign exchange (loss) gain	(22,106)	(45,382)	59,810	(42,704)	(3,855)
Minority interest expense	(9,663)	(441)	(16,628)	(2,268)	(3,339)
Other net	20,516	1,637	(5,573)	84,216	(31,328)
Net income	181,251	262,244	570,900	757,440	177,364
Per Common Share Data:					
Net income basic ⁽²⁾	\$ 2.47	\$ 3.58	\$ 7.30	\$ 9.14	\$ 2.22
Net income diluted ⁽²⁾	2.43	3.49	6.83	8.63	2.18
Cash dividends declared ⁽²⁾	0.9875	0.8600	0.6200	0.5125	0.4475
Balance Sheet Data (at end of year):					
Cash and cash equivalents	\$ 442,673	\$ 343,914	\$ 236,984	\$ 427,037	\$ 387,795
Restricted cash	686,196	679,992	311,084	448,812	2,672
Vessels and equipment	6,846,875	5,308,068	3,721,674	3,531,287	2,574,860
Total assets	10,060,153	7,733,476	5,294,100	5,503,740	3,588,044
Total debt (including capital lease obligations)	5,760,270	3,719,683	2,432,978	2,744,545	1,636,758
Capital stock and additional paid in capital	628,786	596,712	471,784	534,938	492,653
Total stockholders equity	2,687,870	2,528,222	2,236,542	2,237,358	1,651,827

Number of outstanding shares of common stock ⁽²⁾	72,772,529	72,831,923	71,375,593	82,951,275	81,222,350
Other Financial Data:					
Net revenues ⁽³⁾	\$ 1,878,442	\$ 1,491,189	\$ 1,535,449	\$ 1,786,843	\$ 1,181,439
Net operating cash flow	255,018	520,785	594,949	814,704	455,575
Total debt to total capitalization ^{(4) (5)}	64.2%	55.5%	49.1%	54.9%	49.5%
Net debt to total net capitalization ^{(5) (6)}	59.0%	47.5%	42.8%	45.3%	44.5%
Capital expenditures: Vessel and equipment purchases, gross ⁽⁷⁾	\$ 910,304	\$ 442,470	\$ 555,142	\$ 548,587	\$ 372,433

(1) Total operating expenses include (gain) / loss on sale of vessels and equipment net of write-downs, and restructuring charges as follows:

	2007	2006	2005	2004	2003
	(in thousands)				
(Gain) / loss on sale of vessels and equipment net of write-downs	\$ (18,630)	\$ (1,341)	\$ (139,184)	\$ (79,254)	\$ 90,389
Restructuring charges		8,929	2,882	1,002	6,383
	(18,630)	7,588	(136,302)	(78,252)	96,772

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- (2) On May 17, 2004, we effected a two-for-one stock split relating to our common stock. All relevant per share data and number of outstanding shares of common stock give effect to this stock split retroactively.
- (3) Consistent with general practice in the shipping industry, we use net revenues (defined as 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, which 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, 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 revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call net revenues, are comparable

across the different types of contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net 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 revenues with revenues.

	2007	2006	2005 (in thousands)	2004	2003
Revenues	\$ 2,406,622	\$ 2,013,306	\$ 1,954,618	\$ 2,219,238	\$ 1,576,095
Voyage expenses	(528,180)	(522,117)	(419,169)	(432,395)	(394,656)
Net revenues	1,878,442	1,491,189	1,535,449	1,786,843	1,181,439

(4) Total capitalization represents total debt, minority interest and total stockholders equity.

(5) Until February 16, 2006, we had \$143.7 million of Premium Equity Participating Security Units due May 18, 2006 (or *Equity Units*) outstanding. If these Equity Units were presented as equity, our total debt to total capitalization would have been 46.2%, 52.1% and 45.2% as of December 31, 2005, 2004 and 2003, respectively, and our net debt to total capitalization would have been 39.5%, 41.9% and 39.8% as of December 31, 2005, 2004 and 2003, respectively. We believe that this presentation as equity for the purposes of these calculations is consistent with the requirement that each Equity Unit holder purchase for \$25 a specified fraction of a

share of our common stock on February 16, 2006.

(6) Net debt represents total debt less cash, cash equivalents, restricted cash and short-term marketable securities. Total net capitalization represents net debt, minority interest and total stockholders equity.

(7) Excludes vessels purchased in connection with our acquisitions of Navion AS in 2003, Teekay Shipping Spain S.L. (or *Teekay Spain*) in 2004, Teekay Petrojarl ASA (or *Petrojarl*) in 2006, and 50% of OMI Corporation (or *OMI*) in 2007. Please read Item 5 Operating and Financial Review and Prospects.

Risk Factors

The cyclical nature of the tanker industry may lead to volatile changes in charter rates, which may adversely affect our earnings .

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of, and demand for, tanker capacity and changes in the supply of and demand for oil and oil products. If the tanker market is depressed, our earnings may decrease, particularly with respect to our spot tanker segment, which accounted

for approximately 34% and 42% of our net revenues during 2007 and 2006, respectively. The cyclical nature of the tanker industry may cause significant increases or decreases in the revenue we earn from our vessels and may also cause significant increases or decreases in the value of our vessels. The factors affecting the supply of and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

Factors that influence demand for tanker capacity include:

- demand for oil and oil products;
- supply of oil and oil products;
- regional availability of refining capacity;
- global and regional economic conditions;
- the distance oil and oil products are to be moved by sea; and
- changes in seaborne and other transportation patterns.

Factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- conversion of tankers to other uses;
- the number of vessels that are out of service; and
- environmental concerns and regulations.

Changes in demand for transportation of oil over longer distances and in the supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows.

Table of Contents***Changes in the oil and natural gas markets could result in decreased demand for our vessels and services.***

Demand for our vessels and services in transporting oil, petroleum products and liquefied natural gas (or *LNG*) will depend upon world and regional oil and natural gas markets. Any decrease in shipments of oil, petroleum products or *LNG* in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, petroleum products and *LNG*, and competition from alternative energy sources. A slowdown of the U.S. and world economies may result in reduced consumption of oil, petroleum products and natural gas and a decreased demand for our vessels and services, which would reduce vessel earnings.

Terrorist attacks, increased hostilities or war could lead to further economic instability, increased costs and disruption of our business.

Terrorist attacks, the current conflicts in Iraq and Afghanistan, and other current and future conflicts may adversely affect our business, operating results, financial condition, and ability to raise capital or future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil, *LNG* and liquefied petroleum gas (or *LPG*) production and distribution, which could result in reduced demand for our services. In addition, oil, *LNG* and *LPG* facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil, *LNG* and *LPG* to or from certain locations. Terrorist attacks, war or other events beyond our control that adversely affect the distribution, production or transportation of oil, *LNG* or *LPG* to be shipped by us could entitle our customers to terminate charter contracts, which could harm our cash flow and our business.

Our substantial operations outside the United States expose us to political, governmental and economic instability, which could harm our operations.

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered. Any disruption caused by these factors could harm our business. In particular, changing laws and policies affecting trade, investment and changes in tax regulations could have a materially adverse effect on our business, cash flow and financial results. As well, we derive a substantial portion of our revenues from shipping oil, *LNG* and *LPG* from politically unstable regions. Past political conflicts in these regions, particularly in the Arabian Gulf, have included attacks on ships, mining of waterways and other efforts to disrupt shipping in the area. Future hostilities or other political instability in the Arabian Gulf or other regions where we operate or may operate could have a material adverse effect on the growth of our business, results of operations and financial condition. In addition, tariffs, trade embargoes and other economic sanctions by the United States, Spain or other countries against countries in the Middle East, Southeast Asia or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our business, cash flow and financial results.

Our dependence on spot voyages may result in significant fluctuations in the utilization of our vessels and our profitability.

During 2007 and 2006, we derived approximately 34% and 42%, respectively, of our net revenues from the vessels in our spot tanker segment. Our spot tanker segment consists of conventional crude oil tankers and product carriers operating on the spot market or subject to time-charters, or contracts of affreightment priced on a spot-market basis or short-term fixed-rate contracts. We consider contracts that have an original term of less than three years in duration to be short-term. Part of our conventional Aframax and Suezmax tanker fleets and our large and small product tanker fleets are among the vessels included in our spot tanker segment. Our shuttle tankers may also trade in the spot market when not otherwise committed to perform under time-charters or contracts of affreightment. Due to our dependence on the spot-charter market, declining charter rates in a given period generally will result in corresponding declines in operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. The successful operation of our vessels in the spot-charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. In the past, there have been periods when spot rates have declined below the operating cost of vessels. Future spot rates may decline significantly and may not be sufficient to enable our vessels trading in the spot market to operate profitably or to provide sufficient cash flow to service our debt obligations.

Reduction in oil produced from offshore oil fields could harm our shuttle tanker and FPSO businesses.

As at December 31, 2007, we had 40 vessels operating in our shuttle tanker fleet and four floating production, storage and offloading (or *FPSO*) units operating in our FPSO fleet. A majority of our shuttle tankers and all of our FPSOs earn revenue that depends upon the volume of oil we transport or the volume of oil produced from offshore oil fields. Oil production levels are affected by several factors, all of which are beyond our control, including:

- geologic factors, including general declines in production that occur naturally over time;
- the rate of technical developments in extracting oil and related infrastructure and implementation costs; and
- operator decisions based on revenue compared to costs from continued operations.

Factors that may affect an operator's decision to initiate or continue production include: changes in oil prices; capital budget limitations; the availability of necessary drilling and other governmental permits; the availability of qualified personnel and equipment; the quality of drilling prospects in the area; and regulatory changes. In addition, the volume of oil we transport may be adversely affected by extended repairs to oil field installations or suspensions of field operations as a result of oil spills, operational difficulties, strikes, employee lockouts or other labor unrest. The rate of oil production at fields we service may decline from existing or future levels, and may be terminated, all of which could harm our business and operating results. In addition, if such a reduction or termination occurs, the spot market rates, if any, in the conventional oil tanker trades at which we may be able to redeploy the affected shuttle tankers may be lower than the rates previously earned by the vessels under contracts of affreightment, which would also harm our business and operating results.

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FPSO units are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. Unless extended, certain of our FPSO production service agreements will expire during the next 10 years. Our clients may also terminate certain of our FPSO production service agreements prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

The duration of many of our shuttle tanker and FSO contracts is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, we will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels.

Many of our shuttle tanker contracts have a life-of-field duration, which means that the contract continues until oil production at the field ceases. If production terminates for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker and floating storage and off-take (or FSO) contracts under which our vessels operate are subject to extensions beyond their initial term. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. If we are unable to promptly redeploy any affected vessels at rates at least equal to those under the contracts, if at all, our operating results will be harmed. Any potential redeployment may not be under long-term contracts, which may affect the stability of our business and operating results.

Over time, the value of our vessels may decline, which could adversely affect our operating results.

Vessel values for oil and product tankers, LNG and LPG carriers and FPSO and FSO units can fluctuate substantially over time due to a number of different factors. Vessel values may decline substantially from existing levels. If operation of a vessel is not profitable, or if we cannot re-deploy a chartered vessel at attractive rates upon charter termination, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings.

Our growth depends on continued growth in demand for LNG and LPG and LNG and LPG shipping as well as offshore oil transportation, production, processing and storage services.

A significant portion of our growth strategy focuses on continued expansion in the LNG and LPG shipping sector and on the expansion in the shuttle tanker, FSO and FPSO sectors.

Expansion of the LNG and LPG shipping sector depends on continued growth in world and regional demand for LNG and LPG and LNG and LPG shipping and the supply of LNG and LPG. Demand for LNG and LPG and LNG and LPG shipping could be negatively affected by a number of factors, such as increases in the costs of natural gas derived from LNG relative to the cost of natural gas generally, increases in the production of natural gas in areas linked by pipelines to consuming areas, increases in the price of LNG and LPG relative to other energy sources, the availability of new energy sources, and negative global or regional economic or political conditions. Reduced demand for LNG or LPG and LNG or LPG shipping would have a material adverse effect on future growth of our liquefied gas segment, and could harm that segment's results. Growth of the LNG and LPG markets may be limited by infrastructure constraints and community and environmental group resistance to new LNG and LPG infrastructure over concerns about the environment, safety and terrorism. If the LNG or LPG supply chain is disrupted or does not continue to grow, or if a significant LNG or LPG explosion, spill or similar incident occurs, it could have a material adverse effect on growth and could harm our business, results of operations and financial condition.

Expansion of the shuttle tanker, FSO and FPSO sectors depends on continued growth in world and regional demand for these offshore services, which could be negatively affected by a number of factors, such as:

- decreases in the actual or projected price of oil, which could lead to a reduction in or termination of production of oil at certain fields we service or a reduction in exploration for or development of new offshore oil fields;

increases in the production of oil 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-oil pipelines to oil pipelines in those markets;

decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;

availability of new, alternative energy sources; and

negative global or regional economic or political conditions, particularly in oil consuming regions, which could reduce energy consumption or its growth.

Reduced demand for offshore marine transportation, production, processing or storage services would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

The intense competition in our markets may lead to reduced profitability or expansion opportunities.

Our vessels operate in highly competitive markets. Competition arises primarily from other vessel owners, including major oil companies and independent companies. We also compete with owners of other size vessels. Our market share is insufficient to enforce any degree of pricing discipline in the markets in which we operate and our competitive position may erode in the future. Any new markets that we enter could include participants that have greater financial strength and capital resources than we have. We may not be successful in entering new markets.

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One of our objectives is to enter into additional long-term, fixed-rate time-charters for our LNG and LPG carriers, shuttle tankers, FSO and FPSO units. The process of obtaining new long-term time-charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. We expect substantial competition for providing services for potential LNG, LPG, shuttle tanker, FSO and FPSO projects from a number of experienced companies, including state-sponsored entities and major energy companies. Some of these competitors have greater experience in these markets and greater financial resources than do we. We anticipate that an increasing number of marine transportation companies, including many with strong reputations and extensive resources and experience will enter the LNG and LPG transportation, shuttle tanker, FSO and FPSO sectors. 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.

The loss of any key customer could result in a significant loss of revenue in a given period.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. One customer accounted for 20%, or \$472.3 million, of our consolidated revenues during 2007 (15% or \$307.9 million 2006 and 20% or \$392.2 million 2005). The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2007, our consolidated debt and capital lease obligations totaled \$5.8 billion and we had the capacity to borrow an additional \$1.3 billion under our credit facilities. These facilities may be used by us for general corporate purposes. Our consolidated debt and capital lease obligations could increase substantially. 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:

- 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 dividends to stockholders;
- 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.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be 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 revolving credit facilities, term loans and in any of our future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements restrict our ability to:

- pay dividends;
- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;

grant liens on our assets;

sell, transfer, assign or convey assets;

make certain investments; and

enter into a new line of business.

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, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in the financing agreements, our obligations may become immediately due and payable, and the lenders' commitment, if any, to make further loans may terminate. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

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These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels.

The United States Oil Pollution Act of 1990 (or *OPA 90*), for instance, allows for potentially unlimited liability for owners, operators and bareboat charterers for oil pollution and related damages in U.S. waters, which include the U.S. territorial sea and the 200-nautical mile exclusive economic zone around the United States, without regard to fault of such owners, operators and bareboat charterers. OPA 90 expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability. Similarly, the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, which has been adopted by many countries outside of the United States, imposes liability for oil pollution in international waters. In addition, in complying with OPA 90, regulations of the International Maritime Organization (or *IMO*), European Union directives and other existing laws and regulations and those that may be adopted, ship-owners may incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage.

OPA 90 does not preclude claimants from seeking damages for the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize seaborne transportation of LNG or LPG as an ultra-hazardous activity, which attempts, if successful, would lead to our being strictly liable for damages resulting from that activity.

