TEEKAY CORP
Form 20-F
April 01, 2019
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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
ý ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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)
Not Applicable
(Translation of Registrant's name into English)
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530
(Address and telephone number of principal executive offices)
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)
Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

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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 issuer's classes of capital or common stock as of the close of the period covered by the annual report.
100,435,210 shares of Common Stock, par value of $0.001 per share.
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes ¨   No ý
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 ý
Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes ý   No ¨
Indicate by check mark if the registrant (1) has submitted electronically, if any, every Interactive Data File required to be submitted 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 such files).   Yes ý   No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ¨   Accelerated Filer ý   Non-Accelerated Filer ¨ Emerging growth company ¨

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ¨

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨   Item 18 ¨
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No ý

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PART I

This annual report of Teekay Corporation on Form 20-F for the year ended December 31, 2018 (or Annual Report) should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this Annual Report to "Teekay," "the Company," "we," "us" and "our" and similar terms refer to Teekay Corporation and its subsidiaries. References in this Annual Report to Teekay LNG refer to Teekay LNG Partners L.P. (NYSE: TGP), to Teekay Tankers refer to Teekay Tankers Ltd. (NYSE: TNK) and to "Teekay Offshore" refer to Teekay Offshore Partners L.P. (NYSE: TOO).

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 and results of operations and our future revenues, expenses and capital expenditures, and our expected financial flexibility to pursue capital expenditures, acquisitions and other expansion opportunities, including vessel acquisitions;
- our dividend policy and our ability to pay cash dividends on our shares of common stock or any increases in quarterly distributions, and the distribution and dividend policies of our publicly-listed subsidiaries, Teekay LNG and Teekay Tankers (or the Controlled Daughter Entities), and our equity-accounted investee, Teekay Offshore (collectively with the Controlled Daughter Entities, the Daughter Entities), including the ability to increase the distribution levels of the Daughter Entities in the future;
- meeting our going concern requirements and our liquidity needs, and the liquidity needs of Teekay LNG and Teekay Tankers, anticipated funds and sources of financing for liquidity needs and the sufficiency of cash flows, and our estimation that we will have sufficient liquidity for at least the next 12 months;
- our ability and plans to obtain financing for new and existing projects, refinance existing debt obligations and fulfill our debt obligations;
- our plans for Teekay Parent, which excludes our interests in the Daughter Entities and includes Teekay Corporation and its remaining subsidiaries, not to have a direct ownership in any conventional tankers and floating production, storage and offloading (or FPSO) units, and increase its free cash flow per share, reduce its net debt and further strengthen its balance sheet;
- conditions and fundamentals of the markets in which we operate, including the balance of supply and demand in these markets and spot tanker charter rates and oil production and competition for providing services;
- our expectations regarding tax liabilities and classifications;
- 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 and charter rates, and estimated growth in size of the world LNG and LPG fleets;
- our expectations as to the useful lives of our vessels;
- our future growth prospects;
- the impact of future changes in the demand for and price of oil, and the related effects on the demand for and price of natural gas;
- expected costs, capabilities, completion and delivery dates of newbuildings, acquisitions and conversions, and the commencement of any related charters or other contracts;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charter or on a short-term charter contract;
-

- our expectations regarding the ability of our other customers to make charter payments to us, and the ability of our customers to fulfill purchase obligations at the end of charter contracts;
- the future resumption of a LNG plant in Yemen operated by Yemen LNG Company Limited (or YLNG), the expected expiration of the current deferral arrangement with YLNG, the expected further agreement with YLNG to suspend the charter contracts, the expected repayment of deferred hire amounts on Teekay LNG's two 52%-owned vessels, the Marib Spirit and Arwa Spirit, on charter to YLNG, and the expected reduction to Teekay LNG's equity income in 2019 as a result of the charter payment deferral;
- expected deliveries of the LNG newbuilding vessels in connection with Teekay LNG's joint venture with China LNG Shipping (Holdings) Limited;
- the expected technical and operational capabilities of newbuildings, including the benefits of the M-type, Electronically Controlled, Gas Injection (or MEGI) twin engines in certain LNG carrier newbuildings;
- our expectations regarding the schedule and performance of the receiving and regasification terminal in Bahrain, which will be owned and operated by a new joint venture, Bahrain LNG W.L.L., owned by Teekay LNG (30%), National Oil & Gas Authority (or Nogaholding) (30%), Gulf Investment Corporation (or GIC) (24%) and Samsung C&T (or Samsung) (16%) (or the Bahrain LNG Joint Venture), and our expectations regarding the charter of a floating storage unit (or FSU) vessel for the project;
- the future valuation or impairment of our assets, including our FPSO units, investment in Teekay Offshore and goodwill;

