

TEEKAY CORP  
Form 20-F  
June 30, 2009

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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, 2008**

**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)**

**4<sup>th</sup> floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

**(Address of principal executive offices)**

**Roy Spires**

**4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

**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.

72,512,291 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ 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.*

*Unless otherwise indicated, references in this Annual Report to Teekay, we, us and our and similar terms refer to Teekay Corporation and its subsidiaries.*

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

- our future financial condition or results of operations and future revenues and expenses;
- tanker market conditions and fundamentals, including the balance of supply and demand in these markets and spot tanker charter rates and oil production;
- offshore, liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) market conditions and fundamentals, including the balance of supply and demand in these markets;
- growth prospects of the tanker, offshore, LNG and LPG markets;
- 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;
- delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time-charter contacts;
- the adequacy of restricted cash deposits to fund capital lease obligations;
- compliance with financing agreements and the expected effect of restrictive covenants in such agreements;
- operating expenses, availability of crew and crewing costs, number of off-hire days, drydocking requirements and durations and the adequacy and cost of insurance;
- our ability to capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing forward freight agreements;
- the ability of the counterparties to our derivative contracts to fulfill their contractual obligations;
- growth prospects of the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term contracts;
- the cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;
- the impact of future regulatory changes or environmental liabilities;
- taxation of our company and of distributions to our stockholders;
- the expected life-spans of our vessels;
- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;
- anticipated funds for liquidity needs and the sufficiency of cash flows;
- our hedging activities relating to foreign exchange, interest rate, spot market and bunker fuel risks;
- the growth of the global economy and global oil demand;
- the recent economic downturn and financial crisis in the global market, including disruptions in the global credit and stock markets and potential negative effects on our customers' ability to charter our vessels and pay for our services;



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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;  
our ability to competitively pursue new floating production, storage and offloading projects; and  
our competitive positions in our markets;  
our business strategy and other plans and objectives for future operations; and  
our ability to pay dividends on our common stock.

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

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

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

Set forth below is selected consolidated financial and other data of Teekay for fiscal years 2008, 2007, 2006, 2005, and 2004, 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 2008, 2007, and 2006 (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*).



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|                                                             | 2008                                                              | 2007         | 2006         | 2005         | 2004         |
|-------------------------------------------------------------|-------------------------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                             | (in thousands, except share and per common share data and ratios) |              |              |              |              |
| <b>Income Statement Data:</b>                               |                                                                   |              |              |              |              |
| Revenues <sup>(1)</sup>                                     | \$ 3,193,655                                                      | \$ 2,395,507 | \$ 2,013,737 | \$ 1,957,732 | \$ 2,217,139 |
| Total operating expenses <sup>(1)(2)</sup>                  | (2,977,933)                                                       | (1,985,382)  | (1,586,217)  | (1,326,801)  | (1,402,534)  |
| Income from vessel operations                               | 215,722                                                           | 410,125      | 427,520      | 630,931      | 814,605      |
| Interest expense <sup>(1)</sup>                             | (994,966)                                                         | (422,433)    | (100,089)    | (142,048)    | (180,778)    |
| Interest income <sup>(1)</sup>                              | 273,647                                                           | 110,201      | 31,714       | 33,943       | 18,528       |
| Foreign exchange gain (loss)                                | 32,348                                                            | (39,912)     | (50,416)     | 61,635       | (43,508)     |
| Non-controlling interest expense                            | (9,561)                                                           | (8,903)      | (6,759)      | (13,475)     | (2,268)      |
| Equity (loss) income from joint ventures                    | (36,085)                                                          | (12,404)     | 6,099        | 11,897       | 13,082       |
| Other net                                                   | (6,736)                                                           | 23,677       | 3,566        | (19,054)     | 105,534      |
| Income tax recovery (expense)                               | 56,176                                                            | 3,192        | (8,811)      | 2,787        | (33,464)     |
| Net (loss) income                                           | (469,455)                                                         | 63,543       | 302,824      | 566,616      | 691,731      |
| <b>Per Common Share Data:</b>                               |                                                                   |              |              |              |              |
| Net (loss) income basic <sup>(3)</sup>                      | \$ (6.48)                                                         | \$ 0.87      | \$ 4.14      | \$ 7.25      | \$ 8.35      |
| Net (loss) income diluted <sup>(3)</sup>                    | (6.48)                                                            | 0.85         | 4.03         | 6.78         | 7.88         |
| Cash dividends declared <sup>(3)</sup>                      | 1.1413                                                            | 0.9875       | 0.8600       | 0.6200       | 0.5125       |
| <b>Balance Sheet Data (at end of year):</b>                 |                                                                   |              |              |              |              |
| Cash and cash equivalents                                   | \$ 814,165                                                        | \$ 442,673   | \$ 343,914   | \$ 236,984   | \$ 427,037   |
| Restricted cash                                             | 650,556                                                           | 686,196      | 679,992      | 311,084      | 448,812      |
| Vessels and equipment                                       | 7,267,094                                                         | 6,846,875    | 5,603,316    | 3,721,674    | 3,531,287    |
| Total assets                                                | 10,215,001                                                        | 10,418,541   | 8,110,329    | 5,287,030    | 5,503,740    |
| Total debt (including capital lease obligations)            | 5,770,133                                                         | 6,120,864    | 4,106,062    | 2,432,978    | 2,744,545    |
| Capital stock and paid-in capital                           | 642,911                                                           | 628,786      | 596,712      | 471,784      | 534,938      |
| Total stockholders equity                                   | 2,068,467                                                         | 2,655,954    | 2,519,147    | 2,238,818    | 2,237,358    |
| Number of outstanding shares of common stock <sup>(3)</sup> | 72,512,291                                                        | 72,772,529   | 72,831,923   | 71,375,593   | 82,951,275   |
| <b>Other Financial Data:</b>                                |                                                                   |              |              |              |              |
| Net revenues <sup>(4)</sup>                                 | \$ 2,435,267                                                      | \$ 1,868,199 | \$ 1,490,780 | \$ 1,538,661 | \$ 1,784,462 |
| Net operating cash flow                                     | 431,847                                                           | 255,018      | 520,785      | 594,949      | 814,704      |
| Total debt to total capitalization <sup>(5)</sup>           |                                                                   |              |              |              |              |
| <sup>(6)</sup>                                              | 68.7%                                                             | 65.7%        | 57.9%        | 49.1%        | 54.9%        |
| Net debt to total net capitalization                        |                                                                   |              |              |              |              |
| <sup>(6) (7)</sup>                                          | 62.1%                                                             | 60.9%        | 50.8%        | 42.7%        | 45.3%        |
| <b>Capital expenditures:</b>                                |                                                                   |              |              |              |              |
| Vessel and equipment purchases, gross <sup>(8)</sup>        | \$ 716,765                                                        | \$ 910,304   | \$ 442,470   | \$ 555,142   | \$ 548,587   |

(1) Unrealized  
gains (losses) on

derivative  
instruments  
recorded in the  
consolidated  
statement of  
income  
(loss) were as  
follows:

|                          | 2008         | 2007         | 2006<br>(in thousands) | 2005        | 2004        |
|--------------------------|--------------|--------------|------------------------|-------------|-------------|
| Revenues                 | \$ 1,700     | \$ 806       | \$ (409)               | \$ 3,212    | \$ (3,558)  |
| Total operating expenses | (43,477)     | 20,044       | 12,321                 | (18,093)    | (4,201)     |
| Interest expense         | (648,751)    | (134,154)    | 71,135                 | (18,322)    | (61,177)    |
| Interest income          | 182,206      | 10,924       | (25,822)               |             |             |
|                          | \$ (508,322) | \$ (102,380) | \$ 57,225              | \$ (33,203) | \$ (68,936) |

(2) Total operating  
expenses  
include the  
following:

|                                                              | 2008         | 2007      | 2006<br>(in thousands) | 2005       | 2004      |
|--------------------------------------------------------------|--------------|-----------|------------------------|------------|-----------|
| Gain on sale of vessels and<br>equipment, net of write-downs | \$ 60,015    | \$ 16,531 | \$ 1,341               | \$ 139,184 | \$ 79,254 |
| Unrealized (losses) gains on<br>derivative instruments       | (43,477)     | 20,044    | 12,321                 | (18,093)   | (4,201)   |
| Restructuring charges                                        | (15,629)     |           | (8,929)                | (2,882)    | (1,002)   |
| Goodwill impairment charge                                   | (334,165)    |           |                        |            |           |
|                                                              | \$ (333,256) | \$ 36,575 | \$ 4,733               | \$ 118,209 | \$ 74,051 |

(3) 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.

- (4) 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.

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|                 | <b>2008</b>  | <b>2007</b>  | <b>2006</b><br><b>(in thousands)</b> | <b>2005</b>  | <b>2004</b>  |
|-----------------|--------------|--------------|--------------------------------------|--------------|--------------|
| Revenues        | \$ 3,193,655 | \$ 2,395,507 | \$ 2,013,737                         | \$ 1,957,732 | \$ 2,217,139 |
| Voyage expenses | (758,388)    | (527,308)    | (522,957)                            | (419,071)    | (432,677)    |
| Net revenues    | \$ 2,435,267 | \$ 1,868,199 | \$ 1,490,780                         | \$ 1,538,661 | \$ 1,784,462 |

(5) Total capitalization represents total debt, non-controlling interest and total stockholders equity.

(6) 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% and 52.1% as of December 31, 2005 and 2004, respectively, and our net debt to total capitalization would have been 39.5% and 41.9% as of December 31,

2005 and 2004,  
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.

(7) 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.

(8) 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 Teekay  
Petrojarl*) in  
2006, and 50%

of OMI  
 Corporation (or  
*OMI*) in 2007.  
 Please read  
 Item 5  
 Operating and  
 Financial  
 Review and  
 Prospects. The  
 expenditures for  
 vessels and  
 equipment  
 exclude  
 non-cash  
 investing  
 activities. Please  
 Read Item 18  
 Financial  
 Statements:  
 Note 17  
 Supplemental  
 Cash Flow  
 Information.

## **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 43% and 34% of our net revenues during 2008 and 2007, 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.

*The continuation of recent economic conditions, including disruptions in the global credit markets, could adversely affect our results of operations.*



The recent economic downturn and financial crisis in the global markets have produced illiquidity in the capital markets, market volatility, heightened exposure to interest rate and credit risks and reduced access to capital markets. If this economic downturn continues, we may face restricted access to the capital markets or secured debt lenders, such as our revolving credit facilities. The decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

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***The recent economic downturn may affect our customers' ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.***

The recent economic downturn and financial crisis in the global markets may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customers' inability to pay could also result in their default on our current contracts and charters. The decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations. We cannot determine whether the difficult conditions in the economy and the financial markets will improve or worsen in the near future.

***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 LNG 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 decreased demand for our vessels and services, which would reduce vessel earnings.

***Terrorist attacks, piracy, 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 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 and our vessels could be targets of pirates or hijackers. 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, piracy, hijacking 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 2008 and 2007, we derived approximately 43% and 34%, 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 tanker 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 medium product tanker fleets are among the vessels included in our spot tanker segment. Our shuttle tankers may also trade in the spot tanker 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 tanker 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, 2008, we had 37 vessels operating in our shuttle tanker fleet and five 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.

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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 tanker 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.

### ***The redeployment risk of FPSO units is high given their lack of alternative uses and significant costs.***

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 sectors and on expansion in the shuttle tanker, FSO and FPSO sectors.

Expansion of the LNG and LPG shipping sectors 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.

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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.

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 14%, or \$443.5 million, of our consolidated revenues during 2008 (20% or \$472.3 million 2007 and 15% or \$307.9 million 2006). 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, 2008, our consolidated debt and capital lease obligations totaled \$5.8 billion and we had the capacity to borrow an additional \$1.1 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.

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### ***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.

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 and the U.S. Environmental Protection Agency (or *EPA*) have recently adopted regulations governing the management of ballast water to prevent the introduction of non-indigenous species considered to be invasive. The EPA's new ballast water treatment and other ballast water obligations will increase the cost of operating our vessels in United States waters.

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.

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### ***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. 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.

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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.

***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.

Substantially all of our newbuilding financing commitments have been pre-arranged. However, 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, 2008, we had 22 newbuildings on order with deliveries scheduled between January 2009 and January 2012. As of December 31, 2008, progress payments made towards these newbuildings, excluding payments made by our joint venture partners, totaled \$490.9 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. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our financial leverage could increase or our stockholders could be diluted.***

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. Issuing additional equity securities may result in significant stockholder dilution and would increase the aggregate amount of cash required to pay quarterly dividends.

***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.

***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.

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### ***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 2009. If we are not able to increase our rates to customers 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.

### ***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.

### ***The preferential tax rates applicable to qualified dividend income are temporary, and the absence of legislation extending the term would cause our dividends to be taxed at ordinary graduated tax rates.***

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to U.S. individual stockholders (and certain other U.S. stockholders). In the absence of legislation extending the term for these preferential tax rates or providing for some other treatment, all dividends received by such U.S. taxpayers in tax years beginning on January 1, 2011 or later will be taxed at ordinary graduated tax rates. Please read Item 10. Additional Information Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of U.S. Holders Distributions.

### ***U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. holders.***

A foreign entity taxed as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (or PFIC), for U.S. federal income tax purposes if at least 75.0% of its gross income for any taxable year consists of certain types of passive income, or at least 50.0% of the average value of the entity's assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. We do not believe that our existing operations would cause us to be deemed a PFIC with respect to any taxable year, as we treat the gross income we derive from our time and voyage charters as services income, rather than rental income.

There is, however, no direct legal authority under the PFIC rules addressing our method of operation and, therefore, no assurance can be given that the IRS will accept this position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations. Moreover, a recent decision of the United States Court of Appeals for the Fifth Circuit in *Tidewater Inc. v. United States*, No. 08-30268 (5th Cir. Apr. 13, 2009) held that income derived from certain time chartering activities should be treated as rental income rather than services

income. However, the issues in this case arose under the foreign sales corporation rules of the U.S. Internal Revenue Code of 1986, as amended (or the *Code*) and did not concern the PFIC rules. In addition, the court's ruling was contrary to the position of the U.S. Internal Revenue Service (or *IRS*) that the time charter income should be treated as services income. As a result, it is uncertain whether the principles of the *Tidewater* decision would be applicable to our operations. However, if the principles of the *Tidewater* decision were applicable to all of our operations, we likely would be treated as a PFIC.

If the IRS were to find that we are or have been a PFIC for any taxable year, U.S. stockholders will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those stockholders make certain elections available under the Code, such stockholders would be taxable at ordinary income tax rates rather than the preferential 15.0% tax rate on our dividends, and would be liable to pay tax at ordinary income tax rates plus interest upon certain distributions and upon any gain from the disposition of our common units, as if such distribution or gain had been recognized ratably over the stockholder's holding period. Please read Item 10. Additional Information Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of U.S. Holders Consequences of Possible PFIC Classification.

**Table of Contents****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 our expansion into the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors through our publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), 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 100% ownership interest in Teekay Petrojarl ASA, and expansion of our conventional tanker business through our publicly-listed subsidiary, Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*). With a fleet of 175 vessels, offices in 17 countries and 6,800 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 shuttle tanker and FSO segment and FPSO 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, 2008, our shuttle tanker fleet, including newbuildings on order, had a total cargo capacity of approximately 4.9 million deadweight tones (or *dwt*), represented approximately 60% 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, 2008, this fleet, including newbuildings on order, had a total cargo carrying capacity of approximately 3.1 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 tanker 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, 2008, our Aframax tankers in this segment, which had a total cargo capacity of approximately 4.9 million dwt, represented approximately 8% 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 4<sup>th</sup> 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 were for delivered 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 from OMI. 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 of Suezmax tankers). We and TORM continued 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 divided these remaining assets equally in the third and fourth quarter of 2008.

*Acquisition of Petrojarl ASA*

During 2006, we acquired 64.7% of the outstanding shares of Petrojarl ASA (or Petrojarl), which was listed on the Oslo Stock Exchange, for \$536.8 million. Petrojarl is a leading independent operator of FPSO units in the North Sea. On December 1, 2006, we renamed Petrojarl Teekay Petrojarl ASA (or *Teekay Petrojarl*). We financed our acquisition of Petrojarl through a combination of bank financing and cash balances. In June and July 2008, we acquired the remaining 35.3% interest (26.5 million common shares) in Teekay Petrojarl primarily from Prosafe Production at a price between NOK 59 and NOK 62.95 per share. The total purchase price for this remaining interest of approximately NOK 1.5 billion (\$304.9 million) was paid in cash. As a result of these transactions, we own 100% of Teekay Petrojarl.

**Table of Contents****Public Offerings***Public Offerings by Teekay Tankers Ltd.*

On December 18, 2007, our subsidiary 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 its 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. As of December 31, 2008, Teekay Tankers owned nine Aframax tankers, which it acquired from Teekay upon the closing of the initial public offering, and two Suezmax tankers it acquired from Teekay in April 2008. Teekay Tankers has agreed to acquire a third Suezmax tanker from Teekay, and Teekay has agreed to offer to Teekay Tankers, prior to June 18, 2010, a fourth Suezmax tanker. Teekay Tankers is expected to grow through the acquisition of additional crude oil and product tanker assets from third parties and from us. Please read Item 18 Financial Statements: Note 5 Public Offerings.

On June 24, 2009, Teekay Tankers completed a follow-on public offering of 7.0 million common shares at a price of \$9.80 per share, for gross proceeds of \$68.6 million. Teekay Tankers has granted the underwriters a 30-day option to purchase up to an additional 1.05 million shares to cover any over-allotments. As a result of the above transaction, our ownership of Teekay Tankers has been reduced from 54.0% to 42.2%. Teekay Tankers used the total net offering proceeds of approximately \$65.9 million to acquire a 2003-built Suezmax tanker from Teekay for \$57.0 million and to repay a portion of its outstanding debt under its revolving credit facility.

*Public Offerings by Teekay Offshore Partners L.P.*

On December 19, 2006, our subsidiary 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. During June 2008, Teekay Offshore, completed a follow-on public offering by issuing an additional 10.25 million of its common units at a price of \$20.00 per unit for net proceeds of \$198.8 million. In connection with the follow-on public offering, we contributed \$4.2 million to Teekay Offshore to maintain our 2% general partner interest in it. As a result of the above transactions, our ownership of Teekay Offshore has been reduced from 59.8% to 50.6% (including the our 2% general partner interest), and we recorded an increase to stockholders' equity of \$28.5 million, which represents the Company's gain from the issuance of units. During July 2008, the underwriters exercised their over-allotment option and purchased 375,000 common units at \$20.00 per unit for proceeds of \$7.2 million, net of commissions. Teekay Offshore owns 51% of Teekay Offshore Operating L.P. (or *OPCO*), including its 0.01% general partner interest and an additional 25% limited partnership interest it acquired from us upon the closing of the June 2008 public offering. As of December 31, 2008, OPCO owned and operated a fleet of 36 of our shuttle tankers (including 9 chartered-in vessels and 5 vessels owned by 50% owned joint ventures), 4 of our FSO units, and 11 of our conventional Aframax tankers. In addition, Teekay Offshore has direct ownership interests in two of our shuttle tankers (including one through a 50%-owned joint venture) and one of our FSOs. We indirectly own 49% of OPCO and 50.6% of Teekay Offshore, including its 2% general partner interest. As a result, we effectively own 74.8% of OPCO. Please read Item 18 Financial Statements: Note 5 Public Offerings.

*Public Offerings by Teekay LNG Partners L.P.*

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. During April 2008, Teekay LNG completed a follow-on public offering of an additional 5.0 million of its common units at a price of \$28.75 per unit, for net proceeds of \$137.6 million. Subsequently the underwriters exercised their over-allotment option and purchased 375,000 common units resulting in an additional \$10.8 million in gross proceeds to Teekay LNG. Concurrently with the public offering, we acquired 1.74 million common units of Teekay LNG at the same public offering price for a total cost of \$50.0 million. During March 2009, Teekay LNG completed a follow-on public offering of 4.0 million common units at a price of \$17.60 per unit, for gross proceeds of approximately \$70.4 million. Teekay LNG used the total net proceeds from the offerings to prepay amounts outstanding on two of its revolving credit facilities. As a result of the above transactions, we own a 53.0% 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 shuttle tanker and FSO segment (included in our Teekay Navion Shuttle Tankers and Offshore business unit), the FPSO segment (included in our Teekay Petrojarl business unit), the liquefied gas segment (included in our Teekay Gas Services business unit), the spot tanker segment and fixed-rate tanker segment (both included in our Teekay Tanker Services business unit). 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 Teekay Petrojarl provides marine transportation, processing and storage services to the offshore oil industry, including shuttle tanker, FSO and FPSO services. Our expertise and partnerships with third parties 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.

### **Shuttle Tanker and FSO Segment and FPSO Segment**

The main services our shuttle tanker and FSO segment and our FPSO segment provide 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.

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### *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, 2008, 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, 2008, we owned 32 shuttle tankers (including four newbuildings) and chartered-in an additional nine 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, 2008 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 2008, there were approximately 86 FSO units operating and seven FSO units on order in the world fleet. As at December 31, 2008, we had five 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 2008 there were approximately 144 FPSO units operating and 37 FPSO units on order in the world fleet. At December 31, 2008, we had five FPSO units. 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 2008, a total of approximately 37% of our net revenues were earned by the vessels in our shuttle tankers and FSO segment and FPSO segment, compared to approximately 47% in 2007 and 39% in 2006. 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. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the level of spot voyages (typically consisting of a single voyage) and short-term time-charters of less than 12 months duration have grown in the past few years.

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 / 600<sup>th</sup> 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, 2008, there were approximately 300 vessels in the world LNG fleet, with an average age of approximately 10 years, and an additional 86 LNG carriers under construction or on order for delivery through 2011. As of December 31, 2008, the worldwide LPG tanker fleet consisted of approximately 1,126 vessels with an average age of approximately 16 years and approximately 191 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 55% 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, 2008, we had 14 LNG carriers and an additional five 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, 2008, we had six LPG carriers, of which five are under construction.

During 2008, approximately 9% of our net revenues were earned by the vessels in our liquefied gas segment, compared to approximately 9% in 2007, and 7% in 2006. 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, 2009, we participated in three main pooling arrangements. These include an Aframax tanker pool, an LR2 tanker pool and a Suezmax tanker pool (the Gemini Pool). As of March 1, 2009, 32 of our Aframax tankers operated in the Aframax tanker pool, six of our LR2 tankers operated in the LR2 tanker pool and 14 of our Suezmax tankers operated in the Gemini 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, 2008, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 9.0 years and our Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately 4.6 years. This compares to an average age for the world oil tanker fleet of approximately 10.1 years, for the world Aframax tanker fleet of approximately 8.9 years and for the world Suezmax tanker fleet of approximately 9.3 years.

As of December 31, 2008, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 63 Aframax vessels), Sovcomflot (approximately 47 vessels), Aframax International Pool (approximately 46 Aframax vessels), the Sigma Pool (approximately 36 vessels), Tanker Pacific Management (approximately 17 vessels), Minerva Marine (approximately 17 vessels), and BP Shipping (approximately 16 vessels). Other large operators of Suezmax tonnage (including newbuildings on order) included Sovcomflot (approximately 25 vessels), Marmaras Navigation (approximately 16 vessels) and Dynacom (approximately 13 vessels).

We have chartering staff located in Tokyo, Japan; Singapore; London, England; Houston, Texas; and Stamford, Connecticut. 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 2008, approximately 43% of our net revenues were earned by the vessels in our spot tanker segment, compared to approximately 34% in 2007 and 42% in 2006. 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 2008, approximately 11% of our net revenues were earned by the vessels in the fixed-rate tanker segment, compared to approximately 10% in 2007 and 12% in 2006. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

**Our Fleet**

As at December 31, 2008, our fleet (excluding vessels managed for third parties) consisted of 186 vessels, including chartered-in vessels, and newbuildings on order. The following table summarizes our fleet as at December 31, 2008:

|                                       | Number of Vessels |                         |                              |       |
|---------------------------------------|-------------------|-------------------------|------------------------------|-------|
|                                       | Owned<br>Vessels  | Chartered-in<br>Vessels | Newbuildings<br>/Conversions | Total |
| <b>Shuttle Tanker and FSO Segment</b> |                   |                         |                              |       |
| Shuttle Tankers                       | 25 <sup>(1)</sup> | 9 <sup>(2)</sup>        | 4                            | 38    |
| FSO Units                             | 4 <sup>(3)</sup>  |                         |                              | 4     |
| Total Shuttle Segment                 | 29                | 9                       | 4                            | 42    |



**FPSO Segment**

|                    |                  |  |  |   |
|--------------------|------------------|--|--|---|
| Shuttle Tankers    | 3 <sup>(1)</sup> |  |  | 3 |
| FSO Unit           | 1 <sup>(3)</sup> |  |  | 1 |
| FPSO Units         | 5 <sup>(4)</sup> |  |  | 5 |
| Total FPSO Segment | 9                |  |  | 9 |

**Fixed-Rate Tanker Segment**

|                                 |                   |   |   |    |
|---------------------------------|-------------------|---|---|----|
| Conventional Tankers            | 17 <sup>(5)</sup> | 6 | 2 | 25 |
| Total Fixed-Rate Tanker Segment | 17                | 6 | 2 | 25 |

**Liquefied Gas Segment**

|                             |                   |  |                  |    |
|-----------------------------|-------------------|--|------------------|----|
| LNG Carriers                | 14 <sup>(6)</sup> |  | 5 <sup>(7)</sup> | 19 |
| LPG Carriers                | 1 <sup>(8)</sup>  |  | 5 <sup>(8)</sup> | 6  |
| Total Liquefied Gas Segment | 15                |  | 10               | 25 |

**Spot Tanker Segment**

|                           |                    |           |           |            |
|---------------------------|--------------------|-----------|-----------|------------|
| Suezmax Tankers           | 8 <sup>(9)</sup>   | 6         | 5         | 19         |
| Aframax Tankers           | 21 <sup>(10)</sup> | 26        |           | 47         |
| Panamax Tanker            |                    | 1         |           | 1          |
| Large Product Tankers     | 9 <sup>(11)</sup>  | 8         | 1         | 18         |
| Total Spot Tanker Segment | 38                 | 41        | 6         | 85         |
| <b>Total</b>              | <b>108</b>         | <b>56</b> | <b>22</b> | <b>186</b> |

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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 25 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 Teekay Petrojarl.
- (2) All nine 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 five FPSO units owned by Teekay Petrojarl. Teekay is required to offer to sell to Teekay Offshore any of these units that are servicing

contracts in excess of three years in length. Certain of our FPSO contracts include the services of shuttle tankers and an FSO unit, and as such these vessels are included in the FPSO segment.

(5) Includes eight vessels owned by Teekay LNG, two vessels owned by OPCO, and two vessels owned by Teekay Tankers.

(6) Includes nine LNG carriers owned by Teekay LNG, a 70% interest in one LNG carrier, and 40% interest in four LNG carriers.

(7) Includes Teekay's 70% interest in one LNG newbuilding and Teekay's 33% interest in four LNG newbuildings. Teekay is required to offer to sell these vessels to Teekay LNG.

(8) All vessels owned by

Teekay LNG.

- (9) Includes two Suezmax tankers that Teekay is required to offer Teekay Tankers.
- (10) Includes nine vessels owned by Teekay Offshore, all of which are chartered to Teekay and seven vessels owned by Teekay Tankers.
- (11) 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, 2008, we had 22 vessels under construction. 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) and 16(b) Commitments and Contingencies Vessels Under Construction 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 2008, we introduced the Quality Assurance and Training Officers (or *QATO*) Program to conduct rigorous internal audits of our processes and provide our seafarers with onboard training. In 2007, we introduced a behavior-based safety program called Safety in Action to improve the safety culture in our fleet. We are also committed to reducing our emissions and waste generation.

Key performance indicators facilitate regular monitoring of our operational performance. Targets are set on an annual basis to drive continuous improvement, and indicators are reviewed monthly to determine if remedial action is necessary to reach the targets.

Teekay Corporation, through certain of its subsidiaries, assists our operating subsidiaries in managing their ship operations. All vessels are operated under Teekay's comprehensive and integrated Marine Operations Management System (or *MOMS*) that complies with the International Safety Management Code (or *ISM Code*), the International Standards Organization's (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and

Occupational Health and Safety Advisory Services (or *OHSAS*) 18001. MOMS is certified by Det Norske Veritas (or *DNV*), the Norwegian classification society. It has also been separately approved by the Australian and Spanish Flag administrations. Although certification is valid for five years, compliance with the above mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and certain flag states.

Teekay Corporation provides, through certain of its subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. Teekay subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to administrative services agreements.

Ship management services are provided by the Teekay Marine Services division, a subsidiary of Teekay Corporation, located in various offices around the world. These include such critical ship management functions as:

- vessel maintenance (including repairs and drydocking) and certification;
- crewing by competent seafarers;
- procurement of stores, bunkers and spare parts;
- management of emergencies and incidents;
- supervision of shipyard and projects during new-building and conversions;
- insurance; and
- financial management services.

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Integrated onboard and onshore systems support the management of maintenance, inventory control and procurement, crew management and training and assist with budgetary controls.

Teekay Corporation's day-to-day focus on cost efficiencies is applied to all aspects of our operations. We believe that the generally uniform design of some of our existing and new-building vessels and the adoption of common equipment standards provides operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering. In addition, in 2003, Teekay Corporation and two other shipping companies established a purchasing alliance, Teekay Bergesen Worldwide (or *TBW*), which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals.

## **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, petroleum products, LNG and LPG 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 (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 of 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.

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 14% (\$443.5 million) of our consolidated

revenues during 2008 (20% or \$472.3 million 2007 and 15% or \$307.9 million 2006). No other customer accounted for more than 10% of our consolidated revenues during 2008, 2007 or 2006. 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 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 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 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.

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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, which 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.

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.

### **Properties**

Other than our vessels, we do not have any material property.

### **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;
- 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 unit holders increase; and
- access to capital to grow each of our businesses in offshore, LNG and conventional tankers.

The following chart provides an overview of our organizational structure as at December 31, 2008. Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as at December 31, 2008.

- (1) The partnership is controlled by its 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  
100% interest in  
Teekay  
Petrojarl.

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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 51% of OPCI, including its 0.01% general partner interest. OPCI owns and operates a fleet of 34 of our shuttle tankers (including nine chartered-in vessels), four of our FSO vessels, and 11 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 OPCI's vessels operate under long-term, fixed-rate contracts. We directly own 49% of OPCI and 50% of Teekay Offshore, including its 2% general partner interest. As a result, we effectively own 74.5% of OPCI. Teekay Offshore also has rights to participate in certain FPSO opportunities relating to Teekay Petrojarl. Pursuant to an omnibus agreement we entered into in connection with Teekay Offshore's initial public offering in 2006, we have also agreed to offer to Teekay Offshore existing FPSO units of Teekay Petrojarl that are servicing contracts in excess of three years in length.

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 15 LNG carriers (including one newbuilding), six LPG carriers (including five 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 tanker 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 August 2010 the opportunity to purchase up to four Suezmax-class oil tankers, of which two were acquired by Teekay Tankers in April 2008 and one in June 2009. 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 to motivate us to 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, Teekay Tankers, has agreed that 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 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. 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 U.S. 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.

The U.S. Coast Guard (or *Coast Guard*) has implemented regulations requiring evidence of financial responsibility in an amount equal to the applicable OPA limitation on liability with the CERCLA liability limit of \$300 per gross ton. 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.

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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 \$6.7 million plus approximately \$930 per gross registered tonne above 5,000 gross tonnes with an approximate maximum of \$133 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 (or the *EPA*), 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 (OPA 90 applies to discharges of bunkers or cargoes).

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 the EPA to develop a system for regulating all discharges from vessels by that date.

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The EPA appealed this decision to the Ninth Circuit Court of Appeals, which on July 23, 2008, upheld the District Court's decision. In response, the EPA adopted a new Clean Water Act permit titled the Vessel General Permit. Effective February 6, 2009, container vessels (including all vessels of the type operated by us) operating as a means of transportation that discharge ballast water or certain other incidental discharges into United States waters must obtain coverage under the Vessel General Permit and comply with a range of best management practices, reporting, inspections and other requirements. The Vessel General Permit also incorporates U.S. Coast Guard requirements for ballast water management and exchange and includes specific technology-based requirements for vessels, including oil and petroleum tankers. Under certain circumstances, the EPA may also require a discharger of ballast water or other incidental discharges to obtain an individual permit in lieu of coverage under the Vessel General Permit. These new requirements will increase the cost of operating our vessels in U.S. waters.

Since the EPA's adoption of the Vessel General Permit, several U.S. states have added specific requirements to the permit through the Clean Water Act section 401 certification process (which varies from state to state) and, in some cases, require vessels to install ballast water treatment technology to meet biological performance standards.

Since 2009, several environmental groups and industry associations filed challenges in U.S. federal court to the EPA's issuance of the Vessel General Permit. These cases are still in the early procedural stage of litigation.

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*) or if applicable a tax treaty with the U.S.

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***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.

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 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 attributable to a fixed place of business in the United States. 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.

***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 2008 and 2007, approximately 8.2% and 7.8%, 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

\$10.5 million and \$7.5 million, respectively, for 2008 and 2007.

**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.

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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.

***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 30%. 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, 2008, 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 30% 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 30%. 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 30%.

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% on income from the operation of these vessels. Vessel sales are subject to the full 30% 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**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.*

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### **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 LNG and LPG shipping sectors through our publicly-listed subsidiary, Teekay LNG, further growth of our operations in the offshore production, storage and transportation sector through our publicly-listed subsidiary, Teekay Offshore and through our 100% interest in Teekay Petrojarl, and expansion of our conventional tanker business through our publicly-listed subsidiary, Teekay Tankers Ltd. With a fleet of 175 vessels, offices in 17 countries and 6,800 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 2008 AND EARLY 2009**

##### **Acquisition of Remaining Shares of Teekay Petrojarl**

In June and July 2008, we acquired the remaining 35.3% interest in Teekay Petrojarl primarily from Prosafe Production for a total purchase price of approximately NOK 1.5 billion (\$304.4 million), which was paid in cash. As a result of these transactions, we now own 100% of Teekay Petrojarl.

##### **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 was \$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 have also chartered to ConocoPhillips a Very Large Crude Carrier (or VLCC) for three years and two of our Medium Range product tankers for five years.

##### **Sale of LNG Vessels to Teekay LNG**

In accordance with existing agreements, in April 2008, we sold two 1993-built LNG vessels (the *Kenai LNG Carriers*) to Teekay LNG for \$230.0 million and chartered them back for ten years with three five-year option periods. We acquired these vessels in December 2007 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. The vessels were 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.

One of the Kenai LNG carriers, the *Arctic Spirit*, came off charter from the Marathon Oil Corporation/ConocoPhillips joint venture on March 31, 2009, and we have entered into a joint development and option agreement with Merrill Lynch Commodities, Inc. (MLCI), giving MLCI the option to purchase the vessel for conversion to an LNG FPSO unit. The agreement provides for a purchase price of \$105 million if we exercise our option to participate in the project, or \$110 million if we choose not to participate. Under the option agreement, the *Arctic Spirit* is reserved for MLCI until December 31, 2009 and MLCI may extend the option quarterly through 2010. If MLCI exercises the option and purchases the vessel from us, we expect MLCI to convert the vessel to an FPSO (although it is not required to do so) and charter it under a long-term charter contract to a third party. We have the right to participate up to 50% in the conversion and charter project on terms that will be determined as the project progresses. The agreement with MLCI also provides that if the conversion of the *Arctic Spirit* to an FPSO proceeds, we will negotiate, along with an equity investment, a similar option for a designee of MLCI to purchase a second Kenai LNG carrier for \$125 million when it comes off charter.

##### **Sale of RasGas 3 LNG Vessels to Teekay LNG**

Prior to the end of the third quarter 2008, four newbuilding carriers (the *RasGas 3 LNG Carriers*) were delivered that will now service expansion of an LNG project in Qatar. Based on a November 1, 2006 agreement that Teekay LNG entered into with us, on May 6, 2008, upon delivery of the first vessel, we sold to Teekay LNG our 100% interest in Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*), which owns a 40% interest in Teekay Nakilat (III) Corporation (or the *RasGas 3 Joint Venture*), in exchange for a non-interest bearing and unsecured promissory note from Teekay LNG in the amount of \$110.2 million.

**Sale of Suezmax Tankers to Teekay Tankers**

During April 2008, we sold two Suezmax tankers to Teekay Tankers for a total cost of \$186.9 million and in June 2009, we sold a Suezmax tanker to Teekay Tankers for a total cost of \$57.0 million. We have agreed to offer to Teekay Tankers, prior to June 18, 2010, a fourth Suezmax tanker.

**Sale of Aframax Lightering Tankers to Teekay Offshore**

On June 18, 2008, OPCO acquired from us two 2008-built Aframax lightering tankers and their related long-term, fixed-rate bareboat charters for a total cost of \$106.0 million, including the assumption of third-party debt of \$90.0 million and the non-cash settlement of related party working capital of \$1.2 million. The 10-year, fixed-rate bareboat charters (with options exercisable by the charterer to extend up to an additional five years) are with Skaugen PetroTrans, a joint venture in which we own a 50% interest. These two lightering tankers are specially designed to be used in ship-to-ship oil transfer operations. This purchase was financed with the assumption of debt, together with cash balances.

**Table of Contents****Public Offerings by Teekay LNG Partners L.P.**

During April 2008, Teekay LNG completed a public offering of 5.0 million common units at a price of \$28.75 per unit, for gross proceeds of \$143.75 million. On May 8, 2008, the underwriters exercised their over-allotment option and purchased an additional 375,000 common units resulting in an additional \$10.8 million in gross proceeds to Teekay LNG. Concurrently with the public offering, we acquired 1.74 million common units of Teekay LNG at the same public offering price for a total cost of \$50.0 million. As a result of the above transactions, Teekay LNG raised gross equity proceeds of \$208.7 million (including the general partner's proportionate capital contribution), and our ownership, as of June 30, 2008, of Teekay LNG was reduced from 63.7% to 57.7% (including our 2% general partner interest), and we recorded an increase to stockholders' equity of \$23.8 million, which represents our gain from the issuance of units. The total net proceeds from the offering and private placement of approximately \$202.5 million were used to reduce amounts outstanding under Teekay LNG's revolving credit facilities which were used to fund the acquisitions of the interests in the Kenai and RasGas 3 LNG carriers.