Various jurisdictions are considering regulating the management of ballast water to prevent the introduction of non-indigenous species considered to be invasive. For example, the United States Clean Water Act prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. Certain exemptions promulgated by the Environmental Protection Agency (or *EPA*) under the Clean Water Act allow vessels in U.S. ports to discharge certain substances, including ballast water, without obtaining a permit to do so. However, a U.S. district court has invalidated the exemption. If the EPA does not successfully appeal the district court decision, we may be

subject to ballast water treatment obligations that could increase the costs of operating in the United States.

In addition to international regulations affecting oil tankers generally, countries having jurisdiction over North Sea areas also impose regulatory requirements applicable to operations in those areas. Operators of North Sea oil fields impose further requirements. As a result, we must make significant expenditures for sophisticated equipment, reporting and redundancy systems on its shuttle tankers. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea or other regions in which we operate or may operate in the future.

We may be unable to make or realize expected benefits from acquisitions, and implementing our strategy of growth through acquisitions may harm our financial condition and performance.

A principal component of our strategy is to continue to grow by expanding our business both in the geographic areas and markets where we have historically focused as well as into new geographic areas, market segments and services. We may not be successful in expanding our operations and any expansion may not be profitable. Our strategy of growth through acquisitions involves business risks commonly encountered in acquisitions of companies, including:

- interruption of, or loss of momentum in, the activities of one or more of an acquired company's businesses and our businesses;

additional demands on members of our senior management while integrating acquired businesses, which would decrease the time they have to manage our existing business, service existing customers and attract new customers;

difficulties in integrating the operations, personnel and business culture of acquired companies;

difficulties of coordinating and managing geographically separate organizations;

adverse effects on relationships with our existing suppliers and customers, and those of the companies acquired;

difficulties entering geographic markets or new market segments in which we have no or limited experience; and

loss of key officers and employees of acquired companies.

Acquisitions may not be profitable to us at the time of their completion and may not generate revenues sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our results of operations and financial condition, including risks that we may: fail to realize anticipated benefits, such as cost-savings, revenue and cash flow enhancements and earnings accretion; decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions; incur additional indebtedness, which may result in significantly increased interest expense or financial leverage, or issue additional equity securities to finance acquisitions, which may result in significant shareholder dilution; incur or assume unanticipated liabilities, losses or costs associated with the business acquired; or incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

The strain that growth places upon our systems and management resources may harm our business.

Our growth has placed and will continue to place significant demands on our management, operational and financial resources. As we expand our operations, we must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. In addition, our three publicly listed subsidiaries have increased our complexity and placed additional demands on our management. Our future growth and financial performance will also depend on our ability to recruit, train, manage and motivate our employees to support our expanded operations and continue to improve our customer support, financial controls and information systems.

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These efforts may not be successful and may not occur in a timely or efficient manner. Failure to effectively manage our growth and the system and procedural transitions required by expansion in a cost-effective manner could have a material adverse affect on our business.

Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.

The operation of oil and product tankers, LNG and LPG carriers, FSO and FPSO units is inherently risky. Although we carry hull and machinery (marine and war risk) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, we do not generally carry insurance on our vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available may be significantly more expensive than our existing coverage.

Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.

Our vessels and their cargoes are at risk of being damaged or lost because of events such as:

- marine disaster;
- bad weather;
- mechanical failures;
- grounding, fire, explosions and collisions;
- piracy;
- human error; and
- war and terrorism.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or environmental damage or pollution;
- delays in the delivery of cargo;
- loss of revenues from or termination of charter contracts;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results.

Our operating results are subject to seasonal fluctuations.

We operate our conventional tankers in markets that have historically exhibited seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, our revenues have historically been weaker during the fiscal quarters ended June 30 and September 30, and stronger in our fiscal

quarters ended March 31 and December 31.

Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is our primary existing offshore oil market, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in our results of operations, as oil production typically is lower in the fiscal quarters ended June 30 and September 30 in this region compared with production in the fiscal quarters ended March 31 and December 31. Because a significant portion of our North Sea shuttle tankers operate under contracts of affreightment, under which revenue is based on the volume of oil transported, the results of our shuttle tanker operations in the North Sea under these contracts generally reflect this seasonal production pattern. When we redeploy affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for our North Sea shuttle tanker operations may be negatively affected if the rates in the conventional oil tanker markets are lower than the contract of affreightment rates. In addition, we seek to coordinate some of the general drydocking schedule of our fleet with this seasonality, which may result in lower revenues and increased drydocking expenses during the summer months.

Table of Contents***We expend substantial sums during construction of newbuildings and the conversion of tankers to FPSOs or FSOs without earning revenue and without assurance that they will be completed.***

We are typically required to expend substantial sums as progress payments during construction of a newbuilding, but we do not derive any revenue from the vessel until after its delivery. In addition, under some of our time-charters if our delivery of a vessel to a 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 charges.

If we were unable to obtain financing required to complete payments on any of our newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made. As of December 31, 2007, we had 30 newbuildings on order with deliveries scheduled between January 2008 and January 2012. As of December 31, 2007, progress payments made towards these newbuildings, excluding payments made by our joint venture partners, totaled \$826.1 million.

In addition, conversion of tankers to FPSOs and FSOs expose us to a numbers of risks, including lack of shipyard capacity and the difficulty of completing the conversion in a timely and cost effective manner. During conversion of a vessel, we do not earn revenue from it. In addition, conversion projects may not be successful.

We make substantial capital expenditures to expand the size of our fleet. We generally are 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 financial leverage could increase, limiting our ability to pursue other business opportunities.

We regularly evaluate and pursue opportunities to provide the marine transportation requirements for various projects, and we have currently submitted bids to provide transportation solutions for LNG and LPG projects. We may submit additional bids from time to time. The award process relating to LNG and LPG transportation opportunities typically involves various stages and takes several months to complete. If we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to build the related 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. 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. Even if we are successful in obtaining necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities.

Exposure to currency exchange rate and interest rate fluctuations results in fluctuations in our cash flows and operating results.

Substantially all of our revenues are earned in U.S. Dollars, although we are paid in Euros, Australian Dollars, Norwegian Kroner and British Pounds under some of our charters. A portion of our operating costs are incurred in currencies other than U.S. Dollars. This partial mismatch in operating revenues and expenses leads to fluctuations in net income due to changes in the value of the U.S. dollar relative to other currencies, in particular the Norwegian Kroner, the Australian Dollar, the Canadian Dollar, the Singapore Dollar, the Japanese Yen, the British Pound and the Euro. We also make payments under two Euro-denominated term loans. If the amount of these and other Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations.

Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to other currencies also result in fluctuations of our reported revenues and earnings. Under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable,

restricted cash, accounts payable, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant non-monetary foreign currency exchange gains or losses each period. The primary source of these gains and losses is our Euro-denominated term loans.

We may not be exempt from United States tax on our United States source income, which would reduce our net income and cash flow by the amount of the applicable tax.

If we are not exempt from tax under Section 883 of the United States Internal Revenue Code, the shipping income derived from the United States sources attributable to our subsidiaries' transportation of cargoes to or from the United States will be subject to U.S. federal income tax. If our subsidiaries were subject to such tax, our net income and cash flow would be reduced by the amount of such tax. Currently, we claim an exemption under Section 883. We cannot give any assurance that future changes and shifts in ownership of our stock will not preclude us from being able to satisfy an exemption under Section 883.

In 2007 and 2006, approximately 15.6% and 17.4%, respectively, of our gross shipping revenues were derived from U.S. sources attributable to the transportation of cargoes to or from the United States. The average U.S. federal income tax on such U.S. source income, in the absence of an exemption under Section 883, would have been 4%, or approximately \$7.5 million and \$7.0 million, respectively, for 2007 and 2006.

Many seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.

A significant portion of our seafarers are employed under collective bargaining agreements. We may become subject to additional labor agreements in the future. We may suffer to labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or bi-annually for seafarers and annually for onshore operational staff and may increase our cost of operation. In certain cases, these negotiations have caused labor disruptions in the past and any future labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents***We may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.***

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. We expect crew costs to increase in 2008. If we are not able to increase our rates to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another of our ships.

Item 4. Information on the Company**A. Overview, History and Development****Overview**

We are a leading provider of international crude oil and petroleum product transportation services. Over the past five years, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included the expansion into the liquefied natural gas (or *LNG*) shipping sector through our publicly-listed subsidiary, Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), and further growth of our operations in the offshore production, storage and transportation sector through our publicly-listed subsidiary, Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) and through our acquisition of a 65% interest in Teekay Petrojarl ASA (or *Petrojarl*). With a fleet of over 200 vessels, offices in 16 countries and 6,400 seagoing and shore-based employees, Teekay provides comprehensive marine services to the world's leading oil and gas companies, helping them seamlessly link their upstream energy production to their downstream processing operations. Our goal is to create the industry's leading asset management company, focused on the Marine Midstream sector.

Our offshore segment includes our shuttle tanker operations, floating storage and off-take (or *FSO*) units, and our floating production, storage and offloading (or *FPSO*) units, which primarily operate under long-term fixed-rate contracts. As of December 31, 2007, our shuttle tanker fleet (including orderbook), which had a total cargo capacity of approximately 5.3 million deadweight tones (or *dwt*), represented approximately 66% of the total tonnage of the world shuttle tanker fleet. Please read Item 4 Information on the Company: Our Fleet.

Our liquefied gas segment includes our LNG and LPG carriers. All of our LNG and LPG carriers are subject to long-term, fixed-rate time-charter contracts. As of December 31, 2007, this fleet, including newbuildings, had a total cargo carrying capacity of approximately 3.0 million cubic meters. Please read Item 4 Information on the Company: Our Fleet.

Our spot tanker segment includes our conventional crude oil tankers and product carriers operating on the spot market or subject to time-charters or contracts of affreightment priced on a spot-market basis or short-term fixed-rate contracts (contracts with an initial term of less than three years). As of December 31, 2007, our Aframax tankers in this segment, which had a total cargo capacity of approximately 4.0 million dwt, represented approximately 5% of the total tonnage of the world Aframax fleet. Please read Item 4 Information on the Company: Our Fleet.

Our fixed-rate tanker segment includes our conventional crude oil and product tankers on long-term fixed-rate time-charter contracts. Please read Item 4 Information on the Company: Our Fleet.

The Teekay organization was founded in 1973. We are incorporated under the laws of the Republic of The Marshall Islands as Teekay Corporation and maintain our principal executive headquarters at 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530. Our principal

operating office is located at Suite 2000, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2K2. Our telephone number at such address is (604) 683-3529.

Recent Business Acquisitions

Acquisition of 50% of OMI Corporation

On June 8, 2007, we and A/S Dampskibsselskabet TORM (or TORM) acquired, through a jointly owned subsidiary, all of the outstanding shares of OMI Corporation (or *OMI*). Our 50% share of the acquisition price was approximately \$1.1 billion, including approximately \$0.2 billion of assumed indebtedness. We funded our portion of the acquisition with a combination of cash and borrowings under existing revolving credit facilities and a new \$700 million credit facility.

OMI was an international owner and operator of tankers, with a total fleet of approximately 3.5 million dwt and comprised of 13 Suezmax tankers (seven of which it owned and six of which were chartered-in) and 32 product tankers, 28 of which it owned and four of which were chartered-in. In addition, OMI had two product tankers under construction, which are scheduled for delivery in 2009.

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We and TORM divided most of OMI's assets equally between the two companies in August 2007. We acquired seven Suezmax tankers, three Medium-Range product tankers and three Handysize product tankers. We also assumed OMI's in-charter of an additional six Suezmax tankers and OMI's third-party asset management business (principally the Gemini pool). We and TORM will continue to hold two Medium-Range product tankers jointly in OMI, as well as two Handysize product tanker newbuildings scheduled to deliver in 2009. The parties intend to divide these remaining assets equally in due course.

Acquisition of Petrojarl ASA

During 2006, we acquired 64.5% of the outstanding shares of Petrojarl ASA (or *Petrojarl*), which is listed on the Oslo Stock Exchange, for \$536.8 million. Petrojarl is a leading independent operator of FPSO units. On December 1, 2006, we renamed Petrojarl Teekay Petrojarl ASA. We financed our acquisition of Petrojarl through a combination of bank financing and cash balances.

Petrojarl, based in Trondheim, Norway, has a fleet of four owned FPSO units operating under long-term service contracts in the North Sea. To service these contracts, Petrojarl also charters-in two shuttle tankers and one FSO unit from us. We believe that the combination of Petrojarl's offshore engineering expertise and reputation as a quality operator of FPSOs, together with Teekay's global marine operations and extensive customer network, positions us to competitively pursue new FPSO projects.

Public Offerings*Initial Public Offering by Teekay Tankers Ltd.*

On December 18, 2007, our subsidiary Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*), completed its initial public offering of 11.5 million shares of its Class A common stock at a price of \$19.50 per share for net proceeds of approximately \$208.0 million. The 11.5 million shares of Class A common stock represent a 46% ownership interest in Teekay Tankers. We own the remaining capital stock of Teekay Tankers, including Teekay Tankers' outstanding shares of Class B common stock, which entitle the holders to five votes per share, subject to a 49% aggregate Class B Common Stock voting power maximum. Teekay Tankers owns nine Aframax tankers, which it acquired from Teekay upon the closing of the initial public offering, and is expected to grow through the acquisition of crude oil and product tanker assets from third parties and from us. Please read Item 18 - Financial Statements: Note 5 - Public Offerings.

Initial Public Offering by Teekay Offshore Partners L.P.

On December 19, 2006, our subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) sold as part of its initial public offering 8.1 million of its common units, representing limited partner interests, at \$21.00 per unit for net proceeds of \$155.3 million. Teekay Offshore owns 26% of Teekay Offshore Operating L.P. (or *OPCO*), including its 0.01% general partner interest. OPCO owns and operates a fleet of 36 of our shuttle tankers (including 12 chartered-in vessels), four of our FSO vessels, and nine of our conventional Aframax tankers. In addition, Teekay Offshore has direct ownership interests in two of our shuttle tankers and one of our FSOs. We directly own 74% of OPCO and 59.8% of Teekay Offshore, including its 2% general partner interest. As a result, we effectively own 89.5% of OPCO. Please read Item 18 - Financial Statements: Note 5 - Public Offerings.

Public Offerings by Teekay LNG Partners L.P.

On May 10, 2005, our subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*) sold as part of an initial public offering 6.9 million of its common units at \$22.00 per unit for net proceeds of \$135.7 million. In November 2005, Teekay LNG completed a follow-on public offering of 4.6 million common units at a price of \$27.40 per unit, for net proceeds of \$120.0 million. During May 2007, Teekay LNG Partners L.P. completed a follow-on public offering of an additional 2.3 million of its common units at a price of \$38.13 per unit, for net proceeds of \$84.2 million. We own a 67.8% interest in Teekay LNG, including its 2% general partner interest. Please read Item 18 - Financial Statements: Note 5 - Public Offerings.

B. Operations

Our organization is divided into the following key areas: the offshore segment (or *Teekay Navion Shuttle Tankers and Offshore and Petrojarl*), the liquefied gas segment (or *Teekay Gas Services*), the spot tanker segment and fixed-rate tanker segment (collectively *Teekay Tanker Services*). These centers of expertise work closely with customers to ensure a thorough understanding of our customers' requirements and to develop tailored solutions.