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- our expectations and estimates regarding future charter business, with respect to minimum charter hire payments, revenues and our vessels' ability to perform to specifications and maintain their hire rates in the future;
- our expectations regarding the ability of Awilco LNG ASA (or Awilco), and Teekay LNG's other customers to make charter payments to Teekay LNG, and the ability of our customers to fulfill purchase obligations at the end of charter contracts, including obligations relating to two of Teekay LNG's LNG carriers completing charters with Awilco in 2019;
- 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, dry-docking requirements and durations and the adequacy and cost of insurance;
- the effectiveness of our risk management policies and procedures and the ability of the counterparties to our derivative and other contracts to fulfill their contractual obligations;
- the impact on us and the shipping industry of environmental liabilities, including climate change;
- the impact and expected cost of, and our ability to comply with, new and existing governmental regulations and maritime self-regulatory organization standards applicable to our business, including the expected cost to install ballast water treatment systems on our vessels and the switch to burning low sulphur fuel in compliance with the International Marine Organization (or IMO) proposals and the effect of IMO 2020, a new regulation for a 0.50% global sulphur cap for marine fuels effective January 1, 2020.
- our ability to obtain all permits, licenses and certificates with respect to the conduct of our operations;
- expected uses of proceeds from vessel or securities transactions;
- the expectations as to the chartering of unchartered vessels;
- the impact of our cost saving initiatives;
- our entering into joint ventures or partnerships with companies;
- our hedging activities relating to foreign exchange, interest rate and spot market risks, and the effects of fluctuations in foreign exchange, interest rate and spot market rates on our business and results of operations;
- the potential impact of new accounting guidance; and
- our business strategy and other plans and objectives for future operations.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed 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 the SEC).

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

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information
Selected Financial Data
Set forth below is selected consolidated financial and other data of Teekay for fiscal years 2014 through 2018, 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 Reports of the Independent Registered Public Accounting Firm thereon with respect to fiscal years in the three-year period ended December 31, 2018 (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).

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (or ASU 2014-09). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 became effective for Teekay on January 1, 2018. We adopted ASU 2014-09 as a cumulative-effect adjustment as of the date of adoption. As such, periods prior to January 1, 2018 were not retroactively adjusted. The impact to our historical consolidated results of operation for the year ended December 31, 2018 was as follows:

- We previously presented the net allocation for our vessels participating in revenue sharing arrangements (or RSAs) as revenues. We have determined that we are the principal in voyages our vessels perform that are included in the RSAs. As such, the revenue from those voyages is presented in revenues and the difference between this amount and our net allocation from the RSA is presented as voyage expenses. This had the effect of increasing both revenues and voyage expenses for the year ended December 31, 2018 by $292.6 million.

- We manage vessels owned by our equity-accounted investments and third parties. Upon the adoption of ASU 2014-09, costs incurred by us for our seafarers are presented as vessel operating expenses and the reimbursement of such expenses are presented as revenue, instead of such amounts being presented on a net basis. This had the effect of increasing both revenues and vessel operating expenses for the year ended December 31, 2018 by $82.9 million.