During March 2009, Teekay LNG completed a public offering of 4.0 million common units at a price of \$17.60 per unit, for gross proceeds of \$71.8 million (including the general partner's proportionate capital contribution). As result, our ownership as of March 31, 2009, of Teekay LNG was reduced from 57.7% to 53.0% (including our 2% general partner interest). The total net proceeds from the offering and private placement of approximately \$68.5 million were used to reduce amounts outstanding under one of Teekay LNG's revolving credit facilities.

**Public Offering by Teekay Offshore Partners L.P.**

During June 2008, Teekay Offshore completed a public offering of 10.25 million common units at a price of \$20.00 per unit, for gross proceeds of \$205 million (including the general partner's proportionate capital contribution). In connection with the follow-on public offering, we contributed \$4.2 million to Teekay Offshore to maintain our 2% general partner interest. As a result of the above transactions, our ownership of Teekay Offshore was reduced from 59.8% to 50.6% (including our 2% general partner interest), and we recorded an increase to stockholders' equity of \$29.8 million, which represents our gain from the issuance of units. During July 2008, the underwriters exercised their over-allotment option and purchased an additional 375,000 common units at \$20.00 per unit for gross proceeds of \$7.5 million (including the general partner's proportionate share). As a result of the above transactions, our ownership of Teekay Offshore was reduced from 59.8% to 49.9% (including our 2% general partner interest), and we recorded an increase to stockholder's equity of \$29.8 million, which represents our gain from the issuance of units.

The total net proceeds from the offerings of approximately \$210.8 million were used to fund the acquisition by Teekay Offshore from us of an additional 25% interest in OPCO and to repay a portion of advances from OPCO.

**Public Offering by Teekay Tankers Ltd.**

On June 24, 2009, Teekay Tankers completed a follow-on public offering of 7.0 million common shares at a price of \$9.80 per share, for gross proceeds of \$68.6 million. Teekay Tankers has granted the underwriters a 30-day option to purchase up to an additional 1.05 million shares to cover any over-allotments. As a result of the above transaction, our ownership of Teekay Tankers has been reduced from 54.0% to 42.2%. Teekay Tankers used the total net offering proceeds of approximately \$65.9 million to acquire a 2003-built Suezmax tanker from Teekay for \$57.0 million and to repay a portion of its outstanding debt under its revolving credit facility.

**Contract Extension with Talisman Energy**

In December 2008, the Company entered into a contract extension with Talisman Energy for the FPSO *Petrojarl Varg*. The new terms under the contract extension commence on July 1, 2009, and provide that the *Petrojarl Varg* will continue to be chartered to Talisman Energy for an additional four years, with its option to extend the contract for up to an additional nine years thereafter. The contract extension provides an increased base daily time-charter rate plus an incentive component based on the operational performance of the unit and a tariff component based on the volume of oil produced. The new contract terms are expected to increase the annual cash flow from vessel operations from the *Petrojarl Varg* with opportunities for additional upside from the tariff component if nearby oil fields that would be covered by the contract become operational, as is expected. In accordance with an existing agreement, Teekay Offshore has the right to purchase the *Petrojarl Varg* at any time prior to December 4, 2009 at its fair market value when such right is exercised.

**OTHER SIGNIFICANT PROJECTS**



### **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. Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd., have 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. Deliveries of the vessels are scheduled between August 2011 and January 2012. Please read Item 18 Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.

### **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 tanker 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.

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***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.

***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 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 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 five reportable segments where applicable.

The shipping industry has been experiencing significant growth in the world fleet resulting in a global manpower shortage. This shortage has resulted in crew wage increases during 2008 and into 2009. However, with the recent global financial turmoil and associated recession, the current number of projected newbuild deliveries could be reduced and the number of vessels laid-up may increase. This may have the effect of easing the pressure on seafarer demand and crew wage inflation pressures.

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We manage our business and analyze and report our results of operations on the basis of five segments: the shuttle tanker and FSO segment, the FPSO 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.

**Year Ended December 31, 2008 versus Year Ended December 31, 2007*****Shuttle Tanker and FSO Segment***

Our shuttle tanker and FSO segment (which includes our Teekay Navion Shuttle Tankers and Offshore business unit) includes our shuttle tankers and FSO units. The shuttle tanker and FSO segment had four shuttle tankers under construction as at December 31, 2008. We 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 and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term fixed-rate time-charter contracts or contracts of affreightment. Historically, the utilization of shuttle tankers 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, which generally reduces oil production.

The following table presents our shuttle tanker and FSO 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 shuttle segment:

|                                                                           | <b>Twelve Months Ended<br/>December 31,</b> |             | <b>%</b>      |
|---------------------------------------------------------------------------|---------------------------------------------|-------------|---------------|
| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | <b>2008</b>                                 | <b>2007</b> | <b>Change</b> |
| Revenues                                                                  | 705,461                                     | 642,047     | 9.9           |
| Voyage expenses                                                           | 171,599                                     | 117,571     | 46.0          |
| Net revenues                                                              | 533,862                                     | 524,476     | 1.8           |
| Vessel operating expenses                                                 | 175,449                                     | 127,372     | 37.7          |
| Time-charter hire expense                                                 | 134,100                                     | 160,993     | (16.7)        |
| Depreciation and amortization                                             | 117,198                                     | 104,936     | 11.7          |
| General and administrative <sup>(1)</sup>                                 | 58,725                                      | 60,234      | (2.5)         |
| Gain on sale of vessels and equipment, net of write-downs                 | (3,771)                                     | (16,531)    | (77.2)        |
| Restructuring charge                                                      | 10,645                                      |             |               |
| Income from vessel operations                                             | 41,516                                      | 87,472      | (52.5)        |
| Calendar-Ship-Days                                                        |                                             |             |               |
| Owned Vessels                                                             | 11,595                                      | 11,015      | 5.3           |
| Chartered-in Vessels                                                      | 3,765                                       | 4,619       | (18.5)        |
| Total                                                                     | 15,360                                      | 15,634      | (1.8)         |

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

and  
administrative  
expenses  
(allocated to the  
shuttle tanker  
and FSO  
segment based  
on estimated use  
of corporate  
resources).

The average fleet size of our shuttle tanker and FSO segment (including vessels chartered-in) increased during 2008 compared to 2007. This was primarily the result of:

the transfer of the *Navion Saga* from the fixed-rate segment to the shuttle tanker and FSO 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 (collectively, the *Shuttle Tanker Deliveries*);

partially offset by

a decline in the number of chartered-in shuttle tankers; and  
the sale of a 1987-built shuttle tanker in May 2007 (or the *Shuttle Tanker Disposition*).

**Net Revenues.** Net revenues increased 1.8% to \$533.9 million for 2008, from \$524.5 million for 2007, primarily due to:

an increase of \$10.1 million from the Shuttle Tanker Deliveries;  
an increase of \$9.6 million due to more revenue days for shuttle tankers servicing contracts of affreightment and from shuttle tankers servicing contracts of affreightment in the conventional spot tanker market, earning a higher average daily charter rate, compared to the same period last year;  
an increase of \$6.9 million from the transfer of the *Navion Saga* to the shuttle tanker and FSO segment; and  
an increase of \$2.5 million due to the redeployment of one shuttle tanker from servicing contracts of affreightment to a time-charter effective October 2007, and earning a higher average daily charter rate than for the same periods last year;

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partially offset by

- a decrease of \$10.0 million, due to declining oil production at mature oil fields in the North Sea which are serviced by certain shuttle tankers on contracts of affreightment;
- a decrease of \$3.9 million due to an increased number of offhire days resulting from an increase in scheduled drydockings and unexpected repairs performed compared to the same period last year;
- a decrease of \$3.4 million due to customer performance claims under the terms of charter party agreements;
- a decrease of \$3.0 million due to an increase in bunker costs which are not passed on to the charterer under certain contracts; and
- a decrease of \$3.0 million due to redelivery of an in-chartered shuttle tanker in May 2008.

**Vessel Operating Expenses.** Vessel operating expenses increased 37.7% to \$175.4 million for 2008, from \$127.4 million for 2007, primarily due to:

- an increase of \$33.2 million from increases in crew manning costs;
- an increase of \$9.8 million relating to the unrealized change in fair value of our foreign currency forward contracts;
- an increase of \$5.0 million relating to the transfer of the *Navion Saga* to the shuttle tanker and FSO segment; and
- an increase of \$4.4 million, from the acquisition of an in-chartered shuttle tanker, the *Navion Oslo*, which was delivered in late March 2008; and
- an increase of \$0.5 million from increases in service costs and the price of consumables, freight and lubricants

**Time-Charter Hire Expense.** Time-charter hire expense decreased 16.7% to \$134.1 million for 2008, from \$161.0 million for 2007, primarily due to a decrease in the number of chartered-in vessels.

**Depreciation and Amortization.** Depreciation and amortization expense increased 11.7% to \$117.2 million for 2008, from \$105.0 million for 2007, primarily due to:

- an increase of \$6.9 million relating to the transfer of the *Navion Saga* to the shuttle tanker and FSO segment; and
- an increase of \$2.8 million from the Shuttle Tanker Deliveries.

**Gain on Sale of Vessels and Equipment Net of Write-downs.** Gain on sale of vessels and equipment for 2008 was a net gain of \$3.8 million, which was primarily due to a gain of \$3.7 million from the sale of equipment.

**FPSO Segment**

Our FPSO segment (which includes our Teekay Petrojarl business unit) includes our FPSO units and other vessels used to service our FPSO contracts. We took delivery of one FPSO during February 2008. Please read Item 18 Financial Statements: Note 16 Commitments and Contingencies. We use these units and 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 FPSO units and other vessels 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 FPSO segment's operating results and also provides a summary of the changes in calendar-ship-days for our FPSO segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Twelve Months Ended<br>December 31, |         | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------|
|                                                                           | 2008                                | 2007    |             |
| Revenues                                                                  | 383,752                             | 350,279 | 9.6         |
| Vessel operating expenses                                                 | 227,651                             | 156,264 | 45.7        |
| Depreciation and amortization                                             | 91,734                              | 68,047  | 34.8        |

|                                                           |           |        |         |
|-----------------------------------------------------------|-----------|--------|---------|
| General and administrative <sup>(1)</sup>                 | 53,087    | 36,927 | 43.8    |
| Loss on sale of vessels and equipment, net of write-downs | 12,019    |        |         |
| Goodwill impairment charge                                | 334,165   |        |         |
| (Loss) income from vessel operations                      | (334,904) | 89,041 | (476.1) |
| Calendar-Ship-Days                                        |           |        |         |
| Owned Vessels                                             | 2,073     | 1,825  | 13.6    |
| Total                                                     | 2,073     | 1,825  | 13.6    |

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

The average fleet size of our FPSO segment (including vessels chartered-in) increased during 2008 compared to 2007. This was primarily the result of the delivery of a new FPSO unit in February 2008 (or the *FPSO Delivery*).

Net Revenues. Net revenues increased 10.4% to \$383.8 million for 2008, from \$350.3 million for 2007, primarily due to:

an increase of \$40.4 million from the FPSO Delivery;  
partially offset by

a decrease of \$11.3 million in revenues from the *Foinaven* FPSO due to lower oil production compared to the prior year and a production shutdown during August and September 2008.

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As part of our acquisition of Teekay Petrojarl, we assumed certain FPSO service contracts that have terms that are less favorable than prevailing market terms at the time of acquisition. 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 2008 was \$66.6 million (2007 \$66.6 million). Please read Item 18 Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

**Vessel Operating Expenses.** Vessel operating expenses increased 45.7% to \$227.7 million for 2008, from \$156.3 million for 2007, primarily due to:

- an increase of \$25.3 million relating to the unrealized change in fair value of our foreign currency forward contracts;
- an increase of \$24.2 million from the FPSO Delivery;
- an increase of \$13.9 million from increases in service costs and the price of consumables, freight and lubricants; and
- an increase of \$7.3 million from increases in crew manning costs;

partially offset by

- a decrease of \$1.8 million from lower insurance charges.

**Depreciation and Amortization.** Depreciation and amortization expense increased 34.8% to \$91.7 million for 2008, from \$68.0 million for 2007, primarily due to:

- an increase of \$13.8 million from the refinement of preliminary estimates of fair value assigned to certain assets included in our acquisition of Teekay Petrojarl; and
- an increase of \$9.9 million from the FPSO Delivery.

**Loss on Sale of Vessels and Equipment Net of Write-downs.** Loss on sale of vessels and equipment net of write-downs for 2008 was due to a \$12.0 million impairment write-down of a 1986-built shuttle tanker.

**Goodwill impairment charge.** Goodwill impairment charge was from a write-down of goodwill from the Teekay Petrojarl acquisition. Based on an impairment analysis, management concluded that the carrying value of goodwill in the FPSO segment exceeded its fair value by \$334.2 million as of December 31, 2008. As a result, an impairment loss of \$334.2 million has been recognized in our consolidated statement of income (loss) for the year ended December 31, 2008. Please read Item 18 Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

**Fixed-Rate Tanker Segment**

Our fixed-rate tanker segment includes conventional crude oil and product tankers on long-term, fixed-rate time charters.

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<br>December 31, |         | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------|
|                                                                           | 2008                                | 2007    |             |
| Revenues                                                                  | 265,849                             | 195,942 | 35.7        |
| Voyage expenses                                                           | 5,010                               | 2,707   | 85.1        |
| Net revenues                                                              | 260,839                             | 193,235 | 35.0        |
| Vessel operating expenses                                                 | 68,065                              | 51,458  | 32.3        |
| Time-charter hire expense                                                 | 43,048                              | 25,812  | 66.8        |
| Depreciation and amortization                                             | 44,578                              | 36,018  | 23.8        |
| General and administrative <sup>(1)</sup>                                 | 20,740                              | 18,221  | 13.8        |



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|                                                           |        |        |      |
|-----------------------------------------------------------|--------|--------|------|
| Loss on sale of vessels and equipment, net of write-downs | 4,401  |        |      |
| Restructuring charge                                      | 1,991  |        |      |
| Income from vessel operations                             | 78,016 | 61,725 | 26.4 |
| Calendar-Ship-Days                                        |        |        |      |
| Owned Vessels                                             | 6,824  | 5,390  | 26.6 |
| Chartered-in Vessels                                      | 2,363  | 1,312  | 80.1 |
| Total                                                     | 9,187  | 6,702  | 37.1 |

(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 by 37% in 2008 compared to 2007. This increase was primarily the result of:

- the acquisition of two Suezmax tankers from OMI Corporation on August 1, 2007 (collectively, the *OMI Acquisition*);
- the addition of two new chartered-in Aframax tankers in January 2008 as part of the multi-vessel transaction with ConocoPhillips, in which we acquired ConocoPhillips' rights in six double-hull Aframax tankers (collectively, the *ConocoPhillips Acquisition*);
- the delivery of two new Aframax tankers during January and March 2008 (collectively, the *Aframax Deliveries*);
- the transfer of two product tankers from the spot tanker segment in April 2008 upon commencement of long-term time-charters (the *Product Tanker Transfers*); and
- the transfer of four Aframax tankers, on a net basis during 2008, from the spot tanker segment upon commencement of long-term time-charters (the *Aframax Transfers*).

The Aframax Transfers comprise the transfer of three owned vessel and two chartered-in vessels from the spot tanker segment, and the transfer of one owned vessels to the spot tanker segment. The effect of the transaction is to increase the fixed tanker segment's net revenue and time-charter expenses, and to decrease its vessel operating expenses.

**Net Revenues.** Net revenues increased 35.0% to \$260.8 million for 2008, from \$193.2 million for 2007, primarily due to:

- an increase of \$17.6 million from the ConocoPhillips Acquisition;
- an increase of \$17.0 million from the OMI Acquisition;
- an increase of \$11.2 million from the Product Tanker Transfers;
- an increase of \$9.8 million from the Aframax Transfers;
- a increase of \$9.2 million from increased 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 tanker market rates exceed threshold amounts; the time-charter for the Toledo Spirit also provides for a reduction in revenues to us when spot tanker market rates are below threshold amounts); and
- an increase of \$8.6 million from the Aframax Deliveries;

partially offset by

- a decrease of \$3.3 million from lower charter rates earned on an in-chartered VLCC.

**Vessel Operating Expenses.** Vessel operating expenses increased 32.3% to \$68.1 million for 2008, from \$51.5 million for 2007, primarily due to:

- an increase of \$7.9 million from the ConocoPhillips acquisition;
- an increase of \$4.6 million relating to higher crew manning and repairs, insurance, and maintenance and consumables;
- an increase of \$3.8 million from the Product Tanker Transfers;
- an increase of \$1.7 million due to full year operations in 2008 of the Suezmax tankers acquired in the OMI Acquisition; and
- an increase of \$1.0 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 for 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);

partially offset by

- a decrease of \$3.1 million from the Aframax Transfers.

**Time-Charter Hire Expense.** Time-charter hire expense increased 66.8% to \$43.0 million for 2008, compared to \$25.8 million for 2007, primarily due to:

- an increase of \$7.3 million from the ConocoPhillips acquisition.
- an increase of \$5.6 million from the Aframax Transfers; and

an increase of \$4.9 million from the OMI Acquisition.

Depreciation and Amortization. Depreciation and amortization expense increased 23.8% to \$44.6 million for 2008, from \$36.0 million for 2007, primarily due to:

an increase of \$5.1 million from the OMI Acquisition; and

an increase of \$2.8 million from the Aframax Deliveries.

Loss on Sale of Vessels and Equipment Net of Write-downs. For 2008, we recorded a \$4.1 million impairment charge related to a 1990-built conventional tanker.

Restructuring Charges. During the year ended December 31, 2008, we incurred restructuring charges of \$1.3 million relating to costs incurred to change the crew of the *Samar Spirit* from Australian crew to International crew, and \$0.5 million relating to reorganization of certain business units.

**Table of Contents*****Liquefied Gas Segment***

Our liquefied gas segment consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. At December 31, 2008 we also had five LNG carriers currently under construction. One was delivered in March 2009 and the remaining four LNG carriers currently under construction are scheduled for delivery between August 2011 and January 2012. In addition, at December 31, 2008 we had five LPG carriers currently under construction. One was delivered in April 2009 and the remaining four LPG carriers are scheduled for delivery between July 2009 and October 2010. 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(b) 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<br>December 31, |         | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------|
|                                                                           | 2008                                | 2007    |             |
| Revenues                                                                  | 221,930                             | 166,981 | 32.9        |
| Voyage expenses                                                           | 1,009                               | 109     | 825.7       |
| Net revenues                                                              | 220,921                             | 166,872 | 32.4        |
| Vessel operating expenses                                                 | 48,185                              | 30,239  | 59.3        |
| Depreciation and amortization                                             | 58,371                              | 46,018  | 26.8        |
| General and administrative <sup>(1)</sup>                                 | 23,072                              | 20,521  | 12.4        |
| Restructuring charge                                                      | 634                                 |         |             |
| Income from vessel operations                                             | 90,659                              | 70,094  | 29.3        |
| Calendar-Ship-Days                                                        |                                     |         |             |
| Owned Vessels and Vessels under Capital Lease                             | 3,701                               | 2,899   | 27.7        |

(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 from 2007 to 2008 was primarily due to: the delivery of one new LNG carrier in November 2008 (the *Tangguh Hiri*);

the delivery of two new LNG carriers in January and February 2007 (or the *RasGas II Deliveries*); 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*).

**Net Revenues.** Net revenues increased 32.4% to \$220.9 million for 2008, from \$166.9 million for 2007, primarily due to:

- an increase of \$38.3 million from the delivery of the Kenai LNG Carriers;
- an increase of \$6.1 million from the RasGas II Deliveries;
- a relative increase of \$5.5 million, due to the *Madrid Spirit* being off-hire during the first half of 2007 after sustaining damage to its engine boilers; and
- an increase of \$4.7 million due to the effect on our Euro-denominated revenues of the strengthening of the Euro against the U.S. Dollar during 2008 compared to 2007;

partially offset by

- a decrease of \$3.1 million, due to the *Catalunya Spirit* being off-hire for 34.3 days during the first half of 2008 for scheduled drydocking.

**Vessel Operating Expenses.** Vessel operating expenses increased 59.3% to \$48.2 million for 2008, from \$30.2 million for 2007, primarily due to:

- an increase of \$10.8 million from the full year operations in 2008 of the Kenai LNG Carriers delivered in 2007;
- an increase of \$2.3 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 2008 compared to 2007 (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);
- an increase of \$1.2 million from the RasGas II Deliveries; and
- an increase of \$0.7 million from the delivery of the *Tangguh Hiri*.

**Depreciation and Amortization.** Depreciation and amortization increased 26.8% to \$58.4 million in 2008, from \$46.0 million in 2007, primarily due to:

- an increase of \$9.9 million from the delivery of the Kenai LNG Carriers;
- an increase of \$1.2 million from the RasGas II Deliveries;
- an increase of \$0.6 million from the delivery of the *Tangguh Hiri*; and
- an increase of \$0.3 million relating to the amortization of drydock expenditures incurred during 2008.

**Table of Contents*****Spot Tanker Segment***

Our spot tanker segment consists of conventional crude oil tankers and product carriers operating on the spot tanker 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 accepted delivery of five Suezmax tankers in 2008. At December 31, 2008, we had four Suezmax tankers under construction, which have delivered since then. We also have three Suezmax tankers under construction which are scheduled to be delivered between June 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 and medium product tankers are among the vessels included in the spot tanker segment.

Our spot tanker 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, spot tanker markets historically have exhibited seasonal variations in charter rates. Spot tanker 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) | <b>Twelve Months Ended<br/>December 31,</b> |             | <b>%</b>      |
|---------------------------------------------------------------------------|---------------------------------------------|-------------|---------------|
|                                                                           | <b>2008</b>                                 | <b>2007</b> | <b>Change</b> |
| Revenues                                                                  | 1,616,663                                   | 1,040,258   | 55.4          |
| Voyage expenses                                                           | 580,770                                     | 406,921     | 42.7          |
| Net revenues                                                              | 1,035,893                                   | 633,337     | 63.6          |
| Vessel operating expenses                                                 | 134,969                                     | 81,813      | 65.0          |
| Time-charter hire expense                                                 | 434,975                                     | 279,676     | 55.5          |
| Depreciation and amortization                                             | 106,921                                     | 74,094      | 44.3          |
| General and administrative <sup>(1)</sup>                                 | 88,898                                      | 95,962      | (7.4)         |
| Gain on sale of vessels and equipment, net of write-downs                 | (72,664)                                    |             |               |
| Restructuring charge                                                      | 2,359                                       |             |               |
| Income from vessel operations                                             | 340,435                                     | 101,792     | 234.4         |
| Calendar-Ship-Days                                                        |                                             |             |               |
| Owned Vessels                                                             | 13,623                                      | 11,764      | 15.8          |
| Chartered-in Vessels                                                      | 17,647                                      | 12,730      | 38.6          |
| Total                                                                     | 31,270                                      | 24,494      | 27.7          |

(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 27.7% from 24,494 calendar days in 2007 to 31,271 calendar days in 2008, primarily due to:

- the acquisition of twelve owned and five chartered-in vessels from OMI Corporation on August 1, 2007 (collectively, the *OMI Acquisition*);
- the addition of two owned and two chartered-in Aframax tankers in January 2008 as part of the multi-vessel transaction with ConocoPhillips, in which we acquired ConocoPhillips' rights in six double-hull Aframax tankers (collectively, the *ConocoPhillips Acquisition*);
- the delivery of two new large product tankers in February and May 2007 (or the *Spot Tanker Deliveries*);
- the delivery of three new Suezmax tankers between May and October 2008 (or the *Suezmax Deliveries*); and
- a net increase in the number of chartered-in vessels, primarily Aframax and product tankers.

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 ship days for our owned vessels and increasing the number of calendar ship days for our chartered-in vessels.

#### *Tanker Market and TCE Rates*

The demand for conventional oil tankers is a function of several factors such as: world oil demand and supply (which affect the amount of crude oil and refined products transported by oil 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 oil tankers.

Average crude tanker freight rates increased in 2008 to the highest level since 1990 driven by counter-seasonally high rates in the second and third quarters of the year. The strength in crude tanker rates was primarily driven by an increase in long haul oil movements between the Atlantic and Pacific basins as well as record high crude output levels from the Organization of the Petroleum Exporting Nations (or *OPEC*) for most of the year.

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In addition, short term factors such as hurricane related port delays, strike action in the Mediterranean, and Iran using up to twenty VLCCs and Suezmaxes as floating storage resulted in tighter tanker supply and higher charter rates during the summer months. Tanker fleet growth was dampened throughout most of the year by the effect of vessels being removed from the fleet for conversion to dry bulk and offshore units and vessel scrapping. Crude tanker rates eased in the fourth quarter of 2008 as OPEC commenced implementation of production cutbacks in response to weakening oil demand as a result of the downturn in the global economy.

The growth in the global economy slowed during 2008, particularly in the second half of the year after a series of shocks to global financial markets. According to the International Monetary Fund (or *IMF*), world gross domestic product growth averaged 3.2% in 2008, a decrease from 5.2% in 2007. The Organisation for Economic Co-operation and Development (or *OECD*) countries were worst hit with growth averaging just 1.0% in 2008. The slowdown in global economic growth had an impact on global oil demand which contracted by 0.4 million barrels per day (or mb/d), or approximately 0.4%, according to the International Energy Agency (*IEA*). Oil demand in the OECD fell by 1.7 mb/d in 2008 while non-OECD demand led by China, Asia and the Middel East, grew by 1.3 mb/d. Global oil supply increased by 1.0 mb/d in 2008 driven by higher OPEC output as a result of record high crude oil prices for much of the year.

The latest IMF assessment estimates that the global economy will decrease between 0.5% and 1.0% in 2009 as the global economic downturn deepens. The advanced economies of North America, Europe and Japan are expected to undergo a recession in 2009 while emerging and developing economies will experience much slower growth than in previous years. The IEA estimates that global oil demand will decline by 2.5 mb/d or approximately 2.9% to average 83.3 mb/d in 2009. This will be the first time that global oil demand has declined in consecutive years since 1982 and 1983. Non-OPEC oil supply is expected to remain flat in 2009 as increased output from the United States and Brazil is counter-balanced by declining output from the North Sea and Mexico. OPEC has announced 4.2 mb/d in production cuts since September 2008 in an effort to drawdown global oil stocks and thereby increase crude oil prices.

Spot tanker rates during the first half of 2009 have experienced significant declines compared to 2008 as a result of the contraction in the global economy.

The world tanker fleet rose to 407.2 million deadweight tonnage (dwt) as of December 31, 2008, an increase of 21.7 million dwt, or 5.6% from the end of 2007. The tanker fleet growth was dampened for much of the year by increased scrapping and the removal of vessels for conversion to other ship types, particularly dry bulk. In total, 14.7 million dwt were removed from the world tanker fleet, the highest level of tanker fleet tonnage removal since 2003. Tanker deliveries are expected to increase in 2009 with around 62 million dwt of tankers due to deliver during the year. However, a number of factors could dampen fleet growth including the increased scrapping of single hull tankers ahead of the IMO mandated 2010 phase-out date; ship order cancellations due to the effects of the global credit crunch; and increased slippage of new vessel deliveries, particularly from greenfield and newly established shipyards that accounted for around 25% of the crude tanker orderbook. In the first four months of 2009, the pace of tanker newbuilding deliveries increased from 2008 levels, resulting in world tanker fleet growth of 13.4 million dwt, or 3.3%.

The following table outlines the TCE rates earned by the vessels in our spot tanker segment for 2008, 2007 and 2006 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 tanker market rates or for speculative purposes.

| Vessel Type               | Year Ended             |              |             |                        |              |             |                        |              |             |
|---------------------------|------------------------|--------------|-------------|------------------------|--------------|-------------|------------------------|--------------|-------------|
|                           | December 31, 2008      |              |             | December 31, 2007      |              |             | December 31, 2006      |              |             |
|                           | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ |
| Spot Fleet <sup>(1)</sup> | 121,393                | 2,111        | 57,505      | 52,697                 | 1,496        | 35,225      | 56,981                 | 1,639        | 34,766      |



|                                             |           |        |        |         |        |        |         |        |        |
|---------------------------------------------|-----------|--------|--------|---------|--------|--------|---------|--------|--------|
| Suezmax Tankers <sup>(2)</sup>              |           |        |        |         |        |        |         |        |        |
| Aframax Tankers <sup>(2)</sup>              | 609,150   | 15,072 | 40,416 | 342,989 | 11,681 | 29,363 | 398,522 | 10,946 | 36,408 |
| Large/Medium Product Tankers <sup>(2)</sup> | 149,842   | 4,396  | 34,086 | 98,194  | 3,746  | 26,213 | 96,782  | 3,488  | 27,747 |
| Small Product Tankers <sup>(2)</sup>        | 44,008    | 3,172  | 13,874 | 51,811  | 3,596  | 14,408 | 58,530  | 3,782  | 15,476 |
| Time-Charter Fleet <sup>(1)</sup>           |           |        |        |         |        |        |         |        |        |
| Suezmax Tankers <sup>(2)</sup>              | 85,674    | 2,762  | 31,019 | 47,584  | 1,666  | 28,562 |         |        |        |
| Aframax Tankers <sup>(2)</sup>              | 39,900    | 1,224  | 32,598 | 5,734   | 183    | 31,334 | 19,134  | 729    | 26,247 |
| Large/Medium Product Tankers <sup>(2)</sup> | 52,892    | 1,971  | 26,835 | 42,482  | 1,638  | 25,935 |         |        |        |
| Other <sup>(3)</sup>                        | (66,966)  |        |        | (8,154) |        |        | (494)   |        |        |
| Totals                                      | 1,035,893 | 30,708 | 33,734 | 633,337 | 24,006 | 26,382 | 629,455 | 20,584 | 30,580 |

(1) Spot fleet includes short-term time-charters and fixed-rate contracts of affreightment of less than 1 year and gains and losses from forward freight agreements (FFAs) less than 1 year; and time-charter fleet includes short-term time-charters and fixed-rate contracts of affreightment of between 1-3 years and gains and losses from STCs and

FFAs of  
between 1-3  
years.

- (2) Includes realized gains and losses from STCs and FFAs.
- (3) Includes broker commissions, the cost of spot in-charter vessels servicing fixed-rate contract of affreightment cargoes, unrealized gains and losses from STCs and FFAs, the amortization of in-process revenue contracts and cost of fuel while offhire.

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**Net Revenues.** Net revenues increased 63.6% to \$1.04 billion for 2008, from \$633.3 million for 2007, primarily due to:

- an increase of \$207.8 million from an increase in our average TCE rate during 2008 compared to 2007;
- an increase of \$147.4 million from the OMI Acquisition;
- an increase of \$52.6 million from a net increase in the number of chartered-in vessels;
- an increase of \$42.0 million from the ConocoPhillips Acquisition;
- an increase of \$19.5 million from the Spot Tanker Deliveries and the Suezmax Deliveries; and
- an increase of \$17.0 million from the transfer of two Aframax tankers from the fixed-rate tanker segment in January 2008;

partially offset by

- a decrease of \$54.2 million from the effect of STCs and FFAs;
- a decrease of \$13.6 million from an increase in the number of days our vessels were off-hire due to regularly scheduled maintenance; and
- a decrease of \$5.0 million from the transfer of a Suezmax tanker to the offshore segment in May 2007 and the transfer of an Aframax tanker to the fixed-rate tanker segment in December 2007.

**Vessel Operating Expenses.** Vessel operating expenses increased 65.0% to \$135.0 million for 2008, from \$81.8 million for 2007, primarily due to:

- an increase of \$18.1 million from higher crew manning repairs, maintenance and consumables costs, insurance costs, port expenses, safety inspections and non-recurring damages;
- an increase of \$17.2 million from the ConocoPhillips Acquisition;
- an increase of \$10.1 million from the OMI Acquisition;
- an increase of \$4.8 million from the transfer of two Aframax tankers from the fixed-rate segment in January 2008; and
- an increase of \$4.3 million from the Spot Tanker Deliveries and the Suezmax Deliveries;

partially offset by

- a decrease of \$3.3 million from the transfer of a Suezmax tanker to the shuttle tanker and FSO segment in May 2007 and the transfer of an Aframax tanker to the fixed-rate tanker segment in December 2007.

**Time-Charter Hire Expense.** Time-charter hire expense increased 55.5% to \$435.0 million for 2008, from \$279.7 million for 2007, primarily due to:

- an increase of \$49.8 million from an increase in the number of chartered-in tankers (excluding the OMI and ConocoPhillips vessels) compared to the same period in 2007;
- an increase of \$42.7 million from an increase in the average in-charter rate;
- an increase of \$39.8 million from the OMI Acquisition;
- an increase of \$16.1 million from the ConocoPhillips Acquisition; and
- an increase of \$6.9 million due to the sale and lease-back of three Aframax tankers during April and July 2007.

**Depreciation and Amortization.** Depreciation and amortization expense increased 44.3% to \$106.9 million for 2008, from \$74.1 million for 2007, primarily due to:

- an increase of \$30.7 million from the OMI Acquisition;
- an increase of \$6.3 million from the ConocoPhillips Acquisition; and
- an increase of \$3.5 million from the Spot Tanker Deliveries and the Suezmax Deliveries;

partially offset by

- a decrease of \$2.8 million from the sale and lease-back of three Aframax tankers during April and July 2007; and
- a decrease of \$2.2 million from the transfer of a Suezmax tanker to the shuttle tanker and FSO segment in May 2007 and the transfer of an Aframax to the fixed-rate tanker segment during December 2007.

**Gain on Sale of Vessels and Equipment Net of Write-downs.** Gain on sale of vessels and equipment of \$72.7 million for 2008 was due to:

- a gain of \$52.2 million from the sale of vessels; and

a gain of \$44.4 million from the sale of our 50% interest in the Swift Tanker Pool;  
partially offset by  
a decrease of \$23.9 million from the impairment write-down on two 1992-built Aframax tankers.

**Table of Contents****Other Operating Results**

The following table compares our other operating results for 2008 and 2007.

| (in thousands of U.S. dollars, except percentages) | Twelve Months Ended |           | % Change |
|----------------------------------------------------|---------------------|-----------|----------|
|                                                    | 2008                | 2007      |          |
| General and administrative                         | (244,522)           | (231,865) | 5.5      |
| Interest expense                                   | (994,966)           | (422,433) | 135.5    |
| Interest income                                    | 273,647             | 110,201   | 148.3    |
| Foreign exchange gain (loss)                       | 32,348              | (39,912)  | (181.0)  |
| Equity loss from joint ventures                    | (36,085)            | (12,404)  | 190.9    |
| Income tax recovery                                | 56,176              | 3,192     | 1,659.9  |
| Non-controlling interest expense                   | (9,561)             | (8,903)   | 7.4      |
| Other (loss) income net                            | (6,736)             | 23,677    | (128.4)  |

**General and Administrative Expenses.** General and administrative expenses increased 5.5% to \$244.5 million for 2008, from \$231.9 million for 2007, primarily due to:

an increase of \$26.5 million from the unrealized change in fair value of our foreign currency forward contracts;

an increase of \$16.7 million in compensation for shore-based employees and other personnel expenses, primarily due to increase in headcount and compensation levels partially offset by the strengthening of the U.S. Dollar compared to other major currencies;

an increase of \$10.3 million in corporate-related expenses, including costs associated with Teekay Tankers becoming a public entity in December 2007; and

an increase of \$3.8 million in fleet overhead from the timing of seafarer training initiatives and higher training activity in the liquefied gas segment;

partially offset by

a decrease of \$42.2 million relating to the costs associated with our equity-based compensation and long-term incentive program for management; and

a decrease of \$2.8 million in office expenses and travel costs due to business development and other project initiatives.

**Interest Expense.** Interest expense increased 135.5% to \$995.0 million for 2008, from \$422.4 million for 2007, primarily due to:

an increase of \$508.4 million relating to the unrealized change in fair value of our interest rate swaps and swaptions;

an increase of \$43.6 million due to additional debt drawn under long-term revolving credit facilities and term loans relating to the Shuttle Tanker Deliveries, the Aframax Deliveries, the Spot Tanker Deliveries and other investing activities;

an increase of \$9.3 million relating to debt of Teekay Nakilat (III) used by the RasGas 3 Joint Venture to fund shipyard construction installment payments (this increase in interest expense from debt is offset by a corresponding increase in interest income from advances to the joint venture); and

an increase of \$0.6 million relating to debt from the delivery of the *Tangguh Hiri*.

We have not applied hedge accounting to our interest rate swaps and as such, the unrealized changes in fair value of the swaps are reflected in interest expense in our consolidated statements of income (loss).

**Interest Income.** Interest income increased 148.3% to \$273.6 million for 2008, compared to \$110.2 million for 2007, primarily due to:

an increase of \$171.3 million relating to the unrealized change in fair value of our interest rate swaps; and

an increase of \$4.5 million relating to interest-bearing loans made by us to the RasGas 3 Joint Venture for shipyard construction installment payments;

partially offset by

a decrease of \$8.9 million resulting from the repayment of interest-bearing loans we made to a 50% joint venture between us and TORM, which were used during the second quarter of 2007, together with comparable loans made by TORM, to acquire 100% of the outstanding shares of OMI; and a decrease of \$2.4 million relating to a decrease in restricted cash used to fund capital lease payments for the RasGas II Deliveries (please read Item 18 Financial Statements: Note 10 Capital Leases and Restricted Cash).

We have not applied hedge accounting to our interest swaps and as such, the unrealized changes in fair value of the swaps are reflected in interest income in our consolidated statements of income.

Foreign Exchange Gains (Losses). Foreign exchange gain (loss) was a gain of \$32.3 million for 2008, compared to a loss of \$39.9 million for 2007. 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.

