TEEKAY SHIPPING CORP
Form 20-F
April 08, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2004

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1- 12874

TEEKAY SHIPPING CORPORATION

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)

TK House, Bayside Executive Park, West Bay Street & Blake Road, P.O. Box AP-59212, Nassau, Commonwealth of the Bahamas
(Address of principal executive offices)

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
8.32% First Preferred Ship Mortgage Notes due 2006	New York Stock Exchange
7.25% PEPS Unit	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.

82,951,275 shares of Common Stock, par value of $0.001 per share.

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 [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 [ ] Item 18 [X]

TEEKAY SHIPPING CORPORATION
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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 future growth prospects; tanker market fundamentals, including the balance of supply and demand in the tanker market, and spot tanker charter rates; future capital expenditures; delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time charter contacts; the impact of the Teekay Spain acquisition to our earnings, future cash flow from vessel operations and strategic position; the growth prospects of the LNG shipping sector, including increased competition, and the joint venture company with the former controlling shareholder of Teekay Spain; the initial public offering of Teekay LNG Partners L.P.; the expected impact of IMO regulations and regulations of the European Union Parliament; the expected lifespan of a new LNG carrier; the expected impact of the heightened environmental and quality concerns of insurance underwriters, regulators and charterers; the growth of the global economy and global oil demand; and the proceeds and gains in the first and second quarters of 2006 relating to the sale of certain of our vessels. 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: changes in production of or demand for oil, petroleum products and LNG, either generally or in particular regions; the cyclical nature of the tanker industry and our dependence on oil markets; greater or less than anticipated levels of tanker newbuilding orders or greater or less than anticipated rates of tanker scrapping; changes in trading patterns significantly impacting overall tanker tonnage requirements; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; changes in typical seasonal variations in tanker charter rates; changes in the offshore production of oil, competitive factors in the markets in which we operate; our potential inability to integrate effectively the operations of Teekay Spain or any other future acquisitions; the potential for early termination of long-term contracts and inability of the Company to renew or replace long-term contracts; shipyard production delays; conditions in the public equity markets; the ultimate number of common units and price per unit, if any, issued by Teekay LNG Partners L.P. in its proposed public offering; and other factors detailed from time to time in our periodic reports.

Forward-looking statements in this Annual Report are necessarily estimates reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements 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. Accordingly, these forward-looking statements should, be considered in light of various important factors, including those set forth in this Annual Report under the heading Factors That May Affect Future Results.

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 are selected consolidated financial and other data of Teekay Shipping Corporation together with its subsidiaries (sometimes referred to as Teekay, the Company, we or us), for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, 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 the consolidated financial statements for the years ended December 31, 2004, 2003, and 2002, and Item 5. Operating and Financial Review and Prospects, included herein.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States.

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
	(in thousands, except share, per share data and ratio			
Income Statement Data:				
Voyage revenues..................	$2,219,238	$1,576,095	$783,327	$1,039,056
Total operating expenses (1).......	(1,398,052)	(1,283,131)	(663,981)	(655,593)
Income from vessel operations......	821,186	292,964	119,346	383,463
Interest expense..................	(121,518)	(80,999)	(57,974)	(66,249)
Interest income...................	18,528	3,921	3,494	9,196
Equity income from joint ventures..	13,730	6,970	4,523	17,324
Gain (loss) on sale of marketable securities........................	93,175	517	(1,130)	758
Other - net.......................	(67,661)	(46,009)	(14,868)	(7,974)
Net income........................	757,440	177,364	53,391	336,518
Per Share Data:				
Net income - basic (2)............	$9.14	$2.22	$0.67	$4.24
Net income - diluted (2)..........	8.63	2.18	0.66	4.16
Cash dividends declared (2)........	0.51	0.45	0.43	0.43
Balance Sheet Data (at end of year):				
Cash and marketable securities.....	$ 427,037	$ 387,795	$ 298,255	$ 196,004
Restricted cash...................	448,812	2,672	8,785	7,833
Vessels and equipment.............	3,531,287	2,574,860	2,066,657	2,043,098
Total assets......................	5,503,740	3,588,044	2,723,506	2,467,781
Total debt (including capital lease obligations)......................	2,744,545	1,636,758	1,130,822	935,702
Capital stock.....................	534,938	492,653	470,988	467,341
Total stockholders' equity.........	2,237,358	1,651,827	1,421,898	1,398,200
Number of outstanding shares of common stock (2)..................	82,951,275	81,222,350	79,384,120	79,100,652
Other Financial Data:				
Net voyage revenues (3)...........	$1,786,843	$1,181,439	$ 543,872	$ 789,494

Net operating cash flow...........	814,704	455,575	179,531	500,086
Total debt to total capitalization (4) (5)............	54.9%	49.5%	43.9%	39.8%
Net debt to total net capitalization (5) (6)............	45.3%	44.5%	36.4%	34.3%
Capital expenditures:				
Vessel and equipment purchases, gross (7)..........	548,587	372,433	135,650	184,983