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	Years Ended December 31, 2018	2017	2016	2015	2014
	(in thousands of U.S. Dollars, except share and per share data)				
Income Statement Data:					
Revenues	$1,707,758	$1,880,332	$2,328,569	$2,450,382	$1,993,920
Income from vessel operations [(1)]	164,319	6,700	384,290	625,132	427,159
Interest expense	(254,126)	(268,400)	(282,966)	(242,469)	(208,529)
Interest income	8,525	6,290	4,821	5,988	6,827
Realized and unrealized losses on non-designated derivative instruments	(14,852)	(38,854)	(35,091)	(102,200)	(231,675)
Equity income (loss)	61,054	(37,344)	85,639	102,871	128,114
Foreign exchange gain (loss)	6,140	(26,463)	(6,548)	(2,195)	13,431
Loss on deconsolidation of Teekay Offshore	(7,070)	(104,788)	—	—	—
Other (loss) income	(2,013)	(53,981)	(39,013)	1,566	(1,152)
Income tax (expense) recovery	(19,724)	(12,232)	(24,468)	16,767	(10,173)
Net (loss) income	(57,747)	(529,072)	86,664	405,460	124,002
Net (income) loss attributable to non-controlling interests	(21,490)	365,796	(209,846)	(323,309)	(178,759)
Net (loss) income attributable to shareholders of Teekay Corporation	(79,237)	(163,276)	(123,182)	82,151	(54,757)
Per Common Share Data:					
Basic (loss) earnings attributable to shareholders of Teekay Corporation	(0.79)	(1.89)	(1.62)	1.13	(0.76)
Diluted (loss) earnings attributable to shareholders of Teekay Corporation	(0.79)	(1.89)	(1.62)	1.12	(0.76)
Cash dividends declared	0.2200	0.2200	0.2200	1.7325	1.2650
Balance Sheet Data (at end of year):					
Cash and cash equivalents	$424,169	$445,452	$567,994	$678,392	$806,904
Restricted cash	81,470	106,722	237,248	176,437	119,351
Vessels and equipment	5,517,133	5,208,544	9,138,886	9,366,593	8,106,247
Net investments in direct financing leases	575,163	495,990	660,594	684,129	704,953
Total assets	8,391,670	8,092,437	12,814,752	13,061,248	11,779,690
Total debt (including obligations related to capital leases)	4,993,368	4,578,162	7,032,385	7,443,213	6,715,526
Capital stock and additional paid-in capital	1,045,659	919,078	887,075	775,018	770,759
Non-controlling interest	2,058,037	2,102,465	3,189,928	2,782,049	2,290,305
Total equity	2,867,028	2,879,656	4,089,293	3,701,074	3,388,633
Number of outstanding shares of common stock	100,435,210	89,127,041	86,149,975	72,711,371	72,500,502
Other Financial Data:					
EBITDA [(2)]	$483,885	$231,099	$961,102	$1,134,674	$758,781
Adjusted EBITDA [(2)]	745,076	893,145	1,241,857	1,379,679	1,027,458
Total debt to total capitalization [(3)]	63.5%	61.4%	63.2%	66.8%	66.5%
Net debt to total net capitalization [(4)]	61.0%	58.3%	60.4%	64.0%	63.1%
Capital expenditures:					
Expenditures for vessels and equipment	$693,792	$1,054,052	$648,326	$1,795,901	$994,931

(1) Income from vessel operations includes, among other things, the following:

Years Ended December 31, 2018	2017	2016	2015	2014

	(in thousands of U.S. Dollars)				
Write-down and (loss) gain on sale of vessels	$(53,693)	$(270,743)	$(112,246)	$(70,175)	$11,271
Restructuring charges	(4,065)	(5,101)	(26,811)	(14,017)	(9,826)
	$(57,758)	$(275,844)	$(139,057)	$(84,192)	$1,445

(2) EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before foreign exchange gain (loss), items included in other (loss) income, write-down and (loss) gain on sale of vessels, equipment and other operating assets, amortization of in-process revenue contracts, unrealized gains (loss) on derivative instruments, realized losses on interest rate swaps, realized losses on interest rate swap amendments and terminations, loss on deconsolidation of Teekay Offshore, write-downs related to equity-accounted investments, and our share of the above items in non-consolidated joint ventures which are accounted for using the equity method of accounting. EBITDA and Adjusted EBITDA are used as supplemental financial performance measures by management and by external users of our financial statements, such as investors. EBITDA and Adjusted EBITDA assist our management and security holders by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA benefits security holders in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in order to assess whether to continue to hold our equity, or debt securities, as applicable.

Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net income, operating income or any other measure of financial performance presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. Dollars)				
Income Statement Data:					
Reconciliation of EBITDA and Adjusted EBITDA to Net (loss) income					
Net (loss) income	$(57,747)	$(529,072)	$86,664	$405,460	$124,002
Income tax expense (recovery)	19,724	12,232	24,468	(16,767)	10,173
Depreciation and amortization	276,307	485,829	571,825	509,500	422,904
Interest expense, net of interest income	245,601	262,110	278,145	236,481	201,702
EBITDA	483,885	231,099	961,102	1,134,674	758,781
Foreign exchange (gain) loss [a]	(6,140)	26,463	6,548	2,195	(13,431)
Items included in other loss [b] [c]	2,372	48,750	42,401	—	7,699
Write-down and loss (gain) on sale of vessels	53,693	270,743	112,246	70,175	(11,271)
Amortization of in-process revenue contracts	(14,890)	(26,958)	(28,109)	(30,085)	(40,939)
Unrealized (gains) losses on derivative instruments	(12,590)	(13,634)	(69,401)	(38,319)	100,496
Realized losses on interest rate swaps	13,898	53,921	87,320	108,036	125,424
Realized losses on interest rate swap amendments and terminations	13,681	610	8,140	10,876	1,319
Loss on deconsolidation of Teekay Offshore [d]	7,070	104,788	—	—	—
Write-down and gain on sale of equity-accounted investments [e]	(21,576)	46,168	2,357	—	—
Adjustments relating to equity income [f]	225,673	151,195	119,253	122,127	99,380
Adjusted EBITDA	745,076	893,145	1,241,857	1,379,679	1,027,458

(a)

Foreign exchange (gain) loss includes the unrealized gain of $21.2 million in 2018 (2017 – gain of $82.7 million, 2016 – gain of $75.0 million, 2015 – loss of $89.2 million, and 2014 – loss of $167.3 million) on cross currency swaps.

(b) In June 2016, as part of its financing initiatives, Teekay Offshore canceled the construction contracts for its two UMS newbuildings. As a result, Teekay Offshore accrued for potential damages resulting from the cancellations and reversed contingent liabilities previously recorded that were relating to the delivery of the UMS newbuildings. This net loss provision of $23.4 million for the year ended December 31, 2016 is reported in other loss in our consolidated statements of (loss) income. The newbuilding contracts are held in Teekay Offshore's separate subsidiaries and obligations of these subsidiaries are non-recourse to Teekay Offshore.

(c) The Company held cost-accounted investments at cost. During the year ended December 31, 2016, the Company recorded a write-down of an investment of $19.0 million. This investment was subsequently sold in 2017, resulting in a gain on sale of cost-accounted investment of $1.3 million. During 2017, the Company recognized an additional tax indemnification guarantee liability of $50 million related to the Teekay Nakilat capital leases.

(d) On September 25, 2017, Teekay, Teekay Offshore and Brookfield Business Partners L.P. together with its institutional partners (collectively, Brookfield) completed a strategic partnership (or the Brookfield Transaction), which resulted in the deconsolidation of Teekay Offshore as of that date. For additional information regarding the deconsolidation of Teekay Offshore, please read "Item 18 - Financial Statements: Note 4 – Deconsolidation of TOO".

(e) The year ended December 31, 2018 includes a gain on the sale of Teekay's 43.5% stake in Magnora ASA in November 2018, a gain on the sale of a 2% ownership interest in Teekay Offshore's general partner to Brookfield in July 2018, a loss on the sale of Teekay's investment in KT Maritime (Pty) Ltd. and a gain on the sale of Teekay LNG's 50% ownership interest in the Excelsior Joint Venture.