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**Non-controlling Interest Expense.** Non-controlling interest expense increased to \$9.6 million for 2008, compared to \$8.9 million for 2007, primarily due to:

an increase of \$21.7 million from the initial public offering of Teekay Tankers in December 2007; and

an increase of \$3.0 million from the operating results of the RasGas II joint venture;

partially offset by

a decrease of \$14.6 million from a decrease in earnings from Teekay Offshore partially offset by the follow-on public offering of Teekay Offshore in June 2008; and

a decrease of \$7.3 million from a decrease in earnings from Teekay LNG which was primarily the result of unrealized foreign exchange losses attributable to the revaluation of its Euro-denominated term loans partially offset by the follow-on public offering of Teekay LNG in April 2008.

**Equity Loss from Joint Ventures.** Equity loss of \$36.1 million for 2008 was primarily comprised of our share of the Angola LNG Project loss. The majority of the loss relates to unrealized losses on interest rate swaps.

**Income Tax Recovery.** Income tax recovery was \$56.2 million for 2008 compared to \$3.2 million for 2007. The \$53.0 million increase to income tax recoveries was primarily due to an increase in deferred income tax recoveries relating to unrealized foreign exchange translation losses.

**Other (Loss) Income (Net).** Other loss of \$6.7 million for 2008 was primarily comprised of write-down of marketable securities of \$20.2 million, partially offset by leasing income of \$9.5 million from our volatile organic compound emissions equipment, gain on sale of marketable securities of \$4.6 million, and gain on bond redemption of \$3.0 million.

Other income of \$23.7 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 and gain on sale of subsidiary of \$6.9 million, partially offset by loss on bond redemption of \$0.9 million.

**Net (Loss) Income.** As a result of the foregoing factors, the Company incurred a net loss of \$469.5 million for 2008, compared to a net income of \$63.5 million for 2007.

**Year Ended December 31, 2007 versus Year Ended December 31, 2006**

***Shuttle Tanker and FSO Segment***

The following table presents our shuttle tanker and FSO 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 shuttle segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Twelve Months Ended<br>December 31, |         | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------|
|                                                                           | 2007                                | 2006    |             |
| Revenues                                                                  | 642,047                             | 572,392 | 12.2        |
| Voyage expenses                                                           | 117,571                             | 89,642  | 31.2        |
| Net revenues                                                              | 524,476                             | 482,750 | 8.6         |
| Vessel operating expenses                                                 | 127,372                             | 90,798  | 40.3        |
| Time-charter hire expense                                                 | 160,993                             | 170,308 | (5.5)       |
| Depreciation and amortization                                             | 104,936                             | 83,501  | 25.7        |
| General and administrative <sup>(1)</sup>                                 | 60,234                              | 46,220  | 30.3        |
| (Gain) loss on sale of vessels                                            | (16,531)                            | 698     | (2,468.3)   |
| Income from vessel operations                                             | 87,472                              | 91,225  | (4.1)       |

|                      |        |        |       |
|----------------------|--------|--------|-------|
| Calendar-Ship-Days   |        |        |       |
| Owned Vessels        | 11,015 | 9,050  | 21.7  |
| Chartered-in Vessels | 4,619  | 4,983  | (7.3) |
| Total                | 15,634 | 14,033 | 11.4  |

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

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

the consolidation of five 50%-owned subsidiaries, each of which owns one shuttle tanker, effective December 1, 2006 upon amendments of the applicable operating agreements, which granted us control of these entities, that were previously accounted for as joint ventures using the equity method (or the *Consolidation of 50%-owned Subsidiaries*);



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the transfer of the *Navion Saga* from the fixed-rate segment to the shuttle tanker and FSO 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 8.6% to \$524.5 million for 2007, from \$482.8 million for 2006, primarily due to:

an increase of \$40.8 million due to the Consolidation of 50%-owned Subsidiaries;  
an increase of \$23.0 million relating to the transfer of the *Navion Saga* to the shuttle tanker and FSO 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 tanker 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.

**Vessel Operating Expenses.** Vessel operating expenses increased 40.3% to \$127.4 million for 2007, from \$90.8 million for 2006, primarily due to:

an increase of \$17.5 million from the Consolidation of 50%-owned Subsidiaries;  
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 shuttle tanker and FSO segment;  
an increase of \$3.4 million relating to an increase in services, non-recurring repairs and maintenance; and  
an increase of \$0.2 million relating to the unrealized change in fair value of our foreign currency forward contracts;

partially offset by

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

**Time-Charter Hire Expense.** Time-charter hire expense decreased 5.5% to \$161.0 million for 2007, from \$170.3 million for 2006, primarily due to a decrease in the number of chartered-in vessels.

**Depreciation and Amortization.** Depreciation and amortization expense increased 25.7% to \$104.9 million for 2007, from \$83.5 million for 2006, primarily due to:

an increase of \$13.7 million from the Consolidation of 50%-owned Subsidiaries;  
an increase of \$6.6 million from the transfer of the *Navion Saga* to the shuttle tanker and FSO; 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 \$16.5 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 \$4.9 million from the sale of a 50% interest in a 2007-built shuttle tanker during September 2007.



**Table of Contents*****FPSO Segment***

The following table presents our FPSO segment's operating results and also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our offshore segment:

|                                                                           | <b>Twelve Months Ended<br/>December 31,</b> |             | <b>%</b>      |
|---------------------------------------------------------------------------|---------------------------------------------|-------------|---------------|
| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | <b>2007</b>                                 | <b>2006</b> | <b>Change</b> |
| Revenues                                                                  | 350,279                                     | 95,455      | 267.0         |
| Vessel operating expenses                                                 | 156,264                                     | 36,158      | 332.2         |
| Depreciation and amortization                                             | 68,047                                      | 22,360      | 204.3         |
| General and administrative <sup>(1)</sup>                                 | 36,927                                      | 10,549      | 250.1         |
| Income from vessel operations                                             | 89,041                                      | 26,388      | 237.4         |
| Calendar-Ship-Days                                                        |                                             |             |               |
| Owned Vessels                                                             | 1,825                                       | 460         | 296.7         |
| Total                                                                     | 1,825                                       | 460         | 296.7         |

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

The average fleet size of our FPSO segment increased during 2007 compared to 2006. This was primarily the result of the acquisition during the third quarter of 2006 of Teekay Petrojarl, which operates four FPSO units and one shuttle tanker (please read item 18 Financial Statements: Note 3 Acquisition of Additional 35.3% of Teekay Petrojarl ASA); Revenues. Revenues increased 267.0% to \$350.3 million for 2007, from \$95.5 million for 2006, primarily due to a net increase of \$245.8 million relating to the Teekay Petrojarl acquisition, which includes the effect of amortization of contract values as described below;

As part of our acquisition of Teekay 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 332.2% to \$156.3 million for 2007, from \$36.2 million for 2006, primarily due to:

an increase of \$125.3 million from the Teekay Petrojarl acquisition;  
partially offset by

a decrease of \$4.0 million relating to the unrealized change in fair value of our foreign currency forward contracts.

**Depreciation and Amortization.** Depreciation and amortization expense increased 204.3% to \$68.0 million for 2007, from \$22.4 million for 2006, primarily due to an increase of \$45.1 million from the Teekay Petrojarl acquisition.

**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:

|                                                                           | Twelve Months Ended<br>December 31, |         | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------|
| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | 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 <sup>(1)</sup>                                 | 18,221                              | 15,843  | 15.0        |
| Income from vessel operations                                             | 61,726                              | 70,070  | (11.9)      |
| 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 by 8% 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 ship 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 tanker market rates exceed threshold amounts; the time-charter for the *Toledo Spirit* also provides for a reduction in revenues to us when spot tanker 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.

## **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:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Twelve Months Ended<br>December 31, |         | %<br>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 <sup>(1)</sup>                                 | 20,521                              | 15,531  | 32.1        |
| Income from vessel operations                                             | 70,094                              | 35,911  | 95.2        |
| 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).

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The increase in the average fleet size of our liquefied gas segment was primarily due to:

the delivery of the three RasGas II LNG Carriers between October 2006 and February 2007, and our December 2007 acquisition of the two 1993-built Kenai LNG Carriers 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 2007 compared to 2006;  
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;

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**

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:



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| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Twelve Months Ended<br>December 31, |           | %<br>Change |
|---------------------------------------------------------------------------|-------------------------------------|-----------|-------------|
|                                                                           | 2007                                | 2006      |             |
| Revenues                                                                  | 1,040,258                           | 1,059,796 | (1.8)       |
| Voyage expenses                                                           | 406,921                             | 430,341   | (5.4)       |
| Net revenues                                                              | 633,337                             | 629,455   | 0.6         |
| Vessel operating expenses                                                 | 81,813                              | 58,088    | 40.8        |
| Time-charter hire expense                                                 | 279,676                             | 214,991   | 30.1        |
| Depreciation and amortization                                             | 74,094                              | 52,203    | 41.9        |
| General and administrative <sup>(1)</sup>                                 | 95,962                              | 93,357    | 2.8         |
| Gain on sale of vessels                                                   |                                     | (2,039)   | (100.0)     |
| Restructuring charge                                                      |                                     | 8,929     | (100.0)     |
| Income from vessel operations                                             | 101,792                             | 203,926   | (50.1)      |
| 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 shuttle tanker and FSO 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.

**Net Revenues.** Net revenues increased 0.6% to \$633.3 million for 2007, from \$629.5 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 \$11.6 million from the effect of STCs and FFAs; 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;

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 40.8% to \$81.8 million for 2007, from \$58.1 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.

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**Depreciation and Amortization.** Depreciation and amortization expense increased 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 shuttle tanker and FSO 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 |           | % Change |
|----------------------------------------------------|---------------------|-----------|----------|
|                                                    | 2007                | 2006      |          |
| General and administrative                         | (231,865)           | (181,500) | 27.7     |
| Interest expense                                   | (422,433)           | (100,089) | 322.1    |
| Interest income                                    | 110,201             | 31,714    | 247.5    |
| Foreign exchange loss                              | (39,912)            | (50,416)  | (20.8)   |
| Equity (loss) income from joint ventures           | (12,404)            | 6,099     | (303.4)  |
| Income tax recovery (expense)                      | 3,192               | (8,811)   | (136.2)  |
| Non-controlling interest expense                   | (8,903)             | (6,759)   | 31.7     |
| Other net                                          | 23,677              | 3,566     | 564.0    |

**General and Administrative Expenses.** General and administrative expenses increased 27.7% to \$231.9 million for 2007, from \$181.5 million for 2006, primarily due to:

- an increase of \$26.0 million from our acquisition of Teekay 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 Teekay 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;

partially offset by

- a decrease of \$5.6 million relating to the unrealized change in fair value of our non-designated foreign currency forward contracts;
- a relative decrease of \$6.7 million during 2007 relating to the costs associated with our equity-based compensation and long-term incentive program for management; and
- a relative decrease of \$2.1 million during 2007 from severance costs recorded in 2006.

**Interest Expense.** Interest expense increased 322.1% to \$422.4 million for 2007, from \$100.1 million for 2006, primarily due to:

- an increase of \$205.3 million relating to the unrealized change in fair value of our non-designated interest rate swaps;
- an increase of \$36.5 million resulting from interest incurred from financing our acquisition of Teekay Petrojarl and interest incurred on debt we assumed from Teekay 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 \$26.7 million relating to additional debt of Teekay Nakilat (III) used by the RasGas 3 Joint Venture to fund shipyard construction installment payments (this increase in interest expense from debt is offset by a corresponding increase in interest income from advances to joint venture); and

an increase of \$11.3 million relating to the Consolidation of 50%-owned Subsidiaries;

partially offset by

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

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We have not applied hedge accounting to our interest rate swaps and as such, the unrealized changes in fair value of the swaps are reflected in interest expense in our consolidated statements of income.

**Interest Income.** Interest income increased 247.5% to \$110.2 million for 2007, compared to \$31.7 million for 2006, primarily due to:

- an increase of \$36.7 million relating to the unrealized change in fair value of our non-designated interest rate swaps;
- an increase of \$26.8 million relating to interest-bearing loans made by us to the RasGas 3 Joint Venture for shipyard construction installment payments;
- 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 \$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 Teekay Petrojarl acquisition;

partially offset by

- a decrease 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).

We have not applied hedge accounting to our interest swaps and as such, the unrealized changes in fair value of the swaps are reflected in interest income in our consolidated statements of income.

**Foreign Exchange Loss.** Foreign exchange loss decreased 20.8% to \$39.9 million for 2007, compared to \$50.4 million for 2006. The changes in our foreign exchange 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.

**Non-controlling Interest Expense.** Non-controlling interest expense increased to \$8.9 million for 2007, compared to \$6.8 million for 2006, primarily due to:

- an increase of \$2.7 million resulting from the Consolidation of 50%-owned Subsidiaries; and
- an increase of \$1.2 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.

**Equity (Loss) Income from Joint Ventures.** Equity loss of \$12.4 million for 2007 was primarily comprised of equity losses from the joint ventures with SkaugenPetroTrans and with OMI.

**Income Tax Recovery (Expense).** Income tax recovery was \$3.2 million for 2007 compared to an income tax expense of \$8.8 million for 2006. The \$12.0 million increase to income tax recoveries was primarily due to deferred income tax recoveries resulting from the financial restructuring of our Norwegian shuttle tanker operations during 2006, partially offset by an increase in deferred income tax expense relating to unrealized foreign exchange translation gains.

**Other (Loss) Income (Net).** Other income of \$23.7 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 and gain on sale of subsidiary of \$6.9 million, offset by loss on bond redemption of \$0.9 million.

Other income of \$3.6 million for 2006 was primarily comprised of 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 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 (Loss) Income.** As a result of the foregoing factors, net income decreased to \$63.5 million for 2007, from \$302.8 million for 2006.



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**LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity and Cash Needs**

Our primary sources of liquidity are cash and cash equivalents, cash flows provided by our operations and our undrawn credit facilities. Our short-term liquidity requirements are for the payment of operating expenses, debt servicing costs, dividends, the scheduled repayments of long-term debt, as well as funding our working capital requirements. As at December 31, 2008, our total cash and cash equivalents was \$814.2 million, compared to \$442.7 million as at December 31, 2007. Our total liquidity, including cash and undrawn credit facilities, was \$1.9 billion as at December 31, 2008, up from \$1.7 billion as at December 31, 2007.

Our spot tanker market operations contribute to the volatility of our net operating cash flow, and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. 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, spot tanker markets historically have exhibited seasonal variations in charter rates. Spot tanker 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.

As at December 31, 2008, we had \$245.0 million of scheduled debt repayments coming due within the following twelve months. We believe that our working capital is sufficient for our present short-term liquidity requirements.

Our operations are capital intensive. We finance the purchase of our vessels primarily through a combination of borrowings from commercial banks or our joint venture partners, the issuance of equity securities and cash generated from operations. In addition, we may use sale and lease-back arrangements as a source of long-term liquidity. Occasionally we use our revolving credit facilities to temporarily finance capital expenditures until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under the revolving credit facilities. Excluding the two LPG carriers to be delivered between July 2009 and March 2010 and the two multigas carriers to be delivered between August 2010 and October 2010, as at December 31, 2008, pre-arranged debt facilities were in place for all of our remaining capital commitments relating to our portion of newbuildings currently on order. Our pre-arranged debt facilities do not include our undrawn credit facilities. We will continue to consider strategic opportunities, including the acquisition of additional vessels and expansion into new markets. We may choose to pursue such opportunities through internal growth, joint ventures or business acquisitions. We intend to finance any future acquisitions through various sources of capital, including internally generated cash flow, existing credit facilities, additional debt borrowings, and the issuance of additional debt or equity securities or any combination thereof.

As at December 31, 2008, our revolving credit facilities provided for borrowings of up to \$3.7 billion, of which \$1.1 billion was undrawn. The amount available under these revolving credit facilities decreases by \$214.3 million (2009), \$221.7 million (2010), \$807.0 million (2011), \$237.4 million (2012), \$315.1 million (2013) and \$1.9 billion (thereafter). Our revolving credit facilities are collateralized by first-priority mortgages granted on 67 of our vessels, together with other related security, and are guaranteed by Teekay or our subsidiaries.

Our unsecured 8.875% Senior Notes are due July 15, 2011. Our outstanding term loans reduce in monthly, quarterly or semi-annual payments with varying maturities through 2023. Some of the term loans also have bullet or balloon repayments at maturity and are collateralized by first-priority mortgages granted on 33 of our vessels, together with other related security, and are generally guaranteed by Teekay or our subsidiaries.

Among other matters, our long-term debt agreements generally provide for the maintenance of certain vessel market value-to-loan ratios and minimum consolidated financial covenants and prepayment privileges, in some cases with penalties. Certain of the loan agreements require that we maintain a minimum level of free cash. As at December 31, 2008, this amount was \$100.0 million. Certain of the loan agreements also require that we maintain an aggregate level of free liquidity and undrawn revolving credit lines (with at least six months to maturity) of at least 7.5% of total debt. As at December 31, 2008, this amount was \$293.0 million. We were in compliance with all loan covenants at December 31, 2008.

We conduct our funding and treasury activities within corporate policies designed to minimize borrowing costs and maximize investment returns while maintaining the safety of the funds and appropriate levels of liquidity for our purposes. We hold cash and cash equivalents primarily in U.S. Dollars, with some balances held in Japanese Yen,

Singapore Dollars, Canadian Dollars, Australian Dollars, British Pounds, Euros and Norwegian Kroner.

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, spot tanker market rates for vessels and bunker fuel prices. We use forward foreign currency contracts, interest rate swaps, forward freight agreements and bunker fuel swap contracts to manage currency, interest rate, spot tanker rates and bunker fuel price risks. With the exception of some of our forward freight agreements, we do not use these financial instruments for trading or speculative purposes. Please read Item 11 Quantitative and Qualitative Disclosures About Market Risk.

#### Cash Flows

The following table summarizes our cash and cash equivalents provided by (used for) operating, financing and investing activities for the years presented:

|                          | <b>2008</b>      | <b>2007</b>      |
|--------------------------|------------------|------------------|
|                          | <b>(\$000 s)</b> | <b>(\$000 s)</b> |
| Net operating cash flows | 431,847          | 255,018          |
| Net financing cash flows | 767,878          | 2,114,199        |
| Net investing cash flows | (828,233)        | (2,270,458)      |



**Table of Contents****Operating Cash Flows**

The increase in net operating cash flow mainly reflects an increase in net operating cash flows generated by our spot tanker and liquefied gas segments, partially offset by a decrease in net operating cash flows generated by our offshore segment, which was primarily the result of an increase in crew manning costs and vessel repair costs, and an increase in distributions to minority owners.

**Financing Cash Flows**

During 2008, our proceeds from long-term debt, net of prepayments, were \$565.4 million. We used a majority of these funds to finance our expenditures for vessels and equipment, which are explained in more detail below.

During April 2008, our subsidiary Teekay LNG, issued an additional 5.4 million common units in a public offering for net proceeds of \$148.3 million and during June 2008, our subsidiary Teekay Offshore, issued an additional 10.6 million common units in a public offering for net proceeds of \$134.3 million. Please read Item 18 Financial Statements: Note 5 Public Offerings. The proceeds were used for repayment of debt and general corporate purposes. During March 2008, we repurchased 0.5 million of our common stock for \$20.5 million, or an average cost of \$41.09 per share, pursuant to previously announced share repurchase programs. Please read Item 18 Financial Statements: Note 12 Capital Stock.

Dividends paid during 2008 were \$82.9 million, or \$1.14125 per share. We have paid a quarterly dividend since 1995. We increased our quarterly dividend during each of the last four years from \$0.125 per share in 2003 to \$0.31625 per share during the second quarter of 2009. Subject to financial results and declaration by the Board of Directors, we currently intend to continue to declare and pay a regular quarterly dividend in such amount per share on our common stock.

**Investing Cash Flows**

During 2008, we:

- incurred capital expenditures for vessels and equipment of \$620.1 million, primarily for shipyard construction installment payments on our newbuilding Suezmax tankers, Aframax tankers, shuttle tankers and LNG carriers and for costs to convert a conventional tanker to an FPSO unit;
- acquired an additional 35.3% interest in Teekay Petrojarl for a total cost of \$304.9 million;
- loaned \$211.5 million to the RasGas 3 Joint Venture for shipyard construction installment payments;
- acquired two Aframax tankers for a total cost of approximately \$72.5 million as part of the multi-vessel transaction with ConocoPhillips;
- acquired a shuttle tanker for a total cost of \$41.7 million;
- sold our 50% interest in Swift Tankers Management AS, which included our intermediate vessel positions within the Swift Tanker pool for proceeds of \$44.4 million; and
- received proceeds of \$331.6 million from the sale of three Handysize product tankers, one Aframax product tanker, one medium-range product tanker and one Suezmax tanker.

**COMMITMENTS AND CONTINGENCIES**

The following table summarizes our long-term contractual obligations as at December 31, 2008:

| In millions of U.S. Dollars                     | Total   | 2009  | 2010 and 2011 | 2012 and 2013 | Beyond 2013 |
|-------------------------------------------------|---------|-------|---------------|---------------|-------------|
| <b>U.S. Dollar-Denominated Obligations:</b>     |         |       |               |               |             |
| Long-term debt <sup>(1)</sup>                   | 4,538.9 | 225.5 | 1,510.2       | 510.8         | 2,292.4     |
| Chartered-in vessels (operating leases)         | 971.9   | 424.1 | 379.1         | 139.7         | 29.0        |
| Commitments under capital leases <sup>(2)</sup> | 226.8   | 134.4 | 92.4          |               |             |
| Commitments under capital leases <sup>(3)</sup> | 1,073.1 | 24.0  | 48.0          | 48.0          | 953.1       |
|                                                 | 501.3   | 18.5  | 50.1          | 50.2          | 382.5       |

|                                                     |                |                |                |              |                |
|-----------------------------------------------------|----------------|----------------|----------------|--------------|----------------|
| Commitments under operating leases <sup>(8)</sup>   |                |                |                |              |                |
| Newbuilding installments <sup>(4)</sup>             | 840.3          | 419.7          | 420.6          |              |                |
| Asset retirement obligation                         | 10.0           |                |                |              | 10.0           |
| <b>Total U.S. Dollar-denominated obligations</b>    | <b>8,162.3</b> | <b>1,246.2</b> | <b>2,500.4</b> | <b>748.7</b> | <b>3,667.0</b> |
| <b>Euro-Denominated Obligations:</b>                |                |                |                |              |                |
| <sup>(5)</sup>                                      |                |                |                |              |                |
| Long-term debt <sup>(6)</sup>                       | 414.1          | 11.8           | 234.5          | 14.7         | 153.1          |
| Commitments under capital leases <sup>(2) (7)</sup> | 164.0          | 35.8           | 128.2          |              |                |
| <b>Total Euro-denominated obligations</b>           | <b>578.1</b>   | <b>47.6</b>    | <b>362.7</b>   | <b>14.7</b>  | <b>153.1</b>   |
| <b>Total</b>                                        | <b>8,740.4</b> | <b>1,293.8</b> | <b>2,863.1</b> | <b>763.4</b> | <b>3,820.1</b> |

(1) Excludes expected interest payments of \$160.0 million (2009), \$274.9 million (2010 and 2011), \$169.9 million (2012 and 2013) and \$188.9 million (beyond 2013). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR plus margins that ranged up to 1.0% at December 31, 2008 (variable-rate loans). The expected

interest  
payments do not  
reflect the effect  
of related  
interest rate  
swaps that we  
have used as an  
economic hedge  
of certain of our  
floating-rate  
debt.

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- (2) Includes, in addition to lease payments, amounts we are required to pay to purchase certain leased vessels at the end of the lease terms. We are obligated to purchase five of our existing Suezmax tankers upon the termination of the related capital leases, which will occur at various times from late-2009 to 2011. The purchase price will be based on the unamortized portion of the vessel construction financing costs for the vessels, which we expect to range from \$35.6 million to \$39.2 million per vessel. We expect to satisfy the purchase price by assuming the existing vessel financing, although we may be required to obtain separate debt or equity financing to complete the purchases if the lenders do not consent to our

assuming the financing obligations. We are also obligated to purchase one of our LNG carriers upon the termination of the related capital lease on December 31, 2011. The purchase obligation has been fully funded with restricted cash deposits. Please read Item 18 Financial Statements: Note 10 Capital Leases and Restricted Cash.

- (3) Existing restricted cash deposits of \$487.4 million, together with the interest earned on the deposits, will equal the remaining amounts we owe under the lease arrangements.
- (4) Represents remaining construction costs, including a joint venture partner's 30% interest, as applicable, but excluding capitalized interest and miscellaneous construction costs, for four shuttle tankers,

seven Suezmax tankers, five LPG carriers and one LNG carriers.  
Please read Item 18 Financial Statements: Note 16 Commitments and Contingencies Vessels Under Construction.

(5) Euro-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as at December 31, 2008.

(6) Excludes expected interest payments of \$13.9 million (2009), \$23.0 million (2010 and 2011), \$11.3 million (2012 and 2013) and \$36.1 million (beyond 2013). Expected interest payments are based on EURIBOR plus margins that ranged up to 0.66% at December 31, 2008, as well as the prevailing U.S. Dollar/Euro exchange rate as at December 31, 2008. The expected interest payments do not reflect the effect

of related interest rate swaps that we have used as an economic hedge of certain of our floating-rate debt.

- (7) Existing restricted cash deposits of \$146.2 million, together with the interest earned on the deposits, will equal the remaining amounts we owe under the lease arrangements, including our obligation to purchase the vessels at the end of the lease terms.

- (8) We have corresponding leases whereby we are the lessor and expect to receive \$489.4 million for these leases from 2009 to 2029.

We also have a 33% interest in a consortium that has entered into agreements for the construction of four LNG carriers. As at December 31, 2008, the remaining commitments on these vessels, excluding capitalized interest and other miscellaneous construction costs, totaled \$815.4 million (2007 \$815.4), of which our share is \$269.1 million (2007 \$269.1). Please read Item 18 Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

#### **Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews our accounting policies, assumptions, estimates and judgments on a regular basis to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results will differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies.

### ***Revenue Recognition***

**Description.** We generate a majority of our revenues from spot voyages and voyages servicing contracts of affreightment. Within the shipping industry, the two methods used to account for revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including us, use the percentage of completion method. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words, revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for another voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. We recognize revenues from time-charters daily over the term of the charter as the applicable vessel operates under the charter. Revenues from FPSO service contracts are recognized as service is performed. In all cases we do not recognize revenues during days that a vessel is off-hire.

**Judgments and Uncertainties.** In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. We use this method of revenue recognition for all spot voyages and voyages servicing contracts of affreightment, with an exception for our shuttle tankers servicing contracts of affreightment with offshore oil fields. In this case a voyage commences with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. However we do not begin recognizing revenue for any of our vessels until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

**Effect if Actual Results Differ from Assumptions.** Our revenues could be overstated or understated for any given period to the extent actual results are not consistent with our estimates in applying the percentage of completion method.



**Table of Contents*****Vessel Lives and Impairment***

*Description.* The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation or impairment charges. We depreciate our vessels on a straight-line basis over each vessel's estimated useful life, less an estimated residual value. The carrying values of our vessels may not represent their fair market value at any point in time because the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure the recoverability of an asset by comparing its carrying amount to future undiscounted cash flows that the asset is expected to generate over its remaining useful life.

*Judgments and Uncertainties.* Depreciation is calculated using an estimated useful life of 25 years for Aframax, Suezmax, and product tankers, 25 to 30 years for FPSO units and 35 years for LNG and LPG carriers, commencing the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different, with a shorter life resulting in an increase in the quarterly depreciation and potentially resulting in an impairment loss. The estimates and assumptions regarding expected cash flows require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions. With the exception of the Foinaven FPSO unit, we are not aware of any indicators of impairments nor any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations.

We have been advised that the Foinaven FPSO unit is now expected to remain on station at the Foinaven field beyond 2010. A portion of the revenue we receive under the related FPSO contract is based on the amount of oil processed by this unit. Making such long-range estimates of oil field production requires significant judgment, and we rely on the information provided by the operator of the field and other sources for this information. The Foinaven contract provides for an adjustment to the amount paid to us in connection with the Foinaven FPSO unit, and we have requested an adjustment of the amounts payable to us under the terms of that provision. Our cash flow projections relating to this FPSO unit are based on our assessment of the likely outcome of discussions with the other party to the contract about these adjustments. While we anticipate certain increases to the rates we will receive under this contract, should there be a negative outcome to these discussions, we would likely need to complete an additional impairment test on the vessel. This could result in our having to write-down some of the carrying value of the vessel, which could be significant in amount.

*Effect if Actual Results Differ from Assumptions.* If we consider a vessel or equipment to be impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair market value. The new lower cost basis will result in a lower annual depreciation expense than before the vessel impairment.

***Drydocking***

*Description.* We capitalize a substantial portion of the costs we incur during drydocking 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 include in capitalized drydocking those costs incurred as part of the drydocking to meet regulatory requirements, or are expenditures that either add economic life to the vessel, increase the vessel's earnings capacity or improve the vessel's efficiency. We expense costs related to routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets and for annual class survey costs on our FPSO units. When significant drydocking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original drydocking cost and any unamortized intermediate survey costs are expensed in the period of the subsequent drydocking.

*Judgments and Uncertainties.* Amortization of capitalized drydock expenditures requires us to estimate the period of the next drydocking. While we typically drydock each vessel every two and a half to five years and have a shipping society classification intermediate survey performed on our LNG and LPG carriers between the second and third year of the five-year drydocking period, we may drydock the vessels at an earlier date.

***Goodwill and Intangible Assets***

*Description.* We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as time-charter contracts, are being amortized over time. Our future operating performance will be affected by the

amortization of intangible assets and potential impairment charges related to goodwill. Accordingly, the allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill and indefinite-lived assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis.

*Judgments and Uncertainties.* The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting units was estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

#### ***Valuation of Derivative Financial Instruments***

*Description.* Our risk management policies permit the use of derivative financial instruments to manage foreign currency fluctuation, interest rate, bunker fuel price and spot tanker market rate risk. Changes in fair value of derivative financial instruments that are not designated as cash flow hedges for accounting purposes are recognized in earnings. Changes in fair value of derivative financial instruments that are designated as cash flow hedges for accounting purposes are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of the hedges are recognized in earnings as they occur. During the life of the hedge, we formally assess whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, we will discontinue hedge accounting prospectively.

*Judgments and Uncertainties.* The fair value of our derivative financial instruments is the estimated amount that we would receive or pay to terminate the agreements in an arm's length transaction under normal business conditions at the reporting date, taking into account current interest rates, foreign exchange rates, bunker fuel prices and spot tanker market rates. Inputs used to determine the fair value of our derivative instruments are observable either directly or indirectly in active markets.

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*Effect if Actual Results Differ from Assumptions.* If our estimates of fair value are inaccurate, this could result in a material adjustment to the carrying amount of derivative asset or liability and consequently the change in fair value for the applicable period that would have been recognized in earnings or comprehensive income.

**Recent Accounting Pronouncements**

In April 2009, the Financial Accounting Standards Board (or *FASB*) issued Statement of Financial Accounting Standards (or *SFAS*) 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This statement changes existing accounting requirements for other-than-temporary impairment. SFAS 115-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 115-2 on our consolidated results of operations and financial condition.

In April 2009, the FASB issued SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly*. SFAS 157-4 amends SFAS 157, *Fair Value Measurements* to provide additional guidance on estimating fair value when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. SFAS 157-4 also provides additional guidance on circumstances that may indicate that a transaction is not orderly. SFAS 157-4 supersedes SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. The guidance in SFAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption is permitted, but only for periods ending after March 15, 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 157-4 on our consolidated results of operations and financial condition.

In April 2009, the FASB issued SFAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments*. SFAS 107-1 extends the disclosure requirements of SFAS 107, *Disclosures about Fair Value of Financial Instruments* to interim financial statements of publicly traded companies as defined in APB Opinion No. 28, *Interim Financial Reporting*. SFAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 107-1 on our consolidated results of operations and financial condition.

In April 2009, the FASB issued SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*. This statement amends SFAS 141, *Business Combinations*, to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, in accordance with SFAS 157, if the fair value can be determined during the measurement period. SFAS 141(R)-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141(R)-1 on our consolidated results of operations and financial condition.

In October 2008, the FASB issued SFAS No. 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*, which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, SFAS No. 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in SFAS No. 157-3 is effective immediately but does not have any impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Statement of Financial Accounting Standards No. 133 (or SFAS 161)*. The statement requires qualitative disclosures about an entity's objectives and strategies for using derivatives and quantitative disclosures about how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early application allowed. SFAS 161 allows but does not require, comparative disclosures for earlier periods at initial adoption.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (or *SFAS 141(R)*), which replaces SFAS No. 141, *Business Combinations*. This statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141(R) on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No. 51* (or *SFAS 160*). This statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial condition.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors and Senior Management**

Our directors and executive officers as of the date of this annual report and their ages as of December 31, 2008 are listed below:

| <b>Name</b>           | <b>Age</b> | <b>Position</b>                                                             |
|-----------------------|------------|-----------------------------------------------------------------------------|
| C. Sean Day           | 59         | Director and Chair of the Board                                             |
| Bjorn Moller          | 51         | Director, President and Chief Executive Officer                             |
| Axel Karlshoej        | 68         | Director and Chair Emeritus                                                 |
| Dr. Ian D. Blackburne | 62         | Director                                                                    |
| James R. Clark        | 58         | Director                                                                    |
| Peter S. Janson       | 61         | Director                                                                    |
| Thomas Kuo-Yuen Hsu   | 62         | Director                                                                    |
| Eileen A. Mercier     | 61         | Director                                                                    |
| Tore I. Sandvold      | 61         | Director                                                                    |
| Arthur Bensler        | 51         | EVP, Secretary and General Counsel                                          |
| Bruce Chan            | 36         | President, Teekay Tanker Services, a division of Teekay                     |
| Peter Evensen         | 50         | EVP and Chief Strategy Officer                                              |
| David Glendinning     | 54         | President, Teekay Gas Services and Offshore, a division of Teekay           |
| Kenneth Hvid          | 40         | President, Teekay Navion Shuttle Tankers and Offshore, a division of Teekay |
| Vincent Lok           | 40         | EVP and Chief Financial Officer                                             |
| Peter Lytzen          | 51         | President, Teekay Petrojarl ASA, a subsidiary of Teekay                     |
| Lois Nahirney         | 45         | EVP, Corporate Resources                                                    |
| Graham Westgarth      | 54         | President, Teekay Marine Services, a division of Teekay                     |

Certain biographical information about each of these individuals is set forth below:

**C. Sean Day** has served as a Teekay director since 1998 and as our Chairman of the Board since September 1999. Mr. Day has also served as Chairman of Teekay GP L.L.C., the general partner of Teekay LNG since its formation in November 2004, Chairman of Teekay Offshore GP L.L.C., the general partner of Teekay Offshore since its formation in August 2006, and Chairman of Teekay Tankers since its formation in October 2007. From 1989 to 1999, he was President and Chief Executive Officer of Navios Corporation, a large bulk shipping company based in Stamford, Connecticut. Prior to Navios, Mr. Day held a number of senior management positions in the shipping and finance industries. He is currently serving as a director of Kirby Corporation and is Chairman of Compass Diversified Holdings. Mr. Day is engaged as a consultant to Kattegat Limited, the parent Company of Resolute Investments, Ltd., our largest shareholder, to oversee its investments including that in the Teekay group of Companies.

**Bjorn Moller** became a Teekay director and our President and Chief Executive Officer in April 1998. Mr. Moller has served as Vice Chairman and a Director of Teekay GP L.L.C. since its formation in November 2004, Vice Chairman and a Director of Teekay Offshore GP L.L.C. since its formation in November 2004, and as the Chief Executive Officer and a director of Teekay Tankers since its formation in October 2007. Mr. Moller has over 25 years experience in the shipping industry, and has served as Chairman of the International Tanker Owners Pollution Federation since December 2006 and on the Board of the American Petroleum Institute since 2000. He has served in senior management positions with Teekay for more than 15 years and has headed our overall operations since January 1997, following his promotion to the position of Chief Operating Officer. Prior to this, Mr. Moller headed our global chartering operations and business development activities.

**Axel Karlshoej** has served as a Teekay director since 1989 and was Chairman of the Teekay Board from June 1994 to September 1999, and has been Chairman Emeritus since stepping down as Chairman. Mr. Karlshoej is President and serves on the compensation committee of Nordic Industries, a California general construction firm with which he has served for the past 30 years. He is the older brother of the late J. Torben Karlshoej, Teekay's founder. Please read Item 7 Major Shareholders and Related Party Transactions.

**Dr. Ian D. Blackburne** has served as a Teekay director since 2000. Mr. Blackburne has over 25 years experience in petroleum refining and marketing, and in March 2000 he retired as Managing Director and Chief Executive Officer of Caltex Australia Limited, a large petroleum refining and marketing conglomerate based in Australia. He is currently serving as Chairman of CSR Limited and is a director of Suncorp-Metway Ltd. and Symbion Health Limited (formerly Mayne Group Limited), Australian public companies in the diversified industrial and financial sectors. Dr. Blackburne is also the Chairman of the Australian Nuclear Science and Technology Organization.

**James R. Clark** has served as a Teekay director since 2006. Mr. Clark was President and Chief Operating Officer of Baker Hughes Incorporated from February 2004 until his retirement in January 2008. Previously, he was Vice President, Marketing and Technology from 2003 to 2004, having joined Baker Hughes Incorporated in 2001 as Vice President and President of Baker Petrolite Corporation. Mr. Clark was President and Chief Executive Officer of Consolidated Equipment Companies, Inc. from 2000 to 2001 and President of Sperry-Sun, a Halliburton company, from 1996 to 1999. He has also held financial, operational and leadership positions with FMC Corporation, Schlumberger Limited and Grace Energy Corporation. Mr. Clark also serves on the Board of Incorporate Members of Dallas Theological Seminary and is a Trustee of the Center for Christian Growth, both in Dallas, Texas.