(1) Total operating expenses includes vessel write-downs and (gain) loss on sale of vessels, and restructuring charges as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002 (in thousands)	Year Ended December 31, 2001
Vessel write-downs and (gain) loss on sale of vessels....................	$(79,254)	$90,389	$-	$-
Restructuring charges.......	1,002	6,383	-	-
	(78,252)	96,772	-	-

(2) On May 17, 2004, we effected a two-for-one stock split relating to our common stock. All 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 voyage revenues (defined as voyage revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time charters the charterer pays the voyage expenses, whereas under voyage charter contracts the ship owner pays the voyage expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although voyage revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call net voyage revenues, are comparable across the different types of contracts. We principally use net voyage revenues, a non-GAAP financial measure, because it provides more meaningful information to us than voyage revenues, the most directly comparable GAAP financial measure. Net voyage revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net voyage revenues with voyage revenues.

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002 (in thousands)	Year Ended December 31, 2001
Voyage revenues.........	$2,219,238	$1,576,095	$783,327	$1,039,056
Voyage expenses.........	(432,395)	(394,656)	(239,455)	(249,562)
Net voyage revenues.....	1,786,843	1,181,439	543,872	789,494

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

(5) As at December 31, 2004, we had $143.7 million of Premium Equity Participating Security Units due May 18, 2006 (or *Equity Units)* outstanding. If these Equity Units, which were issued on February 16, 2003, were presented as equity, our total debt to total capitalization would have been 52.1% as of December 31, 2004 (December 31, 2003 45.2%) and our net debt to total capitalization would have been 41.9% as of December 31, 2004 (December 31, 2003 39.8%). We believe that this presentation as equity for the purposes of these calculations is consistent with the requirement of each Equity Unit holder to 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 Ugland Nordic Shipping AS in 2001, Navion AS in 2003 and Teekay Shipping Spain S.L. (*or Teekay Spain)* in 2004. Please see Item 5 Operating and Financial Review and Prospects.

Factors That May Affect Future Results

The cyclical nature of the tanker industry causes volatility in our profitability.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of, and demand for, tanker capacity. Increases or decreases in the supply of tankers could have a material adverse effect on our business, financial condition and results of operations. The supply of tanker capacity is influenced by the number and size of new vessels built, older vessels scrapped, converted and lost, the number of vessels that are out of service and regulations that may effectively cause early obsolescence of tonnage. The demand for tanker capacity is influenced by, among other factors: global and regional economic conditions; increases and decreases in production of and demand for crude oil and petroleum products; increases and decreases in OPEC oil production quotas; the distance crude oil and petroleum products need to be transported by sea; and developments in international trade and changes in seaborne and other transportation patterns.

Because many of the factors influencing the supply of and demand for tanker capacity are unpredictable, the nature, timing and degree of changes in tanker industry conditions are also unpredictable.

We depend upon oil markets, changes in which could result in decreased demand for our vessels and services.

Demand for our vessels and services in transporting crude oil and petroleum products depends upon world and regional oil markets. Any decrease in shipments of crude oil in those markets could have a material adverse effect on our 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, as well as competition from alternative energy sources. A slowdown of the United States and world economies may result in reduced consumption of crude oil and petroleum products and a decreased demand for our vessels and services.

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

Terrorist attacks, such as the attacks that occurred in the United States on September 11, 2001, the bombings in Spain on March 11, 2004, the current conflict in Iraq and current and future conflicts, may adversely affect our business, operating results, financial condition, 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, Spain or elsewhere, which may contribute further to economic instability and disruption of oil and liquefied natural gas (or *LNG*) production and distribution, which could result in reduced demand for our services. In addition, oil and LNG 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 and LNG to or from certain locations. Terrorist attacks, war or other events beyond our control that adversely affect the distribution, production or transportation of oil or LNG to be shipped by us could entitle our customers to terminate our 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, we derive a substantial portion of our revenues from shipping oil and LNG 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. In addition to acts of terrorism, vessels trading in this and other regions have also been subject, in limited circumstances, to piracy. 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 Spain, the United States 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.

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

During 2004 and 2003, we derived approximately 62% and 63%, respectively, of our net voyage revenues from the vessels in our spot tanker segment. Our spot tanker segment consists of conventional crude oil tankers, oil/bulk/ore carriers 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. All of our very large crude carrier fleet, and substantially all of our conventional Aframax tanker fleet, and large product and small product tanker fleets, and approximately half of our Suezmax tanker fleet are among the vessels included in our spot tanker segment. 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 competitive and spot charter rates are subject to significant fluctuations based on tanker and oil supply and demand. Charter rates have varied significantly in the last few years. Future spot charters may not be available at rates that will be sufficient to enable our vessels to be operated 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 business.