Teekay Navion Shuttle Tankers and Offshore and Petrojarl provides marine transportation, processing and storage services to the offshore oil industry, including shuttle tanker, FSO and FPSO services. Our expertise and partnerships allow us to create solutions for customers producing crude oil from offshore installations. Teekay Gas Services provides gas transportation services, primarily under long-term fixed-rate contracts to major energy and utility companies. These services currently include the transportation of LNG and LPG. Teekay Tanker Services is responsible for the commercial management of our conventional crude oil and product tanker transportation services. We offer a full range of shipping solutions through our worldwide network of commercial offices.

Offshore Segment

The main services our offshore segment provides to customers are:

- offloading and transportation of cargo from oil field installations to onshore terminals via dynamically positioned, offshore loading shuttle tankers;
- floating storage for oil field installations via FSO units; and
- floating production, processing and storage services via FPSO units.

Table of Contents*Shuttle Tankers*

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea as an alternative to pipelines. The first cargo from an offshore field in the North Sea was shipped in 1977, and the first dynamically positioned shuttle tankers were introduced in the early 1980s. Shuttle tankers are often described as *floating pipelines* because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor.

Our shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts or bareboat charter contracts for a specific offshore oil field, where a vessel is hired for a fixed period of time, or under contracts of affreightment for various fields, where we commit to be available to transport the quantity of cargo requested by the customer from time to time over a specified trade route within a given period of time. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel's manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the North Sea. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers can be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms.

As of December 31, 2007, there were approximately 74 vessels in the world shuttle tanker fleet (including newbuildings), the majority of which operate in the North Sea. Shuttle tankers also operate in Brazil, Canada, Russia, Australia and Africa. As of December 31, 2007, we owned 27 shuttle tankers and chartered-in an additional 13 shuttle tankers. Other shuttle tanker owners in the North Sea include Knutsen OAS Shipping AS, JJ Uglund Group and Penny Uglund, which as of December 31, 2007 controlled small fleets of 2 to 10 shuttle tankers each. We believe that we have significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of our vessels combined with our market share in the North Sea.

FSO Units

FSO units provide on-site storage for oil field installations that have no storage facilities or that require supplemental storage. An FSO unit is generally used in combination with a jacked-up fixed production system, floating production systems that do not have sufficient storage facilities or as supplemental storage for fixed platform systems, which generally have some on-board storage capacity. An FSO unit is usually of similar design to a conventional tanker, but has specialized loading and offtake systems required by field operators or regulators. FSO units are moored to the seabed at a safe distance from a field installation and receive the cargo from the production facility via a dedicated loading system. An FSO unit is also equipped with an export system that transfers cargo to shuttle or conventional tankers. Depending on the selected mooring arrangement and where they are located, FSO units may or may not have any propulsion systems. FSO units are usually conversions of older single-hull conventional oil tankers. These conversions, which include installation of a loading and offtake system and hull refurbishment, can generally extend the lifespan of a vessel as an FSO unit by up to 20 years over the normal conventional tanker lifespan of 25 years.

Our FSO units are generally placed on long-term, fixed-rate time-charters or bareboat charters as an integrated part of the field development plan, which provides more stable cash flow to us. Under a bareboat charter, the customer pays a fixed daily rate for a fixed period of time for the full use of the vessel and is responsible for all crewing, management and navigation of the vessel and related expenses.

As of December 2007, there were approximately 86 FSO units operating and 10 FSO units on order in the world fleet. As at December 31, 2007, we had 5 FSO units. The major markets for FSO units are Asia, the Middle East, West Africa, South America and the North Sea. Our primary competitors in the FSO market are conventional tanker owners, who have access to tankers available for conversion, and oil field services companies and oil field engineering and construction companies who compete in the floating production system market. Competition in the FSO market is primarily based on price, expertise in FSO operations, management of FSO conversions and relationships with shipyards, as well as the ability to access vessels for conversion that meet customer specifications.

FPSO Units

FPSO units are offshore production facilities that are typically ship-shaped and store processed crude oil in tanks located in the hull of the vessel. FPSO units are typically used as production facilities to develop marginal oil fields or deepwater areas remote from existing pipeline infrastructure. Of four major types of floating production systems, FPSO units are the most common type. Typically, the other types of floating production systems do not have significant storage and need to be connected into a pipeline system or use an FSO unit for storage. FPSO units are less weight-sensitive than other types of floating production systems and their extensive deck area provides flexibility in process plant layouts. In addition, the ability to utilize surplus or aging tanker hulls for conversion to an FPSO unit provides a relatively inexpensive solution compared to the new construction of other floating production systems. A majority of the cost of an FPSO comes from its top-side production equipment and thus FPSO units are expensive relative to conventional tankers. An FPSO unit carries on-board all the necessary production and processing facilities normally associated with a fixed production platform. As the name suggests, FPSOs are not fixed permanently to the seabed but are designed to be moored at one location for long periods of time. In a typical FPSO unit installation, the untreated wellstream is brought to the surface via subsea equipment on the sea floor that is connected to the FPSO unit by flexible flow lines called risers. The risers carry oil, gas and water from the ocean floor to the vessel, which processes it onboard. The resulting crude oil is stored in the hull of the vessel and subsequently transferred to tankers either via a buoy or tandem loading system for transport to shore.

Traditionally for large field developments, the major oil companies have owned and operated new, custom-built FPSO units. FPSO units for smaller fields have generally been provided by independent FPSO contractors under life-of-field production contracts, where the contract's duration is for the useful life of the oil field. FPSO units have been used to develop offshore fields around the world since the late 1970s. As of December 2007 there were approximately 131 FPSO units operating and 46 FPSO units on order in the world fleet. At December 31, 2007, we had five FPSO units, including one on order. Most independent FPSO contractors have backgrounds in marine energy transportation, oil field services or oil field engineering and construction. The major independent FPSO contractors are SBM Offshore, Modec, Prosafe, BW Offshore, Sevan Marine, Bluewater and Maersk.

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During 2007, approximately 47% of our net revenues were earned by the vessels in our offshore segment, compared to approximately 39% in 2006 and 32% in 2005. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Liquefied Gas Segment

The vessels in our liquefied gas segment compete in the LNG and LPG markets. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts with durations between 20 and 25 years, and with charter rates payable to the owner on a monthly basis. LNG shipping historically has been transacted with these long-term, fixed-rate time-charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Although most shipping requirements for new LNG projects continue to be provided on a long-term basis, spot voyages (typically consisting of a single voyage) and short-term time-charters of less than 12 months duration have continued to grow in the last 15 years from 1% of the market in 1992 to approximately 13% in 2006.

In the LNG markets, we compete principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. The major operators of LNG carriers are Malaysian International Shipping, NYK Line, Qatar Gas Transport (Nakilat), Shell Group and Mitsui O.S.K.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1 / 600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. LNG carriers include a sophisticated containment system that holds and insulates the LNG so it maintains its liquid form. The LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or *regasified*) and then shipped by pipeline for distribution to natural gas customers.

LPG carriers are mainly chartered to carry LPG on time charters of three to five years, on contracts of affreightment or spot voyage charters. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives.

Most new LNG carriers, including all of our vessels, are being built with a membrane containment system. These systems consist of insulation between thin primary and secondary barriers and are designed to accommodate thermal expansion and contraction without overstressing the membrane. New LNG carriers are generally expected to have a lifespan of approximately 40 years. New LPG carriers are generally expected to have a lifespan of approximately 30 to 35 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG and LPG carriers after they reach a certain age. As at December 31, 2007, there were approximately 254 vessels in the world LNG fleet, with an average age of approximately 12 years, and an additional 136 LNG carriers under construction or on order for delivery through 2011. As of December 31, 2007, the worldwide LPG tanker fleet consisted of approximately 1,075 vessels with an average age of approximately 18 years and approximately 200 additional LPG vessels were on order for delivery through 2011. LPG carriers range in size from approximately 500 to approximately 70,000 cubic meters (or *cbm*). Approximately 60% of the worldwide fleet is less than 5,000 *cbm*.

Our liquefied gas segment primarily consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. As at December 31, 2007, we had nine LNG carriers and an additional ten newbuilding LNG carriers on

order, all of which were scheduled to commence operations upon delivery under long-term fixed-rate time-charters and in which our interests range from 33% to 70%. In addition, as at December 31, 2007, we had four LPG carriers, including three under construction.

During 2007, approximately 9% of our net revenues were earned by the vessels in our liquefied gas segment, compared to approximately 7% in 2006 and 2005. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Spot Tanker Segment

The vessels in our spot tanker segment compete primarily in the Aframax and Suezmax tanker markets. In these markets, international seaborne oil and other petroleum products transportation services are provided by two main types of operators: captive fleets of major oil companies (both private and state-owned) and independent ship-owner fleets. Many major oil companies and other oil trading companies, the primary charterers of our vessels, also operate their own vessels and transport their own oil and oil for third-party charterers in direct competition with independent owners and operators. Competition for charters in the Aframax and Suezmax spot charter market is intense and is based upon price, location, the size, age, condition and acceptability of the vessel, and the reputation of the vessel's manager.

We compete principally with other owners in the spot-charter market through the global tanker charter market. This market is comprised of tanker broker companies that represent both charterers and ship-owners in chartering transactions. Within this market, some transactions, referred to as market cargoes, are offered by charterers through two or more brokers simultaneously and shown to the widest possible range of owners; other transactions, referred to as private cargoes, are given by the charterer to only one broker and shown selectively to a limited number of owners whose tankers are most likely to be acceptable to the charterer and are in position to undertake the voyage.

Certain of our vessels in the spot tanker segment operate pursuant to pooling arrangements. Under a pooling arrangement, different vessel owners pool their vessels, which are managed by a pool manager, to improve utilization and reduce expenses. In general, revenues generated by the vessels operating in a pool, less related voyage expenses (such as fuel and port charges) and pool administrative expenses, are pooled and allocated to the vessel owners according to a pre-determined formula. As of March 1, 2008, we participated in three main pooling arrangements. These include an Aframax tanker pool, a Suezmax tanker pool (the Gemini Pool) and an intermediate product tanker pool (the Swift Tanker Pool). As of March 1, 2008, 42 of our Aframax tankers operated in the Aframax tanker pool, 9 of our Suezmax tankers operated in the Gemini Pool and 10 of our product tankers operated in the Swift Tanker Pool. Each of these pools is either solely or jointly managed by us.

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Our competition in the Aframax (80,000 to 119,999 dwt) market is also affected by the availability of other size vessels that compete in that market. Suezmax (120,000 to 199,999 dwt) vessels and Panamax (55,000 to 79,999 dwt) vessels can compete for many of the same charters for which our Aframax tankers compete. Similarly, Aframax tankers and Very Large Crude Carriers (200,000 to 319,999 dwt) (or *VLCCs*) can compete for many of the same charters for which our Suezmax vessels compete. Because VLCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades or of Suezmax vessels into Aframax trades would heighten the already intense competition.

We believe that we have competitive advantages in the Aframax and Suezmax tanker market as a result of the quality, type and dimensions of our vessels and our market share in the Indo-Pacific and Atlantic Basins. As of December 31, 2007, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 8.1 years and our Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately 4.9 years. This compares to an average age for the world oil tanker fleet of approximately 9.4 years, for the world Aframax tanker fleet of approximately 9.5 years and for the world Suezmax tanker fleet of approximately 8.9 years.

As of December 31, 2007, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 68 Aframax vessels), Aframax International Pool (approximately 43 Aframax vessels), Sovcomflot (approximately 40 vessels), Tanker Pacific Management (approximately 22 vessels), Cido Shipping (approximately 21 vessels), Minerva Marine (approximately 20 vessels), and Sigma Pool (approximately 20 vessels). Other large operators of Suezmax tonnage (including newbuildings on order) included Frontline (approximately 25 vessels), Sovcomflot (approximately 24 vessels), Euronav (approximately 16 vessels) and Marmaras Navigation (approximately 16 vessels).

We have chartering staff located in Stavanger, Norway; Tokyo, Japan; London, England; Houston, Texas; and Singapore. Each office serves our clients headquartered in that office's region. Fleet operations, vessel positions and charter market rates are monitored around the clock. We believe that monitoring such information is critical to making informed bids on competitive brokered business.

During 2007, approximately 34% of our net revenues were earned by the vessels in our spot tanker segment, compared to approximately 42% in 2006 and 50% in 2005. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Fixed-Rate Tanker Segment

The vessels in our fixed-rate tanker segment primarily consist of Aframax and Suezmax tankers that are employed on long-term time-charters. We consider contracts that have an original term of less than three years in duration to be short term. The only difference between the vessels in the spot tanker segment and the fixed-rate tanker segment is the duration of the contracts under which they are employed. Charters of more than three years are not as common as short-term charters and voyage charters for conventional tankers. During 2007, approximately 10% of our net revenues were earned by the vessels in the fixed-rate tanker segment, compared to approximately 12% in 2006 and 11% in 2005. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Our Fleet

As at December 31, 2007, our fleet (excluding vessels managed for third parties) consisted of 193 vessels, including chartered-in vessels, newbuildings on order, and vessels being converted to offshore units.

The following table summarizes our fleet as at December 31, 2007:

	Number of Vessels			Total
	Owned Vessels	Chartered-in Vessels	Newbuildings /Conversions	
Offshore Segment				
Shuttle Tankers	27 ⁽¹⁾	13 ⁽²⁾	4	44
FSO Units	5 ⁽³⁾			5
FPSO Units	4 ⁽⁴⁾		1 ⁽⁵⁾	5

Total Offshore Segment	36	13	5	54
Fixed-Rate Tanker Segment				
Conventional Tankers	15 ⁽⁶⁾	6	2	23
Total Fixed-Rate Tanker Segment	15	6	2	23
Liquefied Gas Segment				
LNG Carriers	9 ⁽⁷⁾		10 ⁽⁸⁾	19
LPG Carriers	1 ⁽⁹⁾		3 ⁽⁹⁾	4
Total Liquefied Gas Segment	10		13	23
Spot Tanker Segment				
Suezmax Tankers	6 ⁽¹⁰⁾	9	10	25
Aframax Tankers	20 ⁽¹¹⁾	16		36
Large Product Tankers	14 ⁽¹²⁾	7	1	22
Small Product Tankers		10		10
Total Spot Tanker Segment	40	42	11	93
Total	101	61	31	193

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The following footnotes indicate the vessels in the table above that are owned or chartered-in by non-wholly owned subsidiaries of Teekay Corporation or have been or will be offered to Teekay LNG, Teekay Offshore or Teekay Tankers.

- (1) Includes 24 vessels owned by OPCO (including five through 50% controlled joint ventures), two vessels owned by Teekay Offshore (including one through a 50% controlled joint venture), and one owned by Petrojarl.
- (2) Includes 12 vessels chartered-in by OPCO.
- (3) Includes four FSO units owned by OPCO (including one through 89% joint venture) and one FSO unit owned by Teekay Offshore.
- (4) Includes four FPSOs owned by Petrojarl.
- (5) Includes one vessel being converted to an FPSO by a 50/50 joint venture between Teekay and

Petrojarl.

- (6) Includes eight vessels owned by Teekay LNG and one vessel owned by Teekay Tankers.
- (7) Includes seven LNG carriers owned by Teekay LNG. Teekay LNG has agreed to acquire Teekay's 100% interest in the remaining two vessels.
- (8) Includes Teekay's 70% interest in two LNG newbuildings and its 40% interest in four LNG. Teekay LNG has agreed to acquire these six vessels upon their delivery. Includes Teekay's 33% interest in four LNG newbuildings. Teekay is required to offer these vessels to Teekay LNG.
- (9) All vessels owned by Teekay LNG.
- (10) Includes four Suezmax tankers that Teekay is required to offer Teekay Tankers.

(11) Includes nine vessels owned by Teekay Offshore, all of which are chartered to Teekay and seven vessels owned by Teekay Tankers.

(12) Includes one product tanker owned by Teekay Tankers.