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**Peter S. Janson** has served as a Teekay director since 2005. From 1999 to 2002, Mr. Janson was the Chief Executive Officer of Amec Inc. (formerly Agra Inc.), a publicly traded engineering and construction company. From 1986 to 1994 he served as the President and Chief Executive Officer of Canadian operations for Asea Brown Boveri Inc., a company for which he also served as Chief Executive Officer for U.S. operations from 1996 to 1999. Mr. Janson has also served as a member of the Business Round Table in the United States, and as a member of the National Advisory Board on Sciences and Technology in Canada. He is a director of Terra Industries Inc and IEC Holden Inc.

**Thomas Kuo-Yuen Hsu** has served as a Teekay director since 1993. He is presently a director of, CNC Industries, an affiliate of the Expedito Group of Companies that manages a fleet of six vessels of 70,000 dwt. He has been a Committee Director of the Britannia Steam Ship Insurance Association Limited since 1988. Please read Item 7 Major Shareholders and Related Party Transactions.

**Eileen A. Mercier** has served as a Teekay director since 2000. She has over 37 years experience in a wide variety of financial and strategic planning positions, including Senior Vice President and Chief Financial Officer for Abitibi-Price Inc. from 1990 to 1995. She formed her own management consulting company, Finvoy Management Inc. and acted as president from 1995 to 2003. She currently serves as Chairman of the Ontario Teachers Pension Plan, director for ING Bank of Canada and York University, and as a director and audit committee member for CGI Group Inc. and ING Canada Inc.

**Tore I. Sandvold** has served as a Teekay director since 2003. He has over 30 years experience in the oil and energy industry. From 1973 to 1987 he served in the Norwegian Ministry of Industry, Oil & Energy in a variety of positions in the areas of domestic and international energy policy. From 1987 to 1990 he served as the Counselor for Energy in the Norwegian Embassy in Washington, D.C. From 1990 to 2001 Mr. Sandvold served as Director General of the Norwegian Ministry of Oil & Energy, with overall responsibility for Norway's national and international oil and gas policy. From 2001 to 2002 he served as Chairman of the Board of Petoro, the Norwegian state-owned oil company that is the largest oil asset manager on the Norwegian continental shelf. From 2002 to the present, Mr. Sandvold, through his company, Sandvold Energy AS, has acted as advisor to companies and advisory bodies in the energy industry. Mr. Sandvold serves on other boards, including those of Schlumberger Limited., E. on Ruhrgas Norge AS, Lambert Energy Advisory Ltd., University of Stavanger, Offshore Northern Seas, and the Energy Policy Foundation of Norway.

**Arthur Bensler** joined Teekay in September 1998 as General Counsel. He was promoted to the position of Vice President in March 2002 and became our Corporate Secretary in May 2003. He was appointed Senior Vice President in February 2004 and Executive Vice President in January 2006. Prior to joining Teekay, Mr. Bensler was a partner in a large Vancouver, Canada, law firm, where he practiced corporate, commercial and maritime law from 1986 until joining Teekay.

**Bruce Chan** joined Teekay in September 1995. Since then, in addition to spending a year in Teekay's London office, Mr. Chan has held a number of finance and accounting positions with the Company, including Vice President, Strategic Development from February 2004 until his promotion to the position of Senior Vice President, Corporate Resources in September 2005. In April 2008, Mr. Chan was appointed President of the Company's Teekay Tanker Services division, which is responsible for the commercial management of Teekay's conventional crude oil and product tanker transportation services. Prior to joining Teekay, Mr. Chan worked as a Chartered Accountant in the Vancouver, Canada office of Ernst & Young LLP.

**Peter Evensen** joined Teekay in May 2003 as Senior Vice President, Treasurer and Chief Financial Officer. He was appointed Executive Vice President and Chief Financial Officer in February 2004 and was appointed Executive Vice President and Chief Strategy Officer in November 2006. Mr. Evensen has served as the Chief Executive Officer and Chief Financial Officer of Teekay GP L.L.C. since its formation in November 2004 and as a director of Teekay GP L.L.C. since January 2005. Mr. Evensen has served as the Chief Executive Officer and Chief Financial Officer and a director of Teekay Offshore GP L.L.C. since 2006, and as Executive Vice President and a director of Teekay Tankers since October 2007. Mr. Evensen has over 20 years of experience in banking and shipping finance. Prior to joining Teekay, Mr. Evensen was Managing Director and Head of Global Shipping at J.P. Morgan Securities Inc. and worked in other senior positions for its predecessor firms. His international industry experience includes positions in New York, London and Oslo.

**David Glendinning** joined Teekay in January 1987. Since then, he has held a number of senior positions, including service as Vice President, Marine and Commercial Operations from January 1995 until his promotion to Senior Vice President, Customer Relations and Marine Project Development in February 1999. In November 2003, Mr. Glendinning was appointed President of our Teekay Gas Services division, which is responsible for our initiatives in the LNG business and other areas of gas activity. Prior to joining Teekay, Mr. Glendinning, who is a Master Mariner, had 18 years sea service on oil tankers of various types and sizes.

**Kenneth Hvid** joined Teekay in October 2000 and was responsible for leading our global procurement activities until he was promoted in 2004 to Senior Vice President, Teekay Gas Services. During this time, Mr. Hvid was involved in leading Teekay through its entry and growth in the LNG business. He held this position until the beginning of 2006, when he was appointed President of our Teekay Navion Shuttle Tankers and Offshore division. In this role he is responsible for our global shuttle tanker business as well as initiatives in the floating storage and offtake business and related offshore activities. Mr. Hvid has 18 years of global shipping experience, 12 of which were spent with A.P. Moller in Copenhagen, San Francisco and Hong Kong.

**Vincent Lok** has served as Teekay's Executive Vice President and Chief Financial Officer since July 2007. He has held a number of finance and accounting positions with Teekay Corporation, including Controller from 1997 until his promotions to the positions of Vice President, Finance in March 2002 and Senior Vice President and Treasurer in February 2004, and Senior Vice President and Chief Financial Officer in November 2006. Prior to joining Teekay Corporation, Mr. Lok worked in the Vancouver, Canada, audit practice of Deloitte & Touche LLP.

**Peter Lytzen** joined Teekay Petrojarl as President and Chief Executive Officer on August 1, 2007. Mr. Lytzen's experience includes over 20 years in the oil and gas industry and he joined Teekay Petrojarl from Maersk Contractors, where he most recently served as Vice President of Production. In this role, he held overall responsibility for Maersk Contractors' technical tendering, construction and operation of FPSO and other offshore production solutions. He first joined Maersk in 1987 and held progressively responsible positions throughout the organization.

**Lois Nahirney** joined Teekay in August 2008, and is responsible for shore-based Human Resources, Corporate Communications, Corporate Services, and IT. Ms. Nahirney brings to the role more than 25 years of global experience as a senior executive and consultant in human resources, strategy, organization change, and information systems. Prior to joining Teekay, she held the position of Acting Chief Human Resources Officer with BC Hydro in Vancouver, Canada, and Partner with Western Management Consultants.



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**Graham Westgarth** joined Teekay in February 1999 as Vice President, Marine Operations. He was promoted to the position of Senior Vice President, Marine Operations in December 1999. In November 2003 Mr. Westgarth was appointed President of our Teekay Marine Services division, which is responsible for all of our marine and technical operations, as well as marketing a range of services and products to third parties, such as marine consulting services. He has extensive shipping industry experience. Prior to joining Teekay, Mr. Westgarth was General Manager of Maersk Company (UK), where he joined as Master in 1987. He has 36 years of industry experience, which includes 18 years sea service, with five years in a command position.

**Compensation of Directors and Senior Management***Director Compensation*

During 2008, the eight non-employee directors received, in the aggregate, \$700,000 in cash fees for their services as directors, plus reimbursement of their out-of-pocket expenses. Each non-employee director receives an annual cash retainer of \$50,000. Members of the Audit Committee, Compensation and Human Resources Committee, and Nominating and Governance Committee each receive an additional annual cash retainer of \$8,000, \$5,000 and \$5,000, respectively. The Chairman of the Board and the Chairman of the Audit Committee receive an additional annual cash retainer of \$278,000 and \$16,000, respectively.

Each non-employee director (excluding the Chairman of the Board) also received an \$85,000 annual retainer to be paid by way of a grant of, at the director's election, restricted stock or stock options under our 2003 Equity Incentive Plan. Pursuant to this annual retainer, during 2008 we granted stock options to purchase an aggregate of 71,600 shares of our common stock at an exercise price of \$40.41 per share and 10,500 shares of restricted stock. During 2008 the Chairman of the Board received a \$470,000 retainer in the form of 52,600 shares of common stock under our 2003 Equity Incentive Plan. The stock options described above expire March 10, 2018, ten years after the date of their grant. The stock options and restricted stock vest as to one third of the shares on each of the first three anniversaries of their respective grant date. The stock options and restricted stock are not subject to any forfeiture requirements on the resignation of a director.

*Annual Executive Compensation*

The aggregate compensation earned by Teekay's ten executive officers listed above (or the *Executive Officers*) for 2008 was \$7.5 million. This is comprised of base salary (\$3.7 million), annual bonus (\$3.0 million) and pension and other benefits (\$0.8 million). These amounts were paid primarily in Canadian Dollars, but are reported here in U.S. Dollars using an exchange rate of 1.22 Canadian Dollars for each U.S. Dollar, the exchange rate on December 31, 2008. Teekay's annual bonus plan considers both company performance, through comparison to established targets and financial performance of peer companies, and individual performance.

*Long-Term Incentive Program*

Teekay's long-term incentive program provides focus on the returns realized by our shareholders and acknowledges and retains those executives who can influence our long-term performance. The long-term incentive plan provides a balance against short-term decisions and encourages a longer time horizon for decisions. This program consists of stock option grants and restricted stock units. All grants in 2008 were made under our 2003 Equity Incentive Plan.

During March 2008, we granted stock options to purchase an aggregate of 702,500 shares of our common stock at an exercise price of \$40.41 to the Executive Officers under our 2003 Equity Incentive Plan. These options, which vest equally over three years, expire March 10, 2018, ten years after the date of the grant. During 2008, we issued 23,632 shares and awarded less than \$0.5 million in cash to the Executive Officers upon the first vesting of their restricted stock units that were awarded to them in March 2008 as part of their interim award under the Vision Incentive Plan described below.

During March 2009, we granted stock options to purchase an aggregate of 779,300 shares of our common stock at an exercise price of \$11.84 to the Executive Officers under our 2003 Equity Incentive Plan. These options, which vest equally over three years, expire March 9, 2019, ten years after the date of the grant.

*Vision Incentive Plan*

In 2005, we adopted the Vision Incentive Plan (or the *VIP*) to reward exceptional corporate performance and shareholder returns. This plan will result in an award pool for senior management based on the following two measures: (a) economic profit from 2005 to 2010 (or the *Economic Profit*); and (b) market value added from 2001 to

2010 (or the *MVA*). The Plan terminates on December 31, 2010. Under the VIP, the Economic Profit is the difference between our annual return on invested capital and its weighted-average cost of capital multiplied by its average invested capital employed during the year, and the increase in MVA from January 1, 2001 to December 31, 2010, where the MVA is the amount by which the average market value of Teekay for the preceding 18 months exceeds our average book value for the same period. Teekay reserves the right to amend the terms of the VIP, suspend the VIP or terminate the VIP in its entirety without any obligation or liability to any participant, if the Board has determined that the amendment, suspension or termination is necessary because the operation of the VIP will result in an award pool that is disproportionate to the benefit received by the shareholders of Teekay, having regard to the purpose of the VIP, as a result of unintended or unexpected circumstances. Under the terms of the VIP, awards may only be made to VIP participants in 2008 and 2011. Please read Item 19 Exhibits: Exhibit 4.6 for further information on the VIP.

Under the terms of the VIP, an interim award may only be made to VIP participants in 2008 and the final award may only be made in 2011. During March 2008, the 2008 interim award, with a value of \$13.3 million, was paid to participants in the form of 328,600 restricted stock units. These restricted stock units vest in three equal amounts in November 2008, November 2009 and November 2010. Each restricted stock unit is equal in value to one share of our Common Stock and reinvested dividends from the date of the grant to the vesting of the restricted stock unit. At least 50% of any distribution from the balance of the VIP award pool in 2011 must be paid in a form that is equity-based, with vesting on half of this percentage deferred for one year and vesting on the remaining half of this percentage deferred for two years.

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During 2008, we recorded a (recovery) expense related to the VIP of \$(23.6) million (2007 \$9.7 million), which is included in general and administrative expense.

### **Options to Purchase Securities from Registrant or Subsidiaries**

As at December 31, 2008, we had reserved pursuant to our 1995 Stock Option Plan, which was terminated with respect to new grants effective September 10, 2003, and our 2003 Equity Incentive Plan, which was adopted effective on the same date (together, the *Plans*), 6,256,497 shares of common stock for issuance upon exercise of options granted or to be granted. During 2008, 2007, and 2006 we granted options under the Plans to acquire up to 1,476,100, 836,100, and 1,045,200 shares of common stock, respectively, to eligible officers, employees and directors. Each option under the Plans has a 10-year term and vests equally over three years from the grant date. The outstanding options under the Plans are exercisable at prices ranging from \$8.44 to \$60.96 per share, with a weighted-average exercise price of \$37.22 per share, and expire between June 1, 2009 and September 12, 2018.

### **Board Practices**

The Board of Directors consists of nine members. The Board of Directors is divided into three classes, with members of each class elected to hold office for a term of three years in accordance with the classification indicated below or until his or her successor is elected and qualified.

Directors James R. Clark, C. Sean Day and Dr. Ian D. Blackburne have terms expiring in 2009 and have been nominated by the Board of Directors for re-election at the 2009 Annual Meeting of Shareholders. Directors Peter S. Janson, Eileen A. Mercier and Tore I. Sandvold have terms expiring in 2010. Directors Thomas Kuo-Yuen Hsu, Axel Karlshoej and Bjorn Moller have terms expiring in 2011.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board of Directors has determined that each of the current members of the Board, other than Bjorn Moller, our President and Chief Executive Officer, has no material relationship with Teekay (either directly or as a partner, shareholder or officer of an organization that has a relationship with Teekay), and is independent within the meaning of our director independence standards, which reflect the New York Stock Exchange (or *NYSE*) director independence standards as currently in effect and as they may be changed from time to time. In making this determination the Board considered the relationships of Thomas Kuo-Yuen Hsu and Axel Karlshoej with our largest shareholder and concluded these relationships do not materially affect their independence as current directors. Please read Item 7 Major Shareholders and Related Party Transactions.

The Board of Directors has three committees: Audit Committee, Compensation and Human Resources Committee, and Nominating and Governance Committee. The membership of these committees during 2008 and the function of each of the committees are described below. Each of the committees is currently comprised of independent members and operates under a written charter adopted by the Board. All of the committee charters are available under Corporate Governance in the Investor Centre of our website at [www.teekay.com](http://www.teekay.com). During 2008, the Board held eight meetings. Each director attended all Board meetings. Each committee member attended all applicable committee meetings, except for one Audit Committee meeting at which one director was absent.

Our Audit Committee is composed entirely of directors who satisfy applicable NYSE and SEC audit committee independence standards. Our Audit Committee includes Eileen A. Mercier (Chairman), Peter S. Janson and J. Rod Clark. All members of the committee are financially literate and the Board has determined that Ms. Mercier qualifies as an audit committee financial expert.

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of:

- the integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the independent auditors' qualifications and independence; and
- the performance of our internal audit function and independent auditors.

During 2008, our Compensation and Human Resources Committee included C. Sean Day (Chairman), Axel Karlshoej, Ian D. Blackburne and Peter S. Janson.

The Compensation and Human Resources Committee:

reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of these goals and objectives and determines the Chief Executive Officer's compensation;

reviews and approves the evaluation process and compensation structure for executive officers, other than the Chief Executive Officer, evaluates their performance and sets their compensation based on this evaluation;

reviews and makes recommendations to the Board regarding compensation for directors;

establishes and administers long-term incentive compensation and equity-based plans; and

oversees our other compensation plans, policies and programs.

During 2008, our Nominating and Governance Committee included Ian D. Blackburne (Chairman), Tore I. Sandvold, Eileen A. Mercier and Thomas Kuo-Yuen Hsu.

**Table of Contents****The Nominating and Governance Committee:**

identifies individuals qualified to become Board members;  
 selects and recommends to the Board director and committee member candidates;  
 develops and recommends to the Board corporate governance principles and policies applicable to us,  
 monitors compliance with these principles and policies and recommends to the Board appropriate changes;  
 and  
 oversees the evaluation of the Board and management.

**Crewing and Staff**

As at December 31, 2008, we employed approximately 5,700 seagoing and 900 shore-based personnel, compared to approximately 5,600 seagoing and 800 shore-based personnel as at December 31, 2007, and 4,800 seagoing and 800 shore-based personnel as at December 31, 2006. The increases in seagoing personnel in each year were primarily due to the increases in the size of our fleet.

We regard attracting and retaining motivated seagoing personnel as a top priority. Through our global manning organization comprised of offices in Glasgow, Scotland, Grimstad, Norway, Manila, Philippines, Mumbai, India, Sydney, Australia, Madrid, Spain, and Gdynia, Poland, we offer seafarers what we believe are competitive employment packages and comprehensive benefits. We also intend to provide opportunities for personal and career development, which relate to our philosophy of promoting internally.

During fiscal 1996, we entered into a Collective Bargaining Agreement with the Philippine Seafarers Union, an affiliate of the International Transport Workers Federation (or *ITF*), and a Special Agreement with ITF London that cover substantially all of our junior officers and seamen. We are also party to Enterprise Bargaining Agreements with various Australian maritime unions that cover officers and seamen employed through our Australian operations. Our officers and seamen for our Spanish-flagged vessels are covered by a collective bargaining agreement with Spain's Union General de Trabajadores and Comisiones Obreras. We believe our relationships with these labor unions are good.

We see our commitment to training as fundamental to the development of the highest caliber seafarers for our marine operations. Our cadet training program is designed to balance academic learning with hands-on training at sea. We have relationships with training institutions in Canada, Croatia, India, Norway, Philippines, Turkey and the United Kingdom. After receiving formal instruction at one of these institutions, the cadets' training continues on board a Teekay vessel. We also have an accredited Teekay-specific competence management system that is designed to ensure a continuous flow of qualified officers who are trained on our vessels and are familiar with our operational standards, systems and policies. We believe that high-quality manning and training policies will play an increasingly important role in distinguishing larger independent tanker companies that have in-house, or affiliate, capabilities from smaller companies that must rely on outside ship managers and crewing agents.

**Share Ownership**

The following table sets forth certain information regarding beneficial ownership, as of March 15, 2009, of our common stock by the directors and Executive Officers as a group. The information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares that the person or entity has the right to acquire as of May 14, 2009 (60 days after March 15, 2009) through the exercise of any stock option or other right. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table. Information for certain holders is based on information delivered to us.

| <b>Identity of Person or Group</b>                | <b>Shares Owned</b>          | <b>Percent of Class</b> |
|---------------------------------------------------|------------------------------|-------------------------|
| All directors and Executive Officers (18 persons) | 2,015,293 <sup>(1) (3)</sup> | 2.8% <sup>(2)</sup>     |

(1) Includes  
 1,791,805 shares  
 of common stock

subject to stock  
options  
exercisable by  
May 14, 2009  
under the Plans  
with a  
weighted-average  
exercise price of  
\$35.13 that expire  
between June 1,  
2009 and  
March 10, 2018.

Excludes

(a) 1,507,293  
shares of common  
stock subject to  
stock options  
exercisable after  
May 14, 2009  
under the Plans  
with a weighted  
average exercise  
price of \$25.19,  
that expire  
between  
March 13, 2017  
and March 9,  
2019 and

(b) 361,722 shares  
of restricted stock  
which vest after  
May 14, 2009.

(2) Based on a total  
of approximately  
72.5 million  
outstanding shares  
of our common  
stock as of  
March 15, 2009.  
Each director and  
Executive Officer  
beneficially owns  
less than 1% of  
the outstanding  
shares of common  
stock.

(3) Each director is  
expected to have  
acquired shares

having a value of at least four times the value of the annual cash retainer paid to them for their Board service (excluding fees for Chair or Committee service) no later than May 14, 2009 or the fifth anniversary of the date on which the director joined the Board, whichever is later. In addition, each Executive Officer is expected to acquire shares of Teekay's common stock equivalent in value to one to three times their annual base salary by 2010 or, for executive officers subsequently joining Teekay or achieving a position covered by the guidelines, within five years after the guidelines become applicable to them.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

The following table sets forth information regarding beneficial ownership, as of March 15, 2009, of Teekay's common stock by each person we know to beneficially own more than 5% of the common stock. Information for certain holders is based on their latest filings with the SEC or information delivered to us. The number of shares beneficially owned by each person or entity is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares as to which the person or entity has or shares voting or investment power. In addition, a person or entity beneficially owns any shares that the person or entity has the right to acquire as of May 14, 2009 (60 days after March 15, 2009) through the exercise of any stock option or other right. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table.

| <b>Identity of Person or Group</b>           | <b>Shares Owned</b> | <b>Percent of Class<br/>(4)</b> |
|----------------------------------------------|---------------------|---------------------------------|
| Resolute Investments, Ltd. <sup>(1)</sup>    | 30,431,380          | 42.0%                           |
| Iridian Asset Management, LLC <sup>(2)</sup> | 7,283,310           | 10.0%                           |
| JPMorgan Chase & Co. <sup>(3)</sup>          | 5,651,164           | 7.8%                            |

(1) Includes shared voting and shared dispositive power as to 30,431,380 shares. The ultimate controlling person of Resolute Investments, Ltd. (or *Resolute*) is Path Spirit Limited (or *Path*), which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity. This information is based on the Schedule 13D/A (Amendment No. 2) filed by Resolute and



Path with the SEC on April 2, 2008. Resolute's beneficial ownership was 41.8% on December 31, 2007, and 44.8% on December 31, 2006. In 2008, there were no changes to the number of shares of our common stock owned by Resolute. One of our directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of our directors, Axel Karlshoej, is among the directors of Path. Please read Item 18 Financial Statements: Note 13 Related Party Transactions.

- (2) Includes shared voting power and shared dispositive power as to 6,947,490 shares. This information is based on the Schedule 13G/A filed by this investor with the SEC on April 7, 2009. Iridian Asset Management's beneficial

ownership was  
8.5% on  
March 15, 2008  
and, 11.0% on  
March 15, 2007.

- (3) Includes shared  
voting power  
and shared  
dispositive  
power as to  
5,651,164  
shares. This  
information is  
based on the  
Schedule 13G/A  
filed by this  
investor with the  
SEC on  
January 27,  
2009. JPMorgan  
Chase & Co. s  
beneficial  
ownership was  
5.1% on  
March 15, 2008.

- (4) Based on a total  
of approximately  
72.5 million  
outstanding  
shares of our  
common stock as  
of March 15,  
2009.

Our major shareholders have the same voting rights as our other shareholders. No corporation or foreign government or other natural or legal person owns more than 50% of our outstanding common stock. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of Teekay.

As at June 1, 2009, Resolute Investments, Ltd. (or *Resolute*) owned 42.0% (December 31, 2007 41.8% and December 31, 2006 44.8%) of our outstanding Common Stock. One of our directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of our directors, Axel Karlshoej, is among the directors of Path Spirit Limited, which is the trust protector for the trust that indirectly owns all of Resolute s outstanding equity.

## **Item 8. Financial Information**

### **Consolidated Financial Statements and Notes**

Please read Item 18 below.

### **Legal Proceedings**

From time to time we have been, and we expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

**Dividend Policy**

Commencing with the quarter ended September 30, 1995, we declared and paid quarterly cash dividends in the amount of \$0.1075 per share on our common stock. We increased our quarterly dividend from \$0.1075 to \$0.125 per share on our common stock in the fourth quarter of 2003, from \$0.125 to \$0.1375 per share during the fourth quarter of 2004, from \$0.1375 to \$0.2075 per share in the fourth quarter of 2005, from \$0.2075 to \$0.2375 in the fourth quarter of 2006, from \$0.2375 to \$0.275 in the fourth quarter of 2007, and from \$0.275 to \$0.31625 in the fourth quarter of 2008. Subject to financial results and declaration by the Board of Directors, we currently intend to continue to declare and pay a regular quarterly dividend in such amount per share on our common stock. Pursuant to our dividend reinvestment program, holders of common stock are permitted to choose, in lieu of receiving cash dividends, to reinvest any dividends in additional shares of common stock at then-prevailing market prices, but without brokerage commissions or service charges. On May 17, 2004, we effected a two-for-one stock split relating to our common stock. All per-share data give effect to this stock split retroactively.

The timing and amount of dividends, if any, will depend, among other things, on our results of operations, financial condition, cash requirements, restrictions in financing agreements and other factors deemed relevant by our Board of Directors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends on the common stock depends on the earnings and cash flow of our subsidiaries.

**Significant Changes**

Please read Item 18 Financial Statements: Note 23 Subsequent Events.

**Table of Contents****Item 9. The Offer and Listing**

Our common stock is traded on the NYSE under the symbol TK . The following table sets forth the high and low closing sales prices for our common stock on the NYSE for each of the periods indicated.<sup>(1)</sup>

| <b>Years Ended</b> | Dec. 31,<br>2008 | Dec. 31,<br>2007 | Dec. 31,<br>2006 | Dec. 31,<br>2005 | Dec. 31,<br>2004 |
|--------------------|------------------|------------------|------------------|------------------|------------------|
| High               | \$ 53.30         | \$ 62.66         | \$ 45.80         | \$ 50.01         | \$ 54.45         |
| Low                | 11.51            | 42.52            | 35.60            | 37.25            | 27.95            |

  

| <b>Quarters Ended</b> | Dec.<br>31,<br>2008 | Sept.<br>30,<br>2008 | June<br>30,<br>2008 | Mar.<br>31,<br>2008 | Dec.<br>31,<br>2007 | Sept.<br>30,<br>2007 | June<br>30,<br>2007 | Mar.<br>31,<br>2007 |
|-----------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|---------------------|---------------------|
| High                  | \$ 26.08            | \$ 44.97             | \$ 52.48            | \$ 53.30            | \$ 59.64            | \$ 62.05             | \$ 62.66            | \$ 54.11            |
| Low                   | 11.51               | 23.75                | 42.88               | 36.21               | 47.20               | 51.00                | 54.36               | 42.52               |

  

| <b>Months Ended</b> | May 31,<br>2009 | Apr. 30,<br>2009 | Mar. 31,<br>2009 | Feb. 28,<br>2009 | Jan. 31,<br>2009 | Dec. 31,<br>2008 |
|---------------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| High                | \$ 16.98        | \$ 14.18         | \$ 16.63         | \$ 20.08         | \$ 22.03         | \$ 19.65         |
| Low                 | 13.90           | 12.86            | 11.84            | 15.79            | 16.17            | 13.94            |

(1) On May 17, 2004, we effected a two-for-one stock split relating to our common stock; applicable per-share information above gives effect to this stock split retroactively.

**Item 10. Additional Information****Memorandum and Articles of Association**

Our Amended and Restated Articles of Incorporation, as amended, are filed as part of this Annual Report as exhibits 2.1 and 2.2. Our Bylaws have previously been filed as exhibit 2.3 to our Annual Report on Form 20-F (File No. 1-12874), filed with the SEC on March 30, 2000, and are hereby incorporated by reference into this Annual Report.

The rights, preferences and restrictions attaching to each class of our capital stock are described in the section entitled Description of Capital Stock of our Rule 424(b) prospectus (Registration No. 333-52513), filed with the SEC on June 10, 1998, and hereby incorporated by reference into this Annual Report, provided that since the date of such prospectus (1) the par value of our capital stock has been changed to \$0.001 per share, (2) our authorized capital stock has been increased to 725,000,000 shares of common stock and 25,000,000 shares of Preferred Stock, (3) we have been domesticated in the Republic of The Marshall Islands and (4) we have adopted a staggered Board of Directors,

with directors serving three-year terms.

The necessary actions required to change the rights of holders of our capital stock and the conditions governing the manner in which annual and special meetings of shareholders are convened are described in our Bylaws filed as exhibit 2.3 to our Annual Report on Form 20-F (File No. 1-12874), filed with the SEC on March 30, 2000, and hereby incorporated by reference into this Annual Report.

We have in place a rights agreement that would have the effect of delaying, deferring or preventing a change in control of Teekay. The rights agreement has been filed as part of our Form 8-A (File No. 1-12874), filed with the SEC on September 11, 2000, and hereby incorporated by reference into this Annual Report.

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities imposed by the laws of the Republic of The Marshall Islands or by our Articles of Incorporation or Bylaws.

### **Material Contracts**

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries, other than our publicly-listed subsidiaries, is a party, for the two years immediately preceding the date of this Annual Report:

- (a) Indenture dated June 22, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida (formerly U.S. Trust Company of Texas, N.A.) for U.S. \$250,000,000 8.875% Senior Notes due 2011.
- (b) First Supplemental Indenture dated as of December 6, 2001, among Teekay Corporation and The Bank of New York Trust Company of Florida, N.A. for U.S. \$100,000,000 8.875% Senior Notes due 2011.
- (c) Agreement, dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks.
- (d) Agreement, dated September 1, 2004 for a U.S. \$500,000,000 Credit Facility Agreement to be made available to Teekay Nordic Holdings Incorporated by Nordea Bank Finland PLC, New York Branch.
- (e) Supplemental Agreement dated September 30, 2004 to Agreement, dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks.
- (f) Agreement, dated May 26, 2005 for a U.S. \$550,000,000 Credit Facility Agreement to be made available to Avalon Spirit LLC et al by Nordea Bank Finland PLC and others.
- (g) Agreement, dated October 2, 2006 for a U.S. \$940,000,000 Secured Reducing Revolving Loan Facility among Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.

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- (h) Agreement, dated August 23, 2006 for a U.S. \$330,000,000 Secured Reducing Revolving Loan Facility among Teekay LNG Partners L.P., ING Bank N.V. and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.
- (i) Agreement, dated November 28, 2007 for a U.S. \$845,000,000 Secured Reducing Revolving Loan Facility among Teekay Corporation, Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.
- (j) Agreement dated May 16, 2007 for a U.S. \$700,000,000 Credit Facility Agreement to be made available to Teekay Acquisition Holdings LLC et al by HSH NordBank AG and others.
- (k) Annual Executive Bonus Plan.
- (l) Vision Incentive Plan.
- (m) 2003 Equity Incentive Plan.
- (n) Amended 1995 Stock Option Plan.
- (o) Rights Agreement, dated as of September 8, 2000, between Teekay Corporation and The Bank of New York, as Rights Agent.
- (p) Amended and Restated Omnibus Agreement dated as of December 19, 2006, among Teekay Corporation, Teekay GP L.L.C., Teekay LNG Partners L.P., Teekay LNG Operating L.L.C., Teekay Offshore GP L.L.C., Teekay Offshore Partners L.P., Teekay Offshore Operating GP. L.L.C. and Teekay Offshore Operating L.P. govern, among other things, when Teekay Corporation, Teekay LNG L.P. and Teekay Offshore L.P. may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.,

## **Exchange Controls and Other Limitations Affecting Security Holders**

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in the Republic of The Marshall Islands that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of The Marshall Islands or our Articles of Incorporation and Bylaws.

## **Taxation**

Teekay Corporation was incorporated in the Republic of Liberia on February 9, 1979 and was domesticated in the Republic of The Marshall Islands on December 20, 1999. Its principal executive headquarters are located in Bermuda. The following provides information regarding taxes to which a U.S. Holder of our common stock may be subject.

## **Material U.S. Federal Income Tax Considerations**

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to stockholders. This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (or the *Code*) as in effect on the date of this Annual Report, existing final and temporary regulations thereunder (or *Treasury Regulations*), and current administrative rulings and court decisions, all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to we, our or us are references to Teekay Offshore Partners, L.P.

The following summary does not comment on all aspects of U.S. federal income taxation which may be important to particular stockholders in light of their individual circumstances, such as stockholders subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, tax-exempt organizations, or former citizens or long-term residents of the United States) or to persons that will hold our common stock as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, partnerships or their partners, or

to persons that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. If a partnership or other entity taxed as a pass-through entity holds our common stock, the tax treatment of a partner or owner thereof generally will depend upon the status of the partner or owner and upon the activities of the partnership or pass-through entity. If you are a partner in a partnership or owner of a pass-through entity holding our common stock, you should consult your tax advisor.

This summary does not discuss any U.S. state or local, estate or alternative minimum tax considerations regarding the ownership or disposition of our common stock. This summary is written for stockholders that hold their stock as a capital asset under the Code. Each stockholder is urged to consult its tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of our common stock.

***United States Federal Income Taxation of U.S. Holders***

As used herein, the term U.S. Holder means a beneficial owner of our common stock that is a U.S. citizen or resident (as determined for U.S. federal income tax purposes), U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

**Table of Contents***Distributions*

Subject to the discussion of passive foreign investment companies (or *PFICs*) below, any distributions made by us with respect to our common stock to a U.S. Holder generally will constitute dividends, which may be taxable as ordinary income or qualified dividend income as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in its common stock on a dollar-for-dollar basis and thereafter as capital gain. U.S. Holders that are corporations generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock generally will be treated as passive category income or, in the case of certain types of U.S. Holders, general category income for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (or a *U.S. Individual Holder*) will be treated as qualified dividend income that currently is taxable to such U.S. Individual Holder at preferential capital gain tax rates provided that: (i) our common stock is readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which our common stock will be traded); (ii) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be, as discussed below); (iii) the U.S. Individual Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock become ex-dividend; and (iv) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any dividends paid on our common stock not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder. In the absence of legislation extending the term of the preferential tax rates for qualified dividend income, all dividends received by a taxpayer in tax years beginning on January 1, 2011 or later will be taxed at ordinary graduated tax rates.

Special rules may apply to any extraordinary dividend paid by us. An extraordinary dividend is, generally, a dividend with respect to a share of stock if the amount of the dividend is equal to or in excess of 10.0% of a stockholder's adjusted basis (or fair market value in certain circumstances) in such stock. If we pay an extraordinary dividend on our common stock that is treated as qualified dividend income, then any loss derived by a U.S. Individual Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

*Consequences of Possible PFIC Classification*

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a look through rule, either: (i) at least 75.0% of its gross income is passive income; or (ii) at least 50.0% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. We do not believe that our existing operations would cause us to be deemed a PFIC with respect to any taxable year, as we treat the gross income we derive from our time and voyage charters as services income, rather than rental income.

There is, however, no direct legal authority under the PFIC rules addressing our method of operation and, therefore no assurance can be given that the IRS will accept this position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations. Moreover, a recent decision of the United States Court of Appeals for the Fifth Circuit in *Tidewater Inc. v. United States*, No. 08-30268 (5th Cir. Apr. 13, 2009) held that income derived from certain time chartering activities should be treated as rental income rather than services income. However, the issues in this case arose under the foreign sales corporation rules of the Code and did not concern the PFIC rules. In addition, the court's ruling was contrary to the position of the Internal Revenue Service (or *IRS*) that the time charter income should be treated as services income. As a result, it is uncertain whether the



principles of the *Tidewater* decision would be applicable to our operations. However, if the principles of the *Tidewater* decision were applicable to all of our operations, we likely would be treated as a PFIC.

If we were classified as a PFIC, for any year during which a U.S. Holder owns common stock, such U.S. Holder generally will be subject to special rules (regardless of whether we continue thereafter to be a PFIC) with respect to: (i) any excess distribution (generally, any distribution received by a stockholder in a taxable year that is greater than 125.0% of the average annual distributions received by the stockholder in the three preceding taxable years or, if shorter, the stockholder's holding period for the shares), and (ii) any gain realized upon the sale or other disposition of shares. Under these rules:

- the excess distribution or gain will be allocated ratably over the stockholder's holding period;
- the amount allocated to the current taxable year and any year prior to the first year in which we were a PFIC will be taxed as ordinary income in the current year;
- the amount allocated to each of the other taxable years in the stockholder's holding period will be subject to U.S. federal income tax at the highest rate in effect for the applicable class of taxpayer for that year; and
- an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year.

Certain elections that would alter the tax consequences to a U.S. Holder, such as a qualified electing fund election or mark to market election, may be available to a U.S. Holder if we are classified as a PFIC. If we determine that we are or will be a PFIC, we will provide stockholders with information concerning the potential availability of such elections.

As described above, current law provides that dividends received by a U.S. Individual Holder from a qualified foreign corporation are subject to U.S. federal income tax at preferential rates through 2010. However, if we are classified as a PFIC for a taxable year in which we pay a dividend or the immediately preceding taxable year, we would not be considered a qualified foreign corporation, and a U.S. Individual Holder receiving such dividends would not be eligible for the reduced rate of U.S. federal income tax.

**Table of Contents*****Consequences of Possible Controlled Foreign Corporation Classification***

If more than 50.0% of either the total combined voting power of our outstanding stock entitled to vote or the total value of all of our outstanding stock were owned, directly, indirectly or constructively, by citizens or residents of the United States, U.S. partnerships or corporations, or U.S. estates or trusts (as defined for U.S. federal income tax purposes), each of which owned, directly, indirectly or constructively, 10.0% or more of the total combined voting power of our outstanding stock entitled to vote (each, a *United States Stockholder*), we generally would be treated as a controlled foreign corporation (or *CFC*). United States Stockholders of a CFC are treated as receiving current distributions of their shares of certain income of the CFC (not including, under current law, certain undistributed earnings attributable to shipping income) without regard to any actual distributions and are subject to other burdensome U.S. federal income tax and administrative requirements but generally are not also subject to the requirements generally applicable to owners of a PFIC. Although we currently are not a CFC, U.S. persons purchasing a substantial interest in us should consult their tax advisors about the potential implications of being treated as a United States Stockholder in the event we were to become a CFC in the future.

***Sale, Exchange or other Disposition of Common Stock***

Assuming we do not constitute a PFIC for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Subject to the discussion of extraordinary dividends above, such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition, and subject to preferential capital gain tax rates. Such capital gain or loss will generally be treated as U.S.-source gain or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations. A disposition or sale of shares by a stockholder who owns, or has owned, 10.0% or more off the total voting power of us may result in a different tax treatment under section 1248 of the Code. U.S. Holders purchasing a substantial interest in us should consult their tax advisors.