Demand for our shuttle tankers in transporting crude oil and petroleum products depends upon the amount of oil produced from offshore oil fields, especially in the North Sea, where our shuttle tankers primarily operate. As oil prices increase, the prospect of offshore oil exploration and development of offshore oil fields, which cost more to develop than land oil fields, becomes more attractive to oil companies. However, when oil prices decline, it becomes less attractive for oil companies to explore for oil offshore and develop offshore oil fields. If the amount of oil produced from offshore oil fields declines, especially in the North Sea, our shuttle tanker business could be harmed. In addition, if for environmental or other reasons, there is a change in policy towards using pipelines rather than oceangoing vessels in transporting crude oil and petroleum products from offshore oil fields, our shuttle tanker business could be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations. As at December 31, 2004, we had 41 vessels (including 12 chartered-in vessels and one tanker held for sale) in our shuttle tanker fleet. Most of our shuttle tanker revenues are derived from long-term contracts of affreightment. Revenue under most of these contracts depends upon the amount of oil we transport, the production of which is beyond our control and which can vary depending upon the nature of a given oil field and the field operator s production decisions.

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

A portion of our growth strategy focuses on expansion in the LNG shipping sector and, thus, depends on continued growth in world and regional demand for LNG and LNG shipping and supply of LNG.

Demand for LNG and LNG 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 relative to other energy sources, the availability of new energy sources, and negative global or regional economic or political conditions. Reduced demand for LNG and LNG shipping would have a material adverse effect on future growth of our LNG segment, and could harm that segment s results.

Growth of the LNG market may be limited by infrastructure constraints and community and environmental group resistance to new LNG infrastructure over concerns about the environment, safety and terrorism. If the LNG supply chain is disrupted or does not continue to grow, or if a significant LNG explosion, spill or similar incident occurs, it could have a material adverse effect on our business, results of operations and financial condition.

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

Our crude oil and product tankers operate in highly competitive markets. Competition arises primarily from other conventional Aframax and shuttle tanker owners, including major oil companies and independent companies. We also compete with owners of other size tankers. 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.

One of our objectives is to enter into additional long-term, fixed-rate LNG time charters. 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 marine transportation services for potential LNG projects from a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the LNG project requiring LNG shipping services. Many of these competitors have greater experience in the LNG market and significantly 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 transportation sector. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

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 voyage revenues from a limited number of customers. One customer accounted for 17% ($373.7 million) of our consolidated voyage revenues during 2004. The same customer accounted for 15% ($239.5 million) of our consolidated voyage revenues during 2003. No customer accounted for more than 10% of our consolidated voyage revenue during 2002. 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.

The tanker industry is subject to substantial environmental and other regulations, which may significantly increase our expenses.

Our operations are affected by extensive and changing environmental protection laws and other regulations and international conventions. We have incurred, and expect to continue to incur, substantial expenses in complying with these laws and regulations, including expenses for ship modifications and changes in operating procedures. Additional laws and regulations may be adopted that could limit our ability to do business or further increase our costs, which could harm our business. This could have a material adverse effect on our business, financial condition and results of operations.

The United States Oil Pollution Act of 1990 (or *OPA 90*) in particular has increased our expenses. OPA 90 provides for the phase-in of the exclusive use of double-hull tankers at United States ports, as well as potentially unlimited liability for owners, operators and demise or bareboat charterers for oil pollution in U.S. waters. To comply with the OPA 90, tanker owners generally incur increased costs in meeting additional maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining required insurance coverage. OPA 90 contains financial responsibility requirements for vessels operating in U.S. waters and requires owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of insurance or of qualification as a self-insurer or other evidence of financial responsibility sufficient to meet their potential liabilities under the OPA 90.

Following the example of the OPA 90, the International Maritime Organization (or *IMO*), the United Nations agency for maritime safety, has adopted regulations for tanker design and inspection that are designed to reduce oil pollution in international waters. Most recently, on December 9, 2003 the IMO announced regulations accelerating the phase out of single hull tankers. The regulations also impose a more rigorous inspection regime for older tankers and ban the carriage of heavy oils on single-hull tankers. As a result of changes to these regulations, we recorded a non-cash write-down of the book value of certain vessels totalling $56.9 million during the fourth quarter of 2003. The IMO s accelerated phase out schedule will affect two of our existing vessels, effectively reducing the economic life of each of these vessels. Please see Item 4. Information on the Company: Regulations.

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. These regulatory requirements, together with additional requirements imposed by operators of 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.

We may not be able to successfully integrate future acquisitions.

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, including our acquisition in April 2004 of Teekay Spain*,* involves business risks commonly encountered in acquisitions of companies, including: disruption of our ongoing business; 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.

Our failure to effectively integrate businesses we may acquire in the future may harm our business and results of operations.

The process of integrating operations could also cause an interruption of, or loss of momentum in, the activities of one or more of an acquired company s businesses and our businesses. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our business, service existing customers and attract new customers. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer.

We may not realize expected benefits from acquisitions, and implementing our strategy of growth through acquisitions may harm our financial condition and performance.