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(f) Adjustments relating to equity income, which is a non-GAAP measure, should not be considered as an alternative to equity income or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjustments relating to equity income exclude some, but not all, items that affect equity income and these measures may vary among other companies. Therefore, adjustments relating to equity income as presented in this Annual Report may not be comparable to similarly titled measures of other companies. When using Adjusted EBITDA as a measure of liquidity it should be noted that this measure includes the Adjusted EBITDA from our equity-accounted for investments. We do not have control over the operations, nor do we have any legal claim to the revenue and expenses of our equity-accounted for investments. Consequently, the cash flow generated by our equity-accounted for investments may not be available for use by us in the period generated. Equity income from equity-accounted investments is adjusted for depreciation and amortization, interest expense, net of interest income, income tax expense (recovery), amortization of in-process revenue contracts, foreign currency exchange loss (gain), realized and unrealized loss (gain) on derivative instruments and certain other items. Adjustments relating to equity income from our equity-accounted investments are as follows:

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. Dollars)				
Depreciation and amortization	115,370	82,513	69,781	69,103	61,367
Interest expense, net of interest income	101,344	63,189	45,584	47,799	42,713
Income tax expense (recovery)	3,209	503	724	476	(188)
Amortization of in-process revenue contracts	(8,799)	(4,307)	(5,482)	(7,153)	(8,295)
Foreign currency exchange loss (gain)	716	366	132	(527)	(441)
Write-down and loss (gain) on sale of vessels	16,277	5,479	4,763	(7,472)	(16,923)
Realized and unrealized (gain) loss on derivative instruments	(4,785)	3,452	3,075	15,027	21,147
Losses on debt repurchases	2,341	—	—	—	—
Other	—	—	676	4,874	—
Adjustments relating to equity income	225,673	151,195	119,253	122,127	99,380

(3) Total capitalization represents total debt and total equity.

(4) Net debt is a non-GAAP financial measure. Net debt represents total debt less cash, cash equivalents and restricted cash. Total net capitalization represents net debt and total equity.

Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common stock. The occurrence of any of the events described in this section could materially and adversely affect our business, financial condition, operating results and ability to pay interest or principal or dividends on, and the trading price of our public debt and common stock.

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, production and storage of oil, petroleum products, LNG and LPG depend upon world and regional oil, petroleum and natural gas markets. Any decrease in shipments of oil, petroleum products, LNG or LPG 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, LNG or LPG, 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.

A decline in oil prices may adversely affect our growth prospects and results of operations.

Although global crude oil and gas prices have experienced moderate recovery since falling from the highs of mid-2014, prices have not returned to those same highs and remain volatile due to global and regional geopolitical and economic risks and changes. A further decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in or termination of production of oil at certain fields we service, which may reduce our revenues under production-based components of our FPSO unit contracts or life-of-field contracts;
- reductions in revenues from certain FPSO unit contracts that are affected by changes to oil prices;
- a reduction in both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil;
- lower demand for vessels of the types we own and operate, which may reduce available charter rates and revenue to us upon redeployment of our vessels, in particular FPSO units, following expiration or termination of existing contracts or upon the initial chartering of vessels, or which may result in extended periods of our vessels being idle between contracts;

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- customers potentially seeking to renegotiate or terminate existing vessel contracts, failing to extend or renew contracts upon expiration, or seeking to negotiate cancellable contracts;
- the inability or refusal of customers to make charter payments to us, including purchase obligations at the end of certain charter contracts, due to financial constraints or otherwise; or
- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

Current market conditions limit our access to capital and our growth.

We have relied primarily upon bank financing and debt and equity offerings, primarily by the Daughter Entities, to fund our growth. Current market conditions generally in the energy sector and for master limited partnerships have significantly reduced our and the Daughter Entities' access to capital, particularly equity capital, compared to periods prior to mid-2014. Issuing additional common equity given current market conditions is more dilutive and costly than it has been in the past. Lack of access to debt or equity capital at reasonable rates would adversely affect our growth prospects and our ability to refinance debt and pay dividends to our equityholders.

Teekay Parent has limited current liquidity.

As at December 31, 2018, Teekay Parent had total cash and cash equivalents of $220.2 million and total liquidity, including cash, cash equivalents and undrawn credit facilities, of $333.4 million. The outstanding principal amount of our 8.5% senior unsecured notes that mature in January 2020 was $508.6 million and $497.7 million at December 31, 2018 and March 29, 2019, respectively. Our current and forecasted liquidity could constrain our ability to meet our financial obligations. Teekay Parent will need to pursue one or more financing initiatives in order to refinance or repay its 8.5% senior unsecured notes. We are considering, among other things, subject to market conditions and other factors, debt financings, debt and equity securities issuances and sales of Teekay Parent's FPSO units or other assets. There is no assurance we will be able to complete any of these transactions on acceptable terms, if at all.