***United States Federal Income Taxation of Non-U.S. Holders***

A beneficial owner of our common stock (other than a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a *Non-U.S. Holder*.

***Distributions***

Distributions we pay to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, distributions we pay will be subject to U.S. federal income tax to the extent those distributions constitute income effectively connected with that Non-U.S. Holder's U.S. trade or business. However, distributions paid to a Non-U.S. Holder who is engaged in a trade or business may be exempt from taxation under an income tax treaty if the income represented thereby is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

***Disposition of Common Stock***

The U.S. federal income taxation of Non-U.S. Holders on any gain resulting from the disposition of our common stock generally is the same as described above regarding distributions. However, individual Non-U.S. Holders may be subject to tax on gain resulting from the disposition of our common stock if they are present in the United States for 183 days or more during the taxable year in which those shares are disposed and meet certain other requirements.

***Backup Withholding and Information Reporting***

In general, payments of distributions or the proceeds of a disposition of common stock to a non-corporate U.S. Holder will be subject to information reporting requirements. These payments to a non-corporate U.S. Holder also may be subject to backup withholding if the non-corporate U.S. Holder:

- fails to provide an accurate taxpayer identification number;

- is notified by the IRS that it has failed to report all interest or distributions required to be shown on its U.S. federal income tax returns; or

- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding on payments within the United States by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a stockholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and a refund of any amounts withheld in excess of such liability) by filing a return with the IRS.

**Non-United States Tax Consequences**

***Marshall Islands Tax Consequences.*** Because Teekay and our subsidiaries do not, and do not expect that we or they will, conduct business or operations in the Republic of The Marshall Islands, and because all documentation related to issuances of shares of our common stock was executed outside of the Republic of The Marshall Islands, under current Marshall Islands law, no taxes or withholdings will be imposed by the Republic of The Marshall Islands on distributions made to holders of shares of our common stock, so long as such persons do not reside in, maintain offices in, or engage in business in the Republic of The Marshall Islands. Furthermore, no stamp, capital gains or other taxes will be imposed by the Republic of The Marshall Islands on the purchase, ownership or disposition by such persons of shares of our common stock.

***Bermudian Tax Consequences.*** Under current Bermudian law, no taxes or withholdings will be imposed by Bermuda on distributions made in respect of the shares of our common stock, and no stamp, capital gains or other taxes will be imposed by Bermuda on the ownership or disposition of the shares of our common stock, as there are no personal income or corporation taxes, capital gains taxes or death duties in Bermuda.

**Table of Contents****Documents on Display**

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at 4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Those documents electronically filed via the Electronic Data Gathering, Analysis, and Retrieval (or *EDGAR*) system may also be obtained from the SEC's website at [www.sec.gov](http://www.sec.gov), free of charge, or from the Public Reference Section of the SEC at 100F Street, NE, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, bunker fuel prices and spot tanker market rates for vessels. We use foreign currency forward contracts, interest rate swaps, bunker fuel swap contracts and forward freight agreements to manage currency, interest rate, bunker fuel price and spot tanker market rate risks but do not use these financial instruments for trading or speculative purposes, except as noted below under Spot Tanker Market Rate Risk.

**Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. This market utilizes the U.S. Dollar as its functional currency. Consequently, a substantial majority of our revenues and most of our operating costs are in U.S. Dollars. We incur certain voyage expenses, vessel operating expenses, drydocking and overhead costs in foreign currencies, the most significant of which are the Japanese Yen, Singapore Dollar, Canadian Dollar, Australian Dollar, British Pound, Euro and Norwegian Kroner.

Our primary way of managing this exposure is to enter into foreign currency forward contracts. In most cases we hedge a substantial majority of our net foreign currency exposure for the following 12 months. We generally do not hedge our net foreign currency exposure beyond 3 years forward.

As at December 31, 2008, we had the following foreign currency forward contracts:

|                                                  | <b>Expected Maturity Date</b> |             |          | <b>Total</b> |
|--------------------------------------------------|-------------------------------|-------------|----------|--------------|
|                                                  | <b>2009</b>                   | <b>2010</b> |          |              |
|                                                  | Contract                      | Contract    | Contract | Fair value   |
|                                                  |                               |             |          | Asset        |
|                                                  | amount                        | amount      | amount   | (Liability)  |
| Norwegian Kroner:                                | \$ 202.1                      | \$ 139.5    | \$ 341.6 | \$ (52.2)    |
| Average contractual exchange rate <sup>(2)</sup> | 5.73                          | 6.21        | 5.93     |              |
| Euro:                                            | \$ 77.6                       | \$ 35.6     | \$ 113.2 | \$ (7.7)     |
| Average contractual exchange rate <sup>(2)</sup> | 0.66                          | 0.70        | 0.67     |              |
| Canadian Dollar:                                 | \$ 50.3                       | \$ 37.9     | \$ 88.2  | \$ (10.9)    |
| Average contractual exchange rate <sup>(2)</sup> | 1.04                          | 1.10        | 1.07     |              |
| British Pounds:                                  | \$ 68.8                       | \$ 24.2     | \$ 93.0  | \$ (19.5)    |
| Average contractual exchange rate <sup>(2)</sup> | 0.53                          | 0.58        | 0.54     |              |
| Australian Dollar:                               | \$ 3.0                        |             | \$ 3.0   | \$ (0.7)     |
| Average contractual exchange rate <sup>(2)</sup> | 1.12                          |             | 1.12     |              |

(1) Contract amounts and fair value amounts in millions of U.S. Dollars.

(2) Average contractual

exchange rate  
represents the  
contractual  
amount of  
foreign currency  
one U.S. Dollar  
will buy.

Although the majority of our transactions, assets and liabilities are denominated in U.S. Dollars, certain of our subsidiaries have foreign currency-denominated liabilities. There is a risk that currency fluctuations will have a negative effect on the value of our cash flows. We have not entered into any forward contracts to protect against the translation risk of our foreign currency-denominated liabilities. As at December 31, 2008, we had Euro-denominated term loans of 296.4 million Euros (\$414.1 million) included in long-term debt. We receive Euro-denominated revenue from certain of our time-charters. These Euro cash receipts have been sufficient to pay the principal and interest payments on our Euro-denominated term loans. Consequently, we have not entered into any foreign currency forward contracts with respect to our Euro-denominated term loans.

### **Interest Rate Risk**

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR or EURIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to repay our debt. We use interest rate swaps to reduce our exposure to market risk from changes in interest rates. Generally our approach is to use interest rate swaps as economic hedges of a substantial majority of floating-rate debt associated with our vessels that are operating on long-term fixed-rate contracts. We manage the rest of our debt based on our outlook for interest rates and other factors.

In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A or better by Standard & Poor's or A3 by Moody's at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The table below provides information about our financial instruments at December 31, 2008, that are sensitive to changes in interest rates, including our debt and capital lease obligations and interest rate swaps. For long-term debt and capital lease obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

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|                                   | Expected Maturity Date                            |       |       |       |       |            |         | Fair Value Asset / | Rate |
|-----------------------------------|---------------------------------------------------|-------|-------|-------|-------|------------|---------|--------------------|------|
|                                   | 2009                                              | 2010  | 2011  | 2012  | 2013  | Thereafter | Total   | (Liability)        | (1)  |
|                                   | (in millions of U.S. dollars, except percentages) |       |       |       |       |            |         |                    |      |
| Long-Term Debt:                   |                                                   |       |       |       |       |            |         |                    |      |
| Variable Rate (\$U.S.) (2)        | 178.8                                             | 377.7 | 842.0 | 197.7 | 217.3 | 2,011.7    | 3,825.2 | (3,507.9)          | 3.1% |
| Variable Rate (Euro) (3) (4)      | 11.8                                              | 12.7  | 221.9 | 7.1   | 7.6   | 153.1      | 414.2   | (359.1)            | 3.4% |
| Fixed-Rate Debt (\$U.S.)          | 46.7                                              | 47.9  | 242.0 | 47.9  | 47.9  | 280.7      | 713.1   | (670.2)            | 6.1% |
| Average Interest Rate             | 5.1%                                              | 5.1%  | 5.1%  | 8.0%  | 5.1%  | 5.1%       | 6.1%    |                    |      |
| Capital Lease Obligations (5) (6) |                                                   |       |       |       |       |            |         |                    |      |
| Fixed-Rate (\$U.S.) (7)           | 120.4                                             | 3.9   | 80.1  |       |       |            | 204.4   | (204.4)            | 7.4% |
| Average Interest Rate (8)         | 8.8%                                              | 5.4%  | 5.5%  |       |       |            | 7.4%    |                    |      |
| Interest Rate Swaps:              |                                                   |       |       |       |       |            |         |                    |      |
| Contract Amount (\$U.S.) (6) (9)  | 626.0                                             | 358.9 | 59.8  | 60.9  | 62.0  | 2,571.3    | 3,738.9 | (605.0)            | 5.2% |
| Average Fixed Pay Rate (2)        | 4.7%                                              | 4.9%  | 5.2%  | 5.2%  | 5.2%  | 5.3%       | 5.2%    |                    |      |
| Contract Amount (Euro) (4) (10)   | 11.8                                              | 12.7  | 221.9 | 7.1   | 7.6   | 153.0      | 414.1   | (3.4)              | 3.8% |
| Average Fixed Pay Rate (3)        | 3.8%                                              | 3.8%  | 3.8%  | 3.8%  | 3.8%  | 3.8%       | 3.8%    |                    |      |

(1) Rate refers to the weighted-average effective interest rate for our long-term debt and capital lease obligations, including the margin we pay on our floating-rate debt and the average

fixed pay rate for our interest rate swap agreements. The average interest rate for our capital lease obligations is the weighted-average interest rate implicit in our lease obligations at the inception of the leases. The average fixed pay rate for our interest rate swaps excludes the margin we pay on our floating-rate debt, which as of December 31, 2008 ranged from 0.3% to 0.8%.

- (2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.
- (3) Interest payments on Euro-denominated debt and interest rate swaps are based on EURIBOR.
- (4) Euro-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of December 31, 2008.
- (5) Excludes capital lease obligations (present value of minimum lease payments) of 102.7 million Euros (\$143.5 million) on

one of our existing LNG carriers with a weighted-average fixed interest rate of 5.8%. Under the terms of this fixed-rate lease obligation, we are required to have on deposit, subject to a weighted-average fixed interest rate of 5.0%, an amount of cash that, together with the interest earned thereon, will fully fund the amount owing under the capital lease obligation, including a vessel purchase obligation. As at December 31, 2008, this amount was 104.7 million Euros (\$146.2 million). Consequently, on a net basis we are not subject to interest rate risk from these obligations or deposits.

- (6) Under the terms of the capital leases for the three RasGas II LNG Carriers (see Item 18 Financial Statements: Note 9 Capital Leases and Restricted Cash), we are required to have on deposit, subject to a variable rate of interest, an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases.



The deposits, which as at December 31, 2008 totaled \$487.4 million, and the lease obligations, which as at December 31, 2008 totaled \$469.4 million, have been swapped for fixed-rate deposits and fixed-rate obligations.

Consequently, on a net basis we are not subject to interest rate risk from these obligations and deposits and, therefore, the lease obligations, cash deposits and related interest rate swaps have been excluded from the table above. As at December 31, 2008, the contract amount, fair value and fixed interest rates of these interest rate swaps related to the RasGas II LNG Carriers capital lease obligations and restricted cash deposits were \$478.8 million and \$477.1 million, (\$110.5) million and \$167.4 million, and 4.9% and 4.8%, respectively.

- (7) The amount of capital lease obligations represents the present value of minimum lease payments together

with our purchase obligation, as applicable.

- (8) The average interest rate is the weighted-average interest rate implicit in the capital lease obligations at the inception of the leases.
- (9) The average variable receive rate for our interest rate swaps is set monthly at the 1-month LIBOR or EURIBOR, quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.
- (10) Includes interest rate swaps of \$408.5 million, \$300.0 million and \$200.0 million that have inception dates of 2009, 2010 and 2011, respectively.

#### **Commodity Price Risk**

From time to time we use bunker fuel swap contracts as economic hedges to protect against changes in forecasted bunker fuel costs for certain vessels being time-chartered-out and for vessels servicing certain contracts of affreightment. As at December 31, 2008, we were committed to contracts totaling 13,500 metric tonnes with a weighted-average price of \$470.8 per tonne and a fair value liability of \$3.1 million. The fuel swap contracts expire in September 2009.

#### **Spot Tanker Market Rate Risk**

We use forward freight agreements (or *FFAs*) and synthetic time-charters (or *STCs*) as economic hedges to protect against changes in spot tanker market rates earned by some of our vessels in our spot tanker segment. *FFAs* involve contracts to move a theoretical volume of freight at fixed rates. *STCs* are a means of achieving the equivalent of a time-charter for a vessel that trades in the spot tanker market by taking the short position in an *FFA*. As at December 31, 2008, we had six *STCs*, which were equivalent to 3.5 Suezmax vessels. As at December 31, 2008, we were committed to *STCs*, with an aggregate notional principal amount (including both long and short positions) of \$27.5 million and a net fair value liability of \$0.6 million. The *STCs*, expire between June 2009 and September 2009.

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We use FFAs in non-hedge-related transactions to increase or decrease our exposure to spot tanker market rates, within strictly defined limits. Historically, we have used a number of different tools, including the sale/purchase of vessels and the in-charter/out-charter of vessels, to increase or decrease this exposure. We believe that we can capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing FFAs. As at December 31, 2008, we were not committed to any non-hedge-related FFAs.

### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **Item 15. Controls and Procedures**

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2008 to ensure that information required to be disclosed by Teekay in the reports we file or submit under the Securities and Exchange Act of 1934 is accumulated and communicated to Teekay's management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During 2008, management implemented a change in our internal control over financial reporting which resulted in a more rigorous process to determine the appropriate accounting treatment for complex accounting issues such as hedge accounting and non-routine, complex financial structures and arrangements, including the engagement of appropriately qualified external expertise.

Aside from the item discussed above, during 2008 there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Teekay have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal controls over financial reporting includes those policies and procedures that, 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of our management and our directors of the Company; and 3) provide reasonable assurance regarding prevention or timely

detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. However, based on the evaluation, our management believes that we maintained effective internal control over financial reporting as of December 31, 2008.

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Our independent auditors, Ernst & Young LLP, a registered public accounting firm has audited the accompanying consolidated financial statements and our internal control over financial reporting. Their attestation report on the effectiveness of our internal control over financial reporting can be found on page F-2 of this Annual Report.

**Item 16A. Audit Committee Financial Expert**

The Board has determined that director and Chair of the Audit Committee, Eileen A. Mercier, qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

**Item 16B. Code of Ethics**

We have adopted Standards for Business Conduct that includes a Code of Ethics for all employees and directors. This document is available under Other Information Corporate Governance in the Investor Center of our website ([www.teekay.com](http://www.teekay.com)). We also intend to disclose under Other Information Corporate Governance in the Investor Center of our web site any waivers to or amendments of our Standards of Business Conduct or Code of Ethics for the benefit of our directors and executive officers.

**Item 16C. Principal Accountant Fees and Services**

Our principal accountant for 2008 and 2007 was Ernst & Young LLP, Chartered Accountants. The following table shows the fees Teekay Corporation and our subsidiaries paid or accrued for audit and other services provided by Ernst & Young LLP for 2008 and 2007.

| <b>Fees</b>                       | <b>2008</b>         | <b>2007</b>         |
|-----------------------------------|---------------------|---------------------|
| Audit Fees <sup>(1)</sup>         | \$ 6,744,000        | \$ 3,156,900        |
| Audit-Related Fees <sup>(2)</sup> | 20,400              | 189,400             |
| Tax Fees <sup>(3)</sup>           | 235,400             | 279,100             |
| All Other Fees <sup>(4)</sup>     | 2,500               | 1,500               |
| <b>Total</b>                      | <b>\$ 7,002,300</b> | <b>\$ 3,626,900</b> |

- (1) Audit fees represent fees for professional services provided in connection with the audit of our consolidated financial statements, review of our quarterly consolidated financial statements and audit services provided in connection with other statutory or regulatory filings for

Teekay or our subsidiaries including professional services in connection with the review of our regulatory filings for public offerings of our subsidiaries.

Included in 2008 audit fees are fees of \$1,854,000 related to the restatements of the financial statements of Teekay, Teekay LNG and Teekay Offshore for the years 2005 to 2007. Audit fees for 2008 and 2007 include approximately \$1,375,900 and \$611,800, respectively, of fees paid to Ernst & Young LLP by Teekay LNG that were approved by the Audit Committee of the Board of Directors of the general partner of Teekay LNG. Audit fees for 2008 and 2007 include approximately \$1,356,000 and \$429,300, respectively, of fees paid to

Ernst & Young  
LLP by our  
subsidiary  
Teekay  
Offshore that  
were approved  
by the Audit  
Committee of  
the Board of  
Directors of the  
general partner  
of Teekay  
Offshore. Audit  
fees for 2008  
and 2007  
include  
approximately  
\$489,900 and  
\$303,800,  
respectively, of  
fees paid to  
Ernst & Young  
LLP by our  
subsidiary  
Teekay Tankers  
that were  
approved by the  
Audit  
Committee of  
the Board of  
Directors of  
Teekay Tankers.

(2) Audit-related  
fees consisted  
primarily of  
accounting  
consultations,  
employee  
benefit plan  
audits, services  
related to  
business  
acquisitions,  
divestitures and  
other attestation  
services.

(3) For 2008 and  
2007,  
respectively, tax

fees principally  
included  
international tax  
planning fees,  
corporate tax  
compliance fees  
and personal  
and expatriate  
tax services  
fees.

- (4) All other fees  
principally  
include  
subscription  
fees to an  
internet  
database of  
accounting  
information.

The Audit Committee has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee separately pre-approved all engagements and fees paid to our principal accountant in 2008.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In October 2008, the Company announced that its Board of Directors has authorized the repurchase of up to \$200 million of shares of our common stock. No shares of our common stock have been repurchased related to this program for the period covered by this report.



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During 2005 and June 2006, we announced that our Board of Directors had authorized the repurchase of up to \$655 million and \$150 million respectively, of shares of our Common Stock in the open market. During the period from April 2005 to December 2007, we repurchased 18.4 million shares with a total value of \$784.5 million. The following table shows the monthly stock repurchase activity related to these programs for the period covered by this report:

| <b>Month of Repurchase</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Paid<br/>per Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Program</b> | <b>Maximum<br/>Dollar<br/>Value of<br/>Shares that<br/>May Yet<br/>Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Program</b> |
|----------------------------|-----------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| March 2008                 | 499,200                                             | \$ 41.09                                    | 499,200                                                                                                            | None                                                                                                                           |
|                            | 499,200                                             | \$ 41.09                                    | 499,200                                                                                                            |                                                                                                                                |

**PART III****Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

The following consolidated financial statements and schedule, together with the related reports of Ernst & Young LLP, Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report:

|                                                                   | <b>Page</b> |
|-------------------------------------------------------------------|-------------|
| <u>Reports of Independent Registered Public Accounting Firm</u>   | F-1 and F-2 |
| <b>Consolidated Financial Statements</b>                          |             |
| <u>Consolidated Statements of Income (Loss)</u>                   | F-3         |
| <u>Consolidated Balance Sheets</u>                                | F-4         |
| <u>Consolidated Statements of Cash Flows</u>                      | F-5         |
| <u>Consolidated Statements of Changes in Stockholders' Equity</u> | F-6         |
| <u>Notes to the Consolidated Financial Statements</u>             | F-7         |

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Consolidated Financial Statements and therefore have been omitted.

**Item 19. Exhibits**

The following exhibits are filed as part of this Annual Report:

- 1.1 Amended and Restated Articles of Incorporation of Teekay Corporation. (16)

|      |                                                                                                                                                                                                                                                  |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.2  | Articles of Amendment of Articles of Incorporation of Teekay Corporation. (16)                                                                                                                                                                   |
| 1.3  | Amended and Restated Bylaws of Teekay Corporation. (1)                                                                                                                                                                                           |
| 2.1  | Registration Rights Agreement among Teekay Corporation, Tradewinds Trust Co. Ltd., as Trustee for the Cirrus Trust, and Worldwide Trust Services Ltd., as Trustee for the JTK Trust. (2)                                                         |
| 2.2  | Specimen of Teekay Corporation Common Stock Certificate. (2)                                                                                                                                                                                     |
| 2.3  | Indenture dated June 22, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida (formerly U.S. Trust Company of Texas, N.A.) for U.S. \$250,000,000 8.875% Senior Notes due 2011. (3)                                   |
| 2.4  | First Supplemental Indenture dated as of December 6, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida, N.A. for U.S. \$100,000,000 8.875% Senior Notes due 2011. (4)                                              |
| 2.5  | Exchange and Registration Rights Agreement dated June 22, 2001 among Teekay Corporation and Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc., Deutsche Banc Alex. Brown Inc. and Scotia Capital (USA) Inc. (3) |
| 2.6  | Exchange and Registration Rights Agreement dated December 6, 2001 between Teekay Corporation and Goldman, Sachs & Co. (4)                                                                                                                        |
| 2.7  | Specimen of Teekay Corporation s 8.875% Senior Notes due 2011. (3)                                                                                                                                                                               |
| 4.1  | 1995 Stock Option Plan. (2)                                                                                                                                                                                                                      |
| 4.2  | Amendment to 1995 Stock Option Plan. (5)                                                                                                                                                                                                         |
| 4.3  | Amended 1995 Stock Option Plan. (6)                                                                                                                                                                                                              |
| 4.4  | 2003 Equity Incentive Plan. (7)                                                                                                                                                                                                                  |
| 4.5  | Annual Executive Bonus Plan. (8)                                                                                                                                                                                                                 |
| 4.6  | Vision Incentive Plan. (9)                                                                                                                                                                                                                       |
| 4.7  | Form of Indemnification Agreement between Teekay and each of its officers and directors. (2)                                                                                                                                                     |
| 4.8  | Rights Agreement, dated as of September 8, 2000 between Teekay Corporation and The Bank of New York, as Rights Agent. (10)                                                                                                                       |
| 4.9  | Agreement dated June 26, 2003 for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks. (11)                                                              |
| 4.10 | Agreement dated September 1, 2004 for a U.S. \$500,000,000 Credit Facility Agreement to be made available to Teekay Nordic Holdings Incorporated by Nordea Bank Finland PLC. (8)                                                                 |
| 4.11 | Supplemental Agreement dated September 30, 2004 to Agreement dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks. (8)           |

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- 4.12 Agreement dated May 26, 2005 for a U.S. \$550,000,000 Credit Facility Agreement to be made available to Avalon Spirit LLC et al by Nordea Bank Finland PLC and others. (9)
- 4.13 Agreement dated October 2, 2006, for a U.S. \$940,000,000 Secured Reducing Revolving Loan Facility among Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks. (12)
- 4.14 Agreement dated August 23, 2006, for a U.S. \$330,000,000 Secured Reducing Revolving Loan Facility among Teekay LNG Partners L.P., ING Bank N.V. and various other banks. (12)
- 4.15 Agreement, dated November 28, 2007 for a U.S. \$845,000,000 Secured Reducing Revolving Loan Facility among Teekay Corporation, Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks. (13)
- 4.16 Agreement dated May 16, 2007 for a U.S. \$700,000,000 Credit Facility Agreement to be made available to Teekay Acquisition Holdings LLC et al by HSH NordBank AG and others. (14)
- 4.17 Amended and Restated Omnibus Agreement (15)
- 8.1 List of Significant Subsidiaries.
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Executive Officer.
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Financial Officer.
- 13.1 Teekay Corporation Certification of Bjorn Moller, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Teekay Corporation Certification of Vincent Lok, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 23.1 Consent of Ernst & Young LLP, as independent registered public accounting firm.

(1) Previously filed as an exhibit to the Company's Annual Report on Form 20-F (File No.1-12874), filed with the SEC on March 30, 2000, and hereby incorporated by reference to such Annual Report.

(2) Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Registration No. 33-7573-4), filed with the SEC on July 14, 1995, and hereby incorporated by reference to such

Registration  
Statement.

- (3) Previously filed as an exhibit to the Company's Registration Statement on Form F-4 (Registration No. 333-64928), filed with the SEC on July 11, 2001, and hereby incorporated by reference to such Registration Statement.
- (4) Previously filed as an exhibit to the Company's Registration Statement on Form F-4 (Registration No. 333-76922), filed with the SEC on January 17, 2002, and hereby incorporated by reference to such Registration Statement.
- (5) Previously filed as an exhibit to the Company's Form 6-K (File No. 1-12874), filed with the SEC on May 2, 2000, and hereby incorporated by reference to such Report.
- (6) Previously filed as an exhibit to the Company's

Annual Report  
on Form 20-F  
(File  
No.1-12874),  
filed with the  
SEC on April 2,  
2001, and hereby  
incorporated by  
reference to such  
Annual Report.

(7) Previously filed  
as an exhibit to  
the Company's  
Registration  
Statement on  
Form S-8 (File  
No.  
333-119564),  
filed with the  
SEC on  
October 6, 2004,  
and hereby  
incorporated by  
reference to such  
Registration  
Statement.

(8) Previously filed  
as an exhibit to  
the Company's  
Report on Form  
20-F (File  
No. 1-12874),  
filed with the  
SEC on April 8,  
2005, and hereby  
incorporated by  
reference to such  
Report.

(9) Previously filed  
as an exhibit to  
the Company's  
Report on Form  
20-F (File  
No. 1-12874),  
filed with the  
SEC on April 10,  
2006, and hereby  
incorporated by

reference to such  
Report.

- (10) Previously filed  
as an exhibit to  
the Company's  
Form 8-A (File  
No. 1-12874),  
filed with the  
SEC on  
September 11,  
2000, and hereby  
incorporated by  
reference to such  
Annual Report.
- (11) Previously filed  
as an exhibit to  
the Company's  
Report on Form  
6-K (File  
No. 1-12874),  
filed with the  
SEC on  
August 14, 2003,  
and hereby  
incorporated by  
reference to such  
Report.
- (12) Previously filed  
as an exhibit to  
the Company's  
Report on Form  
6-K (File  
No. 1-12874),  
filed with the  
SEC on  
December 21,  
2006, and hereby  
incorporated by  
reference to such  
Report.
- (13) Previously filed  
as an exhibit to  
the Company's  
Report on Form  
20-F (File  
No. 1-12874),  
filed with the

SEC on April 11, 2008, and hereby incorporated by reference to such Report.

(14) Previously filed as an exhibit to the Company's Schedule TO T/A, filed with the SEC on May 18, 2007, and hereby incorporated by reference to such schedule.

(15) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 19, 2007, and hereby incorporated by reference to such Report.

(16) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 7, 2009, and hereby incorporated by reference to such Report.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TEEKAY CORPORATION

By: /s/ Vincent Lok  
Vincent Lok  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)

Dated: June 24, 2009



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

**TEEKAY CORPORATION**

We have audited the accompanying consolidated balance sheets of **Teekay Corporation and subsidiaries** as of December 31, 2008 and 2007, and the related consolidated statements of income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Corporation and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

As discussed in Note 21 to the consolidated financial statements, on January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Teekay Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 24, 2009 expressed an unqualified opinion thereon.

Vancouver, Canada,  
June 24, 2009

/s/ ERNST & YOUNG LLP  
Chartered Accountants

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

**TEEKAY CORPORATION**

We have audited Teekay Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (or the COSO criteria). Teekay Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Teekay Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Teekay Corporation and our report dated June 24, 2009, expressed an unqualified opinion thereon.

Vancouver, Canada,  
June 24, 2009

/s/ ERNST & YOUNG LLP  
Chartered Accountants

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
(in thousands of U.S. dollars, except share amounts)

|                                                                                        | Year Ended<br>December 31,<br>2008<br>\$ | Year Ended<br>December 31,<br>2007<br>\$ | Year Ended<br>December 31,<br>2006<br>\$ |
|----------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| <b>REVENUES</b> <i>(note 15)</i>                                                       | 3,193,655                                | 2,395,507                                | 2,013,737                                |
| <b>OPERATING EXPENSES</b>                                                              |                                          |                                          |                                          |
| Voyage expenses                                                                        | 758,388                                  | 527,308                                  | 522,957                                  |
| Vessel operating expenses <i>(note 15)</i>                                             | 654,319                                  | 447,146                                  | 248,039                                  |
| Time-charter hire expense <i>(note 15)</i>                                             | 612,123                                  | 466,481                                  | 402,168                                  |
| Depreciation and amortization                                                          | 418,802                                  | 329,113                                  | 223,965                                  |
| General and administrative <i>(note 15)</i>                                            | 244,522                                  | 231,865                                  | 181,500                                  |
| Gain on sale of vessels and equipment net of write-downs<br><i>(notes 18a and 18b)</i> | (60,015)                                 | (16,531)                                 | (1,341)                                  |
| Goodwill impairment charge <i>(note 6)</i>                                             | 334,165                                  |                                          |                                          |
| Restructuring charge <i>(note 22)</i>                                                  | 15,629                                   |                                          | 8,929                                    |
| <b>Total operating expenses</b>                                                        | 2,977,933                                | 1,985,382                                | 1,586,217                                |
| <b>Income from vessel operations</b>                                                   | 215,722                                  | 410,125                                  | 427,520                                  |
| <b>OTHER ITEMS</b>                                                                     |                                          |                                          |                                          |
| Interest expense <i>(note 15)</i>                                                      | (994,966)                                | (422,433)                                | (100,089)                                |
| Interest income <i>(note 15)</i>                                                       | 273,647                                  | 110,201                                  | 31,714                                   |
| Foreign exchange gain (loss) <i>(notes 8 and 15)</i>                                   | 32,348                                   | (39,912)                                 | (50,416)                                 |
| Equity (loss) income from joint ventures <i>(note 16b)</i>                             | (36,085)                                 | (12,404)                                 | 6,099                                    |
| Other (loss) income net <i>(note 14)</i>                                               | (6,736)                                  | 23,677                                   | 3,566                                    |
| <b>Total other items</b>                                                               | (731,792)                                | (340,871)                                | (109,126)                                |
| (Loss) income before non-controlling interest and income tax<br>(expense) recovery     | (516,070)                                | 69,254                                   | 318,394                                  |
| Income tax recovery (expense) <i>(note 21)</i>                                         | 56,176                                   | 3,192                                    | (8,811)                                  |
| (Loss) income before non-controlling interest                                          | (459,894)                                | 72,446                                   | 309,583                                  |
| Non-controlling interest expense                                                       | (9,561)                                  | (8,903)                                  | (6,759)                                  |
| <b>Net (loss) income</b>                                                               | (469,455)                                | 63,543                                   | 302,824                                  |

**Per common share amounts**

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|                                                                  |            |            |            |
|------------------------------------------------------------------|------------|------------|------------|
| Basic net (loss) earnings ( <i>note 19</i> )                     | (6.48)     | 0.87       | 4.14       |
| Diluted net (loss) earnings ( <i>note 19</i> )                   | (6.48)     | 0.85       | 4.03       |
| Cash dividends declared                                          | 1.1413     | 0.9875     | 0.8600     |
| <b>Weighted average number of common shares (<i>note 19</i>)</b> |            |            |            |
| Basic                                                            | 72,493,429 | 73,382,197 | 73,180,193 |
| Diluted                                                          | 72,493,429 | 74,735,356 | 75,128,724 |

*The accompanying notes are an integral part of the consolidated financial statements.*

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands of U.S. dollars)

|                                                                                                                      | As at<br>December 31,<br>2008<br>\$ | As at<br>December 31,<br>2007<br>\$ |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>ASSETS</b>                                                                                                        |                                     |                                     |
| <b>Current</b>                                                                                                       |                                     |                                     |
| Cash and cash equivalents ( <i>note 8</i> )                                                                          | 814,165                             | 442,673                             |
| Restricted cash ( <i>note 10</i> )                                                                                   | 35,841                              | 33,479                              |
| Accounts receivable, including non-trade of \$46,422 (2007 \$35,410)                                                 | 300,462                             | 262,420                             |
| Vessels held for sale ( <i>note 18a</i> )                                                                            | 69,649                              | 79,689                              |
| Net investment in direct financing leases ( <i>note 9</i> )                                                          | 22,941                              | 22,268                              |
| Prepaid expenses                                                                                                     | 117,651                             | 126,761                             |
| Other assets                                                                                                         | 33,794                              | 57,609                              |
| <b>Total current assets</b>                                                                                          | 1,394,503                           | 1,024,899                           |
| <br>Restricted cash – long-term ( <i>note 10</i> )                                                                   | <br>614,715                         | <br>652,717                         |
| <b>Vessels and equipment (<i>note 8</i>)</b>                                                                         |                                     |                                     |
| At cost, less accumulated depreciation of \$1,351,786 (2007 \$1,061,619)                                             | 5,784,597                           | 5,295,751                           |
| Vessels under capital leases, at cost, less accumulated amortization of \$106,975 (2007 \$74,442) ( <i>note 10</i> ) | 928,795                             | 934,058                             |
| Advances on newbuilding contracts ( <i>note 16</i> )                                                                 | 553,702                             | 617,066                             |
| <b>Total vessels and equipment</b>                                                                                   | 7,267,094                           | 6,846,875                           |
| <br>Net investment in direct financing leases – non-current ( <i>note 9</i> )                                        | <br>56,567                          | <br>78,908                          |
| Loans to joint ventures, bearing interest between 4.4% to 8.0% (2007 6.4% to 8.0%)                                   | 28,019                              | 729,429                             |
| Derivative instruments ( <i>note 15</i> )                                                                            | 154,248                             | 39,381                              |
| Investment in joint ventures ( <i>note 16</i> )                                                                      | 103,956                             | 135,515                             |
| Other non-current assets                                                                                             | 127,940                             | 177,775                             |
| Intangible assets – net ( <i>note 6</i> )                                                                            | 264,768                             | 298,452                             |
| Goodwill ( <i>note 6</i> )                                                                                           | 203,191                             | 434,590                             |
| <b>Total assets</b>                                                                                                  | 10,215,001                          | 10,418,541                          |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                      |                                     |                                     |
| <b>Current</b>                                                                                                       |                                     |                                     |
| Accounts payable                                                                                                     | 59,973                              | 89,691                              |
| Accrued liabilities ( <i>note 7</i> )                                                                                | 315,987                             | 260,717                             |

|                                                                                                                                                                                                                    |                   |                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Current portion of derivative liabilities ( <i>note 15</i> )                                                                                                                                                       | 166,725           | 17,870            |
| Current portion of long-term debt ( <i>note 8</i> )                                                                                                                                                                | 245,043           | 331,594           |
| Current obligation under capital leases ( <i>note 10</i> )                                                                                                                                                         | 147,616           | 150,791           |
| Current portion of in-process revenue contracts ( <i>note 6</i> )                                                                                                                                                  | 74,777            | 82,704            |
| Loan from joint venture partners                                                                                                                                                                                   | 21,019            |                   |
| <b>Total current liabilities</b>                                                                                                                                                                                   | <b>1,031,140</b>  | <b>933,367</b>    |
| Long-term debt ( <i>note 8</i> )                                                                                                                                                                                   | 4,707,749         | 4,931,990         |
| Long-term obligation under capital leases ( <i>note 10</i> )                                                                                                                                                       | 669,725           | 706,489           |
| Derivative instruments ( <i>note 15</i> )                                                                                                                                                                          | 676,540           | 164,769           |
| Deferred income taxes ( <i>note 21</i> )                                                                                                                                                                           | 6,182             | 74,975            |
| Asset retirement obligation ( <i>note 1</i> )                                                                                                                                                                      | 18,977            | 24,549            |
| In-process revenue contracts ( <i>note 6</i> )                                                                                                                                                                     | 243,088           | 205,429           |
| Other long-term liabilities                                                                                                                                                                                        | 209,195           | 176,680           |
| <b>Total liabilities</b>                                                                                                                                                                                           | <b>7,562,596</b>  | <b>7,218,248</b>  |
| Commitments and contingencies ( <i>notes 9, 10, 15 and 16</i> )                                                                                                                                                    |                   |                   |
| <b>Non-controlling interest</b>                                                                                                                                                                                    | <b>583,938</b>    | <b>544,339</b>    |
| <b>Stockholders' equity</b>                                                                                                                                                                                        |                   |                   |
| Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 72,512,291 shares outstanding (2007 - 72,772,529); 73,011,488 shares issued (2007 - 95,327,329)) ( <i>note 12</i> ) | 642,911           | 628,786           |
| Retained earnings                                                                                                                                                                                                  | 1,507,617         | 2,022,601         |
| Accumulated other comprehensive (loss) income ( <i>note 1</i> )                                                                                                                                                    | (82,061)          | 4,567             |
| <b>Total stockholders' equity</b>                                                                                                                                                                                  | <b>2,068,467</b>  | <b>2,655,954</b>  |
| <b>Total liabilities and stockholders' equity</b>                                                                                                                                                                  | <b>10,215,001</b> | <b>10,418,541</b> |

*The accompanying notes are an integral part of the consolidated financial statements.*