Present and future 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 effective quality and control in geographically dispersed markets. 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.

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 tankers and LNG carriers is inherently risky. Although we carry 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 carry insurance on our oil tankers covering the loss of revenues resulting from vessel off-hire time due to its cost compared to our off-hire experience. In the future, we may not continue to maintain off-hire insurance for our LNG carriers. Any claims 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 of pollution. A catastrophic oil spill or marine disaster could 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 to us may be significantly more expensive than our existing coverage.

An incident involving environmental damage or pollution and any of our vessels could harm our reputation and business.

Oil spills related to the sinkings of the tanker *Erika* off the coast of France in 1999 and the tanker *Prestige* off the coast of Spain in 2002, and other tanker-related environmental incidents have created increased demand for modern vessels operated by ship management companies with a reputation for safety and environmental compliance. Any event involving our tankers that results in material environmental damage or pollution could harm our reputation for safety and environmental compliance and decrease the demand for our services, which could harm our business.

Our operating results are subject to seasonal fluctuations.

We operate our 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. The oil price volatility resulting from these factors has historically led to increased oil trading activities in the winter months. As a result, our revenues have historically been weaker during fiscal quarters ended June 30 and September 30, and, conversely, revenues have been stronger in fiscal quarters ended December 31 and March 31.

We expend substantial sums during construction of newbuildings 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, 2004, we had 15 newbuildings on order with deliveries scheduled between 2005 and 2008. We may order additional newbuildings in the future.

Exposure to currency exchange rate and interest rate fluctuations could result 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 and Australian Dollars 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 could lead 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 our 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. In addition, 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 causes us to report significant non-monetary foreign currency exchange gains and losses each period. The primary source of these gains and losses is our Euro-denominated term loans.

At December 31, 2004, approximately $1,561.8 million, or 74%, of our debt bore interest at floating interest rates. To partially mitigate this interest rate exposure, we have entered into interest rate swaps that effectively change our interest rate exposure from floating LIBOR and EURIBOR rates to average fixed-rates. Please see Item 11 Quantitative and Qualitative Disclosures About Market Risk.

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 have claimed 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 the existing exemption.

In the years ended December 31, 2004 and 2003, approximately 15.2% and 12.3%, 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 exemption under Section 883, would have been 4% thereof, or approximately $13.7 million and $7.8 million, respectively, for the years ended December 31, 2004 and 2003.

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 through our spot tanker fleet, which includes the world s largest fleet of Aframax-size oil tankers, our fixed-rate fleet, which includes the world s largest fleet of shuttle tankers, and our LNG fleet. Our tankers and LNG carriers provide transportation services to major oil companies, oil traders and government agencies worldwide.

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 less than three years). As of December 31, 2004, our Aframax vessels, which had a total cargo capacity of approximately 7.1 million tonnes, represented approximately 9% of the total tonnage of the world Aframax fleet. Please see Item 4 Information on the Company: Our Fleet.

Our fixed-rate tanker segment includes our shuttle tanker operations, floating storage and off-take vessels, a liquid petroleum gas carrier and certain conventional crude oil, methanol and product tankers on long-term fixed-rate time-charter contracts or contracts of affreightment, under which we carry an agreed quantity of cargo for a customer over a specified trade route within a given period of time. As of December 31, 2004, our shuttle tanker fleet, which had a total cargo capacity of approximately 4.9 million tonnes, represented approximately 68% of the total tonnage of the world shuttle tanker fleet. Please see Item 4 Information on the Company: Our Fleet.

Our fixed-rate LNG segment includes our seven LNG carriers, including three newbuildings, on long-term fixed-rate time charter contracts. As of December 31, 2004, our LNG Fleet, including newbuildings, had a total cargo carrying capacity of 1.0 million cubic meters.

The Teekay organization was founded in 1973. We are incorporated under the laws of the Republic of The Marshall Islands as Teekay Shipping Corporation and maintain our principal executive headquarters at TK House, Bayside Executive Park, West Bay Street & Blake Road, P.O. Box AP-59212, Nassau, The Bahamas. Our telephone number at such address is (242) 502-8820. 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.

Business Acquisitions and Combinations

Acquisition of Teekay Shipping Spain S.L., formerly Naviera F. Tapias S.A.

On April 30, 2004, we acquired all of the outstanding shares of Naviera F. Tapias S.A. and renamed it Teekay Shipping Spain S.L. (or *Teekay Spain*). Teekay Spain is the leading independent owner and operator of LNG carriers and crude oil tankers in Spain. We also entered into an agreement with an entity controlled by the former controlling shareholder of Teekay Spain to establish a 50/50 joint venture that will pursue new business in the oil and gas shipping sectors that relate only to the Spanish market or are led by Spanish entities or entities controlled by a Spanish Company. The acquisition of Teekay Spain has provided us with a platform from which to expand our presence in the high growth LNG shipping sector and positions us as a key supplier of LNG shipping to Spain, the world s third largest importer of LNG. We funded this acquisition with a combination of cash, cash generated from operations and borrowings under existing credit facilities.