Our vessels are of Australian, Bahamian, Cayman Islands, Liberian, Marshall Islands, Norwegian, Norwegian International Ship, Russian and Spanish registry.

Many of our Aframax and Suezmax vessels and some of our shuttle tankers have been designed and constructed as substantially identical sister ships. These vessels can, in many situations, be interchanged, providing scheduling flexibility and greater capacity utilization. In addition, spare parts and technical knowledge can be applied to all the vessels in the particular series, thereby generating operating efficiencies.

As of December 31, 2007, we had 31 vessels under construction or undergoing conversion to FPSOs. Please read Item 5 Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 18 Financial Statements: Notes 16(a), 16(b), and 16(c) Commitments and Contingencies Vessels Under Construction, Vessel Purchases and Joint Ventures.

Please read Item 18 Financial Statements: Note 8 Long-Term Debt for information with respect to major encumbrances against our vessels.

Safety, Management of Ship Operations and Administration

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2007 we introduced a behavior-based safety program called Safety in Action to further enhance the safety culture in our fleet. We are also committed to reducing our emissions and waste generation.

Customers and vessel rating services have recognized us for safety, environmental awareness, quality and service. Given the emphasis by customers on quality as a result of stringent environmental regulations, and heightened concerns about liability for environmental pollution, we believe that our emphasis on quality and safety provides us with a favorable competitive profile. We are one of a few companies that have fully integrated their health, safety, environment and quality management systems. This integration has increased efficiencies in our operations and management by reducing redundancies and better aligning our strategies and programs in the relevant systems.

We have achieved certification under the standards reflected in International Standards Organization's (or ISO) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, Occupational Health and Safety Advisory Services 18001 for Occupational Health and Safety, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis. As part of International Safety Management (or ISM) Code compliance, all of our vessels' safety management certificates are maintained through ongoing internal audits performed by our certified internal auditors and intermediate external audits performed by the classification society Det Norske Veritas. Subject to satisfactory completion of these internal and external audits, certification is valid for five years.

In our various worldwide facilities we carry out the critical ship management functions of vessel maintenance, crewing, purchasing, shipyard supervision, insurance and financial management services for most of our fleet. These

functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. OSM Ship Management AS (or *OSM*), a company which is unrelated to us, provides ship management services for three of our conventional tankers. OSM is under contract to provide these services to us until October 2008.

We establish key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. We are participants in a purchasing alliance with two other shipping companies and named it Teekay Bergesen Worldwide. This alliance leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals.

We believe that the generally uniform design of some of our existing and newbuilding vessels and the adoption of common equipment standards provide operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair and spare parts ordering.

Risk of Loss and Insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil and LNG is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

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We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies us against liabilities incurred while operating vessels, including injury to our crew or third parties, cargo loss and pollution. The current available amount of our coverage for pollution is \$1 billion per vessel per incident. Insurance policies also cover war risks (including piracy and terrorism). We do not generally carry insurance on our vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. We believe that our current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage. However, we cannot assure that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. In addition, more stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

We use in our operations a thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers' competence training program, seafarers' workshops and membership in emergency response organizations.

Operations Outside the United States

Because our operations are primarily conducted outside of the United States, we are affected by currency fluctuations and by changing economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered.

During 2007, we derived approximately 17% of our total net revenues from our operations in the Indo-Pacific Basin, compared to approximately 18% during 2006. Past political conflicts in that region, particularly in the Arabian Gulf, have included attacks on tankers, mining of waterways and other efforts to disrupt shipping in the area. Vessels trading in the region have also been subject to, in limited instances, acts of piracy. In addition to tankers, targets of terrorist attacks could include oil pipelines, LNG facilities and offshore oil fields. The escalation of existing, or the outbreak of future, hostilities or other political instability in this region or other regions where we operate could affect our trade patterns, increase insurance costs, increase tanker operational costs and otherwise adversely affect our operations and performance. In addition, tariffs, trade embargoes, and other economic sanctions by the United States or other countries against countries in the Indo-Pacific Basin or elsewhere as a result of terrorist attacks or otherwise may limit trading activities with those countries, which could also adversely affect our operations and performance.

Customers

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Our customers include major energy and utility companies, major oil traders, large oil and LNG consumers and petroleum product producers, government agencies, and various other entities that depend upon marine transportation. One customer, an international oil company, accounted for 20% (\$472.3 million) of our consolidated revenues during 2007 (15% or \$307.9 million 2006 and 20% or \$392.2 million 2005). No other customer accounted for more than 10% of our consolidated revenues during 2007, 2006 or 2005. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on our business, financial condition and results of operations.

Classification, Audits and Inspections

The hull and machinery of all of our vessels have been classed by one of the major classification societies: Det Norske Veritas, Lloyd's Register of Shipping, Nippon Kaiji Kyokai or American Bureau of Shipping. In addition, the processing facilities of our FPSOs are classed by Det Norske Veritas. The classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an *Intermediate Survey*) and the fourth or fifth annual inspection being the most comprehensive survey (a *Special Survey*). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each Intermediate and Special Survey for inspection of the underwater parts of the vessel in addition to a

more detailed inspection of hull and machinery. Many of our vessels have qualified with their respective classification societies for drydocking every four or five years in connection with the Special Survey and are no longer subject to drydocking at Intermediate Surveys. To qualify, we were required to enhance the resiliency of the underwater coatings of each vessel hull to accommodate underwater inspections by divers.

The vessel's flag state, or the vessel's classification society if nominated by the flag state, also inspect our vessels to ensure they comply with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a signatory. Port state authorities, such as the U.S. Coast Guard and the Australian Maritime Safety Authority, also inspect our vessels when they visit their ports.

Many of our customers also regularly inspect our vessels as a condition to chartering, and regular inspections are standard practice under long-term charters.

We believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Our vessels are also regularly inspected by our seafaring staff, who perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect our vessels at least twice a year. Upon completion of each inspection, action plans are developed to address any items requiring improvement. All action plans are monitored until they are completed. The objectives of these inspections are to ensure:

- adherence to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give full reliability in service;
- we are optimizing performance in terms of speed and fuel consumption; and
- the vessel's appearance will support our brand and meet customer expectations.

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To achieve the vessel structural integrity objective, we use a comprehensive Structural Integrity Management System we developed. This system is designed to closely monitor the condition of our vessels and to ensure that structural strength and integrity are maintained throughout a vessel's life.

We have obtained approval for our safety management system as being in compliance with the ISM Code. Our safety management system has also been certified as being compliant with ISO 9001, ISO 14001 and OSHAS 18001 standards. To maintain compliance, the system is audited regularly by either the vessel's flag state or, when nominated by the flag state, a classification society. Certification is valid for five years subject to satisfactorily completing internal and external audits.

Organizational Structure

Our organizational structure includes, among others, our interests in Teekay Offshore and Teekay LNG. These limited partnerships were set up primarily to hold our assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these entities was to:

- illuminate higher value of fixed-rate cash flows to Teekay investors;
- realize advantages of a lower cost of equity when investing in new offshore or LNG projects; and
- enhance returns to Teekay through fee-based revenue and ownership of the limited partnership's incentive distribution rights, which entitle the holder to disproportionate distributions of available cash as cash distribution levels to unitholders increase.

The following chart provides an overview of our organizational structure as at December 31, 2007. Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as at December 31, 2007.

- (1) Partnership is controlled by the General Partner. Teekay Corporation has a 100% beneficial ownership in the General Partner. However in certain limited cases, approval of a majority of the common unit holders is required to approve certain actions.
- (2) Proportion of voting power held is 53%.
- (3) Including our 64.5% interest in Teekay Petrojarl.

Teekay Offshore is a Marshall Islands limited partnership formed by us in 2006 as part of our strategy to expand our operations in the offshore oil marine transportation, processing and storage sectors. Teekay Offshore owns 26% of OPCO, including its 0.01% general partner interest. OPCO owns and operates a fleet of 36 of our shuttle tankers

(including 12 chartered-in vessels), four of our FSO vessels, and nine of our conventional Aframax tankers. In addition, Teekay Offshore has direct ownership interests in two of our shuttle tankers and one of our FSOs. All of OPCO's vessels operate under long-term, fixed-rate contracts. We directly own 74% of OPCO and 59.8% of Teekay Offshore, including its 2% general partner interest. As a result, we effectively own 89.5% of OPCO. Teekay Offshore also has rights to participate in certain FPSO opportunities relating to Petrojarl.

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Teekay LNG is a Marshall Islands limited partnership formed by us in 2005 as part of our strategy to expand our operations in the LNG shipping sector. Teekay LNG provides LNG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies through its fleet of 13 LNG carriers (including six newbuildings) and eight Suezmax tankers. In April 2008, Teekay sold two 1993-built LNG vessels to Teekay LNG and chartered them back for ten years with three five-year option periods.

In December 2007, we added Teekay Tankers to our structure. Teekay Tankers is a Marshall Islands corporation formed by us to facilitate the growth of our conventional tanker business. Teekay Tankers owns a fleet of nine of our double-hull Aframax tankers, which trade in the spot market and short- or medium-term, fixed-rate time-charter market. Teekay Tanker's primary objective is to grow through the acquisition of conventional tanker assets from third parties and from us. We will offer to Teekay Tankers by July 2009 the opportunity to purchase up to four Suezmax-class oil tankers, of which two were acquired by Teekay Tankers in April 2008. Through a wholly-owned subsidiary, we provide Teekay Tankers with commercial, technical, administrative, and strategic services under a long-term management agreement. In exchange, Teekay Tankers has agreed to pay us both a market-based fee and a performance fee under certain circumstances in which we increase Teekay Tankers' cash available for distribution to its stockholders.

Teekay has entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when Teekay, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units. In addition, under a contribution, conveyance and assumption agreement between Teekay and Teekay Tankers, we may pursue business opportunities attractive to both parties.

C. Regulations

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater inspection and safety requirements on all vessels in the oil tanker and LNG and LPG carrier markets and will accelerate the scrapping of older vessels throughout these markets.

Regulation International Maritime Organization (or IMO). The IMO is the United Nations' agency for maritime safety. IMO regulations relating to pollution prevention for oil tankers apply to many jurisdictions in which our tanker fleet operates. These regulations provide that:

tankers between 25 and 30 years old must be of double-hull construction or of a mid-deck design with double-side construction, unless they have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30% of the length of the cargo tank section of the hull, or are capable of hydrostatically balanced loading which ensures at least the same level of protection against oil spills in the event of collision or stranding;

tankers 30 years old or older must be of double-hull construction or mid-deck design with double-side construction; and

all tankers are subject to enhanced inspections.

IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates, but not by the United States. Under IMO regulations, an oil tanker must be of double-hull construction, be of mid-deck design with double-side construction or be of another approved design

ensuring the same level of protection against oil pollution in the event that such tanker:

is the subject of a contract for a major conversion or original construction on or after July 6, 1993;

commences a major conversion or has its keel laid on or after January 6, 1994; or

completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

In December 2003, the IMO revised its regulations relating to the prevention of pollution from oil tankers. These regulations, which became effective in April 2005, accelerate the mandatory phase-out of single-hull tankers and impose a more rigorous inspection regime for older tankers. As a result of these regulations, in 2003 we recorded a non-cash write-down of the book value of the affected vessels. We subsequently sold all the vessels affected by these regulations and no longer own any single-hull vessels. In July 2003, the European Union adopted legislation that will prohibit all single-hull tankers from entering into its ports or offshore terminals under a phase-out schedule (depending upon age, type and cargo of tankers) between the years 2003 and 2010. All single-hull tankers will be banned by 2010. The European Union has already banned all single-hull tankers carrying heavy grades of oil from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in April 2005, certain single-hull tankers above 15 years of age are also restricted from entering or leaving EU ports or offshore terminals and anchoring in areas under EU jurisdiction. All of the tankers that we currently operate are double-hulled and will not be affected directly by these IMO and EU regulations.

The European Union has also adopted legislation that bans manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities after July 2003) from European waters, creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually, provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment and provides the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The European Union is also considering the adoption of criminal sanctions for certain pollution events, including tank cleaning.

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IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Security Code for Ports and Ships (or *ISPS*), the ISM Code, the International Convention on Prevention of Pollution from Ships (the *MARPOL Convention*), the International Convention on Civil Liability for Oil Pollution Damage of 1969, the International Convention on Load Lines of 1966, and, specifically with respect to LNG carriers, the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (or the *IGC Code*). The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning (*DP*) systems, which would apply to shuttle tankers and DP-assisted FSO units and FPSO units. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states that have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS and the IGC Code, and the specific requirements for shuttle tankers, FSO units and FPSO units under the NPD (Norway) and HSE (United Kingdom) regulations may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. For example, the Coast Guard and European Union authorities have indicated that vessels not in compliance with ISM Code will be prohibited from trading in U.S. and European ports.

The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the ship-owner's compliance with requirements of the ISM Code relating to the development and maintenance of an extensive Safety Management System. Such a system includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Each of the existing vessels in our fleet currently is ISM Code-certified, and we expect to obtain safety management certification for each newbuilding vessel upon delivery. LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG carriers currently is in substantial compliance with the IGC Code, and each of our LNG newbuilding shipbuilding contracts requires compliance prior to delivery.

Environmental Regulations United States Regulations. The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, bareboat charterers and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States.

Under OPA 90, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

natural resources damages and the related assessment costs;

real and personal property damages;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage;

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and

loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties. Effective as of October 9, 2006, the limit for double-hulled tank vessels was increased to the greater of \$1,900 per gross ton or \$16 million per double-hulled tanker per incident, subject to adjustment for inflation. These limits of liability would not apply if the incident were proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. In addition, CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited. We currently maintain for each vessel pollution liability coverage in the maximum coverage amount of \$1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be built with double-hulls. All of our existing tankers are, and all of our newbuildings will be, double-hulled.

In December 1994, the U.S. Coast Guard (or *Coast Guard*) implemented regulations requiring evidence of financial responsibility in the amount of \$1,500 per gross ton for tankers, coupling the then-applicable OPA limitation on liability of \$1,200 per gross ton with the CERCLA liability limit of \$300 per gross ton. The financial responsibility limits have not been increased to comport with the amended statutory limits of OPA. However, the Coast Guard has issued a notice of policy change indicating its intention to change the financial responsibility regulations accordingly. Under the regulations, such evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to agency approval. Under OPA 90, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the tanker in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA.

The Coast Guard's regulations concerning certificates of financial responsibility (or *COFR*) provide, in accordance with OPA 90, that claimants may bring suit directly against an insurer or guarantor that furnishes COFR. In addition, in the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided COFR under pre-OPA 90 laws, including the major protection and indemnity organizations have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. The Coast Guard has indicated that it intends to propose a rule that would increase the required amount of such COFRs to \$2,200 per gross ton to reflect the higher limits on liability imposed by OPA 90, as described above.

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The Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond, guaranty or by self-insurance. Under the self-insurance provisions, the ship-owner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by obtaining financial guaranties from a third-party. If other vessels in our fleet trade into the United States in the future, we expect to obtain additional guarantees from third-party insurers or to provide guarantees through self-insurance.

OPA 90 and CERCLA permit individual states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries if the state's regulations are equally or more stringent, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, including California, Washington and Alaska, require state specific COFR and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of tank vessels operating in United States waters are required to file vessel response plans with the Coast Guard, and their tank vessels are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge ;

describe crew training and drills; and

identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard for the vessels we own and have received approval of such plans for all vessels in our fleet to operate in United States waters. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

CERCLA contains a similar liability regime to OPA 90, but applies to the discharge of hazardous substances rather than oil. Petroleum products and LNG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG carriers might fall within its scope. CERCLA imposes strict joint and several liability upon the owner, operator or bareboat charterer of a vessel for cleanup costs and damages arising from a discharge of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages for the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction. There can be no assurance that a court in a particular jurisdiction will not determine that the carriage of oil or LNG aboard a vessel is an ultra-hazardous activity, which would expose us to strict liability for damages caused to parties even when we have not acted negligently.