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of U.S. dollars)

|                                                                                                                           | Year Ended<br>December 31,<br>2008<br>\$ | Year Ended<br>December 31,<br>2007<br>\$ | Year Ended<br>December 31,<br>2006<br>\$ |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Cash and cash equivalents provided by (used for)                                                                          |                                          |                                          |                                          |
| <b>OPERATING ACTIVITIES</b>                                                                                               |                                          |                                          |                                          |
| Net (loss) income                                                                                                         | (469,455)                                | 63,543                                   | 302,824                                  |
| Non-cash items:                                                                                                           |                                          |                                          |                                          |
| Depreciation and amortization                                                                                             | 418,802                                  | 329,113                                  | 223,965                                  |
| Amortization of in-process revenue contracts                                                                              | (74,425)                                 | (70,979)                                 | (22,404)                                 |
| Gain on sale of marketable securities                                                                                     | (4,576)                                  | (9,577)                                  | (1,422)                                  |
| Gain on sale of vessels and other                                                                                         | (100,392)                                | (16,531)                                 | (9,041)                                  |
| Write-down of marketable securities                                                                                       | 20,157                                   |                                          |                                          |
| Write-down for impairment of goodwill                                                                                     | 334,165                                  |                                          |                                          |
| Write-down of intangible assets                                                                                           | 9,748                                    |                                          |                                          |
| Write-down of vessels and equipment                                                                                       | 40,377                                   |                                          | 7,700                                    |
| Loss on repurchase of bonds                                                                                               | 1,310                                    | 947                                      | 375                                      |
| Equity loss (net of dividends received: December 31, 2008<br>\$1,690; December 31, 2007 \$661; December 31, 2006 \$6,585) | 30,352                                   | 11,419                                   | 486                                      |
| Income tax (recovery) expense                                                                                             | (56,176)                                 | (3,192)                                  | 8,811                                    |
| Employee stock option compensation                                                                                        | 14,117                                   | 9,676                                    | 9,297                                    |
| Foreign exchange (gain) loss and other net                                                                                | (40,319)                                 | 20,229                                   | 63,131                                   |
| Unrealized (gains) losses on derivative instruments                                                                       | 530,283                                  | 99,055                                   | (57,246)                                 |
| Change in non-cash working capital items related to operating<br>activities ( <i>note 17a</i> )                           | (28,816)                                 | (43,871)                                 | 50,360                                   |
| Expenditures for drydocking                                                                                               | (101,511)                                | (85,403)                                 | (31,120)                                 |
| Distribution from subsidiaries to minority owners                                                                         | (91,794)                                 | (49,411)                                 | (24,931)                                 |
| <b>Net operating cash flow</b>                                                                                            | <b>431,847</b>                           | <b>255,018</b>                           | <b>520,785</b>                           |
| <b>FINANCING ACTIVITIES</b>                                                                                               |                                          |                                          |                                          |
| Proceeds from issuance of long-term debt                                                                                  | 2,208,715                                | 4,164,308                                | 2,220,336                                |
| Debt issuance costs                                                                                                       | (8,425)                                  | (14,135)                                 | (19,424)                                 |
| Repayments of long-term debt                                                                                              | (1,634,879)                              | (2,178,464)                              | (1,300,172)                              |
| Repayments of capital lease obligations                                                                                   | (33,176)                                 | (30,999)                                 | (153,395)                                |
| Proceeds from loans from joint venture partner                                                                            | 26,338                                   | 44,185                                   | 4,280                                    |
| Repayment of loans from joint venture partner                                                                             | (4,104)                                  | (68,968)                                 |                                          |
| Decrease (increase) in restricted cash                                                                                    | 23,955                                   | 24,322                                   | (328,035)                                |
| Net proceeds from sale of Teekay Offshore Partners L.P. units<br>( <i>note 5</i> )                                        | 141,484                                  |                                          | 156,711                                  |
| Net proceeds from sale of Teekay LNG Partners L.P. units ( <i>note</i><br><i>5</i> )                                      | 148,345                                  | 84,185                                   |                                          |

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|                                                                                 |                  |                    |                  |
|---------------------------------------------------------------------------------|------------------|--------------------|------------------|
| Net proceeds from sale of Teekay Tankers Ltd. shares ( <i>note 5</i> )          |                  | 208,186            |                  |
| Issuance of Common Stock upon exercise of stock options                         | 4,224            | 34,508             | 15,325           |
| Repurchase of Common Stock ( <i>note 12</i> )                                   | (20,512)         | (80,430)           | (233,305)        |
| Cash dividends paid                                                             | (82,877)         | (72,499)           | (63,065)         |
| Other financing activities                                                      | (1,210)          |                    |                  |
| <b>Net financing cash flow</b>                                                  | <b>767,878</b>   | <b>2,114,199</b>   | <b>299,256</b>   |
| <b>INVESTING ACTIVITIES</b>                                                     |                  |                    |                  |
| Expenditures for vessels and equipment                                          | (716,765)        | (910,304)          | (442,470)        |
| Proceeds from sale of vessels and equipment                                     | 331,611          | 214,797            | 326,901          |
| Purchases of marketable securities                                              | (542)            | (59,165)           | (549)            |
| Proceeds from sale of marketable securities                                     | 11,058           | 57,093             | 8,898            |
| Proceeds from sale of interest in Swift Product Tanker Pool ( <i>note 18a</i> ) | 44,377           |                    |                  |
| Purchase of OMI Corporation, net of cash acquired of \$577 ( <i>note 4</i> )    |                  | (1,108,216)        |                  |
| Purchase of Petrojarl ASA ( <i>note 3</i> )                                     | (304,949)        | (1,210)            | (464,823)        |
| Investment in joint ventures                                                    | (1,204)          | (16,975)           | (9,868)          |
| Loans to joint ventures                                                         | (260,424)        | (479,242)          | (152,020)        |
| Collections of loans from joint ventures                                        | 30,484           |                    |                  |
| Investment in direct financing lease assets                                     | (535)            | (13,947)           | (13,420)         |
| Direct financing lease payments received                                        | 22,203           | 21,151             | 19,323           |
| Other investing activities                                                      | 16,453           | 25,560             | 14,917           |
| <b>Net investing cash flow</b>                                                  | <b>(828,233)</b> | <b>(2,270,458)</b> | <b>(713,111)</b> |
| <b>Increase in cash and cash equivalents</b>                                    | <b>371,492</b>   | <b>98,759</b>      | <b>106,930</b>   |
| Cash and cash equivalents, beginning of the year                                | 442,673          | 343,914            | 236,984          |
| <b>Cash and cash equivalents, end of the year</b>                               | <b>814,165</b>   | <b>442,673</b>     | <b>343,914</b>   |

Supplemental cash flow information (*note 17b*)

*The accompanying notes are an integral part of the consolidated financial statements.*



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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands of U.S. dollars)

|                                                                                    | Thousands<br>of<br>Common<br>Shares<br># | Common<br>Stock and<br>Additional<br>Paid-in<br>Capital<br>\$ | Retained<br>Earnings<br>\$ | Accumulated Other<br>Comprehensive<br>Income<br>(Loss)<br>\$ | Total<br>Stockholders'<br>Equity<br>\$ |
|------------------------------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------|----------------------------|--------------------------------------------------------------|----------------------------------------|
| <b>Balance as at December 31, 2005</b>                                             | 71,376                                   | 471,784                                                       | 1,768,382                  | (1,348)                                                      | 2,238,818                              |
| Net income                                                                         |                                          |                                                               | 302,824                    |                                                              | 302,824                                |
| Other comprehensive income:                                                        |                                          |                                                               |                            |                                                              |                                        |
| Unrealized gain on marketable securities                                           |                                          |                                                               |                            | 8,370                                                        | 8,370                                  |
| Reclassification adjustment for gain on marketable securities                      |                                          |                                                               |                            | (1,422)                                                      | (1,422)                                |
| Comprehensive income                                                               |                                          |                                                               |                            |                                                              | 309,772                                |
| Dividends declared                                                                 |                                          |                                                               | (63,071)                   |                                                              | (63,071)                               |
| Reinvested dividends                                                               | 1                                        | 6                                                             |                            |                                                              | 6                                      |
| Exercise of stock options                                                          | 745                                      | 15,325                                                        |                            |                                                              | 15,325                                 |
| Issuance of Common Stock ( <i>note 12</i> )                                        | 13                                       | 429                                                           |                            |                                                              | 429                                    |
| Repurchase of Common Stock ( <i>note 12</i> )                                      | (5,837)                                  | (42,132)                                                      | (191,173)                  |                                                              | (233,305)                              |
| Settlement of the Premium Equity Participating Security Units                      | 6,534                                    | 142,003                                                       |                            |                                                              | 142,003                                |
| Employee stock option compensation ( <i>note 12</i> )                              |                                          | 9,297                                                         |                            |                                                              | 9,297                                  |
| Gain on public offering of Teekay Offshore ( <i>note 5</i> )                       |                                          |                                                               | 99,873                     |                                                              | 99,873                                 |
| <b>Balance as at December 31, 2006</b>                                             | 72,832                                   | 596,712                                                       | 1,916,835                  | 5,600                                                        | 2,519,147                              |
| Net income                                                                         |                                          |                                                               | 63,543                     |                                                              | 63,543                                 |
| Other comprehensive income:                                                        |                                          |                                                               |                            |                                                              |                                        |
| Unrealized gain on marketable securities                                           |                                          |                                                               |                            | 19,612                                                       | 19,612                                 |
| Pension adjustments                                                                |                                          |                                                               |                            | (6,278)                                                      | (6,278)                                |
| Unrealized net gain on qualifying cash flow hedging instruments ( <i>note 15</i> ) |                                          |                                                               |                            | 6,231<br>(17,887)                                            | 6,231<br>(17,887)                      |

|                                                                              |               |                |                  |              |                  |
|------------------------------------------------------------------------------|---------------|----------------|------------------|--------------|------------------|
| Reclassification adjustment for gain on marketable securities                |               |                |                  |              |                  |
| Realized net gain on qualifying cash flow hedging instruments (note 15)      |               |                |                  | (2,711)      | (2,711)          |
| Comprehensive income                                                         |               |                |                  |              | 62,510           |
| Dividends declared                                                           |               |                | (72,508)         |              | (72,508)         |
| Reinvested dividends                                                         | 1             | 9              |                  |              | 9                |
| Change in accounting policy (note 1)                                         |               |                | (1,011)          |              | (1,011)          |
| Exercise of stock options                                                    | 1,435         | 34,508         |                  |              | 34,508           |
| Issuance of Common Stock (note 12)                                           | 15            | 589            |                  |              | 589              |
| Repurchase of Common Stock (note 12)                                         | (1,511)       | (12,708)       | (67,722)         |              | (80,430)         |
| Employee stock option compensation (note 12)                                 |               | 9,676          |                  |              | 9,676            |
| Gain on public offerings of Teekay LNG and Teekay Tankers and other (note 5) |               |                | 183,464          |              | 183,464          |
| <b>Balance as at December 31, 2007</b>                                       | <b>72,772</b> | <b>628,786</b> | <b>2,022,601</b> | <b>4,567</b> | <b>2,655,954</b> |
| Net loss                                                                     |               |                | (469,455)        |              | (469,455)        |
| Other comprehensive income (loss):                                           |               |                |                  |              |                  |
| Unrealized loss on marketable securities                                     |               |                |                  | (21,449)     | (21,449)         |
| Pension adjustments                                                          |               |                |                  | (17,060)     | (17,060)         |
| Unrealized net loss on qualifying cash flow hedging instruments (note 15)    |               |                |                  | (86,333)     | (86,333)         |
| Reclassification adjustment for loss on marketable securities                |               |                |                  | 14,123       | 14,123           |
| Realized net loss on qualifying cash flow hedging instruments (note 15)      |               |                |                  | 24,091       | 24,091           |
| Comprehensive loss                                                           |               |                |                  |              | (556,083)        |
| Dividends declared                                                           |               |                | (82,889)         |              | (82,889)         |
| Reinvested dividends                                                         | 1             | 12             |                  |              | 12               |
| Exercise of stock options                                                    | 179           | 4,224          |                  |              | 4,224            |
| Issuance of Common Stock (note 12)                                           | 59            | 1,252          |                  |              | 1,252            |
| Repurchase of Common Stock (note 12)                                         | (499)         | (4,228)        | (16,284)         |              | (20,512)         |
|                                                                              |               | 12,865         |                  |              | 12,865           |

|                                                                                             |        |         |           |          |           |
|---------------------------------------------------------------------------------------------|--------|---------|-----------|----------|-----------|
| Employee stock option<br>compensation ( <i>note 12</i> )                                    |        |         |           |          |           |
| Dilution gain on public offerings of<br>Teekay Offshore and Teekay LNG<br>( <i>note 5</i> ) |        |         | 53,644    |          | 53,644    |
| <b>Balance as at December 31, 2008</b>                                                      | 72,512 | 642,911 | 1,507,617 | (82,061) | 2,068,467 |

*The accompanying notes are an integral part of the consolidated financial statements.*

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**TEEKAY CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

**1. Summary of Significant Accounting Policies**

**Basis of presentation**

The consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles. They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of The Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Company*). Significant intercompany balances and transactions have been eliminated upon consolidation. Additionally, the Company consolidates variable interest entities (or *VIEs*) for which it is deemed to be the primary beneficiary.

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Given the current credit markets, it is possible that the amounts recorded as derivative assets and liabilities could vary by material amounts.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

**Reporting currency**

The consolidated financial statements are stated in U.S. Dollars. The functional currency of the Company is U.S. Dollars because the Company operates in international shipping markets, which typically utilize the U.S. Dollar as the functional currency. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income.

**Operating revenues and expenses**

The Company recognizes revenues from time-charters and bareboat charters daily over the term of the charter as the applicable vessel operates under the charter. The Company does not recognize revenue during days that the vessel is off-hire. When the time-charter contains a profit-sharing agreement, the Company recognizes the profit-sharing or contingent revenue only after meeting the profit sharing threshold. All revenues from voyage charters are recognized on a percentage of completion method. The Company uses a discharge-to-discharge basis in determining percentage of completion for all spot voyages and voyages servicing contracts of affreightment, whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. Shuttle tanker voyages servicing contracts of affreightment with offshore oil fields commence with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. Revenues from FPSO service contracts are recognized as service is performed. The consolidated balance sheets reflect the deferred portion of revenues and expenses, which will be earned in subsequent periods.

Revenues and voyage expenses of the Company's vessels operating in pool arrangements are pooled with the revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on the time-charter-equivalent basis, are allocated to the pool participants according to an agreed formula. The Company accounts for the net allocation from the pool as revenues and amounts due from the pool are included in accounts receivable.

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Voyage expenses and vessel operating expenses are recognized when incurred. For periods prior to October 1, 2006, the Company recognized voyage expenses ratably over the length of each voyage. The impact of recognizing voyage expenses ratably over the length of each voyage was not materially different on a quarterly and annual basis from recognizing

such costs when incurred.

**Cash and cash equivalents**

The Company classifies all highly liquid investments with a maturity date of three months or less at inception as cash equivalents.

**Accounts receivable and allowance for doubtful accounts**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Company believes that the receivable will not be recovered.

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**  
**(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

**Marketable securities**

The Company's investments in marketable securities are classified as available-for-sale securities and are carried at fair value. Net unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income (loss). Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities applied using the weighted-average historical cost method.

The Company analyzes its available-for-sale securities for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment. The Company records an impairment charge through current-period earnings and adjusts the cost basis for such other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within a three-month period after the measurement date, unless there are mitigating factors that indicate an impairment charge through earnings may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until sale of the security.

**Vessels and equipment**

All pre-delivery costs incurred during the construction of newbuildings, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Company to the standard required to properly service the Company's customers are capitalized.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for crude oil tankers, 25 to 30 years for FPSO units and 35 years for liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) carriers, commencing the date the vessel is delivered from the shipyard, or a shorter period if regulations prevent the Company from operating the vessels for 25 years or 35 years, respectively. Depreciation includes depreciation on all owned vessels and amortization of vessels accounted for as capital leases. Depreciation of vessels and equipment for the years ended December 31, 2008, 2007 and 2006 aggregated \$340.7 million, \$279.7 million and \$186.6 million, respectively, of which \$31.6 million, \$30.9 million and \$21.3 million relate to amortization of vessels accounted for as capital leases.

Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel that are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of expenditure is amortized over the estimated useful life of the modification. Expenditures covering recurring routine repairs and maintenance are expensed as incurred.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2008, 2007 and 2006 aggregated \$32.5 million, \$35.0 million and \$15.9 million, respectively.

Gains on vessels sold and leased back under capital leases are deferred and amortized over the remaining estimated useful life of the vessel. Losses on vessels sold and leased back under capital leases are recognized immediately when the fair value of the vessel at the time of sale and lease-back is less than its book value. In such case, the Company would recognize a loss in the amount by which book value exceeds fair value.

Effective January 1, 2008, the Company increased its estimate of the residual value of its vessels due to an increase in the estimated scrap rate per lightweight ton from \$150 per lightweight ton to \$325 per lightweight ton. The Company's estimate of salvage values took into account the then current scrap prices and the historical scrap rates over the five years prior to December 31, 2007. As a result, depreciation and amortization expense has decreased by \$13.2 million, and net income has increased by \$10.0 million, or \$0.14 per share for the year ended December 31, 2008, respectively. Generally, the Company drydocks each vessel every two and a half to five years. The Company capitalizes a substantial portion of the costs incurred during drydocking and amortizes those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. The Company includes in capitalized drydocking those costs incurred as part of the drydocking to meet regulatory requirements, or are expenditures that either add economic life to the vessel, increase the vessel's earnings capacity or improve the vessel's efficiency. The Company expenses costs related to routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets and for annual class survey costs on the

Company's FPSO units. When significant drydocking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original drydocking cost and any unamortized intermediate survey costs are expensed in the period of the subsequent drydocking. Amortization of drydocking expenditures for the years ended December 31, 2008, 2007 and 2006 aggregated \$33.1 million, \$23.4 million and \$15.4 million, respectively.

Drydocking activity included in vessels and equipment on the consolidated balance sheet for the three years ended December 31, 2008 is summarized as follows:

|                               | <b>Year Ended December 31,</b> |             |             |
|-------------------------------|--------------------------------|-------------|-------------|
|                               | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Balance at January 1,         | 98,925                         | 57,030      | 36,495      |
| Costs incurred for drydocking | 98,092                         | 71,181      | 36,344      |
| Costs fully amortized         | (1,639)                        | (3,979)     |             |
| Drydock amortization          | (40,765)                       | (25,307)    | (15,809)    |
| Balance at December 31,       | 154,613                        | 98,925      | 57,030      |

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Vessels and equipment that are held and used are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. Estimated fair value is determined based on discounted cash flows or appraised values depending on the nature of the asset.

The contract relating to the Company's *Foinaven* floating, production, storage and offloading (or *FPSO*) unit provides for an adjustment to the amount paid to the Company in connection with the FPSO unit, and the Company has requested an adjustment of the amounts payable to it under the terms of that provision. The Company's cash flow projections relating to this FPSO unit are based on its assessment of the likely outcome of these discussions. While the Company anticipates certain increases to the rates it will receive under this contract, should there be a negative outcome to these discussions, the Company will likely need to complete an additional impairment test on the FPSO unit, which could result in a write-down in the carrying value of the vessel.

**Direct financing leases**

The Company assembles, installs, operates and leases equipment that reduces volatile organic compound emissions (or *VOC Equipment*) during loading, transportation and storage of oil and oil products. Leasing of the VOC Equipment is accounted for as a direct financing lease, with lease payments received by the Company being allocated between the net investment in the lease and other income using the effective interest method so as to produce a constant periodic rate of return over the lease term.

**Investment in joint ventures**

Investments in companies over which the Company exercises significant influence, but does not consolidate are accounted for using the equity method, whereby the investment is carried at the Company's original cost plus its proportionate share of undistributed earnings or loss and is adjusted for impairment whenever facts and circumstances determine that a decline in fair value below the cost basis is other than temporary. The excess carrying value of the Company's investment over its underlying equity in the net assets is included in the consolidated balance sheet as investment in joint ventures.

**Debt issuance costs**

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented as other non-current assets. Debt issuance costs of revolving credit facilities are amortized on a straight-line basis over the term of the relevant facility. Debt issuance costs of term loans are amortized using the effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense.

**Derivative instruments**

All derivative instruments are initially recorded at cost as either assets or liabilities in the accompanying Consolidated Balance Sheet and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and also qualifies for hedge accounting. The Company generally does not apply hedge accounting to its derivative instruments, except for certain foreign exchange currency contracts.

When a derivative is designated as a cash flow hedge, the Company formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Company does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold or repaid.

For derivative financial instruments designated and qualifying as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive income in stockholders' equity. In the periods when the hedged items affect earnings, the associated



fair value changes on the hedging derivatives are transferred from stockholders' equity to the corresponding earnings line item. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. If a cash flow hedge is terminated and the originally hedged item is still considered possible of occurring, the gains and losses initially recognized in stockholders' equity remain there until the hedged item impacts earnings at which point they are transferred to the corresponding earnings line item (i.e. interest expense). If the hedged items are no longer possible of occurring, amounts recognized in stockholders' equity are immediately transferred to earnings.

For derivative financial instruments that are not designated or that do not qualify as hedges under Statement of Financial Accounting Standards (or *SFAS*) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Company's non-designated interest rate swaps related to long-term debt or capital lease obligations are recorded in interest expense. Gains and losses from the Company's interest rate swaps related to restricted cash deposits are recorded in interest income. Gains and losses from the Company's foreign currency forward contracts are recorded mainly in vessel operating expenses and general and administrative expense. Gains and losses from the Company's non-designated bunker fuel swap contracts and forward freight agreements are recorded in revenues.

#### **Goodwill and intangible assets**

Goodwill and indefinite-lived intangible assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. A fair value approach is used to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Intangible assets with finite lives are amortized over their useful lives.

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The Company's amortizable intangible assets consist primarily of acquired time-charter contracts, contracts of affreightment, and time-charter contracts and a Suezmax tanker pool agreement. The value ascribed to the time-charter contracts and contracts of affreightment are being amortized over the life of the associated contract, with the amount amortized each year being weighted based on the projected revenue to be earned under the contracts. The value ascribed to the Suezmax tanker pool agreement is being amortized on a straight-line basis over the expected term of the agreement.

**Asset retirement obligation**

The Company has an asset retirement obligation (or *ARO*) relating to the sub-sea production facility associated with the *Petrojarl Banff* FPSO unit operating in the North Sea. This obligation generally involves restoration of the environment surrounding the facility and removal and disposal of all production equipment. This obligation is expected to be settled at the end of the contract under which the FPSO unit currently operates, which is anticipated no later than 2014. The ARO will be covered in part by contractual payments from FPSO contract counterparties.

The Company records the fair value of an ARO as a liability in the period when the obligation arises. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. When the liability is recorded, the Company capitalizes the cost by increasing the carrying amount of the related equipment. Each period, the liability is increased for the change in its present value, and the capitalized cost is depreciated over the useful life of the related asset. Changes in the amount or timing of the estimated ARO are recorded as an adjustment to the related asset and liability. As at December 31, 2008, the ARO and associated receivable from third parties were \$19.0 million and \$2.7 million, respectively (2007 \$24.5 million and \$7.4 million, respectively).

**Repurchase of common stock**

The Company accounts for repurchases of common stock by debiting common stock by the par value of the stock repurchased. In addition, the excess of the repurchase price over the par value is allocated between additional paid in capital and retained earnings. The amount allocated to additional paid in capital is the pro-rata share of the capital paid in and the balance is allocated to retained earnings.

**Issuance of shares or units by subsidiaries**

The Company accounts for gains or losses from the issuance of shares or units by its subsidiaries as an adjustment to stockholders' equity.

**Accounting for share-based payments**

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified prospective method. Under this transition method, compensation cost is recognized in the 2006 financial statements for all share-based payments granted after January 1, 2006 and for all awards granted to employees prior to, but not yet vested as of January 1, 2006.

The compensation cost of the Company's stock options is primarily included in general and administrative expense. For stock options subject to graded vesting, the Company calculates the value for the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the vesting period of the award.

The Company grants restricted stock units as incentive-based compensation to certain employees. Each restricted stock unit is equal in value to one share of the Company's Common Stock plus reinvested dividends from the grant date to the vesting date. Upon vesting, the value of these restricted stock units was paid to each grantee in the form of cash. Restricted stock units vest in three tranches. The Company recognized the cost of each of the three payments over the period from the grant date to the vesting date of each tranche. The cost of these restricted stock units is primarily included in general and administrative expense.

In 2005, the Company adopted the Vision Incentive Plan (or the *VIP*) to reward exceptional corporate performance and shareholder returns. This plan will result in an award pool for senior management based on the following two measures: (a) economic profit from 2005 to 2010 (or the *Economic Profit*); and (b) market value added from 2001 to

2010 (or the *MVA*). The Plan terminates on December 31, 2010. Under the VIP, the Economic Profit is the difference between the Company's annual return on invested capital and its weighted-average cost of capital multiplied by its average invested capital employed during the year, and the increase in MVA from January 1, 2001 to December 31, 2010, where the MVA is the amount by which the average market value of the Company for the preceding 18 months exceeds the average book value of the Company for the same period.

In 2008, if the VIP's award pool has a cumulative positive balance based on the Economic Profit contributions for the preceding three years, an interim distribution may be made to certain participants in an amount not greater than half of their share of the award pool from Economic Profit contributions and to certain participants up to 100% of their share of the award pool from Economic Profit contributions. In 2011, the balance of the VIP award pool will be distributed to the participants. An interim distribution from the award pool with a value of \$13.3 million was paid in March 2008 in restricted stock units, with vesting of the interim distribution in three equal amounts on November 2008, November 2009 and November 2010. At least fifty percent of any distribution from the balance of the VIP award pool in 2011 must be paid in a form that is equity-based, with vesting on half of this percentage deferred for one year and vesting on the remaining half of this percentage deferred for two years.

The fair value of the VIP, excluding the portion not expected to vest, is recognized over the vesting periods. Participants that resign, retire or have their employment terminated, forfeit all rights to any distribution that is approved by the Board subsequent to their termination date. The fair value of the VIP is measured on the grant date and is remeasured at each reporting date thereafter. To comply with the provisions for fair value measurement in SFAS 123R, the Company has prepared a model to estimate the fair value of the VIP considering both the Economic Profit and MVA components. For each period, the assumptions used in the model were updated to take into account actual results, then current facts, information, business plans and the impacts of historical volatility on future estimates. As at December 31, 2008, the portion of the VIP liability related to the final distribution is included in other long-term liabilities and the portion related to the interim distribution is included in accrued liabilities. During the year ended December 31, 2008, the Company recorded an expense (recovery) from the VIP of \$(23.6) million (\$9.7 million 2007 and \$15.4 million 2006), which is included in general and administrative expense. As at December 31, 2008, the VIP liability was nil (\$27.4 million 2007).

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**Income taxes**

The Company accounts for income taxes using the liability method pursuant to SFAS No. 109, Accounting for Income Taxes. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

**Comprehensive (loss) income**

The Company follows SFAS No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements.

As at December 31, 2008 and 2007, the Company's accumulated other comprehensive (loss) income consisted of the following components:

|                                                  | December<br>31,<br>2008 | December<br>31,<br>2007 | December<br>31,<br>2006 |
|--------------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                                  | \$                      | \$                      | \$                      |
| Unrealized (loss) gain on derivative instruments | (58,723)                | 3,520                   |                         |
| Pension adjustments                              | (23,338)                | (6,278)                 |                         |
| Unrealized gain on marketable securities         |                         | 7,325                   | 5,600                   |
|                                                  | (82,061)                | 4,567                   | 5,600                   |

**Employee pension plans**

The Company has various defined contribution and defined benefit pension plans that provide benefits to substantially all of its employees.

The Company has several defined contribution pension plans covering the majority of its employees. Pension costs associated with the Company's required contributions under its defined contribution pension plans are based on a percentage of employees' salaries and are charged to earnings in the year incurred. The Company's expense related to these plans was \$5.7 million for the year ended December 31, 2008 (2007 \$3.9 million; 2006 \$3.4 million), which is included in vessel operating expenses and general and administrative in the Consolidated Statement of Income (Loss).

The Company also has a number of defined benefit pension plans covering certain of its employees. The Company accrues the costs and related obligations associated with its defined benefit pension plans based on actuarial computations using the projected benefits obligation method and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. In accordance with SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statement Nos. 87, 88, 106 and 132R* (or SFAS 158) the overfunded or underfunded status of the defined benefit pension plans are recognized as assets or liabilities in the statement of financial position. The statement also requires the Company to recognize as a component of other comprehensive income the gains or losses that arise during a period but that are not recognized as part of net periodic benefit costs in the current period. The Company's expense related to these defined benefit pension plans was \$8.1 million for the year ended December 31, 2008 (2007 \$10.8 million; 2006 \$9.7 million), which is included in vessel operating expenses and general and administrative in the Consolidated Statement of Income (Loss). The change in the underfunded status recorded in other comprehensive income (loss) for the year ended December 31, 2008 was \$17.1 million (2007 \$6.3 million; 2006 nil). The net pension liability related to the defined benefit pension plans is included in Other long-term liabilities on the Consolidated Balance Sheets and was \$33 million as at December 31, 2008 (2007 \$20.2 million). For the year ended December 31, 2008, the fair value of plan assets is

\$106 million and the accrued benefit obligation is \$73 million.

**Recent accounting pronouncements**

In April 2009, the Financial Accounting Standards Board (or *FASB*) issued Statement of Financial Accounting Standards (or *SFAS*) 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This statement changes existing accounting requirements for other-than-temporary impairment. SFAS 115-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 115-2 on its consolidated results of operations and financial condition.

In April 2009, the FASB issued SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly*. SFAS 157-4 amends SFAS 157, *Fair Value Measurements* to provide additional guidance on estimating fair value when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. SFAS 157-4 also provides additional guidance on circumstances that may indicate that a transaction is not orderly. SFAS 157-4 supersedes SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. The guidance in SFAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption is permitted, but only for periods ending after March 15, 2009. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 157-4 on its consolidated results of operations and financial condition.

In April 2009, the FASB issued SFAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments*. SFAS 107-1 extends the disclosure requirements of SFAS 107, *Disclosures about Fair Value of Financial Instruments* to interim financial statements of publicly traded companies as defined in APB Opinion No. 28, *Interim Financial Reporting*. SFAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 107-1 on its consolidated results of operations and financial condition.

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In April 2009, the FASB issued SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*. This statement amends SFAS 141, *Business Combinations*, to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, in accordance with SFAS 157, if the fair value can be determined during the measurement period. SFAS 141(R)-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141(R)-1 on its consolidated results of operations and financial condition.

In October 2008, FASB issued SFAS No. 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*, which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, SFAS No. 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in SFAS No. 157-3 is effective immediately but does not have any impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161: *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Statement of Financial Accounting Standards No. 133* (or *SFAS 161*). The statement requires qualitative disclosures about an entity's objectives and strategies for using derivatives and quantitative disclosures about how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early application allowed. SFAS 161 allows but does not require, comparative disclosures for earlier periods at initial adoption.

In December 2007, the FASB issued SFAS No. 141(R): *Business Combinations* (or *SFAS 141(R)*), which replaces SFAS No. 141, *Business Combinations*. This statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141(R) on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160: *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No. 51* (or *SFAS 160*). This statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 160 on its consolidated results of operations and financial condition.

**2. Segment Reporting**

The Company is primarily engaged in the international marine transportation of crude oil and clean petroleum products through the operation of its tankers, and of LNG and LPG through the operation of its tankers and LNG and LPG carriers, and in the offshore processing and storage of crude oil. The Company's revenues are earned in international markets.

StatoilHydro ASA, an international oil company, accounted for 14% (\$443.5 million) of the Company's consolidated revenues during the year ended December 31, 2008. The same customer accounted for 20% (\$472.3 million) of the Company's consolidated revenues during 2007 and 15% (\$307.9 million) during 2006. No other customer accounted

for over 10% of the Company's consolidated revenues during any of those years. Revenues from StatoilHydro were primarily earned by the shuttle tanker and FSO, FPSO and spot tanker segments.

The Company has four operating segments: its shuttle tanker segment (or *Teekay Navion Shuttle Tankers and Offshore*), its FPSO segment (or *Teekay Petrojarl*), its liquefied gas segment (or *Teekay Gas Services*) and its conventional tanker segment (or *Teekay Tanker Services*). In order to provide investors with additional information about its conventional tanker segment, the Company has divided this operating segment into the fixed-rate tanker segment and the spot tanker segment. The Company's shuttle tanker and FSO segment consists of shuttle tankers and floating storage and offtake (or *FSO*) units. The Company's FPSO segment consists of FPSOs and other vessels used to service its FPSO contracts. The Company's fixed-rate tanker segment consists of conventional crude oil and product tankers subject to long-term, fixed-rate time-charter contracts. The Company's liquefied gas segment consists of LNG and LPG carriers. The Company's spot tanker segment consists of conventional crude oil tankers and product carriers operating in the spot tanker 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. The Company considers contracts that have an original term of less than three years in duration to be short-term. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company's consolidated financial statements.

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The following tables present results for these segments for the years ended December 31, 2008, 2007 and 2006.

| <b>Year ended December 31, 2008</b>                                 | <b>Shuttle<br/>Tanker<br/>and FSO<br/>Segment</b> | <b>FPSO<br/>Segment</b> | <b>Fixed<br/>Rate<br/>Tanker<br/>Segment</b>  | <b>Liquefied<br/>Gas<br/>Segment</b> | <b>Spot<br/>Tanker<br/>Segment</b> | <b>Total</b> |
|---------------------------------------------------------------------|---------------------------------------------------|-------------------------|-----------------------------------------------|--------------------------------------|------------------------------------|--------------|
| Revenues                                                            | 705,461                                           | 383,752                 | 265,849                                       | 221,930                              | 1,616,663                          | 3,193,655    |
| Voyage expenses                                                     | 171,599                                           |                         | 5,010                                         | 1,009                                | 580,770                            | 758,388      |
| Vessel operating expenses                                           | 175,449                                           | 227,651                 | 68,065                                        | 48,185                               | 134,969                            | 654,319      |
| Time charter hire expense                                           | 134,100                                           |                         | 43,048                                        |                                      | 434,975                            | 612,123      |
| Depreciation and amortization                                       | 117,198                                           | 91,734                  | 44,578                                        | 58,371                               | 106,921                            | 418,802      |
| General and administrative <sup>(1)</sup>                           | 58,725                                            | 53,087                  | 20,740                                        | 23,072                               | 88,898                             | 244,522      |
| Goodwill impairment charge                                          |                                                   | 334,165                 |                                               |                                      |                                    | 334,165      |
| Loss (gain) on sale of vessels and<br>equipment, net of write-downs | (3,771)                                           | 12,019                  | 4,401                                         |                                      | (72,664)                           | (60,015)     |
| Restructuring charge                                                | 10,645                                            |                         | 1,991                                         | 634                                  | 2,359                              | 15,629       |
| Income (loss) from vessel<br>operations                             | 41,516                                            | (334,904)               | 78,016                                        | 90,659                               | 340,435                            | 215,722      |
| Equity (loss) income                                                |                                                   | (3,079)                 | 634                                           | (32,823)                             | (817)                              | (36,085)     |
| Investments in joint ventures at<br>December 31, 2008               |                                                   |                         | 5,166                                         | 64,193                               | 34,597                             | 103,956      |
| Total assets of operating<br>segments at December 31, 2008          | 1,722,432                                         | 1,331,325               | 951,592                                       | 2,919,194                            | 1,935,537                          | 8,860,080    |
| Expenditures for vessels and<br>equipment <sup>(2)</sup>            | 99,638                                            | 28,205                  | 67,837                                        | 192,955                              | 328,130                            | 716,765      |
| <b>Year ended December 31, 2007</b>                                 | <b>Shuttle<br/>Tanker<br/>and FSO<br/>Segment</b> | <b>FPSO<br/>Segment</b> | <b>Fixed-<br/>Rate<br/>Tanker<br/>Segment</b> | <b>Liquefied<br/>Gas<br/>Segment</b> | <b>Spot<br/>Tanker<br/>Segment</b> | <b>Total</b> |
| Revenues                                                            | 642,047                                           | 350,279                 | 195,942                                       | 166,981                              | 1,040,258                          | 2,395,507    |
| Voyage expenses                                                     | 117,571                                           |                         | 2,707                                         | 109                                  | 406,921                            | 527,308      |
| Vessel operating expenses                                           | 127,372                                           | 156,264                 | 51,458                                        | 30,239                               | 81,813                             | 447,146      |
| Time charter hire expense                                           | 160,993                                           |                         | 25,812                                        |                                      | 279,676                            | 466,481      |
| Depreciation and amortization                                       | 104,936                                           | 68,047                  | 36,018                                        | 46,018                               | 74,094                             | 329,113      |
| General and administrative <sup>(1)</sup>                           | 60,234                                            | 36,927                  | 18,221                                        | 20,521                               | 95,962                             | 231,865      |
| Gain on sale of vessels and<br>equipment, net of write-downs        | (16,531)                                          |                         |                                               |                                      |                                    | (16,531)     |
| Income from vessel operations                                       | 87,472                                            | 89,041                  | 61,726                                        | 70,094                               | 101,792                            | 410,125      |



|                                                         |           |           |         |           |           |           |
|---------------------------------------------------------|-----------|-----------|---------|-----------|-----------|-----------|
| Equity loss                                             |           |           | (2,879) | (130)     | (9,395)   | (12,404)  |
| Investments in joint ventures at December 31, 2007      | 16        | 4,490     | 97,920  | 33,089    | 135,515   |           |
| Total assets of operating segments at December 31, 2007 | 1,761,547 | 1,426,088 | 795,775 | 3,366,049 | 1,966,166 | 9,315,625 |
| Expenditures for vessels and equipment <sup>(2)</sup>   | 168,207   | 160,792   | 63,698  | 392,779   | 124,828   | 910,304   |

| <b>Year ended December 31, 2006</b>                             | <b>Shuttle Tanker and FSO Segment</b> | <b>FPSO Segment</b> | <b>Fixed-Rate Tanker Segment</b> | <b>Liquefied Gas Segment</b> | <b>Spot Tanker Segment</b> | <b>Total</b> |
|-----------------------------------------------------------------|---------------------------------------|---------------------|----------------------------------|------------------------------|----------------------------|--------------|
| Revenues                                                        | 572,392                               | 95,455              | 181,605                          | 104,489                      | 1,059,796                  | 2,013,737    |
| Voyage expenses                                                 | 89,642                                |                     | 1,999                            | 975                          | 430,341                    | 522,957      |
| Vessel operating expenses                                       | 90,798                                | 36,158              | 44,083                           | 18,912                       | 58,088                     | 248,039      |
| Time charter hire expense                                       | 170,308                               |                     | 16,869                           |                              | 214,991                    | 402,168      |
| Depreciation and amortization                                   | 83,501                                | 22,360              | 32,741                           | 33,160                       | 52,203                     | 223,965      |
| General and administrative <sup>(1)</sup>                       | 46,220                                | 10,549              | 15,843                           | 15,531                       | 93,357                     | 181,500      |
| Loss (gain) on sale of vessels and equipment net of write-downs | 698                                   |                     |                                  |                              | (2,039)                    | (1,341)      |
| Restructuring charge                                            |                                       |                     |                                  |                              | 8,929                      | 8,929        |
| Income from vessel operations                                   | 91,225                                | 26,388              | 70,070                           | 35,911                       | 203,926                    | 427,520      |
| Equity income (loss)                                            | 6,231                                 | (114)               | 831                              | (226)                        | (623)                      | 6,099        |
| Investments in joint ventures at December 31, 2006              | 20                                    | 5,132               | 86,119                           | 33,024                       | 124,295                    |              |
| Total assets of operating segments at December 31, 2006         | 1,661,674                             | 1,419,503           | 678,033                          | 2,481,378                    | 1,116,145                  | 7,356,733    |
| Expenditures for vessels and equipment <sup>(2)</sup>           | 94,594                                | 23,861              | 33,938                           | 5,092                        | 284,985                    | 442,470      |

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

(2)

Excludes  
vessels  
purchased as  
part of the  
Company's  
acquisition of  
(a) 50% of OMI  
Corporation in  
August 2007  
and (b) Teekay  
Petrojarl in  
October 2006.