As at December 31, 2004, Teekay Spain s LNG fleet consisted of four vessels, which are all contracted under long-term fixed-rate charters to major Spanish energy companies. As at December 31, 2004, Teekay Spain s conventional crude oil tanker fleet consisted of five Suezmax tankers, and two newbuildings scheduled for delivery in 2005. Four Suezmax tankers and one newbuilding are contracted under long-term fixed-rate charters with a major Spanish oil company. We sold the Suezmax tanker newbuilding not contracted under a long-term fixed-rate charter upon its delivery in March 2005.

Acquisition of 50% of PetroTrans Holdings Ltd.

On September 30, 2003, we acquired 50% of the issued and outstanding shares of PetroTrans Holdings Ltd., the parent company of Skaugen PetroTrans Inc. (or *SPT).*

SPT is a lightering company operating out of Houston, Texas. Lightering is the process of ship-to-ship transfer of oil cargo, which is required when vessels transporting oil are too large to enter ports that are not deep enough or have narrow entrances or small berths. The lightering process consists of maneuvering a smaller tanker (service vessel) alongside the larger tanker, typically with both vessels underway. The service vessel transports the oil cargo to the port. SPT lighters approximately 14% of all seaborne crude oil delivered to U.S. ports.

Acquisition of Navion AS

In April 2003, we completed our acquisition of 100% of the issued and outstanding shares of Navion AS. Navion, based in Stavanger, Norway, operates primarily in the shuttle tanker and the conventional crude oil and product tanker markets. Its modern shuttle tanker fleet, which as of December 31, 2004, consisted of eight owned and 12 chartered-in vessels (excluding six vessels chartered-in from our shuttle tanker subsidiary, Ugland Nordic Shipping AS, and our other subsidiaries), provides logistical services to the Norwegian state-owned oil company, Statoil ASA, and other oil companies in the North Sea under fixed-rate, long-term contracts of affreightment. Subsequent to the acquisition, the operations of UNS and the shuttle tanker operations of Navion were combined into one business unit, Teekay Navion Shuttle Tankers. Navion s modern, chartered-in, conventional tanker fleet, which as of December 31, 2004, consisted of 12 crude oil tankers and 16 product tankers, operates primarily in the Atlantic region, providing services to Statoil and other oil companies. In addition, Navion owns two floating storage and off-take vessels currently trading as conventional crude oil tankers in the Atlantic region, one chartered-in methanol carrier and one liquid petroleum gas carrier on long-term charter to Statoil. Through Navion Chartering AS, an entity owned jointly with Statoil, Navion has a right of first refusal on Statoil s oil transportation requirements at the prevailing market rate until December 31, 2007. In addition to tanker operations, Navion also assembles, installs, operates and leases equipment that reduces volatile organic compound emissions during loading, transportation and storage of oil and oil products.

Additional information about these acquisitions, including our financing of them, is included in Item 5 Operating and Financial Review and Prospects.

B. Operations

Spot Tanker Segment

The vessels in our spot tanker segment compete primarily in the Aframax market. In the Aframax market, 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 the vessels owned or controlled by us, 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 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 Aframax 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.

As of December 31, 2004, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 36 Aframax vessels), Novorossiisk Sea Shipping Co. (approximately 27 Aframax vessels), General Maritime Corporation (approximately 26 Aframax vessels), British Petroleum (approximately 20 Aframax vessels) and Minerva (approximately 17 Aframax vessels).

Our competition in the Aframax (75,000 to 119,999 dwt) market is also affected by the availability of other size vessels that compete in our markets. Suezmax (120,000 to 199,999 dwt) size vessels and Panamax (50,000 to 74,999 dwt) size vessels can compete for many of the same charters for which we compete. Because of their large size, Very Large Crude Carriers (200,000 to 319,999 dwt) (or *VLCCs*) and Ultra Large Crude Carriers (320,000+ dwt) (or *ULCCs*) rarely compete directly with Aframax tankers for specific charters. However, because VLCCs and ULCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades and of Suezmax vessels into Aframax trades would heighten the already intense competition.

We believe that we have competitive advantages in the Aframax 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, 2004, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 7.7 years, compared to an average age for the world oil tanker fleet, including Aframax tankers, of approximately 9.6 years and for the world Aframax tanker fleet of approximately 9.7 years.

We have chartering staff located in Vancouver, Canada; Stavanger, Norway; Tokyo, Japan; London, England; Houston, USA; 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 2004, approximately 62% of our net voyage revenues were earned by the vessels in the spot tanker segment, compared to approximately 63% in 2003 and 73% in 2002. Please see Item 5 Operating and Financial Review and Prospects: Results of Operations.