Environmental Regulation Other Environmental Initiatives.

Although the United States is not a party, many countries have ratified and follow the liability scheme adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*), and the Convention for the Establishment of an International Fund for Oil Pollution of 1971, as amended. Under these conventions, which are applicable to vessels that carry persistent oil (not LNG) as cargo, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Many of the countries that have ratified the CLC have increased the liability limits through a 1992 Protocol to the CLC. The liability limits in the countries that have ratified this Protocol are currently approximately \$7.4 million plus approximately \$1,040 per gross registered tonne above 5,000 gross tonnes with an approximate maximum of \$148 million per vessel and the exact amount tied to a unit of account which varies according to a basket of currencies. The right to limit liability is forfeited under the CLC when the spill is caused by the owner's actual fault or privity and, under the 1992 Protocol, when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance

covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to the CLC. In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships (or *Annex VI*) to address air pollution from ships. Annex VI, which became effective in May 2005, sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibit deliberate emissions of ozone depleting substances, such as halons, chlorofluorocarbons, emissions of volatile compounds from cargo tanks and prohibition of shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We plan to operate our vessels in compliance with Annex VI. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

In addition, the IMO, various countries and states, such as Australia, the United States and the State of California, and various regulators, such as port authorities, the U.S. Coast Guard and the U.S. Environmental Protection Agency, have either adopted legislation or regulations, or are separately considering the adoption of legislation or regulations, aimed at regulating the transmission, distribution, supply and storage of LNG, the discharge of ballast water and the discharge of bunkers as potential pollutants, and requiring the installation on ocean-going vessels of pollution prevention equipment such as oily water separators and bilge alarms.

The United States Clean Water Act prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above. Pursuant to regulations promulgated by the EPA in the early 1970s, the discharge of sewage and effluent from properly functioning marine engines was exempted from the permit requirements of the National Pollution Discharge Elimination System. This exemption allowed vessels in U.S. ports to discharge certain substances, including ballast water, without obtaining a permit to do so. However, on March 30, 2005, a U.S. District Court for the Northern District of California granted summary judgment to certain environmental groups and U.S. states that had challenged the EPA regulations, arguing that the EPA exceeded its authority in promulgating them. On September 18, 2006, the U.S. District Court in that action issued an order invalidating the exemption in EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing EPA to develop a system for regulating all discharges from vessels by that date.

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The EPA has appealed this decision. Oral arguments on this appeal were heard by the Ninth Circuit Court of Appeals on August 14, 2007. No decision has yet been issued. If the exemption is repealed, we would be subject to the Clean Water Act permit requirements that could include ballast water treatment obligations that could increase the costs of operating in the United States. For example, this ruling could require the installation of equipment on our vessels to treat ballast water before it is discharged, require the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and otherwise restrict our vessels traffic in U.S. waters.

In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions (or *VOC equipment*) on most shuttle tankers serving the Norwegian continental shelf. Oil companies bear the cost to install and operate the VOC equipment onboard the shuttle tankers.

Vessel Security Regulation

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. The United States implemented ISPS with the adoption of the Maritime Transportation Security Act of 2002 (or *MTSA*), which requires vessels entering U.S. waters to obtain certification of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and MTSA.

Shuttle Tanker, FSO Unit and FPSO Unit Regulation

Our shuttle tankers primarily operate in the North Sea. In addition to the regulations imposed by the IMO, countries having jurisdiction over North Sea areas impose regulatory requirements in connection with operations in those areas, including HSE in the United Kingdom and NPD in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on our shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea. In Brazil, Petrobras serves in a regulatory capacity and has adopted standards similar to those in the North Sea.

D. Taxation of the Company

The following discussion is a summary of the principal United States, Bahamian, Bermudian, Marshall Islands, Norwegian and Spanish tax laws applicable to us. The following discussion of tax matters, as well as the conclusions regarding certain issues of tax law that are reflected in such discussion, are based on current law. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future factual matters and circumstances will in fact occur. Our views have no binding effect or official status of any kind, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.

United States Taxation

The following discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (or the *Code*), existing and proposed U.S. Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report.

Taxation of Operating Income. We expect that substantially all of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or *Transportation Income*) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time-charter or bareboat charter income.

Transportation Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States (or *U.S. Source International Transportation Income*) will be considered to be 50.0% derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (or *U.S. Source Domestic Transportation Income*) will be considered to be 100.0% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations will be considered to be 100% derived from sources outside the United States. Transportation Income

derived from sources outside the United States generally will not be subject to U.S. federal income tax.

We have made special U.S. tax elections in respect of some of our vessel-owning or vessel-operating subsidiaries that are potentially engaged in activities which could give rise to U.S. Source International Transportation Income. Other subsidiaries that are engaged in activities which could give rise to U.S. Source International Transportation Income rely on our ability to claim exemption under Section 883 of the Code (the *Section 883 Exemption*).

The Section 883 Exemption. In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the *Section 883 Regulations*), it will not be subject to the net basis and branch taxes or 4.0% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption only applies to U.S. Source International Transportation Income. As discussed below, we believe the Section 883 Exemption will apply and we will not be taxed on our U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if it is organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States (or an *Equivalent Exemption*), it meets one of three ownership tests (or the *Ownership Test*) described in the Final Section 883 Regulations and it meets certain substantiation, reporting and other requirements.

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We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our subsidiaries that have properly elected to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes) will be exempt from U.S. federal income taxation provided we meet the Ownership Test described in the Section 883 Regulations. We believe that we should satisfy the Ownership Test because our stock is primarily and regularly traded on an established securities market in the United States within the meaning of the Section 883 of the Code and the Treasury Regulations thereunder. We can give no assurance that any changes in the ownership of our stock subsequent to the date of this report will permit us to continue to qualify for the Section 883 exemption.

The 4.0% Gross Basis Tax. If the Section 883 Exemption does not apply and the net basis tax does not apply, we would be subject to a 4.0% U.S. federal income tax on the U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions. For 2007 and 2006, approximately 7.8% and 8.7%, respectively, of our gross shipping revenues were U.S. Source International Transportation Income and the average U.S. federal income tax on such U.S. Source International Transportation Income would have been approximately \$7.5 million and \$7.0 million, respectively, for 2007 and 2006.

The Net Basis Tax and Branch Profits Tax. If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, such income may be treated as effectively connected with the conduct of a trade or business in the United States (or *Effectively Connected Income*) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of bareboat charter income, is attributable to a fixed place of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is received pursuant to bareboat charters. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income.

U.S. Source Domestic Transportation Income generally will be treated as Effectively Connected Income. However, we do not anticipate that any of our income has or will be U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate is currently 35.0%). In addition, if we earn income that is treated as Effectively Connected Income, a 30.0% branch profits tax imposed under Section 884 of the Code generally would apply to such income, and a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis corporate income tax and to the 30.0% branch profits tax with respect to our gain not in excess of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

Marshall Islands, Bahamian and Bermudian Taxation

We believe that neither we nor our subsidiaries will be subject to taxation under the laws of the Marshall Islands, the Bahamas or Bermuda, or that distributions by our subsidiaries to us will be subject to any taxes under the laws of such countries.

Norwegian Taxation

The following discussion is based upon the current tax laws of the Kingdom of Norway and regulations, the Norwegian tax administrative practice and judicial decisions thereunder, all as in effect as of the date of this Annual Report and subject to possible change on a retroactive basis. The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the Norwegian income tax considerations applicable to us.

Our Norwegian subsidiaries are subject to taxation in Norway on their income regardless of where the income is derived. The generally applicable Norwegian income tax rate is 28.0%.

Taxation of Norwegian Subsidiaries Engaged in Business Activities. All of our Norwegian subsidiaries are subject to normal Norwegian taxation. Generally, a Norwegian resident company is taxed on its income realized for tax purposes. The starting point for calculating taxable income is the company's income as shown on its annual accounts, calculated under generally accepted accounting principles and as adjusted for tax purposes. Gross income will include capital gains, interest, dividends from certain corporations and foreign exchange gains.

The Norwegian companies also are taxed on any gains resulting from the sale of depreciable assets. The gain on these assets is taken into income for Norwegian tax purposes at a rate of 20.0% per year on a declining balance basis.

Norway does not allow consolidation of the income of companies in a corporate group for Norwegian tax purposes. However, a group of companies that is ultimately owned more than 90.0% by a single company can transfer its Norwegian taxable income to another Norwegian resident company in the group by making a transfer to the other company (this is referred to as making a group contribution). The ultimate parent in the corporate group can be a foreign company.

Group contributions are deductible for the contributing company for tax purposes and are included in the taxable income of the receiving company in the income year in which the contribution is made. Group contributions are subject to the same rules as dividend distributions under the Norwegian Companies Act. In other words, group contributions are restricted to the amount that is available to distribute as dividends for corporate law purposes.

Taxation of Dividends. Generally, dividends received by a Norwegian resident company are exempt from Norwegian taxation. The exemption does not apply to dividends from companies resident outside the European Economic Area if (a) the country of residence is a low-tax country or (b) the ownership of shares in the distributing company is considered to be a portfolio investment (*i.e.* less than 10.0% share ownership or less than two years continuous ownership period). Dividends not exempt from Norwegian taxation are subject to the general 28.0% income tax rate when received by the Norwegian resident company. We believe that dividends received by our Norwegian subsidiaries will not be subject to Norwegian tax.

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Correction Income Tax. Our Norwegian subsidiaries may be subject to a tax, called *correction income tax*, on their dividend distributions. Norwegian correction tax is levied if a dividend distribution leads to the company's balance sheet equity at year end being lower than the company's paid-in share capital (including share premium), plus a calculated amount equal to 72.0% of the net positive temporary timing differences between the company's book values and tax values.

As a result, correction tax is effectively levied if dividend distributions result in the company's financial statement equity for accounting purposes being reduced below its equity calculated for tax purposes (*i.e.* when dividends are paid out of accounting earnings that have not been subject to taxation in Norway). In addition to dividend distributions, correction tax may also be levied on the partial liquidation of the share capital of the company or if the company makes group contributions that are in excess of taxable income for the year.

Taxation of Interest Paid by Norwegian Entities. Norway does not levy any tax or withholding tax on interest paid by a Norwegian resident company to a company that is not resident in Norway (provided that the interest rate and the debt/equity ratio are based on arms-length principles). Therefore, any interest paid by our Norwegian subsidiaries to companies that are not resident in Norway will not be subject to Norwegian withholding tax.

Taxation on Distributions by Norwegian Entities. Norway levies a 25.0% withholding tax on non-residents of Norway that receive dividends from a Norwegian resident company. However, if the recipient of the dividend is resident in a country that has an income tax treaty with Norway or that is a member of the European Economic Area, the Norwegian withholding tax may be reduced or eliminated. We believe that distributions by our Norwegian subsidiaries will be subject to a reduced amount of Norwegian withholding tax or not be subject to Norwegian withholding tax.

We do not expect that payment of Norwegian income taxes will have a material effect on our results.

Spanish Taxation

Spain imposes income taxes on income generated by our majority owned Spanish subsidiary's shipping related activities at a rate of 32.5%. Two alternative Spanish tax regimes provide incentives for Spanish companies engaged in shipping activities, the Canary Islands Special Ship Registry (or *CISSR*) and the Spanish Tonnage Tax Regime (or *TTR*). As at December 31, 2007, all but two of our vessels operated by our operating Spanish subsidiaries were subject to the TTR.

Under the TTR, the applicable income tax is based on the weight (measured as net tonnage) of the vessel and the number of days during the taxable period that the vessel is at the company's disposal, excluding time required for repairs. The tax base ranges from 0.20 Euros per day per 100 tonnes to 0.90 Euros per day per 100 tonnes, against which the generally applicable tax rate of 32.5% applies. If the shipping company also engages in activities other than those subject to the TTR regime, income from those other activities is subject to tax at the generally applicable rate of 32.5%. If a vessel is acquired and disposed of by a company while it is subject to the TTR regime, any gain on the disposition of the vessel generally is not subject to Spanish taxation. If the company acquired the vessel prior to becoming subject to the TTR regime or if the company acquires a used vessel after becoming subject to the TTR regime, the difference between the fair market value of the vessel at the time it enters into the TTR and the tax value of the vessel at that time is added to the taxable income in Spain when the vessel is disposed of and generally remains subject to Spanish taxation at the rate of 32.5%.

Our two Spanish subsidiary's vessels which are registered in the CISSR are allowed a credit, equal to 90% of the tax payable on income from the commercial operation of the Canary Islands registered ships, against the tax otherwise payable. This effectively results in an income tax rate of approximately 3.25% on income from the operation of these vessels. Vessel sales are subject to the full 32.5% Spanish tax rate. A 20% reinvestment credit is available if the entire gross proceeds from the vessel sale are reinvested in a qualifying asset and if the asset disposed of has been held for a minimum period of one year.

We do not expect Spanish income taxes will have a material effect on our results.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects**Management's Discussion and Analysis of Financial Condition and Results of Operations**

General

Teekay is a leading provider of international crude oil and petroleum product transportation services. Over the past five years, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included the expansion into the liquefied natural gas (or *LNG*) shipping sector through our publicly-listed subsidiary, Teekay LNG, and further growth of our operations in the offshore production, storage and transportation sector through our publicly-listed subsidiary, Teekay Offshore and through our acquisition of a 65% interest in Petrojarl. With a fleet of over 200 vessels, offices in 16 countries and 6,400 seagoing and shore-based employees, Teekay provides comprehensive marine services to the world's leading oil and gas companies, helping them seamlessly link their upstream energy production to their downstream processing operations. Our goal is to create the industry's leading asset management company, focused on the Marine Midstream space.

SIGNIFICANT DEVELOPMENTS IN 2007 AND JANUARY 2008

Acquisition of 50% of OMI Corporation

On June 8, 2007, we and A/S Dampskibsselskabet TORM (or TORM) acquired, through a jointly owned subsidiary all of the outstanding shares of OMI Corporation (or *OMI*). Our 50% share of the acquisition price was approximately \$1.1 billion, including approximately \$0.2 billion of assumed indebtedness. We funded our portion of the acquisition with a combination of cash and borrowings under existing revolving credit facilities and a new \$700 million credit facility.

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OMI was an international owner and operator of tankers, with a total fleet aggregating of approximately 3.5 million dwt and comprised of 13 Suezmax tankers (seven of which it owned and six of which were chartered-in) and 32 product tankers, 28 of which it owned and four of which were chartered-in. In addition, OMI had two product tankers under construction, which are scheduled for delivery in 2009.

We and TORM divided most of OMI's assets equally between the two companies in August 2007. We acquired seven Suezmax tankers, three Medium-Range product tankers and three Handysize product tankers. We also assumed OMI's in-charters of an additional six Suezmax tankers and OMI's third-party asset management business (principally the Gemini pool). We and TORM will continue to hold two Medium-Range product tankers jointly in OMI, as well as two Handysize product tanker newbuildings scheduled to deliver in 2009. The parties intend to divide these remaining assets equally in due course. Please read Item 18 Financial Statements: Note 4 Acquisition of 50% of OMI Corporation.