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A reconciliation of total segment assets to amounts presented in the accompanying Consolidated Balance Sheets is as follows:

|                                        | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|----------------------------------------|------------------------------|------------------------------|
|                                        | <b>\$</b>                    | <b>\$</b>                    |
| Total assets of all operating segments | 8,860,080                    | 9,315,625                    |
| Cash and restricted cash               | 821,286                      | 446,102                      |
| Accounts receivable and other assets   | 533,635                      | 656,814                      |
| Consolidated total assets              | 10,215,001                   | 10,418,541                   |

**3. Acquisition of Additional 35.3% of Teekay Petrojarl ASA**

As of October 1, 2006, the Company acquired a 64.7% interest in Petrojarl ASA (subsequently renamed Teekay Petrojarl ASA, or Teekay Petrojarl). In June and July 2008, the Company acquired the remaining 35.3% interest (26.5 million common shares) in Teekay Petrojarl primarily from Prosafe Production at a price between NOK 59 and NOK 62.95 per share. The total purchase price of approximately NOK 1.5 billion (\$304.9 million) for this remaining interest was paid in cash. As a result of these transactions, the Company now owns 100% of Teekay Petrojarl.

Teekay Petrojarl's operating results are reflected in the Company's consolidated financial statements from October 1, 2006, the designated effective date of the Company's acquisition of the original 64.7% interest in Teekay Petrojarl, which was accounted for using the purchase method of accounting. The Company revised its purchase price allocation during the second quarter of 2007. The effect of this revision was a reduction to the Company's income from vessel operations and net income for the second quarter of 2007 of \$2.7 million, or \$0.04 per share.

The acquisition of the remaining 35.3% interest has also been accounted for using the purchase method of accounting, based upon estimates of fair value. The estimated fair values of certain assets and liabilities have been determined with the assistance of third-party valuation specialists.

The following table summarizes the preliminary fair values of the 35.3% of the Teekay Petrojarl assets acquired and liabilities assumed by the Company at June 30, 2008:

|                                           | <b>At June 30,<br/>2008</b> |
|-------------------------------------------|-----------------------------|
|                                           | <b>\$</b>                   |
| <b>ASSETS</b>                             |                             |
| Vessels and equipment                     | 211,021                     |
| Other assets - long-term                  | (3,575)                     |
| Intangible assets subject to amortization | 353                         |
| Goodwill (FPSO segment)                   | 105,842                     |
| <b>Total assets acquired</b>              | <b>313,641</b>              |
| <b>LIABILITIES</b>                        |                             |
| In-process revenue contracts              | (108,138)                   |
| Other long-term liabilities               | (2,859)                     |
| <b>Total liabilities assumed</b>          | <b>(110,997)</b>            |

|                                                 |         |
|-------------------------------------------------|---------|
| <b>Non-controlling interest</b>                 | 102,305 |
| <b>Net assets acquired (cash consideration)</b> | 304,949 |

The goodwill was subsequently determined to be impaired as described in note 6.

The following table shows comparative summarized consolidated pro forma financial information for the Company for the years ended December 31, 2008, 2007 and 2006, giving effect to the Company's 100% acquisition of the outstanding shares of Teekay Petrojarl as if it had taken place on January 1 of each of the periods presented:

|                                  | <b>Pro Forma<br/>Year Ended<br/>December<br/>31,<br/>2008<br/>(unaudited)<br/>\$</b> | <b>Pro Forma<br/>Year Ended<br/>December<br/>31,<br/>2007<br/>(unaudited)<br/>\$</b> | <b>Pro Forma<br/>Year Ended<br/>December<br/>31,<br/>2006<br/>(unaudited)<br/>\$</b> |
|----------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Revenues <sup>(1)</sup>          | 3,193,655                                                                            | 2,395,507                                                                            | 2,284,498                                                                            |
| Net (loss) income                | (476,597)                                                                            | 62,454                                                                               | 315,304                                                                              |
| Earnings (loss) per common share |                                                                                      |                                                                                      |                                                                                      |
| - Basic                          | (6.57)                                                                               | 0.85                                                                                 | 4.31                                                                                 |
| - Diluted                        | (6.57)                                                                               | 0.84                                                                                 | 4.20                                                                                 |

(1) Revenues from Teekay Petrojarl has been consolidated with the Company's results since October 1, 2006.

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**4. Acquisition of 50% of OMI Corporation**

On June 8, 2007, the Company and A/S Dampskibsselskabet TORM (or *TORM*) acquired, through a jointly-owned subsidiary all of the outstanding shares of OMI Corporation (or *OMI*). The Company and TORM divided most of OMI's assets equally between the two companies in August 2007. The price of the OMI assets acquired by the Company was approximately \$1.1 billion, including approximately \$0.2 billion of assumed indebtedness. The Company funded its portion of the acquisition with a combination of cash and borrowings under revolving credit facilities and a new \$700 million credit facility.

The Company acquired seven Suezmax tankers, three Medium-Range product tankers and three Handysize product tankers from OMI. Teekay also assumed OMI's in-charters of an additional six Suezmax tankers and OMI's third-party asset management business (principally the Gemini pool). The Company and TORM continued 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 divided these remaining assets equally in the third and fourth quarter of 2008.

The assets acquired from OMI on August 1, 2007 are reflected in the Company's consolidated financial statements from that date. The acquisition of OMI has been accounted for using the purchase method of accounting, based upon estimates of fair value. The estimated fair values of certain assets and liabilities were determined with the assistance of third-party valuation specialists. This work was completed during the third quarter of 2008.

The following table summarizes the fair values of the assets acquired and liabilities assumed by the Company at August 1, 2007:

|                                                                                            | Original at<br>August 1, 2007<br>\$ | Revisions<br>\$ | Revised at<br>August 1, 2007<br>\$ |
|--------------------------------------------------------------------------------------------|-------------------------------------|-----------------|------------------------------------|
| <b>ASSETS</b>                                                                              |                                     |                 |                                    |
| Cash, cash equivalents and short-term restricted cash                                      | 577                                 |                 | 577                                |
| Other current assets                                                                       | 67,159                              | (43,003)        | 24,156                             |
| Vessels and equipment                                                                      | 923,670                             |                 | 923,670                            |
| Other assets – long-term                                                                   | 6,820                               | 50,160          | 56,980                             |
| Investment in joint venture                                                                | 64,244                              | 5,785           | 70,029                             |
| Intangible assets subject to amortization                                                  | 60,540                              | 8,407           | 68,947                             |
| Goodwill (\$25.8 million spot tanker segment, and \$7.2 million fixed-rate tanker segment) | 31,961                              | 1,045           | 33,006                             |
| <b>Total assets acquired</b>                                                               | 1,154,971                           | 22,394          | 1,177,365                          |
| <b>LIABILITIES</b>                                                                         |                                     |                 |                                    |
| Current liabilities                                                                        | 21,006                              | (1,429)         | 19,577                             |
| Other long-term liabilities                                                                |                                     | 15,873          | 15,873                             |
| In-process revenue contracts                                                               | 25,402                              | (3,811)         | 21,591                             |
| <b>Total liabilities assumed</b>                                                           | 46,408                              | 10,633          | 57,041                             |
| <b>Net assets acquired</b>                                                                 | 1,108,563                           | 11,761          | 1,120,324                          |

The following table shows summarized consolidated pro forma financial information for the Company for the years ended December 31, 2007 and 2006, giving effect to the acquisition of OMI assets by the Company as if it had taken place on January 1 of each of the periods presented:

|                                                          | <b>Pro Forma<br/>Year Ended<br/>December 31,<br/>2007<br/>(unaudited)<br/>\$</b> | <b>Pro Forma<br/>Year Ended<br/>December 31,<br/>2006<br/>(unaudited)<br/>\$</b> |
|----------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Revenues                                                 | 2,533,951                                                                        | 2,288,563                                                                        |
| Gain on sale of vessels and equipment net of write-downs | 16,531                                                                           | 79,558                                                                           |
| Net income                                               | 59,352                                                                           | 407,803                                                                          |
| Earnings per common share:                               |                                                                                  |                                                                                  |
| - Basic                                                  | 0.81                                                                             | 5.57                                                                             |
| - Diluted                                                | 0.79                                                                             | 5.43                                                                             |

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**5. Public Offerings**

During April 2008, the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*), completed a follow-on public offering by issuing an additional 5.0 million of its common units at a price of \$28.75 per unit. Subsequently the underwriters exercised their over-allotment option and purchased 375,000 common units resulting in an additional \$10.8 million in gross proceeds to Teekay LNG. Concurrent with the public offering, the Company acquired 1.74 million common units of Teekay LNG at the same public offering price for a total cost of \$50.0 million. During June 2008, the Company's subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*), completed a follow-on public offering by issuing 10.25 million of its common units at a price of \$20.00 per unit. During July 2008, the underwriters exercised their over-allotment option and purchased 375,000 common units at \$20.00 per unit.

As a result of these offerings, the Company recorded total increases to stockholders' equity of \$23.8 million and \$29.8 million, respectively, which represents the Company's dilution gain from the issuance of units, in Teekay LNG and Teekay Offshore, during the year ended December 31, 2008.

During December 2007, the Company's 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. During May 2007, the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) completed a follow-on public offering by issuing an additional 2.3 million of its common units at a price of \$38.13 per unit. As a result of these offerings, the Company recorded increases to stockholders' equity of \$141.0 million and \$25.1 million, respectively, which represents the Company's dilution gain from the issuance of shares and units.

During December 2006, the Company's subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*), completed its initial public offering of 8.1 million of its common units representing limited partner interests at a price of \$21.00 per unit. As a result of this offering, the Company recorded an increase to stockholders' equity of \$99.7 million, which represent the Company's dilution gain from the issuance of units.

The proceeds received from the offerings and the use of those proceeds, are summarized as follows:

|                       | <b>Teekay<br/>Tankers<br/>Initial<br/>Offering<br/>2007<br/>\$</b> | <b>Teekay<br/>Offshore<br/>Follow-on<br/>Offering<br/>2008<br/>\$</b> | <b>Teekay<br/>Offshore<br/>Initial<br/>Offering<br/>2006<br/>\$</b> | <b>Teekay<br/>LNG<br/>Follow-on<br/>Offering<br/>2008<br/>\$</b> | <b>Teekay<br/>LNG<br/>Follow-on<br/>Offering<br/>2007<br/>\$</b> |
|-----------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|
| Proceeds received     | 224,250                                                            | 212,500                                                               | 169,050                                                             | 154,531                                                          | 87,699                                                           |
| Offering expenses     | 16,064                                                             | 6,192                                                                 | 13,788                                                              | 6,186                                                            | 3,494                                                            |
| Net proceeds received | 208,186                                                            | 206,308                                                               | 155,262                                                             | 148,345                                                          | 84,205                                                           |

Teekay Tankers is a Marshall Islands corporation formed by the Company to provide international marine transportation of crude oil. The Company owns 54% of the 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 initially owned a fleet of nine double-hull Aframax-class oil tankers, which it acquired from the Company with net proceeds of its initially public offering and which a wholly owned subsidiary of the Company manages under a mix of spot-market trading and short- or medium-term fixed-rate time-charter contracts. In addition, the Company has offered to Teekay Tankers Ltd. the opportunity to purchase up to four of its existing Suezmax-class oil tankers, of which two were sold to Teekay Tankers in April 2008.

Teekay Offshore is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the offshore oil marine transportation, production, processing and storage sectors. Teekay Offshore owns

51% of Teekay Offshore Operating L.P. (or *OPCO*), including an additional 25% limited partner interest it acquired from the Company with net proceeds of its 2008 follow-on public offering and its 0.01% general partner interest. *OPCO* owns and operates a fleet of 34 shuttle tankers (including ten chartered-in vessels and five vessels owned by 50% owned joint ventures), four FSO vessels, nine conventional oil tankers, and two lightering vessels. Teekay Offshore also owns through wholly owned subsidiaries two additional shuttle tankers (including one through a 50%-owned joint venture) and one FSO unit. All of Teekay Offshore's and *OPCO*'s vessels operate under long-term, fixed-rate contracts. The Company indirectly owns the remaining 49% of *OPCO* and 49.99% of Teekay Offshore, including its 2% general partner interest. As a result, the Company effectively owns 74.5% of *OPCO*. Teekay Offshore also has rights to participate in certain FPSO opportunities involving Teekay Petrojarl.

Teekay LNG is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the LNG shipping sector. Teekay LNG provides LNG, LPG and crude oil marine transportation services under long-term, fixed-rate contracts with major energy and utility companies through its fleet of LNG and LPG carriers and Suezmax tankers. The Company owns a 57.7% interest in Teekay LNG, including common units, subordinated units and its 2% general partner interest.

In connection with Teekay LNG's initial public offering in May 2005, Teekay entered into an omnibus agreement with Teekay LNG, Teekay LNG's general partner and others governing, among other things, when the Company and Teekay LNG may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers and Suezmax tankers. In December 2006, the omnibus agreement was amended in connection with Teekay Offshore's initial public offering to govern, among other things, when the Company, Teekay LNG and Teekay Offshore may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.



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**6. Goodwill, Intangible Assets and In-Process Revenue Contracts*****Goodwill***

The changes in the carrying amount of goodwill for the year ended December 31, 2008 for the Company's reporting segments are as follows:

|                                                          | <b>Shuttle<br/>Tanker<br/>and FSO<br/>Segment<br/>\$</b> | <b>FPSO<br/>Segment<br/>\$</b> | <b>Liquefied<br/>Gas<br/>Segment<br/>\$</b> | <b>Fixed-<br/>Rate<br/>Tanker<br/>Segment<br/>\$</b> | <b>Spot<br/>Tanker<br/>Segment<br/>\$</b> | <b>Other<br/>\$</b> | <b>Total<br/>\$</b> |
|----------------------------------------------------------|----------------------------------------------------------|--------------------------------|---------------------------------------------|------------------------------------------------------|-------------------------------------------|---------------------|---------------------|
| Balance as of<br>December 31, 2006                       | 130,908                                                  | 95,461                         | 35,631                                      | 3,648                                                |                                           | 1,070               | 266,718             |
| Adjustment to goodwill<br>acquired (note 3)              |                                                          | 132,862                        |                                             |                                                      |                                           |                     | 132,862             |
| Goodwill acquired (note 4)                               |                                                          |                                |                                             |                                                      | 36,080                                    |                     | 36,080              |
| Disposal of reporting unit                               |                                                          |                                |                                             |                                                      |                                           | (1,070)             | (1,070)             |
| Balance as of<br>December 31, 2007                       | 130,908                                                  | 228,323                        | 35,631                                      | 3,648                                                | 36,080                                    |                     | 434,590             |
| Goodwill acquired (note 3)                               |                                                          | 105,842                        |                                             |                                                      |                                           |                     | 105,842             |
| Adjustment to goodwill<br>acquired (note 4)              |                                                          |                                |                                             |                                                      | (3,076)                                   |                     | (3,076)             |
| Goodwill impairment                                      |                                                          | (334,165)                      |                                             |                                                      |                                           |                     | (334,165)           |
| Reallocation of goodwill<br>acquired between<br>segments |                                                          |                                |                                             | 7,163                                                | (7,163)                                   |                     |                     |
| Balance as of<br>December 31, 2008                       | 130,908                                                  |                                | 35,631                                      | 10,811                                               | 25,841                                    |                     | 203,191             |

The Company performed its annual test for impairment of goodwill in the fourth quarter of 2008.

During the fourth quarter of 2008, management concluded that sufficient indicators of impairment existed and consequently, the Company was required to perform another goodwill impairment analysis as of December 31, 2008. This assessment was made by management based on a number of factors including a significant and sustained decline in the Company's market capitalization below book value, deteriorating market conditions and tightening credit markets.

Fair value was estimated by management using a discounted cash flow model that estimates fair value based upon estimated future cash flows discounted to their present value using the Company's estimated weighted average cost of capital. The fair value may vary depending on the assumptions and estimated used, most significantly the discount rate applied.

Based on the analysis performed, management concluded that the carrying value of goodwill in the FPSO segment exceeded its fair value by \$334.2 million as of December 31, 2008. As a result, an impairment loss of \$334.2 million has been recognized in the Company's consolidated statement of income (loss) for the year ended December 31, 2008.

***Intangible Assets***

As at December 31, 2008, the Company's intangible assets consisted of:

|                            | <b>Weighted-Average<br/>Amortization<br/>Period<br/>(years)</b> | <b>Gross<br/>Carrying<br/>Amount<br/>\$</b> | <b>Accumulated<br/>Amortization<br/>\$</b> | <b>Net<br/>Carrying<br/>Amount<br/>\$</b> |
|----------------------------|-----------------------------------------------------------------|---------------------------------------------|--------------------------------------------|-------------------------------------------|
| Contracts of affreightment | 10.2                                                            | 124,251                                     | (78,961)                                   | 45,290                                    |
| Time-charter contracts     | 15.5                                                            | 233,678                                     | (60,875)                                   | 172,803                                   |
| Other intangible assets    | 2.8                                                             | 58,950                                      | (12,275)                                   | 46,675                                    |
|                            | 13.1                                                            | 416,879                                     | (152,111)                                  | 264,768                                   |

As at December 31, 2007, the Company's intangible assets consisted of:

|                            | <b>Weighted-Average<br/>Amortization<br/>Period<br/>(years)</b> | <b>Gross<br/>Carrying<br/>Amount<br/>\$</b> | <b>Accumulated<br/>Amortization<br/>\$</b> | <b>Net<br/>Carrying<br/>Amount<br/>\$</b> |
|----------------------------|-----------------------------------------------------------------|---------------------------------------------|--------------------------------------------|-------------------------------------------|
| Contracts of affreightment | 10.2                                                            | 124,250                                     | (68,895)                                   | 55,355                                    |
| Time-charter contracts     | 16.0                                                            | 232,049                                     | (37,374)                                   | 194,675                                   |
| Other intangible assets    | 5.0                                                             | 49,297                                      | (875)                                      | 48,422                                    |
|                            | 13.7                                                            | 405,596                                     | (107,144)                                  | 298,452                                   |

The Company's 2008 consolidated financial statements include a \$9.8 million write-down of other intangible assets due to lower fair value of certain bareboat contracts compared to carrying values. This amount is included in other (loss) income on the consolidated statement of income (loss). Aggregate amortization expense of intangible assets for the year ended December 31, 2008 was \$45.0 million (2007 \$26.8 million, 2006 \$23.5 million), which is included in depreciation and amortization. Amortization of intangible assets for the five fiscal years subsequent to 2008 is expected to be \$34.1 million (2009), \$27.2 million (2010), \$24.0 million (2011), \$19.6 million (2012), \$14.2 million (2013), and \$145.7 million (thereafter).

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***In-Process Revenue Contracts***

As part of the Teekay Petrojarl and OMI acquisitions, the Company assumed certain FPSO service contracts and charter-out contracts with terms that are less favorable than the then -prevailing market terms. The Company has recognized a liability based on the estimated fair value of these contracts. The Company is amortizing this liability over the remaining term of the contracts on a weighted basis based on the projected revenue to be earned under the contracts.

Amortization of in-process revenue contracts for the year ended December 31, 2008 was \$74.4 million (2007 \$71.0 million), which is included in revenues on the consolidated statement of income (loss). Amortization for the next five years is expected to be \$74.8 million (2009), \$60.9 million (2010), \$48.0 million (2011), \$42.3 million (2012) and \$40.5 million (2013) and \$60.4 million (thereafter).

**7. Accrued Liabilities**

|                                | <b>December 31,<br/>2008<br/>\$</b> | <b>December 31,<br/>2007<br/>\$</b> |
|--------------------------------|-------------------------------------|-------------------------------------|
| Voyage and vessel expenses     | 196,899                             | 142,627                             |
| Interest                       | 45,626                              | 40,839                              |
| Payroll and benefits and other | 73,462                              | 77,251                              |
|                                | 315,987                             | 260,717                             |

**8. Long-Term Debt**

|                                                                     | <b>December 31,<br/>2008<br/>\$</b> | <b>December 31,<br/>2007<br/>\$</b> |
|---------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| Revolving Credit Facilities                                         | 2,656,658                           | 2,393,967                           |
| Senior Notes (8.875%) due July 15, 2011                             | 194,642                             | 246,059                             |
| USD-denominated Term Loans due through 2021                         | 1,670,005                           | 2,162,420                           |
| Euro-denominated Term Loans due through 2023                        | 414,144                             | 443,992                             |
| USD-denominated Unsecured Demand Loan due to Joint Venture Partners | 17,343                              | 17,146                              |
|                                                                     | 4,952,792                           | 5,263,584                           |
| Less current portion                                                | 245,043                             | 331,594                             |
|                                                                     | 4,707,749                           | 4,931,990                           |

As of December 31, 2008, the Company had fifteen long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for borrowings of up to \$3.7 billion, of which \$1.1 billion was undrawn. Interest payments are based on LIBOR plus margins; at December 31, 2008, the margins ranged between 0.45% and 0.95% (2007 0.50% and 0.75%) and the three-month LIBOR was 1.43% (2007 4.70%). The total amount available under the Revolvers reduces by \$214.3 million (2009), \$221.7 million (2010), \$807.0 million (2011), \$237.4 million (2012), \$315.1 million (2013) and \$1.9 billion (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 67 of the Company's vessels, together with other related security, and include a guarantee from Teekay or

its subsidiaries for all outstanding amounts.

The 8.875% Senior Notes due July 15, 2011 (or the 8.875% *Notes*) rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to Teekay's existing and future subordinated debt. The 8.875% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities, secured and unsecured, of its subsidiaries. During the year ended December 31, 2008, the Company repurchased a principal amount of \$51.2 million (2007 \$16.0 million) of the 8.875% Notes (see also Note 14).

As of December 31, 2008, the Company had fourteen U.S. Dollar-denominated term loans outstanding, which, as at December 31, 2008, totaled \$1.7 billion (2007 \$2.2 billion). Certain of the term loans with a total outstanding principal balance of \$501.6 million, as at December 31, 2008, (2007 \$509.4 million) bear interest at a weighted-average fixed rate of 5.12% (2007 5.09%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At December 31, 2008, the margins ranged between 0.3% and 1.0% (2007 0.3% and 1.0%) and the three-month LIBOR was 1.43% (2007 4.7%). The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and twelve of them also have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 31 (2007 34) of the Company's vessels, together with certain other security. In addition, all but \$126.1 million (2007 \$103.8 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries. Included in the total of USD-denominated term loans is nil (2007 \$601.0 million) which in 2007 represented 100% of the RasGas 3 term loan which was used to fund advances on similar terms and condition to a joint venture. Interest payments on the term loan are based on LIBOR plus a margin. On December 31, 2008 Teekay Nakilat (III) and QGTC Nakilat (1643-6) Holdings Corporation (or *QGTC 3*) novated the RasGas 3 term loan and related interest rate swap agreements to the RasGas 3 Joint Venture for no consideration. As a result, the RasGas 3 Joint Venture assumed all the rights, liabilities and obligations of Teekay Nakilat (III) and QGTC 3 under the terms of the RasGas 3 term loan and the interest rate swap agreements. Teekay Nakilat (III) has guaranteed 40% of the RasGas 3 Joint Venture's obligations that exceeds 20% of the notional amounts of each of the realized interest rate swap agreements. As such, the loan no longer forms part of the debt obligation of the Company.

The Company has two Euro-denominated term loans outstanding, which, as at December 31, 2008 totaled 296.4 million Euros (\$414.1 million). The Company repays the loans with funds generated by two Euro-denominated long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At December 31, 2008, the margins ranged between 0.6% and 0.66% (2007 0.6% and 0.66%) and the one-month EURIBOR was 2.6% (2007 4.3%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023 and are collateralized by first-priority mortgages on two of the Company's vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

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Both Euro-denominated term loans are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due substantially to this revaluation, the Company recognized an unrealized foreign exchange gain of \$32.3 million during the year ended December 31, 2008 (\$39.9 million loss 2007, \$50.4 million loss 2006).

The Company has two U.S. Dollar-denominated loans outstanding owing to joint venture partners, which, as at December 31, 2008, totaled \$16.2 million and \$1.1 million, respectively, including accrued interest. Interest payments on the first loan, which are based on a fixed interest rate of 4.84%, commenced in February 2008. This loan is repayable on demand no earlier than February 27, 2027.

The weighted-average effective interest rate on the Company's long-term aggregate debt as at December 31, 2008 was 3.6% (December 31, 2007 5.2%). This rate does not reflect the effect of the Company's interest rate swaps (see Note 15).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of certain vessel market value-to-loan ratios and minimum consolidated financial covenants. Certain loan agreements require that a minimum level of free cash be maintained. As at December 31, 2008 and 2007, this amount was \$100.0 million. Certain of the loan agreements also require that the Company maintain an aggregate level of free liquidity and undrawn revolving credit lines with at least six months to maturity, of at least 7.5% of total debt. As at December 31, 2008, this amount was \$293.0 million (2007 \$326.0 million). The Company is in compliance with debt covenants as at December 31, 2008.

The aggregate annual long-term debt principal repayments required to be made subsequent to December 31, 2008 are \$245.0 million (2009), \$446.7 million (2010), \$1.3 billion (2011), \$260.7 million (2012), \$280.5 million (2013) and \$2.4 billion (thereafter).

**9. Leases****Charters-out**

Time-charters and bareboat charters of the Company's vessels to third parties are accounted for as operating leases. As at December 31, 2008, minimum scheduled future revenues to be received by the Company on time-charters and bareboat charters then in place were approximately \$7.7 billion, comprised of \$1.0 billion (2009), \$831.5 million (2010), \$708.9 million (2011), \$608.8 million (2012), \$534.8 million (2013) and \$4.0 billion (thereafter). The carrying amount of the vessels employed on operating leases at December 31, 2008 was \$3.1 billion (2007 \$3.2 billion)

The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. In addition, minimum scheduled future revenues have been reduced by estimated off-hire time for period maintenance.

**Charters-in**

As at December 31, 2008, minimum commitments to be incurred by the Company under vessel operating leases by which the Company charters-in vessels were approximately \$971.9 million, comprised of \$424.1 million (2009) \$240.1 million (2010), \$139.0 million (2011), \$88.3 million (2012), \$51.4 million (2013) and \$29.0 million (thereafter). The Company recognizes the expense from these charters, which is included in time-charter expense, on a straight-line basis over the firm period of the charters.

**Direct Financing Leases**

As at December 31, 2008, minimum scheduled future revenues under direct financing leases to be received by the Company were approximately \$94.5 million, including unearned income of \$15.9 million, comprised of \$29.9 million (2009), \$25.2 million (2010), \$21.1 million (2011), \$14.9 million (2012), \$2.5 million (2013) and \$0.9 million (thereafter).

**10. Capital Leases and Restricted Cash****Capital Leases**

*Suezmax Tankers.* As at December 31, 2008, the Company was a party, as lessee, to capital leases on five Suezmax tankers. Under the terms of the lease arrangements, the Company is required to purchase these vessels after the end of

their respective lease terms for fixed prices as well as assuming the existing vessel financing upon the lenders consent. At their inception, the weighted-average interest rate implicit in these leases was 7.4%. These capital leases are variable-rate capital leases; however, any change in our lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by the Company. As at December 31, 2008, the remaining commitments under these capital leases, including the purchase obligations, approximated \$226.8 million, including imputed interest of \$22.4 million, repayable as follows:

| <b>Year</b> | <b>Commitment</b> |
|-------------|-------------------|
| 2009        | \$134.4 million   |
| 2010        | \$8.4 million     |
| 2011        | \$84.0 million    |

*RasGas II LNG Carriers.* As at December 31, 2008, the Company was a party, as lessee, to 30-year capital lease arrangements for the three LNG carriers (or the *RasGas II LNG Carriers*) that operate under time-charter contracts with Ras Laffan Liquefied Natural Gas Co. Limited (II) (or *RasGas II*), a joint venture between Qatar Petroleum and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation. All amounts below relating to the RasGas II LNG Carrier capital leases include the Company's non-controlling interests 30% share.

Under the terms of the RasGas II LNG Carriers capital lease arrangements, the lessor claims tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee.

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Payments under the lease arrangements are based on tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin. During 2008 the Company has agreed under the terms of its tax lease indemnification guarantee to increase its capital lease payments for its three LNG carriers to compensate the lessor for losses suffered as a result of changes in tax rates. The estimated increase in lease payments is approximately \$8.1 million over the term of the lease and as a result the Company's carrying amount of this tax indemnification is \$9.5 million which is included as part of other long-term liabilities in the accompanying consolidated balance sheets. The tax indemnification would be for a total 36 years, which is the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred. There is no maximum potential amount of future payments however, the Company may terminate the lease arrangements at any time. If the lease arrangements terminate, the Company would be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax-effect of the terminations, including recapture of any tax depreciation.

At their inception, the weighted-average interest rate implicit in these leases was 5.2%. These capital leases are variable-rate capital leases. As at December 31, 2008, the commitments under these capital leases approximated \$1.1 billion, including imputed interest of \$603.7 million, repayable as follows:

| Year       | Commitment      |
|------------|-----------------|
| 2009       | \$24.0 million  |
| 2010       | \$24.0 million  |
| 2011       | \$24.0 million  |
| 2012       | \$24.0 million  |
| 2013       | \$24.0 million  |
| Thereafter | \$953.1 million |

*Spanish-Flagged LNG Carrier.* As at December 31, 2008, the Company was a party, as lessee, to a capital lease on one Spanish-flagged LNG carrier, which is structured as a Spanish tax lease. Under the terms of the Spanish tax lease, the Company will purchase the vessel at the end of the lease term in 2011. The purchase obligation has been fully funded with restricted cash deposits described below. At its inception, the implicit interest rate was 5.8%. As at December 31, 2008, the commitments under this capital lease, including the purchase obligation, approximated 117.4 million Euros (\$164.0 million), including imputed interest of 14.7 million Euros (\$20.5 million), repayable as follows:

| Year | Commitment                          |
|------|-------------------------------------|
| 2009 | 25.6 million Euros (\$35.8 million) |
| 2010 | 26.9 million Euros (\$37.6 million) |
| 2011 | 64.8 million Euros (\$90.6 million) |

*FPSO Units.* As at December 31, 2008, the Company was a party, as lessee, to capital leases on one FPSO unit, the *Petrojarl Foinaven*, and the topside production equipment for another FPSO unit, the *Petrojarl Banff*. However, prior to being acquired by Teekay Corporation, Teekay Petrojarl has legally defeased its future charter obligations for these assets by making up-front, lump-sum payments to unrelated banks, which have assumed Teekay Petrojarl's liability for making the remaining periodic payments due under the long-term charters (or *Defeased Rental Payments*) and termination payments under the leases.

The Defeased Rental Payments for the *Petrojarl Foinaven* were based on assumed Sterling LIBOR of 8% per annum. If actual interest rates are greater than 8% per annum, the Company receives rental rebates; if actual interest rates are less than 8% per annum, the Company is required to pay rentals in excess of the Defeased Rental Payments. For

accounting purposes, this contract feature is an embedded derivative, and has been separated from the host contract and is separately accounted for as a derivative instrument.

As is typical for these types of leasing arrangements, the Company has indemnified the lessors of the *Petrojarl Foinaven* for the tax consequence resulting from changes in tax laws or interpretation of such laws or adverse rulings by authorities and for fluctuations in actual interest rates from those assumed in the leases.

***Restricted Cash***

Under the terms of the capital leases for the four LNG carriers described above, the Company is required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposits, 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. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and, for one vessel, a loan from the Company's joint venture partner (see Note 8). The interest rates earned on the deposits approximate the interest rate implicit in the applicable leases.

As at December 31, 2008 and 2007, the amount of restricted cash on deposit for the three RasGas II LNG Carriers was \$487.4 million and \$492.2 million, respectively. As at December 31, 2008 and 2007, the weighted-average interest rates earned on the deposits were 4.8% and 5.3%, respectively.

As at December 31, 2008 and 2007, the amount of restricted cash on deposit for the Spanish-flagged LNG carrier was 104.7 million Euros (\$146.2 million) and 122.8 million Euros (\$179.2 million), respectively. As at December 31, 2008 and 2007, the weighted-average interest rate earned on these deposits was 5.0%.

The Company also maintains restricted cash deposits relating to certain term loans and other obligations, which cash totaled \$17.0 million and \$14.8 million as at December 31, 2008 and 2007, respectively.



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**11. Fair Value Measurements**

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Company deferred the adoption of SFAS No. 157 for its non-financial assets and non-financial liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of SFAS No. 157 did not have a material impact on the Company's fair value measurements.

SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

**Cash and cash equivalents and restricted cash** The fair value of the Company's cash and cash equivalents approximates their carrying amounts reported in the accompanying consolidated balance sheets.

**Marketable securities** The fair value of the Company's marketable securities has been determined using the closing price on the date of determination for those securities.

**Loans to joint ventures** The fair value of the Company's loans to joint ventures approximate their carrying amounts reported in the accompanying consolidated balance sheet.

**Long-term debt** The fair value of the Company's fixed-rate and variable-rate long-term debt is either based on quoted market prices or estimated using discounted cash flow analyses, based on current credit spreads available for debt with similar terms and remaining maturities.

**Derivative instruments** The fair value of the Company's derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable, current interest rates, foreign exchange rates, bunker fuel prices, spot tanker market rates for vessels, and the current credit worthiness of both the Company and the swap counterparties. Given the current volatility in the credit markets, it is reasonably possible that the amounts recorded as derivative assets and liabilities could vary by material amounts in the near term.

The estimated fair value of the Company's financial instruments is as follows:

|                                                                       |                   | <b>December 31,<br/>2008</b> |                    | <b>December 31,<br/>2007</b> |                    |
|-----------------------------------------------------------------------|-------------------|------------------------------|--------------------|------------------------------|--------------------|
|                                                                       | <b>Fair Value</b> | <b>Carrying</b>              | <b>Fair</b>        | <b>Carrying</b>              | <b>Fair</b>        |
|                                                                       | <b>Hierarchy</b>  | <b>Amount</b>                | <b>Value</b>       | <b>Amount</b>                | <b>Value</b>       |
|                                                                       | <b>Level</b>      | <b>Asset</b>                 | <b>Asset</b>       | <b>Asset</b>                 | <b>Asset</b>       |
|                                                                       |                   | <b>(Liability)</b>           | <b>(Liability)</b> | <b>(Liability)</b>           | <b>(Liability)</b> |
|                                                                       |                   | <b>\$</b>                    | <b>\$</b>          | <b>\$</b>                    | <b>\$</b>          |
| Cash and cash equivalents, marketable securities, and restricted cash | Level 1           | 1,477,788                    | 1,477,788          | 1,175,360                    | 1,175,360          |
| Loans to joint ventures                                               | Level 2           | 28,019                       | 28,019             | 729,429                      | 729,429            |
| Long-term debt                                                        | Level 1 and 2     | (4,952,792)                  | (4,537,237)        | (5,263,584)                  | (5,246,670)        |
| Derivative instruments<br>(note 15)                                   |                   |                              |                    |                              |                    |
| Interest rate swap agreements                                         | Level 2           | (718,871)                    | (718,871)          | (154,148)                    | (154,148)          |
| Interest rate swap agreements                                         | Level 2           | 167,390                      | 167,390            | 38,823                       | 38,823             |
| Interest rate swaptions                                               | Level 2           | (27,461)                     | (27,461)           | (2,480)                      | (2,480)            |
| Foreign currency contracts                                            | Level 2           | (90,966)                     | (90,966)           | 35,038                       | 35,038             |
| Bunker fuel swap contracts                                            | Level 2           | (3,142)                      | (3,142)            | 32                           | 32                 |
| Forward freight agreements                                            | Level 2           | (604)                        | (604)              | (5,478)                      | (5,478)            |
| Foinaven embedded derivative                                          | Level 2           | (9,354)                      | (9,354)            | (19,581)                     | (19,581)           |

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**12. Capital Stock**

The authorized capital stock of Teekay at December 31, 2008 and 2007 was 25,000,000 shares of Preferred Stock, with a par value of \$1 per share, and 725,000,000 shares of Common Stock, with a par value of \$0.001 per share. During 2008, the Company issued 0.2 million shares upon the exercise of stock options, and repurchased 0.5 million shares for a total cost of \$20.5 million. As at December 31, 2008, Teekay had 73,011,488 shares of Common Stock (2007 95,327,329) and no shares of Preferred Stock issued. As at December 31, 2008, Teekay had 72,512,291 shares of Common Stock outstanding (2007 72,772,529).

Dividends may be declared and paid out of surplus only, but if there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to share equally in any dividends that the board of directors may declare from time to time out of funds legally available for dividends.

During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to \$200 million of shares of its Common Stock in the open market. As at December 31, 2008, Teekay had not repurchased any shares of Common Stock pursuant to such authorizations. The total remaining share repurchase authorization at December 31, 2008 was \$200 million.