Fixed-Rate Tanker Segment

The vessels in our fixed-rate tanker segment compete primarily in the offshore loading business. These offshore loading vessels called shuttle tankers, transport oil from offshore production platforms to onshore storage and refinery facilities. Our shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field or under contracts of affreightment for various fields. 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 could be converted into less sophisticated shuttle tankers by adding specialized equipment to meet the requirements of the oil companies. 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, 2004, there were approximately 64 vessels in the world shuttle tanker fleet (including newbuildings), the majority of which operate in the North Sea. We currently own 29 shuttle tankers, including one classified as held for sale and charter in an additional 12 shuttle tankers. Other shuttle tanker owners in the North Sea include Knutsen OAS Shipping AS and JJ Ugland Group, which as of December 31, 2004 owned approximately 15 and five shuttle tankers, respectively. The remaining owners in the North Sea each owned three or fewer vessels as of that date.

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 and our market share in the North Sea.

During 2004, approximately 36% of our net voyage revenues were earned by the vessels in the fixed-rate tanker segment, compared to approximately 37% in 2003 and 27% in 2002. Please see Item 5 Operating and Financial Review and Prospects: Results of Operations.

Fixed-Rate LNG Segment

The vessels in our fixed-rate LNG segment compete in the LNG market. LNG carriers are usually chartered to carry LNG pursuant to time charter contracts, where a vessel is hired for a fixed period of time, usually between 20 and 25 years, and the charter rate is 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 grown from 1% of the market in 1992 to 8% in 2002.

We compete principally with other private and state-controlled energy and utilities companies that generally operate captive LNG 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 recently have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies continue to divest non-core businesses. As of December 31, 2004, independent owners owned approximately 45% of the world LNG fleet, including approximately 25% owned by independent Japanese and South Korean owners. Approximately 60% of newbuilding orders are from independent owners.

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 / 600^{th} 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. LNG that evaporates during the voyage and converts to natural gas (called boil-off) is used as fuel to help propel the vessel. 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.

Most new vessels, including all of our vessels, are being built with a membrane containment system. These systems are built inside the carrier and consist of insulation between thin primary and secondary barriers and 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. Unlike the oil tanker industry, there currently are no regulations that require the phase-out from trading of LNG carriers after they reach a certain age. As at December 31, 2004, there were approximately 177 vessels in the world LNG fleet, with an average age of approximately 13.6 years. In addition, there are approximately 104 additional LNG carriers under construction or on order for delivery through 2009.

Our fixed-rate LNG segment consists of LNG carriers subject to long-term, fixed-rate time-charter contracts. The acquisition of Teekay Spain on April 30, 2004 established our entry into the LNG shipping sector. Our fixed-rate LNG segment includes four LNG carriers. Two of the LNG carriers have been included from the date of the Teekay Spain acquisition. We took delivery of one LNG carrier in July 2004, which commenced service under a 25-year time-charter contract (with a charterer s option to extend an additional five years). We took delivery of another LNG carrier in December 2004, which commenced service under a 20-year time-charter contract (with a charterer s option to extend an additional ten years). As at December 31, 2004, we had three newbuilding LNG carriers on order, which will commence service under long-term contracts with Ras Lafan Liquefied Natural Gas Co. Limited II (or *RasGas II*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum, upon delivery, scheduled for the fourth quarter of 2006 and the first half of 2007. The vessels will be time-chartered to RasGas II for a period of 20 years (with a charterer s option to extend for periods up to an additional 15 years). These LNG charter contracts are subject, in certain circumstances, to termination and vessel purchase rights.

During 2004, approximately 2% of our net voyage revenues were earned by the vessels in the fixed-rate LNG segment. We did not operate LNG carriers prior to 2004. Please see Item 5 Operating and Financial Review and Prospects: Results of Operations.

Ship Management

Safety is our top operational priority. Our vessels are operated in a manner intended to protect the safety and health of our employees, the general public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten safety, such as groundings, fires, collisions and petroleum spills. We are also committed to reducing emissions and waste generation.

Customers and tanker rating services have recognized us for safety, quality and service. Given the emphasis by customers on quality as a result of stringent environmental regulations, and heightened concerns about liability for oil pollution, we believe that our emphasis on quality and safety provide us with a favorable competitive profile. We are one of a few companies who have fully integrated our health, safety, environment and quality management systems. This results in increased efficiencies in operations and management as any redundancies in each of the four standards is reduced. As well, one management system for operations ensures that strategies and programs are aligned when in comes to business, customer, safety, environment, or quality drivers.

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, OHSAS 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 ISM Code compliance, all of our vessels safety management certificates are being maintained through ongoing internal audits performed by our certified internal auditors and intermediate audits performed by Det Norske Veritas.

The critical ship management functions of vessel maintenance, crewing, purchasing, shipyard supervision, insurance and financial management services are carried out in-house in our various facilities around the world for most of our fleet. These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. Since 1995, IUM Shipmanagement AS, a company in which we own a 51% interest through our wholly owned subsidiary UNS, has provided ship management services for certain of our shuttle tankers, including crewing and maintenance. OSM Ship Management AS (or *OSM*), a company which is unrelated to us, provides ship management services for most of the shuttle tankers acquired as part of our acquisition of Navion. OSM is under contract to provide these services to Navion until September 30, 2006.