Angola LNG Project

We have a 33% interest in a consortium that will charter four newbuilding 160,400-cubic meter LNG carriers for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A., and Eni SpA. Final award of the charter contract was made in December 2007. The vessels will be chartered at fixed rates, with inflation adjustments, commencing in 2011. The remaining members of the consortium are Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd., which hold 34% and 33% interests in the consortium, respectively. In accordance with existing agreements, we are required to offer to Teekay LNG our 33% interest in these vessels and related charter contracts no later than 180 days before the scheduled delivery dates of the vessels. Please read Item 18 Financial Statements: Note 16(c) Commitments and Contingencies Joint Ventures.

Acquisition of LNG Vessels

During December 2007, we acquired two 1993-built LNG vessels from a joint venture between Marathon Oil Corporation and ConocoPhillips for a total cost of \$230.0 million. The specialized ice-strengthened vessels were purpose-built to carry LNG from Alaska's Kenai LNG plant to Japan and have a self-supporting prismatic shape IMO Type B (SPB) cargo containment system. The vessels have been time-chartered back to the joint venture until April 2009 with charterer's option to extend the contracts up to an additional seven years. We believe that these specialized vessels will provide us with the prospect of a new service offering following the completion of the Kenai project such as delivering partial cargoes at multiple ports or as a potential project vessel such as serving as a floating offshore re-gasification or production facility, subject to conversion. In accordance with existing agreements, in April 2008, Teekay sold these vessels to Teekay LNG and chartered them back for ten years with three five-year option periods.

Strategic Transaction with ConocoPhillips

In January 2008, we entered into a multi-vessel transaction with ConocoPhillips, in which we acquired ConocoPhillips rights in six double-hull Aframax tankers. Of the six Aframax tankers acquired, two are owned and four are bareboat chartered-in from third parties for periods ranging from five to ten years. The total cost of the transaction is \$83.8 million. Two of the Aframax tankers have been chartered back to ConocoPhillips for a period of five years. Commencing in the second quarter of 2008, we will also charter to ConocoPhillips a VLCC for a period of three years and two of our Medium Range product tankers for a period of five years.

Public Offering by Teekay Tankers

During December 2007, our subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*), completed its initial public offering of 11.5 million shares of its Class A common stock at a price of \$19.50 per share for net proceeds of approximately \$208.0 million. The 11.5 million shares of Class A common stock represent a 46% ownership interest in Teekay Tankers, including Teekay Tankers' outstanding shares of Class B common stock, which entitle the holders to five votes per share, subject to a 49% aggregate Class B Common Stock voting power maximum. We own the remaining capital stock of Teekay Tankers. Teekay Tankers owns nine Aframax tankers, which it acquired from Teekay upon the closing of the initial public offering, and is expected to grow through the acquisition of crude oil and product tanker assets from third parties and from us. Teekay will offer to Teekay Tankers by July 2009 the opportunity to purchase up to four Suezmax-class oil tankers, of which two sold to Teekay Tankers in April 2008. Please read Item 18

Financial Statements: Note 5 Public Offerings.

IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

Revenues. Revenues primarily include revenues from voyage charters, pool arrangements, time-charters, contracts of affreightment and FPSO service contracts. Revenues are affected by hire rates and the number of days a vessel operates and the daily production volume on FPSO units. Revenues are also affected by the mix of business between time-charters, voyage charters, contracts of affreightment and vessels operating in pool arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

Forward Freight Agreements. We are exposed to freight rate risk for vessels in our spot tanker segment from changes in spot market rates for vessels. In certain cases, we use forward freight agreements (or *FFAs*) to manage this risk. FFAs involve contracts to provide a fixed number of theoretical voyages at fixed rates, thus hedging a portion of our exposure to the spot-charter market. These agreements are recorded as assets or liabilities and measured at fair value. Changes in the fair value of the FFAs are recognized in other comprehensive income (loss) until the hedged item is recognized as revenue in income. The ineffective portion of a change in fair value is immediately recognized as revenue in income.

Voyage Expenses. 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. Voyage expenses are typically paid by the customer under time-charters and FPSO service contracts and by us under voyage charters and contracts of affreightment.

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Net Revenues. Net revenues represent revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the form of the charter, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different forms of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under United States generally accepted accounting principles (or *GAAP*).

Vessel Operating Expenses. Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. We expect these expenses to increase as our fleet matures and to the extent that it expands.

Income from Vessel Operations. To assist us in evaluating our operations by segment, we analyze our income from vessel operations for each segment, which represents the income we receive from the segment after deducting operating expenses, but prior to the deduction of interest expense, income taxes, foreign currency and other income and losses.

Drydocking. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, we drydock each of our vessels every two and a half to five years, depending upon the type of vessel and its age. In addition, a shipping society classification intermediate survey is performed on our LNG and LPG carriers between the second and third year of the five-year drydocking period. We capitalize a substantial portion of the costs incurred during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. We expense as incurred costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets and annual class survey costs for our FPSO units. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation and Amortization. Our depreciation and amortization expense typically consists of:

- charges related to the depreciation and amortization of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;
- charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking; and
- charges related to the amortization of intangible assets, including the fair value of the time-charters, contracts of affreightment, customer relationships and intellectual property where amounts have been attributed to those items in acquisitions; these amounts are amortized over the period in which the asset is expected to contribute to our future cash flows.

Time-charter Equivalent (TCE) Rates. Bulk shipping industry freight rates are commonly measured in the shipping industry at the net revenues level in terms of time-charter equivalent (or *TCE*) rates, which represent net revenues divided by revenue days.

Revenue Days. Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, drydockings or special or intermediate surveys. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available for the vessel to earn revenue, yet is not employed, are included in revenue days. We use revenue days to explain changes in our net revenues between periods.

Calendar-ship-days. Calendar-ship-days are equal to the total number of calendar days that our vessels were in our possession during a period. As a result, we use calendar-ship-days primarily in explaining changes in vessel operating expenses, time-charter hire expense and depreciation and amortization.

Restricted Cash Deposits. Under the terms of the tax leases for four of our LNG carriers, we are required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases, including the obligations to purchase the LNG carriers at the end of the lease periods, where applicable. During vessel construction, however, the amount of restricted cash approximates the accumulated vessel construction costs. These cash deposits are restricted to being used for capital lease payments and

have been fully funded with term loans and loans from our joint venture partners. Please read Item 18 Financial Statements: Note 10 Capital Leases and Restricted Cash.

RESULTS OF OPERATIONS

In accordance with United States generally accepted accounting principles (or *GAAP*), we report gross revenues in our income statements and include voyage expenses among our operating expenses. However, ship-owners base economic decisions regarding the deployment of their vessels upon anticipated TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time-charter contracts and floating production, storage and offloading (or FPSO) service contracts the customer usually pays the voyage expenses, while under voyage charters and contracts of affreightment the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues and TCE rates of our four reportable segments where applicable.

The shipping industry is currently witnessing significant growth in the world fleet resulting in a global manpower shortage. This shortage has resulted in crew wage increases during 2007, the effect of which is explained in our comparison of the year ended December 31, 2007 to the year ended December 31, 2006. We expect a trend of increasing crew compensation costs to continue into 2008.

We manage our business and analyze and report our results of operations on the basis of four segments: the offshore segment, the fixed-rate tanker segment, the liquefied gas segment and the spot tanker segment. Please read Item 18 Financial Statements: Note 2 Segment Reporting.

Table of Contents**Year Ended December 31, 2007 versus Year Ended December 31, 2006****Offshore Segment**

Our offshore segment includes our shuttle tankers, FPSO units, and FSO units. The offshore segment has four shuttle tankers under construction. We took delivery of one FPSO during January 2008 and acquired one shuttle tanker during March 2008. Please read Item 18 Financial Statements: Note 16 - Commitments and Contingencies. We use these vessels to provide transportation, production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term fixed-rate time-charter contracts, contracts of affreightment or FPSO service contracts. Historically, the utilization of shuttle tankers and FPSO units in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our vessels and the offshore oil platforms, which generally reduces oil production.

The following table presents our offshore segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our offshore segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2007	2006	
Revenues	992,326	667,847	48.6
Voyage expenses	117,571	89,642	31.2
Net revenues	874,755	578,205	51.3
Vessel operating expenses	301,478	134,866	123.5
Time-charter hire expense	161,876	170,662	(5.1)
Depreciation and amortization	172,983	105,861	63.4
General and administrative ⁽¹⁾	101,119	58,048	74.2
(Gain) loss on sale of vessels	(18,630)	698	(2,769.1)
Income from vessel operations	155,929	108,070	44.3
Calendar Ship Days			
Owned Vessels	12,840	9,510	35.0
Chartered-in Vessels	4,619	4,983	(7.3)
Total	17,459	14,493	20.5

(1) Includes direct general and administrative expenses and indirect general and administrative expenses

(allocated to the offshore segment based on estimated use of corporate resources).

The average fleet size of our offshore segment (including vessels chartered-in) increased during 2007 compared to 2006. This was primarily the result of:

the acquisition during the third quarter of 2006 of Teekay Petrojarl ASA (or *Petrojarl*), which operates four FPSO units and one shuttle tanker (please read item 18 - Financial Statements: Note 3 Acquisition of Petrojarl ASA);

the consolidation of five 50%-owned joint ventures, each of which owns one shuttle tanker, effective December 1, 2006 upon amendments of the applicable operating agreements, which granted us control of these joint ventures (or the *Consolidation of Joint Ventures*);

the transfer of the *Navion Saga* from the fixed-rate segment to the offshore segment in connection with the completion of its conversion to an FSO unit in May 2007; and

the delivery of two new shuttle tankers, the *Navion Bergen* and the *Navion Gothenburg*, in April and July 2007, respectively (or the *Shuttle Tanker Deliveries*);

partially offset by

a decline in the number of chartered-in shuttle tankers; and

the sale of one 1981-built shuttle tanker in July 2006 and one 1987-built shuttle tanker in May 2007 (the *Shuttle Tanker Dispositions*).

Net Revenues. Net revenues increased 51.3% to \$874.8 million for 2007, from \$578.2 million for 2006, primarily due to:

a net increase of \$245.8 million relating to the Petrojarl acquisition, which includes the effect of amortization of contract values as described below;

an increase of \$40.8 million due to the Consolidation of Joint Ventures;

an increase of \$23.0 million relating to the transfer of the *Navion Saga* to the offshore segment;

an increase of \$12.3 million due to the Shuttle Tanker Deliveries; and

an increase of \$3.6 million due to the renewal of certain vessels on time-charter contracts at higher daily rates during 2006;

partially offset by

a decrease of \$13.6 million in revenues due to (a) fewer revenue days for shuttle tankers servicing contracts of affreightment during 2007 due to a decline in oil production from mature oil fields in the North Sea and (b) the redeployment of idle shuttle tankers servicing contracts of affreightment in the conventional spot market at a lower average charter rate during the fourth quarter of 2007 due to a weaker spot tanker market; and

a decrease of \$3.4 million due to the drydocking of the FSO unit the *Dampier Spirit* during the first half of 2007.

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As part of our acquisition of Petrojarl, we assumed certain FPSO service contracts which have terms that are less favorable than then-prevailing market terms. This contract value liability, which was recognized on the date of acquisition, is being amortized to revenue over the remaining firm period of the current FPSO contracts on a weighted basis based on the projected revenue to be earned under the contracts. The amount of amortization relating to these contracts included in revenue for 2007 was \$66.6 million (2006 \$22.4 million). Please read Item 18 Financial Statements: Note 6 - Goodwill, Intangible Assets and In-Process Revenue Contracts.

Vessel Operating Expenses. Vessel operating expenses increased 123.5% to \$301.5 million for 2007, from to \$134.9 million for 2006, primarily due to:

an increase of \$125.3 million from the Petrojarl acquisition;

an increase of \$17.5 million from the Consolidation of Joint Ventures;

an increase of \$14.0 million in salaries for crew and officers primarily due to general wage escalations from the renegotiation of seafarer contracts, change in crew composition, a change in the crew rotation system and the weakening U.S. Dollar;

an increase of \$6.0 million relating to the transfer of the *Navion Saga* to the offshore segment; and

an increase of \$3.4 million relating to an increase in services, non-recurring repairs and maintenance; partially offset by

a decrease of \$2.1 million relating to the Shuttle Tanker Dispositions.

Time-Charter Hire Expense. Time-charter hire expense decreased 5.1% to \$161.9 million for 2007, from \$170.7 million for 2006, primarily due to a decrease in the number of chartered-in vessels.

Depreciation and Amortization. Depreciation and amortization expense increased 63.4% to \$173.0 million for 2007, from \$105.9 million for 2006, primarily due to:

an increase of \$45.1 million from the Petrojarl acquisition;

an increase of \$13.7 million from the Consolidation of Joint Ventures;

an increase of \$6.6 million from the transfer of the *Navion Saga* to the offshore segment; and

an increase of \$3.8 million due to the Shuttle Tanker Deliveries;

partially offset by

a decrease of \$4.0 million relating to the Shuttle Tanker Dispositions.

Gain on Sale of Vessels and Equipment – Net of Write-downs. Gain on sale of vessels for 2007 was a net gain of \$18.6 million, which was primarily comprised of:

a gain of \$11.6 million from the sale of a 1987-built shuttle tanker and certain equipment during May 2007; and

a gain of \$7.0 million from the sale of a 2007-built shuttle tanker to a 50%-owned joint venture during September 2007.

Fixed-Rate Tanker Segment

Our fixed-rate tanker segment includes conventional crude oil and product tankers on long-term, fixed-rate time-charters. The fixed-rate tanker segment also has one Aframax conventional crude oil tanker, which delivered in January 2008 and one Aframax conventional crude oil tanker under construction, which is scheduled to be delivered in April 2008. Upon their deliveries, the vessels will commence 10-year time-charters to a 50%-owned joint venture that provides lightering services primarily in the Gulf of Mexico.

The following table presents our fixed-rate tanker segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our

fixed-rate tanker segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2007	2006	
Revenues	195,942	181,605	7.9
Voyage expenses	2,707	1,999	35.4
Net revenues	193,235	179,606	7.6
Vessel operating expenses	51,458	44,083	16.7
Time-charter hire expense	25,812	16,869	53.0
Depreciation and amortization	36,018	32,741	10.0
General and administrative ⁽¹⁾	18,471	16,000	15.4
Income from vessel operations	61,476	69,913	(12.1)
Calendar Ship Days			
Owned Vessels	5,390	5,475	(1.6)
Chartered-in Vessels	1,312	728	80.2
Total	6,702	6,203	8.0

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the fixed-rate tanker segment based on estimated use of corporate resources).

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The average fleet size of our fixed-rate tanker segment (including vessels chartered-in) increased slightly in 2007 compared to 2006. This increase was primarily the result of:

the acquisition of two Suezmax tankers from OMI Corporation on August 1, 2007 (or the *OMI Acquisition*); and

the transfer of two in-chartered Aframax tankers from the spot tanker segment in July 2007 and October 2007, respectively, upon commencement of three-year time-charters (or the *Aframax Transfers*).

In addition, during July 2007 we sold and leased back an older Aframax tanker. This had the effect of decreasing the number of calendar days for our owned vessels and increasing the number of calendar ship days for our chartered-in vessels.

Net Revenues. Net revenues increased 7.6% to \$193.2 million for 2007, from \$179.6 million for 2006, primarily due to:

an increase of \$9.3 million from the OMI Acquisition;

an increase of \$8.1 million from the Aframax Transfers;

an increase of \$1.4 million due to adjustments to the daily charter rate based on inflation and increases from rising interest rates in accordance with the time-charter contracts for five Suezmax tankers. (However, under the terms of our capital leases for these tankers we had a corresponding increase in our lease payments, which is reflected as an increase to interest expense. Therefore, these and future interest rate adjustments do not and will not affect our cash flow or net income); and

a relative increase of \$0.3 million because one of our Suezmax tankers was off-hire for 15.8 days for a scheduled drydocking during 2006;

partially offset by

a decrease of \$5.5 million from reduced revenues earned by the *Teide Spirit* and the *Toledo Spirit* (the time-charters for both these vessels provide for additional revenues to us beyond the fixed hire rate when spot market rates exceed threshold amounts; the time-charter for the *Toledo Spirit* also provides for a reduction in revenues to us when spot market rates are below threshold amounts).