Our ability to repay or refinance debt obligations and to fund capital expenditures will depend on certain financial, business and other factors, many of which are beyond our control. We will need to obtain additional financing, which financing may limit our ability to make cash dividends and distributions, increase our financial leverage and result in dilution to our equityholders.

To fund existing and future debt obligations and capital expenditures and to meet the minimum liquidity requirements under the financial covenants in our credit facilities, we will be required to obtain additional sources of financing, in addition to amounts generated from operations. These anticipated sources of financing include raising additional capital through equity issuances.

Our ability to obtain external financing may be limited by our financial condition at the time of any such financing as well as by adverse market conditions in general. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash dividends or distributions to security holders or operate our or their businesses as currently conducted. In addition, issuing additional equity securities may result in significant equityholder dilution and would increase the aggregate amount of cash required to maintain quarterly dividends and distributions. The sale of certain assets will reduce cash from operations and the cash available for distribution to equityholders. For more information on our liquidity requirements, please read "Item 18 - Financial Statements: Note 16c — Commitments and Contingencies - Liquidity."

We have guaranteed certain debt of Teekay Tankers and will be directly obligated to make related payments if Teekay Tankers defaults in its payment obligations.

We have guaranteed obligations pursuant to certain credit facilities of Teekay Tankers. Two of Teekay Tankers' term loans require Teekay Parent and Teekay Tankers collectively to maintain the greater of (a) free cash (cash and cash equivalents) of at least $100.0 million for one of the term loans and $50.0 million for the other and (b) an aggregate of free cash and undrawn committed revolving credit lines with at least six months to maturity of at least 7.5% for one of the term loans and 5.0% for the other, of their total debt. In addition, certain loan agreements require Teekay Tankers to maintain a minimum liquidity (cash, cash equivalents and undrawn committed revolving credit lines with at least six months to maturity) of $35.0 million and at least 5.0% of Teekay Tankers' total consolidated debt. As at December 31, 2018, the aggregate outstanding balance on such credit facilities was $166.4 million. If Teekay Tankers defaults in paying these obligations, we will be obligated to make the required payments.

The value of our investment in Teekay Offshore could vary significantly.

We own approximately 13.8% of the outstanding common units of Teekay Offshore, which units represent 15.9% of the assets of Teekay Parent, at their current carrying value of $134.4 million. Based on Teekay Offshore's publicly-traded unit price at December 31, 2018, of $1.21 per unit, the fair value of this investment was $68.5 million, and based on the publicly-traded unit price at September 30, 2018 of $2.33 per unit, the fair value of this investment was $131.9 million. We also hold warrants exercisable for additional Teekay Offshore common units and we own a 49% interest in Teekay Offshore’s general partner. Due to the recent decline in Teekay Offshore's publicly-traded unit price, we may realize a loss if we choose to divest our investment in Teekay Offshore. Further, should we choose not to divest of our investment in Teekay Offshore and the fair value remains below our carrying value for an other than temporary period, we may recognize a significant impairment loss. Based on the publicly-traded unit price of Teekay Offshore's outstanding common units of $1.20 at March 29, 2019, the fair value of this investment was $67.9 million.

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The value of our investment in Teekay Offshore may be affected by a number of factors, most of which are beyond our control, including, among others, the following:

- Teekay Offshore's distribution policy, its ability to make cash distributions on its common units and any changes in quarterly distributions;
- Teekay Offshore's results of operations, cash flows, financial condition and liquidity, including variations in quarterly operating results;
- future sales of Teekay Offshore common units or other securities;
- given the number of common units owned by Brookfield and Teekay there is a limited public float of common units;
- investors' perceptions of Teekay Offshore and its markets and industries;
- general economic or financial market conditions;
- conditions in the energy and master limited partnership capital markets;
- a reduction in, or termination of, production of oil at fields Teekay Offshore services;
- lower demand and rates for Teekay Offshore's assets;
- operational issues, including of Teekay Offshore's FPSO units;
- Teekay Offshore's ability to refinance existing debt obligations, to raise additional debt and capital, to fund capital expenditures, and negotiate extensions or new or redeployments of existing assets, including FPSO units;
- the loss by Teekay Offshore of any significant customer(s);
- the ability of Teekay Offshore's customers and other business partners to fulfill their contractual obligations, or the early termination of any contracts;
- the outcome and cost of claims or potential claims against Teekay Offshore;
- the failure of securities analysts to publish research about Teekay Offshore's common units or analysts making changes in their financial estimates; and
- announcements by Teekay Offshore or its competitors of significant contracts, acquisitions or capital commitments.