During 2005 and June 2006, Teekay announced that its Board of Directors had authorized the repurchase of up to \$655 million and \$150 million, respectively, of shares of its Common Stock in the open market. Since the date of the authorized repurchase, Teekay had repurchased 18,930,600 shares of Common Stock subsequent to such authorizations at an average price of \$42.52 per share, for a total cost of \$805 million.

***Stock-based Compensation***

As at December 31, 2008, the Company had reserved pursuant to its 1995 Stock Option Plan and 2003 Equity Incentive Plan (collectively referred to as the *Plans*) 6,256,497 shares of Common Stock (2007 6,435,911) for issuance upon exercise of options or equity awards granted or to be granted. During the years ended December 31, 2008, 2007 and 2006, the Company granted options under the Plans to acquire up to 1,476,100, 836,100, and 1,045,200 shares of Common Stock, respectively, to certain eligible officers, employees and directors of the Company. The options under the Plans have ten-year terms and vest equally over three years from the grant date. All options outstanding as of December 31, 2008, expire between June 1, 2009 and September 12, 2018, ten years after the date of each respective grant.

During 2008, the Company granted 10,500 (2007 19,040 and 2006 20,090) shares of restricted stock awards with a fair value of \$0.4 million, based on the quoted market price, to certain of the Company's directors. The shares of restricted stock are issued when granted.

A summary of the Company's stock option activity and related information for the year ended December 31, 2008, is as follows:

| <b>December 31, 2008</b> |                         |
|--------------------------|-------------------------|
| <b>Options</b>           | <b>Weighted-Average</b> |
| <b>(000 s)</b>           | <b>Exercise Price</b>   |

|                               | #     | \$    |
|-------------------------------|-------|-------|
| Outstanding-beginning of year | 3,665 | 35.42 |
| Granted                       | 1,476 | 40.35 |
| Exercised                     | (179) | 23.54 |
| Forfeited                     | (149) | 38.03 |
| Outstanding-end of year       | 4,813 | 37.22 |
| Exercisable end of year       | 2,556 | 32.41 |

As of December 31, 2008, there was \$14.2 million of total unrecognized compensation cost related to non-vested stock options granted under the Plans. Recognition of this compensation is expected to be \$8.5 million (2009), \$4.9 million (2010) and \$0.8 million (2011). During the years ended December 31, 2008 and 2007, the Company recognized \$12.9 million and \$9.7 million, respectively, of compensation cost relating to stock options granted under the Plans. The intrinsic value of options exercised during 2008 was \$4.5 million (2007 \$42.9 million; 2006 \$16.1 million).

As at December 31, 2008, the intrinsic value of the outstanding stock options and exercisable stock options were each \$1.8 million. As at December 31, 2008, the weighted-average remaining life of options vested and expected to vest was 6.7 years.

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Further details regarding the Company's outstanding and exercisable stock options at December 31, 2008 are as follows:

| Range of Exercise Prices | Outstanding Options     |                                                  |                                             | Exercisable Options     |                                                  |                                             |
|--------------------------|-------------------------|--------------------------------------------------|---------------------------------------------|-------------------------|--------------------------------------------------|---------------------------------------------|
|                          | Options<br>(000 s)<br># | Weighted-Average<br>Remaining<br>Life<br>(years) | Weighted-Average<br>Exercise<br>Price<br>\$ | Options<br>(000 s)<br># | Weighted-Average<br>Remaining<br>Life<br>(years) | Weighted-Average<br>Exercise<br>Price<br>\$ |
| \$8.44 - \$9.99          | 40                      | 0.4                                              | 8.44                                        | 40                      | 0.4                                              | 8.44                                        |
| \$10.00 - \$14.99        | 161                     | 1.2                                              | 11.78                                       | 161                     | 1.2                                              | 11.78                                       |
| \$15.00 - \$19.99        | 602                     | 3.8                                              | 19.57                                       | 602                     | 3.8                                              | 19.57                                       |
| \$20.00 - \$29.99        | 203                     | 2.3                                              | 20.57                                       | 203                     | 2.3                                              | 20.57                                       |
| \$30.00 - \$34.99        | 390                     | 5.2                                              | 33.63                                       | 390                     | 5.2                                              | 33.63                                       |
| \$35.00 - \$39.99        | 847                     | 7.3                                              | 38.89                                       | 495                     | 7.2                                              | 38.94                                       |
| \$40.00 - \$44.99        | 1,393                   | 9.2                                              | 40.41                                       | 2                       | 6.4                                              | 42.33                                       |
| \$45.00 - \$49.99        | 411                     | 6.2                                              | 46.80                                       | 411                     | 6.2                                              | 46.80                                       |
| \$50.00 - \$59.99        | 763                     | 8.2                                              | 51.40                                       | 251                     | 8.2                                              | 51.40                                       |
| \$60.00 - \$64.99        | 3                       | 8.3                                              | 60.96                                       | 1                       | 8.3                                              | 60.96                                       |
|                          | 4,813                   | 6.8                                              | 37.22                                       | 2,556                   | 5.1                                              | 32.41                                       |

The weighted-average grant-date fair value of options granted during 2008 was \$9.31 per option (2007 \$13.72, 2006 \$11.30). The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 30% in 2008, 28% in 2007 and 31% in 2006; expected life of five years; dividend yield of 2.5% in 2008, 2.0% in 2007 and 2.0% in 2006; and risk-free interest rate of 2.4% in 2008, 4.5% in 2007, and 4.8% in 2006. The expected life of the options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

During 2008, 101,000 restricted stock units with a market value of \$2.0 million vested and that amount was paid to grantees by issuing 42,098 shares of common stock and less than \$0.5 million in cash. During 2007, 383,005 restricted stock units with a market value of \$20.8 million vested and that amount was paid to grantees in cash. During the year ended December 31, 2008, the Company recorded a (recovery) expense of \$(0.7) million (\$7.6 million 2007) related to the restricted stock units.

During March 2009, the Company granted 1,432,000 options at a weighted average exercise price of \$11.84 per share, 380,970 restricted stock units with a total fair value of \$4.5 million, and 47,570 shares of restricted stock awards with a total fair value of \$0.6 million, based on the quoted market price, to certain of the Company's employees and directors.

### 13. Related Party Transactions

As at December 31, 2008 Resolute Investments, Ltd. (or *Resolute*) owned 42.0% (December 31, 2007 41.8% and December 31, 2006 44.8%) of the Company's outstanding Common Stock. One of the Company's directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of the Company's directors, Axel Karlshoej, is among the directors of Path Spirit Limited, which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity.

**14. Other (Loss) Income**

Other (loss) income is comprised of the following:

|                                                       | <b>Year Ended<br/>December<br/>31,<br/>2008<br/>\$</b> | <b>Year Ended<br/>December<br/>31,<br/>2007<br/>\$</b> | <b>Year Ended<br/>December<br/>31,<br/>2006<br/>\$</b> |
|-------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| Gain on sale of marketable securities                 | 4,576                                                  | 9,577                                                  | 1,422                                                  |
| Write-down of marketable securities                   | (20,158)                                               |                                                        |                                                        |
| Gain (loss) on bond repurchase                        | 3,010                                                  | (947)                                                  | (375)                                                  |
| Volatile organic compound emission plant lease income | 9,469                                                  | 10,960                                                 | 11,445                                                 |
| Write-off of deferred debt issuance costs             |                                                        |                                                        | (2,790)                                                |
| Loss on expiry of options to construct LNG carriers   |                                                        |                                                        | (6,102)                                                |
| Miscellaneous (expense) income                        | (3,633)                                                | 4,087                                                  | (34)                                                   |
| Other (loss) income net                               | (6,736)                                                | 23,677                                                 | 3,566                                                  |

**15. Derivative Instruments and Hedging Activities**

The Company uses derivatives in accordance with its overall risk management policies. The following summarizes the Company's risk strategies with respect to market risk from foreign currency fluctuations, changes in interest rates, spot tanker market rates for vessels and bunker fuel prices.

**Foreign Currency Fluctuation Risk**

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. Certain of these foreign currency forward contracts are designated as cash flow hedges of forecasted foreign currency expenditures. Where such instruments are designated and qualify as cash flow hedges for accounting purposes, the effective portion of the changes in their fair value is recorded in accumulated other comprehensive income (loss), until the hedged item is recognized in earnings. At such time, the respective amount in accumulated other comprehensive income (loss) is released to earnings and is recorded within operating expenses, based on the nature of the related expense. The ineffective portion of these foreign currency forward contracts has also been reported in operating expenses, based on the nature of the related expense. During the year ended December 31, 2008, the Company recognized unrealized gains of \$4.7 million in general and administrative expenses and in vessel operating expenses, relating to the ineffective portion of its foreign currency forward contracts; (2007 \$0.1 million unrealized losses; 2006 nil).

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For foreign currency forward contracts that are not designated or that do not qualify as hedges under SFAS No. 133, the changes in their fair value are recognized in earnings and are reported in operating expenses, based on the nature of the related expense. During the year ended December 31, 2008, the Company recognized unrealized losses of \$18.3 million in general and administrative expenses, \$35.3 million in vessel operating expenses, \$1.1 million in time-charter hire expenses, and \$4.0 million in foreign exchange gain (loss), respectively, relating to foreign currency forward contracts that are not designated or that do not qualify as hedges. During the year ended December 31, 2007, the Company recognized unrealized gains of \$8.0 million in general and administrative expenses, \$11.3 million in vessel operating expenses, \$0.8 million in time-charter hire expenses, and \$3.4 million in foreign exchange gain, respectively, relating to foreign currency forward contracts that are not designated or that do not qualify as hedges. During the year ended December 31, 2006, the Company recognized unrealized gains of \$2.3 million in general and administrative expenses, \$9.5 million in vessel operating expenses, and \$0.5 million in time-charter hire expenses, respectively, relating to foreign currency forward contracts that are not designated or that do not qualify as hedges. As at December 31, 2008, the Company was committed to the following foreign currency forward contracts for the forward purchase of foreign currency:

|                    | <b>Contract<br/>Amount in<br/>Foreign<br/>Currency<br/><br/>(millions)</b> | <b>Average<br/><br/>Contractual<br/>Exchange<br/>Rate <sup>(1)</sup></b> | <b>Fair Value /<br/>Carrying<br/>Amount<br/>of Asset /<br/>(Liability)<br/><br/>(in millions)</b> | <b>Expected Maturity<br/><br/>2009                  2010<br/>(in millions of U.S.<br/>Dollars)</b> |          |
|--------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------|
| Norwegian Kroner:  | 2,024.6                                                                    | 5.93                                                                     | \$ (52.2)                                                                                         | \$ 202.1                                                                                           | \$ 139.5 |
| Euro:              | 75.9                                                                       | 0.67                                                                     | \$ (7.7)                                                                                          | \$ 77.6                                                                                            | \$ 35.6  |
| Canadian Dollar:   | 94.0                                                                       | 1.07                                                                     | \$ (10.9)                                                                                         | \$ 50.3                                                                                            | \$ 37.9  |
| British Pounds:    | 50.5                                                                       | 0.54                                                                     | \$ (19.5)                                                                                         | \$ 68.8                                                                                            | \$ 24.2  |
| Australian Dollar: | 3.3                                                                        | 1.12                                                                     | \$ (0.7)                                                                                          | \$ 3.0                                                                                             |          |

(1) Average contractual exchange rate represents the contractual amount of foreign currency one U.S. Dollar will buy.

As at December 31, 2008, the Company's accumulated other comprehensive income (loss) included \$58.7 million of unrealized losses on foreign currency forward contracts designated as cash flow hedges. As at December 31, 2008, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately \$41.0 million of net losses on foreign currency forward contracts from accumulated other comprehensive income (loss) to earnings during the next 12 months.

**Interest Rate Risk**

The Company enters into interest rate swaps which exchange a receipt of floating interest for a payment of fixed interest to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. In addition, the Company holds interest rate swaps which exchange a payment of floating rate interest for a receipt of fixed

interest in order to reduce the Company's exposure to the variability of interest income on its restricted cash deposits. The Company has not designated its interest rate swaps as cash flow hedges for accounting purposes. Unrealized gains or losses relating to changes in fair value of the Company's interest rate swaps have been reported in interest expense or interest income in the consolidated statements of income (loss). During the year ended December 31, 2008, the Company recognized an unrealized loss in interest expense of \$634.2 million (2007 \$133.0 million unrealized loss; 2006 \$71.1 million unrealized gain), and an unrealized gain in interest income of \$182.2 million (2007 \$10.9 million unrealized gain; 2006 \$25.8 million unrealized loss) relating to the changes in fair value of its interest rate swaps. As at December 31, 2008, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company's floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

|                                                            | Interest<br>Rate<br>Index | Principal<br>Amount<br><br>\$ | Fair Value /<br>Carrying<br>Amount<br>of Asset /<br>(Liability)<br><br>\$ | Weighted-<br>Average<br>Remaining<br>Term<br><br>(years) | Fixed<br>Interest<br>Rate<br><br>(%) <sup>(1)</sup> |
|------------------------------------------------------------|---------------------------|-------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------|
| <b>LIBOR-Based Debt:</b>                                   |                           |                               |                                                                           |                                                          |                                                     |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup> | LIBOR                     | 478,825                       | (110,492)                                                                 | 28.1                                                     | 4.9                                                 |
| U.S. Dollar-denominated interest rate swaps                | LIBOR                     | 2,830,326                     | (396,784)                                                                 | 7.0                                                      | 5.1                                                 |
| U.S. Dollar-denominated interest rate swaps <sup>(3)</sup> | LIBOR                     | 908,536                       | (208,227)                                                                 | 18.6                                                     | 5.3                                                 |
| <b>LIBOR-Based Restricted Cash Deposit:</b>                |                           |                               |                                                                           |                                                          |                                                     |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup> | LIBOR                     | 477,135                       | 167,390                                                                   | 28.1                                                     | 4.8                                                 |
| <b>EURIBOR-Based Debt:</b>                                 |                           |                               |                                                                           |                                                          |                                                     |
| Euro-denominated interest rate swaps <sup>(4) (5)</sup>    | EURIBOR                   | 414,144                       | (3,368)                                                                   | 15.5                                                     | 3.8                                                 |

(1) Excludes the margins the Company pays on its variable-rate debt, which at of December 31, 2008 ranged from 0.3% to 1.0%.

(2) Principal amount reduces quarterly.





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(3) Inception dates of swaps are 2009 (\$408.5 million), 2010 (\$300.0 million) and 2011 (\$200.0 million).

(4) Principal amount reduces monthly to 70.1 million Euros (\$97.9 million) by the maturity dates of the swap agreements.

(5) Principal amount is the U.S. Dollar equivalent of 296.4 million Euro.

During May 2006, the Company sold to a third party two swaptions for \$2.4 million. The Company has not applied hedge accounting to these instruments and they have been recorded at fair value. These options, if exercised by the other party, will obligate the Company to enter into interest rate swap agreements whereby certain of the Company's floating-rate debt will be swapped with fixed-rate obligations. At December 31, 2008, the terms of these swaptions are as follows:

| <b>Interest</b> | <b>Principal</b>             |                   | <b>Remaining</b> | <b>Fixed Interest</b> |
|-----------------|------------------------------|-------------------|------------------|-----------------------|
| <b>Rate</b>     | <b>Amount <sup>(1)</sup></b> | <b>Start Date</b> | <b>Term</b>      | <b>Rate</b>           |
| <b>Index</b>    | <b>\$</b>                    |                   | <b>(years)</b>   | <b>(%)</b>            |
| LIBOR           | 150,000                      | August 31, 2009   | 12.0             | 4.3                   |
| LIBOR           | 109,375                      | November 15, 2008 | 10.3             | 4.0                   |

(1) Principal amount reduces \$5.0 million semi-annually (\$150.0 million) and \$2.6 million quarterly (\$109.4 million).

**Spot Tanker Market Risk**

In order to reduce variability in revenues from fluctuations in certain spot tanker market rates, from time to time, the Company has entered into forward freight agreements (FFAs) and synthetic time-charters (STCs). FFAs involve contracts to move a theoretical volume of freight at fixed-rates, thus hedging a portion of the Company's exposure to spot tanker market rates. STCs are a means of achieving the equivalent of a time-charter for a vessel that trades in the spot tanker market by taking the short position in a long-term FFA. As at December 31, 2008, the Company had six STCs which were equivalent to 3.5 Suezmax vessels. As at December 31, 2008, the FFAs, which include STCs, had an aggregate notional value of \$27.5 million, which is an aggregate of both long and short positions, and a net fair value liability of \$0.6 million. The FFAs, which include STCs, expire between June 2009 and September 2009. The Company has not designated these contracts as cash flow hedges for accounting purposes. Net gains and losses from FFAs and STCs are recorded within revenues in the consolidated statements of income (loss).

The Company also uses FFAs in non-hedge-related transactions to increase or decrease its exposure to spot tanker market rates, within strictly defined limits. Historically, the Company has used a number of different tools, including the sale/purchase of vessels and the in-charter/out-charter of vessels, to increase or decrease this exposure. The Company believes that it can capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing FFAs. As at December 31, 2008, the Company had no commitments to non-hedge related FFAs. As at December 31, 2007, the Company was committed to non-hedge-related FFAs totaling 7.0 million metric tonnes with a notional principal amount of \$69.9 million and a fair value of \$0.3 million. These FFAs expired between January 2008 and December 2008.

**Commodity Price Risk**

The Company hedges a portion of its bunker fuel expenditures with bunker fuel swap contracts. The Company has not designated its bunker fuel swap contracts as cash flow hedges for accounting purposes. As at December 31, 2008, the Company was committed to contracts totalling 13,500 metric tonnes with a weighted-average price of \$470.8 per tonne and a fair value liability of \$3.1 million. The bunker fuel swap contracts expire between January and September 2009.

**Counterparty Credit Risk**

The Company is exposed to credit loss in the event of non-performance by the counterparties to the foreign currency forward contracts, interest rate swap agreements, FFAs and bunker fuel swap contracts; however, the Company does not anticipate non-performance by any of the counterparties. In order to minimize counterparty risk, the Company only enters into derivative transactions with counterparties that are rated A or better by Standard & Poor's or Aa3 by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

**16. Commitments and Contingencies****a) Vessels Under Construction**

As at December 31, 2008, the Company was committed to the construction of seven Suezmax tankers, five LPG carriers and four shuttle tankers scheduled for delivery between January 2009 and August 2011, at a total cost of approximately \$1.1 billion, excluding capitalized interest. As at December 31, 2008, payments made towards these commitments totaled \$340.7 million (excluding \$46.5 million of capitalized interest and other miscellaneous construction costs), and long-term financing arrangements existed for \$634.6 million of the unpaid cost of these vessels. The Company intends to finance the remaining amount of \$169.6 million through incremental debt or surplus cash balances, or a combination thereof. As at December 31, 2008, the remaining payments required to be made under these newbuilding contracts were \$383.6 million (2009), \$257.4 million (2010) and \$163.2 million (2011).

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As at December 31, 2008, the Company was committed to the construction of one LNG carrier which delivered in March 2009. The Company has entered into these transactions with a party who has taken a 30% interest in the vessel and related long-term, fixed-rate time-charter contract. All amounts below include the non-controlling interests 30% share. The total cost of the LNG carrier is approximately \$186.2 million, excluding capitalized interest. As at December 31, 2008, payments made towards these commitments totaled \$150.2 million (excluding \$21.6 million of capitalized interest and other miscellaneous construction costs), and long-term financing arrangements existed for the remaining \$36.1 million unpaid cost of these LNG carriers. As at December 31, 2008, the remaining payments required to be made in year 2009 under these contracts was \$36.1 million. Following delivery, this LNG carrier will become subject to 20-year, fixed-rate time-charters to The Tangguh Production Sharing Contractors, a consortium led by BP Berau, a subsidiary of BP plc. Pursuant to existing agreements, the Company expects Teekay LNG to purchase the Company's 70% interest in the entity in 2009 for approximately \$85 million plus the assumption of approximately \$350 million in debt. However, Teekay LNG is seeking to structure the project in a tax efficient manner and has requested a ruling from the U.S. Internal Revenue Service related to the type of structure it would use for this project. If Teekay LNG does not receive a favorable ruling, it would, among other alternatives, seek to restructure the project or may elect not to acquire the Company's interest in the entity.

**b) Joint Ventures**

The Company has 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 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 connection with this award, the consortium has entered into agreements with Samsung Heavy Industries Co. Ltd. to construct the four LNG carriers at a total cost of approximately \$921.4 million (of which the Company's 33% portion is \$304.1 million), excluding capitalized interest. As at December 31, 2008, payments made towards these commitments by the joint venture company totaled \$106.0 million (of which the Company's 33% contribution was \$35.0 million), excluding capitalized interest and other miscellaneous construction costs. As at December 31, 2008, the remaining payments required to be made under these contracts were \$203.9 million (2010), \$475.6 million (2011) and \$135.9 million (2012). In accordance with existing agreements, the Company is required to offer to Teekay LNG its 33% interest in these vessels and related charter contracts, no later than 180 days before the scheduled delivery dates of the vessels. Deliveries of the vessels are scheduled between August 2011 and January 2012. The Company has also provided certain guarantees in relation to the performance of the joint venture company.

For the year ended December 31, 2008, the Company recorded \$33.0 million (2007 nil) of its share of the Angola LNG Project loss. This amount is included in equity (loss) income from joint ventures in the consolidated statement of income (loss). Substantially all of the loss relates to unrealized losses on interest rate swaps.

**c) Legal proceedings and claims**

The Company may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Company believes that any adverse outcome of existing claims, individually or in the aggregate, would not have a material effect on its financial position, results of operations or cash flows, when taking into account its insurance coverage and indemnifications from charterers.

**d) Other**

The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the

terms of the respective policies, the amounts of which are not considered material.

# **17. Supplemental Cash Flow Information**

- a) The changes in non-cash working capital items related to operating activities for the years ended December 31, 2008, 2007 and 2006 are as follows:

|                                   | <b>Year Ended<br/>December<br/>31,<br/>2008</b> | <b>Year Ended<br/>December<br/>31,<br/>2007</b> | <b>Year Ended<br/>December<br/>31,<br/>2006</b> |
|-----------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
|                                   | <b>\$</b>                                       | <b>\$</b>                                       | <b>\$</b>                                       |
| Accounts receivable               | (50,851)                                        | (44,837)                                        | (15,417)                                        |
| Prepaid expenses and other assets | 30,161                                          | (28,655)                                        | (21,909)                                        |
| Accounts payable                  | (29,718)                                        | 18,588                                          | 19,262                                          |
| Accrued and other liabilities     | 21,592                                          | 11,033                                          | 68,424                                          |
|                                   | (28,816)                                        | (43,871)                                        | 50,360                                          |

- b) On October 31, 2006, the first of the Company's three RasGas II LNG Carriers delivered and commenced operations under a capital lease. During 2006, the Company recorded the costs of two RasGas II LNG Carriers under construction and the related lease obligation amounting to \$295.2 million. Upon delivery of the two RasGas II LNG Carriers in 2007, the remaining vessel costs and related lease obligations amounting to \$15.3 million were recorded. These transactions are treated as non-cash transactions in the Company's consolidated statement of cash flows for the years ended December 31, 2006 and 2007, respectively.

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- c) Cash interest paid during the years ended December 31, 2008, 2007 and 2006 totaled \$372.2 million, \$320.6 million and \$182.9 million, respectively.
- d) On December 31, 2008 Teekay Nakilat (III) and QGTC 3 assigned their interest rate swap obligations to the RasGas 3 Joint Venture for no consideration. This transaction was treated as a non-cash transaction in the Company's consolidated statement of cash flows.
- e) On December 31, 2008 Teekay Nakilat (III) and QGTC 3 assigned their external long-term debt of \$867.5 million and related deferred debt issuance costs of \$4.1 million to the RasGas 3 Joint Venture. As a result of this transaction, the Company's long-term debt decreased by \$867.5 million and other assets decreased by \$4.1 million offset by a decrease in the Company's advances to the RasGas 3 Joint Venture. These transactions were treated as non-cash transactions in the Company's consolidated statement of cash flows.

**18. Vessel Sales and Write-downs on Vessels and Equipment**

**a) Vessel Sales**

During March 2008, the Company sold two Handysize product tankers. The Company also entered into an agreement to sell a third Handysize product tanker upon the expiration of its time-charter, which occurred during September 2008. All three vessels were part of the Company's spot tanker segment. As a result of these sales, the Company realized a gain of \$7.2 million.

During June 2008, the Company entered into an agreement to sell an Aframax tanker which delivered in September 2008. During September the Company sold a medium-range product tanker upon the expiration of its time-charter. Both vessels were part of the Company's spot tanker segment. As a result of these sales, the Company realized a gain of \$28.4 million.

In November 2008, the Company sold its 50% interest in the Swift Product Tanker Pool, which included the Company's interest in its ten in-chartered intermediate product tankers. The Company realized a gain of \$44.4 million. During November 2008, the Company sold a 2008-built Suezmax tanker from its spot tanker segment. The Company realized a gain of \$18.1 million.

During April 2007, the Company sold two Aframax tankers from its spot tanker segment and chartered them back under bareboat charters for a period of five years. The Company realized a gain of \$26.6 million, which has been deferred and will be amortized over the terms of the bareboat charters.

During May 2007, the Company sold a 1987-built shuttle tanker and certain equipment, resulting in a gain of \$11.6 million. The vessel, which was a part of the shuttle tanker and FSO segment.

During July 2007, the Company sold two Aframax tankers. One of the vessels operates in the Company's spot tanker segment and the second operates in the Company's fixed-rate tanker segment. The vessels have been chartered back through bareboat charters for a period of four years. The Company realized a gain of \$33.1 million, which is deferred and being amortized over the term of the bareboat charters.

During 2006, the Company sold a 1981-built, 50.5%-owned shuttle tanker and recorded a gain of \$6.4 million and a non-controlling interest expense of \$3.2 million relating to the sale. In addition, the Company sold shipbuilding contracts for three LNG carriers to SeaSpirit and was reimbursed for previously paid shipyard installments and other construction costs in the amount of \$313.0 million (see Note 10).

**b) Vessels and Equipment Write-downs**

The Company's 2008 consolidated financial statements include a \$40.4 million write-down for impairment of certain older vessels due to lower fair values compared to carrying values. The Company used discounted cashflows to determine the fair value.

The Company's 2006 consolidated financial statements include \$2.2 write-down of certain offshore equipment due to a lower estimated net realizable value arising from the early termination of a contract in June 2005. In addition, during

the year ended December 31, 2006, the Company recorded a write-down of \$5.5 million on a volatile organic compound (or *VOC*) plant on one of the Company's shuttle tankers that was redeployed from the North Sea to Brazil. During 2007 the VOC plant was removed and re-installed on another shuttle tanker in the Company's fleet.

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**19. Earnings (Loss) Per Share**

|                                                                       | <b>Year Ended<br/>December 31,<br/>2008<br/>\$</b> | <b>Year Ended<br/>December 31,<br/>2007<br/>\$</b> | <b>Year Ended<br/>December 31,<br/>2006<br/>\$</b> |
|-----------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
| Net (loss) income available for common stockholders                   | (469,455)                                          | 63,543                                             | 302,824                                            |
| Weighted average number of common shares                              | 72,493,429                                         | 73,382,197                                         | 73,180,193                                         |
| Dilutive effect of employee stock options and restricted stock awards |                                                    | 1,317,879                                          | 1,589,914                                          |
| Dilutive effect of equity units                                       |                                                    | 35,280                                             | 358,617                                            |
| Common stock and common stock equivalents                             | 72,493,429                                         | 74,735,356                                         | 75,128,724                                         |
| Earnings (loss) per common share:                                     |                                                    |                                                    |                                                    |
| - Basic                                                               | (6.48)                                             | 0.87                                               | 4.14                                               |
| - Diluted                                                             | (6.48)                                             | 0.85                                               | 4.03                                               |

For the years ended December 31, 2007 and 2006, the anti-dilutive effect of 1.0 million and 1.1 million shares attributable to outstanding stock options and the Equity Units were excluded from the calculation of diluted earnings per share.

**20. Valuation and Qualifying Accounts**

|                              | <b>Balance at<br/>beginning<br/>of year<br/>\$</b> | <b>Balance at end<br/>of<br/>year<br/>\$</b> |
|------------------------------|----------------------------------------------------|----------------------------------------------|
| Allowance for bad debts:     |                                                    |                                              |
| Year ended December 31, 2007 | 1,765                                              | 1,256                                        |
| Year ended December 31, 2008 | 1,256                                              | 1,567                                        |
| Restructuring cost accrual:  |                                                    |                                              |
| Year ended December 31, 2007 | 2,147                                              |                                              |
| Year ended December 31, 2008 |                                                    |                                              |

**21. Income Taxes**

The legal jurisdictions in which Teekay and several of its subsidiaries are incorporated do not impose income taxes upon shipping-related activities. However, among others, the Company's Australian ship-owning subsidiaries and its Norwegian subsidiaries are subject to income taxes.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (or *FIN 48*). This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires companies to determine whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation.



processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on guidance in the interpretation.

The Company adopted FIN 48 as of January 1, 2007. The following is a roll-forward of the Company's FIN 48 unrecognized tax benefits for 2008 and 2007:

|                                                         | <b>Year Ended December 31,</b> |             |
|---------------------------------------------------------|--------------------------------|-------------|
|                                                         | <b>2008</b>                    | <b>2007</b> |
| Balance of unrecognized tax benefits as at January 1,   | 8,630                          | 1,000       |
| Increase for positions taken in prior years             |                                |             |
| Increases for positions related to the current year     | 3,602                          | 7,630       |
| Amounts of decreases related to settlements             | (5,000)                        |             |
| Reductions due to lapse of statutes of limitations      |                                |             |
| Balance of unrecognized tax benefits as at December 31, | 7,232                          | 8,630       |

The majority of the increase for positions for the current year relate to potential tax on foreign sourced income on a time-charter with a related party. The reduction is a result of the Company receiving a refund for a re-investment tax credit that was included in one of its 2005 annual tax filings.

The Company does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however actual developments could differ from those currently expected. The tax years 2004 through 2008 remain open to examination by some of the major taxing jurisdictions to which the Company is subject to tax in. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The interest and penalties on unrecognized tax benefits are included in the roll-forward schedule above and were approximately \$1.4 million in 2008 and \$0.4 million in 2007.

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The significant components of the Company's deferred tax assets and liabilities are as follows:

|                                                        | <b>December 31,<br/>2008<br/>\$</b> | <b>December 31,<br/>2007<br/>\$</b> |
|--------------------------------------------------------|-------------------------------------|-------------------------------------|
| Deferred tax assets:                                   |                                     |                                     |
| Vessels and equipment                                  | 64,080                              | 124,970                             |
| Tax losses carried forward <sup>(1)</sup>              | 163,369                             | 223,836                             |
| Other                                                  | 28,265                              | 24,941                              |
| Total deferred tax assets                              | 255,714                             | 373,747                             |
| Deferred tax liabilities:                              |                                     |                                     |
| Vessels and equipment                                  | 50,231                              | 84,198                              |
| Long-term debt                                         | 11,505                              | 94,071                              |
| Unrealized foreign exchange                            |                                     | 17,215                              |
| Total deferred tax liabilities                         | 61,736                              | 195,484                             |
| Net deferred tax assets                                | 193,978                             | 178,263                             |
| Valuation allowance                                    | (200,160)                           | (253,238)                           |
| Net deferred tax assets and liabilities <sup>(2)</sup> | (6,182)                             | (74,975)                            |

(1) Substantially all of the Company's net operating loss carryforwards of \$630.0 million relate to its Australian ship-owning subsidiaries and its Norwegian subsidiaries. These net operating loss carryforwards are available to offset future taxable income in the respective jurisdictions, and can be carried forward

indefinitely.

- (2) The change in the net deferred tax liabilities is related to the change in temporary differences and foreign exchange gains.

The components of the provision for income taxes are as follows:

|                               | Year Ended<br>December<br>31,<br>2008<br>\$ | Year Ended<br>December<br>31,<br>2007<br>\$ | Year Ended<br>December<br>31,<br>2006<br>\$ |
|-------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Current                       | (796)                                       | (5,264)                                     | (8,386)                                     |
| Deferred                      | 56,972                                      | 8,456                                       | (425)                                       |
| Income tax recovery (expense) | 56,176                                      | 3,192                                       | (8,811)                                     |

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the relevant year at the applicable statutory income tax rates and the actual tax charge related to the relevant year are as follows:

|                                                                       | Year Ended<br>December<br>31,<br>2008<br>\$ | Year Ended<br>December<br>31,<br>2007<br>\$ | Year Ended<br>December<br>31,<br>2006<br>\$ |
|-----------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Net (loss) income before taxes                                        | (516,070)                                   | 69,254                                      | 318,394                                     |
| Net (loss) income not subject to taxes                                | (712,237)                                   | 122,170                                     | 382,373                                     |
| <b>Net income (loss) subject to taxes</b>                             | 196,167                                     | (52,916)                                    | (63,979)                                    |
| <b>At applicable statutory tax rates</b>                              | 46,893                                      | (13,394)                                    | (23,096)                                    |
| Permanent differences and adjustments related to currency differences | (53,137)                                    | 22,708                                      | 12,682                                      |
| Temporary differences and adjustments to valuation allowance          | (47,763)                                    | (7,285)                                     | 19,030                                      |
| Other                                                                 | (2,169)                                     | (5,221)                                     | 195                                         |
| <b>Tax (recovery) charge related to current year</b>                  | (56,176)                                    | (3,192)                                     | 8,811                                       |



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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**  
**(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

**22. Restructuring Charge**

During the year ended December 31, 2008, the Company incurred restructuring charges of \$9.2 million relating to the closure of one of the Company's three offices in Norway, \$3.1 million relating to global staffing changes, \$1.8 million relating to the reorganization of a business unit, and \$1.4 million relating to costs incurred to change the crew of the *Samar Spirit* from Australian crew to International crew. The Company did not incur any significant restructuring costs in 2007. During the year ended December 31, 2006, the Company incurred \$8.9 million of restructuring costs to complete the relocation of certain operational functions that commenced in 2005.

**23. Subsequent Events**

- a) In January 2009, the Company announced that its Board of Directors has approved the Company's quarterly cash dividend of \$0.31625 per share. This dividend was paid on January 30, 2009 to shareholders of record as at January 16, 2009. In April 2009, the Company announced that its Board of Directors has approved the Company's quarterly cash dividend of \$0.31625 per share. This dividend was paid on April 24, 2009 to shareholders of record as at April 10, 2009. In June 2009, the Company announced that its Board of Directors has approved the Company's quarterly cash dividend of \$0.31625 per share. This dividend will be paid on July 24, 2009 to shareholders of record as at July 10, 2009.
- b) On March 30, 2009, Teekay LNG completed a follow-on public offering of 4.0 million common units at a price of \$17.60 per unit, for gross proceeds of approximately \$70.4 million. As a result of the above transactions, Teekay LNG has raised gross equity proceeds of \$71.8 million (including the General Partner's proportionate capital contribution), and Teekay Corporation's ownership of Teekay LNG has been reduced from 57.7% to 53.0% (including its 2% General Partner interest). Teekay LNG used the total net offering proceeds of approximately \$68.5 million to prepay amounts outstanding on two of its revolving credit facilities.

On June 24, 2009, Teekay Tankers completed a follow-on public offering of 7.0 million common shares at a price of \$9.80 per share, for gross proceeds of \$68.6 million. Teekay Tankers has granted the underwriters a 30-day option to purchase up to an additional 1.05 million shares to cover any over-allotments. As a result of the above transaction, Teekay Corporation's ownership of Teekay Tankers has been reduced from 54.0% to 42.2%. Teekay Tankers used the total net offering proceeds of approximately \$65.9 million to acquire a 2003-built Suezmax tanker from Teekay Corporation for \$57.0 million and to repay a portion of its outstanding debt under its revolving credit facility.

- c) One of the Kenai vessels, the *Arctic Spirit*, has come off charter from the Marathon Oil Corporation/ConocoPhillips joint venture on March 31, 2009, and the Company has entered into a joint development and option agreement with Merrill Lynch Commodities, Inc. (MLCI), giving MLCI the option to purchase the vessel for conversion to an LNG FPSO unit. The agreement provides for a purchase price of \$105 million if the Company chooses to participate in the project, or \$110 million if the Company chooses not to participate. Under the option agreement, the *Arctic Spirit* is reserved for MLCI until December 31, 2009 and MLCI may extend the option quarterly through 2010. If MLCI exercises the option and purchases the vessel from the Company, it is expected that MLCI will convert the vessel to an FPSO unit (although it is not required to do so) and charter it under a long-term charter contract to a third party. The Company has the right to participate up to 50% in the conversion and charter project on terms that will be determined as the project progresses. The agreement with MLCI also provides that if the conversion of the *Arctic Spirit* to an

FPSO unit proceeds, the Company will negotiate, along with an equity investment, a similar option for a designee of MLCI to purchase the second Kenai LNG carrier for \$125 million when it comes off charter.

- d) During May 2009, the Company sold a 2007-built product tanker and a 2005-built product tanker. These vessels did not meet the held for sale criteria at December 31, 2008 and accordingly, are not presented on the December 31, 2008 balance sheet as vessels held for sale. Both vessels are part of the Company's spot tanker segment. The Company expects to realize a gain of approximately \$28.5 million as a result of these transactions.

During January and February 2009, the Company sold a 1993-built Aframax tanker through a sale leaseback agreement and a 2009-built product tanker, respectively, which are presented on the December 31, 2008 balance sheet as vessels held for sale. Both vessels were part of the Company's spot tanker segment. The Company expects to realize a gain of approximately \$16.8 million as a result of these transactions, of which \$16.6 million will be deferred and amortized over the 4 year term of the bareboat charter.

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**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                   |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8.1                    | List of Significant Subsidiaries                                                                                                                                                     |
| 12.1                   | Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Executive Officer.                                                                                                          |
| 12.2                   | Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Financial Officer.                                                                                                          |
| 13.1                   | Teekay Corporation Certification of Bjorn Moller, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2                   | Teekay Corporation Certification of Vincent Lok, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 23.1                   | Consent of Ernst & Young LLP, as independent registered public accounting firm.                                                                                                      |