Vessel Operating Expenses. Vessel operating expenses increased 16.7% to \$51.5 million for 2007, from \$44.1 million for 2006, primarily due to:

an increase of \$4.1 million relating to higher crew manning and repairs, maintenance and consumables;

an increase of \$1.6 million due to the effect on our Euro-denominated vessel operating expenses (primarily crewing costs for five of our Suezmax tankers) from the strengthening of the Euro against the U.S. Dollar during such period compared to the same period last year. A majority of our vessel operating expenses on five of our Suezmax tankers are denominated in Euros, which is primarily a function of the nationality of our crew (our Euro-denominated revenues currently generally approximate our Euro-denominated expenses and Euro-denominated loan and interest payments); and

an increase of \$1.1 million from the OMI Acquisition.

Time-Charter Hire Expense. Time-charter hire expense increased 53.0% to \$25.8 million for 2007, compared to \$16.9 million for 2006, primarily due to:

an increase of \$4.7 million from the Aframax Transfers;

an increase of \$4.1 million from the OMI Acquisition; and

an increase of \$1.2 million due to the sale and lease-back of an Aframax tanker in July 2007.

Depreciation and Amortization. Depreciation and amortization expense increased 10.0% to \$36.0 million for 2007, from \$32.7 million for 2006, primarily due to:

an increase of \$3.4 million from the OMI Acquisition; and

an increase of \$1.2 million from an increase in amortization of drydocking costs;

partially offset by

a decrease of \$1.1 million due to the sale and lease-back of an Aframax tanker in July 2007.

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Our liquefied gas segment consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. We also have six LNG carriers currently under construction that are scheduled for delivery between April 2008 and January 2009 and four LNG carriers currently under construction that are scheduled for delivery between August 2011 and January 2012. In addition, we have three LPG carriers currently under construction that are scheduled for delivery between July 2008 and June 2009. Upon delivery, all of these vessels will commence operation under long-term, fixed-rate time-charters. Please read Item 18 Financial Statements: Note 16(a) Commitments and Contingencies Vessels Under Construction and Note 16(c) Commitments and Contingencies Joint Ventures.

The following table presents our liquefied gas segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our liquefied gas segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2007	2006	
Revenues	166,981	104,489	59.8
Voyage expenses	109	975	(88.8)
Net revenues	166,872	103,514	61.2
Vessel operating expenses	30,239	18,912	59.9
Depreciation and amortization	46,018	33,160	38.8
General and administrative ⁽¹⁾	21,471	15,685	36.9
Income from vessel operations	69,144	35,757	93.4
Calendar Ship Days			
Owned Vessels and Vessels under Capital Lease	2,899	1,887	53.6

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the liquefied gas segment based on estimated use of corporate resources).

The increase in the average fleet size of our liquefied gas segment was primarily due to: the delivery of three new LNG carriers between October 2006 and February 2007 (or the *RasGas II LNG Carriers*), and

our December 2007 acquisition of two 1993-built LNG vessels from a joint venture between Marathon Oil Corporation and ConocoPhillips (or the *Kenai LNG Carriers*).

On March 29, 2007, the *Madrid Spirit* sustained damage to its engine boilers when a condenser tube failed resulting in seawater contamination of the boilers. The vessel was offhire for three days during the first quarter of 2007 and 76 days during the second quarter of 2007. As a result, we incurred a reduction to income from vessel operations of \$6.6 million in the second quarter of 2007, consisting of \$5.8 million from loss of hire and \$0.8 million from uninsured repair costs. The *Madrid Spirit* resumed normal operations in early July 2007.

Net Revenues. Net revenues increased 61.2% to \$166.9 million for 2007, from \$103.5 million for 2006, primarily due to:

an increase of \$59.8 million from the delivery of the RasGas II LNG Carriers;

an increase of \$6.8 million due to the effect on our Euro-denominated revenues from the strengthening of the Euro against the U.S. Dollar during such period compared to the same period last year;

a relative increase of \$2.4 million due to the *Catalunya Spirit* being off-hire for 35.5 days during 2006 to complete repairs and for a scheduled drydock; and

an increase of \$2.0 million from the delivery of the Kenai LNG Carriers;

partially offset by

a decrease of \$5.8 million due to the *Madrid Spirit* being off-hire, as discussed above; and

a decrease of \$2.0 million relating to 30.8 days of off-hire for a scheduled drydocking for one of our LNG carriers during July 2007.

Vessel Operating Expenses. Vessel operating expenses increased 59.9% to \$30.2 million for 2007, from \$18.9 million for 2006, primarily due to:

an increase of \$8.9 million from the delivery of the RasGas II LNG Carriers;

an increase of \$1.4 million due to the effect on our Euro-denominated vessel operating expenses (primarily crewing costs) from the strengthening of the Euro against the U.S. Dollar during such period compared to the same period last year (a majority of our vessel operating expenses are denominated in Euros, which is primarily a function of the nationality of our crew; our Euro-denominated revenues currently generally approximate our Euro-denominated expenses and Euro-denominated loan and interest payments); and

an increase of \$0.8 million for repair costs for the *Madrid Spirit* incurred during the second quarter of 2007 in excess of insurance recoveries;

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partially offset by

a relative decrease of \$1.0 million relating to repair costs for the *Catalunya Spirit* incurred during the second quarter of 2006 in excess of insurance recoveries.

Depreciation and Amortization. Depreciation and amortization increased 38.8% to \$46.0 million in 2007, from \$33.2 million in 2006, primarily due to:

an increase of \$11.7 million from the delivery of the RasGas II LNG Carriers;

an increase of \$0.7 million relating to the amortization of drydock expenditures incurred during 2007, and

an increase of \$0.5 million from the delivery of the Kenai LNG Carriers.

Spot Tanker Segment

Our spot tanker segment consists of conventional crude oil tankers and product carriers operating on the spot market or subject to time-charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. We also have ten Suezmax tankers under construction which are scheduled to be delivered between June 2008 and August 2009 and are expected to be included in this segment. We consider contracts that have an original term of less than three years in duration to be short term. Substantially all of our conventional Aframax, Suezmax, large product, medium product and small product tankers are among the vessels included in the spot tanker segment.

Our spot market operations contribute to the volatility of our revenues, cash flow from operations and net income. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, tanker spot markets historically have exhibited seasonal variations in charter rates. Tanker spot markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling.

The following table presents our spot tanker segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our spot tanker segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2007	2006	
Revenues	1,051,373	1,059,365	(0.8)
Voyage expenses	407,793	429,501	(5.1)
Net revenues	643,580	629,864	2.2
Vessel operating expenses	81,368	59,489	36.8
Time-charter hire expense	279,676	214,991	30.1
Depreciation and amortization	74,094	52,203	41.9
General and administrative ⁽¹⁾	97,087	88,182	10.1
Gain on sale of vessels		(2,039)	(100.0)
Restructuring charge		8,929	(100.0)
Income from vessel operations	111,355	208,109	(46.5)
Calendar Ship Days			
Owned Vessels	11,764	9,541	23.3

Chartered-in Vessels	12,730	11,190	13.8
Total	24,494	20,731	18.2

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the spot tanker segment based on estimated use of corporate resources).

The average fleet size of our spot tanker fleet increased 18.2% from 20,731 calendar days in 2006 to 24,494 calendar days in 2007, primarily due to:

the delivery of four new large product tankers between November 2006 and May 2007 (or the *Spot Tanker Deliveries*);

the acquisition of twelve vessels from OMI Corporation on August 1, 2007 (or the *OMI Acquisition*); and

a net increase in the number of chartered-in vessels, primarily Suezmax and product tankers; partially offset by

the transfer of the *Navion Saga* to the offshore segment in connection with the completion of its conversion to an FSO unit in May 2007.

In addition, during April 2007 we sold and leased back two older Aframax tankers and during July 2007 we sold and leased back one Aframax tanker. This had the effect of decreasing the number of calendar days for our owned vessels and increasing the number of calendar ship days for our chartered-in vessels.

Table of Contents**Tanker Market and TCE Rates.**

Demand for conventional oil tankers is a function of several factors, including: world oil demand and supply (which affect the amount of crude oil and refined products transported in tankers); the relative locations of oil production, refining and consumption (which affects the distance over which the oil or refined products are transported); and the supply of tankers.

Average crude tanker freight rates in 2007 were lower than in 2006, but were still above the long-term average. In mid-2007, oil prices experienced backwardation for the first time in almost three years, in that the spot price of oil was higher at that time than the expected future price. This situation encourages the drawdown of existing oil inventories. This drawdown had a negative impact on tanker demand and led to a strong decline in global oil inventories. A heavy refinery maintenance schedule also reduced tanker demand and lower volumes of oil from OPEC constrained oil supply. Crude freight rates rallied in the latter part of the fourth quarter of 2007 as seasonal oil demand, low inventories, the return of refineries from seasonal maintenance and a 0.5 million barrels per day (mb/d) increase in OPEC supply commencing November 1, 2007, led to a sharp increase in crude tanker freight rates.

World gross domestic product growth averaged 4.9% during 2007. This rate is above the long-term average, but was a slight decline from 2006. A weaker fourth quarter brought about by the sub-prime mortgage crisis in the United States caused a slowdown in growth in the OECD nations. Global oil demand for 2007 averaged 85.8 mb/d, which was an increase of 0.9 mb/d (or 1.1%) from 2006. Oil demand in OECD countries during 2007 was relatively flat as a mild winter and high oil prices stunted demand growth. China, Asia and the Middle East accounted for the majority of the oil demand growth during 2007. Global oil supply rose by 0.2 mb/d in 2007 as increases in production from the former Soviet Union were offset by a decline in North Sea production and low volumes from OPEC for most of the year.

The tanker market fundamentals for 2008 are expected to be affected by above-average estimates for oil demand growth, led by the non-OECD nations, and estimated moderate fleet growth. A possible downside risk is the sub-prime mortgage crisis and its effects on the U.S. and global economies.

As of March 2008 the International Energy Agency estimated global oil demand growth of 1.7 mb/d (2.0%) for 2008 led by an increase in demand from China and the Middle East. OECD oil demand is forecasted to increase by 0.2 mb/d due to a return to more normal winter weather patterns. Non-OPEC oil production is expected to grow by 0.9 mb/d in 2008 led by the Former Soviet Union, Brazil and biofuels. The trend of longer-haul trade patterns is continuing as consumers in Asia diversify their sources of crude imports. An anticipated increase in Asian refinery capacity during 2008 is also expected to increase ton-mile demand as crude moves from the Atlantic to the Pacific basin and oil products move the other way.

The International Monetary Fund expects global economic growth of 4.1% during 2008, with slower growth in the OECD nations due to the US sub-prime mortgage crisis. Growth in the developing nations is expected to remain strong, led by China which is forecasted to grow by 10%.

The size of the world tanker fleet rose to 385.9 million dwt as of December 31, 2007, up 22.6 million dwt (or 6.2%) from the end of 2006. The world tanker orderbook rose to 157.4 million dwt as at December 31, 2007, the highest levels since the 1970s. An estimated 100 tankers were sold for conversion to dry bulk, offshore or other ship types during 2007 including tankers across all the crude sectors (VLCC, Suezmax and Aframax). Many of these vessels are expected to leave the fleet during 2008, which would dampen fleet growth and tighten the supply / demand balance. There is also increased discrimination against single-hull tankers following the oil spill from a single-hull VLCC off South Korea in December 2007, which may lead to further conversion sales and scrapping of single-hull tankers.

TCE rates for the vessels in our spot tanker segment primarily depend on global oil production and consumption levels, the number of vessels in the worldwide tanker fleet scrapped, the number of newbuildings delivered and charterers preference for modern tankers. As a result of our exposure to the tanker spot market, any fluctuations in TCE rates affect our revenues and earnings. Our average TCE rate for the vessels in our spot tanker segment decreased 15.1% to \$25,978 for 2007, from \$30,600 for 2006.

The following table outlines the TCE rates earned by the vessels in our spot tanker segment for 2007, 2006 and 2005 and includes the realized results of synthetic time-charters (or *STCs*) and forward freight agreements (or *FFAs*), which we enter into at times as hedges against a portion of our exposure to spot market rates or for speculative purposes.

Vessel Type	2007			2006			2005		
	Net Revenues ⁽¹⁾ (\$000 s)	Revenue Days	TCE per Revenue Day (\$)	Net Revenues ⁽¹⁾ (\$000 s)	Revenue Days	TCE per Revenue Day (\$)	Net Revenues ⁽¹⁾ (\$000 s)	Revenue Days	TCE per Revenue Day (\$)
VLCC				(85)			8,347	90	92,744
Suezmax	100,003	3,162	31,627	56,981	1,639	34,766	68,395	1,862	36,732
Aframax	335,445	11,866	28,269	417,660	11,675	35,774	536,390	14,587	36,769
Large Product	141,547	5,567	25,426	96,779	3,488	27,747	103,802	3,480	29,828
Small Product	51,404	3,595	14,299	58,529	3,782	15,476	58,868	3,957	14,877
Totals	628,399	24,190	25,978	629,864	20,584	30,600	775,802	23,976	32,357

(1) Excludes the unrealized gain (loss) of STCs and FFAs.

Net Revenues. Net revenues increased 2.2% to \$643.6 million for 2007, from \$629.9 million for 2006, primarily due to:

an increase of \$71.0 million relating to the OMI Acquisition;

an increase of \$31.9 million relating to the Spot Tanker Deliveries;

an increase of \$21.5 million from the effect of STCs and FFAs, which excludes the unrealized gain (loss) of STCs and FFAs designated as cash flow hedges; and

an increase of \$4.5 million from a net increase in the number of chartered-in vessels (excluding the effect of the sale and lease-back of two older Aframax tankers during April 2007 and the Aframax tanker during July 2007) compared to 2006;

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partially offset by

a decrease of \$100.4 million from a 15.1% decrease in our average TCE rate during 2007 compared to 2006;

a decrease of \$6.5 million from the transfer of the *Navion Saga* to the offshore segment in May 2007; and

a decrease of \$5.7 million from an increase in the number of days our vessels were off-hire due to regularly scheduled maintenance.

Vessel Operating Expenses. Vessel operating expenses increased 36.8% to \$81.4 million for 2007, from \$59.5 million for 2006, primarily due to:

an increase of \$12.7 million from the OMI Acquisition;

an increase of \$7.7 million from the Spot Tanker Deliveries; and

an increase of \$3.3 million relating to higher crew manning costs.

Time-Charter Hire Expense. Time-charter hire expense increased 30.1% to \$279.7 million for 2007, from \$215.0 million for 2006, primarily due to:

an increase of \$32.3 million from a net increase in the average TCE rate of our chartered-in fleet;

an increase of \$22.3 million from the OMI Acquisition;

an increase of \$7.5 million due to the sale and lease-back of the Aframax tankers during April and July 2007; and

an increase of \$4.1 million from an increase in the number of chartered-in tankers (excluding OMI vessels) compared to 2006.

Depreciation and Amortization. Depreciation and amortization expense decreased 41.9% to \$74.1 million for 2007, from \$52.2 million for 2006, primarily due to:

an increase of \$21.4 million from the OMI Acquisition; and

an increase of \$6.1 million from the Spot Tanker Deliveries;

partially offset by

a decrease of \$5.5 million from the sale and lease-back of the Aframax tankers during April and July 2007; and

a decrease of \$1.7 million from the transfer of the *Navion Saga* to the offshore segment.