In 2003, we established 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.

The generally uniform design of some of our existing and newbuilding vessels and the adoption of common equipment standards should also result in operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering.

Business Structure

Our organization is divided into four key areas: Teekay Tanker Services; Teekay Navion Shuttle Tankers; Teekay Gas & Offshore; and Teekay Marine Services. These centers of expertise work closely with customers and internally to ensure a thorough understanding of our customers requirements and to develop tailored solutions.

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 flexible, customer-focused shipping solutions through our worldwide network of commercial offices.

Teekay Navion Shuttle Tankers offers a wide range of shuttle tanker and project services. Our expertise and partnerships allow us to create solutions for customers producing crude oil from offshore installations.

Teekay Gas & Offshore offers a diverse range of mooring, floating storage and offloading solutions. In addition, we now also offer gas shipping services, pursuing the LNG and compressed natural gas markets.

Teekay Marine Services provides a vast range of marine services and products across all our operations as well as to third-parties.

Business Strategy

We pursue an intensively customer- and operations-oriented business strategy designed to achieve superior operating results. We believe that we have four key competitive strengths:

a strong network of customer relationships developed by providing consistent performance, innovative solutions, and exceptional customer service to quality-sensitive customers,

a disciplined acquisition strategy that has resulted in our achieving a market concentration in the Aframax market and the shuttle tanker market, which is sufficient to facilitate comprehensive coverage of charterer requirements and provides a base for efficient operation and a high degree of capacity utilization in those markets;

a highly-integrated global network of approximately 5,500 sea staff and shore employees, with comprehensive market intelligence and operational and technical sophistication. This includes full-service marine operations capabilities and experienced management in all functions critical to our operations, which affords a focused marketing effort, high quality and tight cost controls, improved capacity utilization and effective operations and safety monitoring; and

a strong balance sheet that we believe allows us to take advantage of appropriate investment opportunities throughout the tanker cycle.

As part of our growth strategy, we will continue to consider strategic opportunities, including business acquisitions, such as our acquisitions of Teekay Spain in 2004 and Navion and our joint venture, Skaugen PetroTrans Inc. (or *SPT*), in 2003. To the extent we enter new geographic areas or tanker market segments, there can be no assurance that we will be able to compete successfully. New markets may involve competitive factors that differ from those of the Aframax market segment in the Indo-Pacific and Atlantic Basins and the North Sea shuttle tanker market and may include participants that have greater financial strength and capital resources than we have.

Our growth strategy is to leverage our existing competitive strengths to continue to expand our business. We anticipate that the continued upgrade and expansion of our tanker business will continue to be a key component of our strategy. In addition, we believe that our full-service marine operations capabilities, reputation for safety and quality and strong customer orientation provide us with the opportunity to expand our business by providing additional value-added and innovative services, in many cases to existing customers. Finally, we intend to identify expansion opportunities in new tanker market segments, geographic areas and services to which our competitive strengths are well suited, such as our entry into the shuttle tanker market through our acquisitions of UNS and Navion and our entry into the LNG market through our acquisition of Teekay Spain, as described above. We may choose to pursue such opportunities through internal growth, joint ventures or business acquisitions.

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.

We carry hull and machinery 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 other liabilities incurred while operating vessels, including injury to our crew, third parties, cargo loss and pollution. The current available amount of our coverage for pollution is $1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism) and, for our LNG carriers, loss of revenues resulting from vessel off-hire time due to a marine casualty or an officer or crew strike. However, we my not continue to carry this loss of hire insurance 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. More stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against the 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, they may be 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 2004, we derived approximately 23% of our total net voyage revenues from our operations in the Indo-Pacific Basin, compared to approximately 27% during 2003. 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, oil pipelines, LNG facilities and offshore oil fields could also be targets of terrorist attacks. 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 other hostilities 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 voyage revenues from a limited number of customers. Our customers include major oil companies, major oil traders, large oil consumers and petroleum product producers, government agencies, and various other entities dependent upon the tanker transportation trade. One customer, an international oil company, accounted for 17% ($373.7 million) of our consolidated voyage revenues during 2004. The same customer accounted for 15% ($239.5 million) of our consolidated voyage revenues during 2003. No customer accounted for more than 10% of our consolidated voyage revenues during 2002. No other customer accounted for more than 10% of our consolidated voyage revenues during 2004 or 2003. 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 Fleet

The following list provides additional information with respect to our vessels as at December 31, 2004.