Other Operating Results

The following table compares our other operating results for 2007 and 2006.

(in thousands of U.S. dollars, except percentages)	Twelve Months Ended		
	December 31,		% Change
	2007	2006	
General and administrative	(238,148)	(177,915)	33.9
Interest expense	(287,558)	(171,643)	67.5
Interest income	82,158	56,224	46.1
Foreign exchange loss	(22,106)	(45,382)	(51.3)
Minority interest expense	(9,663)	(441)	2,091.2
Other net	20,516	1,637	1,153.3

General and Administrative Expenses. General and administrative expenses increased 33.9% to \$238.1 million for 2007, from \$177.9 million for 2006, primarily due to:

an increase of \$26.0 million from our acquisition of Petrojarl in October 2006;

an increase of \$20.7 million from an increase in shore-based compensation and other personnel expenses, primarily due to weakening of the U.S. Dollar compared to other major currencies and increases in headcount and compensation levels;

an increase of \$6.7 million from an increase in corporate-related expenses, including costs associated with Teekay Tankers and Teekay Offshore becoming public entities in December 2007 and 2006, respectively;

an increase of \$5.8 million from higher travel costs, due to the integration of OMI and Petrojarl, and an increase in costs due to the weakening of the U.S. Dollar compared to other major currencies, and

an increase of \$4.3 million from an increase in crew training expenses, due to integration of new seafarers and LNG training initiatives;

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partially offset by

a relative decrease of \$4.1 million during 2007 relating to the costs associated with our equity-based compensation and long-term incentive program for management (please read Item 18 Financial Statements: Note 16(d) Commitments and Contingencies Long-Term Incentive Program); and

a relative decrease of \$2.1 million during 2007 from severance costs recorded in 2006.

Interest Expense. Interest expense increased 67.5% to \$287.6 million for 2007, from \$171.6 million for 2006, primarily due to:

an increase of \$35.9 million resulting from interest incurred from financing our acquisition of Petrojarl and interest incurred on debt we assumed from Petrojarl;

an increase of \$33.3 million relating to the increase in capital lease obligations and term loans in connection with the delivery of the RasGas II LNG Carriers;

an increase of \$31.6 million relating to the increase in debt used to finance our acquisition of 50% of OMI Corporation;

an increase of \$11.3 million relating to the Consolidation of Joint Ventures; and

an increase of \$10.9 million relating to debt used by Ras Laffan Liquefied Natural Gas Co. Limited (3) (or *RasGas 3*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum, to fund shipyard construction installment payments (this increase in interest expense is offset by a corresponding increase in interest income from advances to the joint venture);

partially offset by

a decrease of \$6.2 million from scheduled capital lease repayments on two of our LNG carriers.

Interest Income. Interest income increased 46.1% to \$82.2 million for 2007, compared to \$56.2 million for 2006, primarily due to:

an increase of \$11.1 million resulting from \$1.1 billion of interest-bearing loans we made to Omaha Inc., a 50% joint venture between us and TORM, which were used, together with comparable loans made by TORM, to acquire 100% of the outstanding shares of OMI Corporation in June 2007;

an increase of \$11.0 million relating to interest-bearing advances made by us to the RasGas 3 for shipyard construction installment payments;

an increase of \$6.9 million relating to additional restricted cash deposits that will be used to pay for lease payments on the three RasGas II LNG Carriers; and

an increase of \$2.7 million from the interest we earned on cash we assumed as part of the Petrojarl acquisition;

partially offset by

decreases of \$7.3 million resulting from scheduled capital lease repayments on two of our LNG carriers that were funded from restricted cash deposits (please read Item 18 Financial Statements: Note 10- Capital Leases and Restricted Cash).

Foreign Exchange Loss. Foreign exchange loss decreased 51.3% to \$22.1 million for 2007, compared to \$45.4 million for 2006. The changes in our foreign exchange gains (losses) are primarily attributable to the revaluation of our Euro-denominated term loans at the end of each period for financial reporting purposes, and substantially all of the gains or losses are unrealized. Gains reflect a stronger U.S. Dollar against the Euro on the date of revaluation. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation. As of the date of this report, our Euro-denominated revenues generally approximate our Euro-denominated operating expenses and our Euro-denominated interest and principal repayments.

Minority Interest Expense. Minority interest expense increased to \$9.7 million for 2007, compared to \$0.4 million for 2006, primarily due to:

an increase of \$3.9 million resulting from the Consolidation Joint Ventures;

an increase of \$7.6 million from the initial public offering of Teekay Offshore in December 2006; and

an increase of \$1.0 million from the initial public offering of Teekay Tankers in December 2007;

partially offset by

a decrease of \$3.5 million from a minority owner's share of a gain on the disposal of a vessel in July 2006.

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Other Income (Net). Other income of \$20.5 million for 2007 was primarily comprised of leasing income of \$11.0 million from our volatile organic compound emissions equipment, gain on sale of marketable securities of \$9.6 million, gain on sale of subsidiary of \$6.9 million and income tax recovery of \$5.5 million, partially offset by equity loss from joint ventures of \$12.4 million and loss on bond redemption of \$0.9 million.

Other income (net) of \$1.6 million for 2006 was primarily comprised of equity income from joint ventures of \$5.9 million, leasing income of \$11.4 million from our volatile organic compound emissions equipment and gain on sale of marketable securities of \$1.4 million, partially offset by income tax expense of \$7.9 million, loss on expiry of options to construct LNG carriers of \$6.1 million, write-off of capitalized loan costs of \$2.8 million, and loss on bond redemption of \$0.4 million.

Net Income. As a result of the foregoing factors, net income decreased to \$181.3 million for 2007, from \$262.2 million for 2006.

Year Ended December 31, 2006 versus Year Ended December 31, 2005

We acquired our 64.5% interest in Petrojarl on October 1, 2006. Consequently, our 2006 financial results reflect Petrojarl's results of operations from that date.

Offshore Segment

The following table presents our offshore segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our offshore segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2006	2005	
Revenues	667,847	559,094	19.5
Voyage expenses	89,642	69,137	29.7
Net revenues	578,205	489,957	18.0
Vessel operating expenses	134,866	87,059	54.9
Time-charter hire expense	170,662	168,178	1.5
Depreciation and amortization	105,861	89,177	18.7
General and administrative ⁽¹⁾	58,048	43,779	32.6
Gain on sale of vessels	698	2,820	(75.2)
Restructuring charge		955	
Income from vessel operations	108,070	97,989	10.3
Calendar Ship Days			
Owned Vessels	9,510	9,580	(0.7)
Chartered-in Vessels	4,983	4,963	0.4
Total	14,493	14,543	(0.3)

(1) Includes direct general and administrative expenses and

indirect general
and
administrative
expenses
(allocated to the
offshore
segment based
on estimated use
of corporate
resources).

The average fleet size of our offshore segment (including vessels chartered-in) was primarily unchanged during 2006 compared to 2005. This was primarily the result of:

the acquisition of Petrojarl, which operates four FPSO units and one shuttle tanker; and

the Consolidation of Joint Ventures;

offset by

the sale of one 1981-built shuttle tanker in July 2006 (or the *2006 Shuttle Tanker Disposition*); and

the sale of two older shuttle tankers in March 2005 and October 2005 (or the *2005 Shuttle Tanker Dispositions*).

In addition, during March 2005, we sold and leased back an older shuttle tanker. This had the effect of increasing the average number of chartered-in vessels and decreasing the average number of owned vessels during 2006 compared to 2005.

Net Revenues. Net revenues increased 18.0% to \$578.2 million for 2006, from \$490.0 million for 2005, primarily due to:

an increase of \$80.7 million relating to the Petrojarl acquisition;

an increase of \$5.4 million from the 2006 transfer of certain of our shuttle tankers servicing contracts of affreightment to short-term time-charter contracts, which had higher average rates;

an increase of \$4.9 million from time-charter contract renewals during 2006 at higher daily rates; and

an increase of \$3.8 million due to the Consolidation of Joint Ventures;

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partially offset by

a decrease of \$8.1 million relating to the 2006 and 2005 Shuttle Tanker Dispositions; and

a decrease of \$4.5 million due to an extended drydocking of the *Nordic Trym* during the second half of 2006. As part of the acquisition of Petrojarl, we assumed certain FPSO service contracts which have terms that are less favorable than then-prevailing market terms. This contract value liability, which was recognized on the date of acquisition, is being amortized to revenues over the remaining firm period of the current FPSO contracts on a weighted basis based on the projected revenues to be earned under the contracts. The amount of amortization relating to these contracts included in 2006 revenue was \$22.4 million. Please read Item 18 Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

Vessel Operating Expenses. Vessel operating expenses increased 54.9% to \$134.9 million for 2006, from \$87.1 million for 2005, primarily due to:

an increase of \$38.1 million relating to the Petrojarl acquisition;

an increase of \$5.8 million in increased salaries for crew and officers primarily due to a change in crew composition on one vessel upon the commencement of a new short-term time-charter contract in 2005 and general wage escalations;

an increase of \$2.0 million resulting from the depreciation of the U.S. Dollar from corresponding 2005 levels relative to other currencies in which we pay certain vessel operating expenses;

a total increase of \$1.5 million relating to repairs and maintenance for certain vessels during 2006 and an increase in the cost of lubricants as a result of higher crude costs; and

an increase of \$1.2 million relating to the Consolidation of Joint Ventures;

partially offset by

a decrease of \$2.8 million from the 2005 Shuttle Tanker Dispositions.

Time-Charter Hire Expense. Time-charter hire expense increased slightly to \$170.7 million for 2006, from \$168.2 million for 2005, primarily due to:

a 0.6% increase in the number of vessels chartered-in; and

a slight increase in the average per-day time-charter hire expense to \$34,247 for 2006, from \$33,886 for 2005.

Depreciation and Amortization. Depreciation and amortization expense increased 18.7% to \$105.9 million for 2006, from \$89.2 million for 2005, primarily due to:

an increase of \$22.4 from the Petrojarl acquisition; and

an increase of \$1.2 million from the Consolidation of Joint Ventures;

partially offset by

a decrease of \$3.6 million relating to the 2006 and 2005 Shuttle Tanker Dispositions and the sale and lease-back of one shuttle tanker in March 2005; and

a decrease of \$2.8 million relating to a reduction in amortization from the expiration during 2005 of two contracts of affreightment and from the contracts of affreightment acquired as part of our purchase of Navion AS in 2003, which were being amortized over their respective lives, with the amount amortized each year being weighted based on the projected revenue to be earned under the contracts.

Gain on Sale of Vessels and Equipment net of Write-downs. Gain on sale of vessels and equipment net of write-downs for 2006 was a net loss of \$0.7 million, which was primarily comprised of:

a \$5.5 million write-down on a volatile organic compound (or *VOC*) plant on one of our shuttle tankers which was redeployed from the North Sea to Brazil; this *VOC* plant will be removed and re-installed on another shuttle tanker in our fleet; and

a \$2.2 million write-down of the carrying value of certain offshore equipment that was employed under a short-term contract servicing a marginal oil field that was prematurely shut down due to lower than expected oil production; this write-down occurred due to a reassessment of the estimated net realizable value of the equipment and follows a \$12.2 million write-down in 2005 arising from early termination of the contract for the equipment;

partially offset by

a \$6.4 million gain from the 2006 Shuttle Tanker Disposition; and

a \$0.5 million gain from amortization of a deferred gain on the sale and lease-back of an older shuttle tanker in March 2005.

Gain on sale of vessels and equipment net of write-downs for 2005 was a net loss of \$2.8 million, which was comprised of:

a \$12.2 million write-down of the carrying value of certain offshore equipment as described above;

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partially offset by

a \$9.1 million gain from the 2005 Shuttle Tanker Dispositions; and

a \$0.3 million gain from amortization of a deferred gain on the sale and lease-back of an older shuttle tanker in March 2005.

Restructuring Charges. Restructuring charges of \$1.0 million in 2005 relate to the closure of our Sandefjord, Norway office. We incurred no restructuring charges in 2006 in our offshore segment.

Fixed-Rate Tanker Segment

The following table presents our fixed-rate tanker segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our fixed-rate tanker segment:

(in thousands of U.S. dollars, except calendar ship days and percentages)	Twelve Months Ended December 31,		% Change
	2006	2005	
Revenues	181,605	170,256	6.7
Voyage expenses	1,999	2,919	(31.5)
Net revenues	179,606	167,337	7.3
Vessel operating expenses	44,083	39,731	11.0
Time-charter hire expense	16,869	26,082	(35.3)
Depreciation and amortization	32,741	29,702	10.2
General and administrative ⁽¹⁾	16,000	12,720	25.8
Income from vessel operations	69,913	59,102	18.3
Calendar Ship Days			
Owned Vessels	5,475	4,973	10.1
Chartered-in Vessels	728	1,194	(39.0)
Total	6,203	6,167	0.6

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the fixed-rate tanker segment based on estimated use of corporate

resources).

The average fleet size of our fixed-rate tanker segment (including vessels chartered-in) increased slightly in 2006 compared to 2005. This increase was primarily the result of:

the delivery of a Suezmax tanker newbuilding in July 2005 (or the *2005 Suezmax Delivery*);

the inclusion of an Aframax tanker, which previously operated in our spot tanker segment and, commenced service under a long-term time-charter during the fourth quarter of 2005 (or the *2005 Aframax Transfer*); and

the inclusion of a chartered-in VLCC, previously operating in our spot tanker segment, that commenced service under a long-term time-charter in April 2005 (or the *VLCC Transfer*);

partially offset by

a reduction in our chartered-in fleet resulting from the expiry of our methanol carrier charter agreements.

Net Revenues. Net revenues increased 7.3% to \$179.6 million for 2006, from \$167.3 million for 2005, primarily due to:

an increase of \$8.9 million relating to the 2005 Suezmax Delivery;

an increase of \$6.7 million relating to the 2005 Aframax Transfer;

an increase of \$4.9 million relating to the VLCC Transfer; and

an increase of \$4.0 million due to adjustments to the daily charter rate based on inflation and increases from rising interest rates in accordance with the time-charter contracts for five Suezmax tankers. (However, under the terms of our capital leases for these tankers we had a corresponding increase in our lease payments, which is reflected as an increase to interest expense; therefore, these interest rate adjustments, which will continue, did not affect our cash flow or net income);

partially offset by

a decrease of \$11.9 million relating to the completion of a contract of affreightment primarily serviced by the chartered-in methanol carriers.

Vessel Operating Expenses. Vessel operating expenses increased 11.0% to \$44.1 million for 2006, from \$39.7 million for 2005, primarily due to:

an increase of \$1.8 million relating to the 2005 Aframax Transfer;

an increase of \$1.5 million relating to the 2005 Suezmax Delivery; and

an increase of \$1.0 million due to increased repairs and maintenance activities.

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Time-Charter Hire Expense. Time-charter hire expense decreased 35.3% to \$16.9 million for 2006, compared to \$26.1 million for 2005, primarily due to:

a decrease of \$11.6 million relating to the expiry of our chartered-in methanol carrier contracts; partially offset by

an increase of \$2.3 million related to the VLCC transfer.

Depreciation and Amortization. Depreciation and amortization expense increased 10.2% to \$32.7 million for 2006, from \$29.7 million for 2005, primarily due to:

an increase of \$1.5 million relating to the delivery of the 2005 Suezmax Delivery; and

an increase of \$1.3 million from the 2005 Aframax transfer.

Liquefied Gas Segment

The following table presents our liquefied gas segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our liquefied gas segment:

	Twelve Months Ended		% Change
	December 31,		
(in thousands of U.S. dollars, except calendar ship days and percentages)	2006	2005	