	Number of Vessels(1)			
	Owned Vessels	**Vessels Held for Sale**	**Chartered-in Vessels**	**Newbuildi Orde**
Spot Tanker Segment:				
Very Large Crude Carriers	-	-	1	
Suezmax Tankers (2)	2	-	4	
Aframax Tankers	28	8	18	
Large Product Tankers	-	-	5	
Small Product Tankers	-	-	10	
Total Spot Tanker Segment	30	8	38	
Fixed-Rate Tanker Segment:				
Shuttle Tankers (3)	28	1	12	
Conventional Tankers	12	-	-	
Floating Storage & Offtake (or FSO) Units (4)	4	-	-	
LPG / Methanol Carriers	1	-	1	
Total Fixed-Rate Tanker Segment	45	1	13	
Fixed-Rate LNG Segment	4	-	-	
Total	**79**	**9**	**51**	

(1) Excludes vessels managed for third parties.
(2) We have sold the Suezmax tanker newbuilding in the Spot Tanker Segment in March 2005.
(3) Includes seven shuttle tankers of which our ownership interests range from 50% to 70.25%.
(4) Includes one FSO unit of which our ownership interest is 89%.

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

Many of our Aframax 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, 2004, we had 15 newbuildings on order, which will require remaining payments of $363.7 million in 2005, $255.9 million in 2006, $140.9 million in 2007, and $50.7 million due in 2008 under the terms of the contracts. Please see Item 5. Operating and Financial Review and Prospects Management s Discussion and Analysis of Financial Condition and Results of Operations.

Please see Note 9 of the consolidated financial statements for information with respect to major encumbrances against our vessels.

Classification, Audits and Inspections

The seafaring staff operating our vessels regularly inspect them and perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect our vessels at least twice a year for conformity with established criteria. Upon completion of each inspection, recommendations are made for improving the overall condition of the vessel and its maintenance, safety and crew welfare. All recommendations are monitored until they are completed. Our objectives are to:

- maintain the structural integrity of the vessel;
- ensure reliability;
- optimize performance in terms of speed and fuel consumption; and
- ensure the vessel's appearance will support our brand and meet customer expectations.

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

All of our vessels have been certified as being in-class by their respective classification societies: Bureau Veritas, Det Norske Veritas, Lloyd s Register of Shipping or American Bureau of Shipping. Every vessel s hull and machinery is classed by a classification society. The classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society and complies with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a signatory, although for some of our vessels we obtain this latter certification directly from the relevant flag state authorities. 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 and resulting repairs. Intermediate Surveys of steam-propelled LNG vessels may be done while the vessel is in service, but in all instances the inspection requires shutting down the vessel s main boiler, which slows travel if in service. In-water surveys generally take vessels out of service for one day, but out-of-service surveys of steam-propelled LNG vessels can take up to seven days. All of our LNG carriers, including our newbuildings, are steam-propelled. 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 the Intermediate Survey drydocking process. To qualify, we were required to enhance the resiliency of the underwater coatings of each vessel and mark the hull to accommodate underwater inspections by divers.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering, and regular inspections are standard practice under long-term charters as well. Port and flag state control authorities, such as the U.S. Coast Guard, the Australian Maritime Safety Authority and Spain s flag administration (or classification societies acting on behalf of the flag state control authorities), also inspect some of our vessels. We believe that our relatively new, well-maintained and high-quality vessels should provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

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, 14001 and OSHAS 18001 standards. To maintain compliance, the system is audited regularly by either the vessels flag state or, when nominated by them, of the classification societies. Certification is valid for five years subject to satisfactorily completing internal and external audits.

Organizational Structure

Please see Exhibit 8.1 for a list of our significant subsidiaries as at December 31, 2004.

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 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 and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, 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 carrier markets and will accelerate the scrapping of older vessels throughout these industries.

Regulation International Maritime Organization (or *IMO*). IMO regulations relating to pollution prevention for 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.

Also, under IMO regulations, a tanker must be of double-hull construction or a 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 (a) is the subject of a contract for a major conversion or original construction on or after July 6, 1993, (b) commences a major conversion or has its keel laid on or after January 6, 1994, or (c) completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

On December 9, 2003, the IMO revised its regulations relating to the prevention of pollution from tankers. These regulations, which came into effect on April 5, 2005, will accelerate the mandatory phase-out of single-hull tankers and impose a more rigorous inspection regime for older tankers. As of the date of this report, we estimate that upon their effectiveness, the regulations will ban from world-wide trading the oldest single-hull tankers, representing approximately 3% to 5% of the current world tanker fleet. It is expected that a further 22% to 24% of the existing world tanker fleet will be excluded from the majority of the oil tanker trades by 2010. These regulations identify three categories of single-hull tankers, which include double-bottom and double-side tankers:

- Category 1 oil tanker means any oil tanker of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which does not have segregated ballast tanks;

- Category 2 oil tanker means any oil tanker of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which has segregated ballast tanks; and

- Category 3 oil tanker means an oil tanker of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 oil tankers.

All of the single-hull tankers we operate are Category 2 oil tankers. As illustrated in the following table, the most recent IMO regulations provide for the phase-out on a rolling basis of Category 1 oil tankers during 2005 and of Category 2 oil tankers by 2010.

Category of Oil Tanker	Year To Be Removed From Service