In addition, pursuant to the terms of the LLC agreement of the general partner of Teekay Offshore, we have agreed to certain restrictions on our ability to transfer our membership interest in the general partner of Teekay Offshore without the prior approval of Brookfield and, if Brookfield agrees to sell all or substantially all of its common units in Teekay Offshore and membership interests in Teekay Offshore's general partner, Brookfield may require us to participate in the sale on the same terms and conditions as Brookfield.

Our reputation could be harmed if Teekay Offshore fails to operate its fleet up to our standards.

In connection with the 2017 transactions among us, Teekay Offshore and Brookfield, we entered into a trademark license agreement with Teekay Offshore, pursuant to which we have granted to Teekay Offshore a license to use certain intellectual property, including trademarks and service marks owned by us, in connection with Teekay Offshore's business. The license permits Teekay Offshore to, among other things, use the Teekay logo and other identifying traits on its vessels. The license is granted subject to Teekay Offshore's compliance with Teekay quality control standards, applicable legal requirements and other conditions, including operation of Teekay Offshore's business consistent with certain key performance indicators applicable to Teekay LNG and Teekay Tankers. However, failure of Teekay Offshore to operate its business or fleet in accordance with such standards and indicators, particularly if a vessel was involved in a significant maritime or environmental incident, may harm our reputation before we are able to terminate the license agreement for noncompliance.

Our cash flow depends substantially on the ability of our subsidiaries and equity-accounted investees, primarily our Daughter Entities, to make distributions to us. Our Daughter Entities have significantly reduced their cash distribution levels.

The source of our cash flow includes cash distributions and dividends from our subsidiaries and equity-accounted investees, primarily Teekay LNG, Teekay Tankers, and Teekay Offshore. The amount of cash our subsidiaries and equity-accounted investees can distribute to us principally depends upon the amount of distributions or dividend declared by each of their Boards of Directors and the amount of cash they generate from their operations.

Effective for the quarterly distribution of the fourth quarter of 2015, we reduced our quarterly cash dividend per share to $0.055 from $0.55, Teekay LNG reduced its quarterly cash distribution per common unit to $0.14 from $0.70, and Teekay Offshore reduced its quarterly cash distribution per common unit to $0.11 from $0.56. At the time these changes were made, there was a dislocation in the capital markets relative to the stability of our businesses. More specifically, the future equity capital requirements for our committed growth projects, coupled with the relative weakness in energy and capital markets, resulted in our conclusion that it would be in the best interests of our shareholders to conserve more of our internally generated cash flows to fund committed existing growth projects and to reduce debt levels.

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We and Teekay LNG each maintained these reduced dividend and distribution levels throughout 2016, 2017 and 2018. Teekay LNG has announced a distribution increase of 36% from 2018 levels, effective in the first quarter of 2019. Teekay Offshore maintained its reduced distribution level throughout 2016, and in September 2017, Teekay Offshore further reduced its quarterly cash distribution per common unit to $0.01 in connection with the Brookfield Transaction. Pursuant to the terms of the amended limited liability company agreement entered into upon closing of the Brookfield Transaction, Teekay Offshore’s general partner and we have agreed not to declare or pay (or cause the general partner to declare or to pay) any quarterly distribution on the Teekay Offshore common units in an amount over $0.01 per unit without the prior consent of Brookfield. Teekay Offshore maintained this dividend and distribution level through 2018 and further reduced its quarterly cash distribution per common unit to $nil in January 2019 in order to reinvest additional cash in the business. There is no guarantee that quarterly cash distributions payable to common unitholders of Teekay Offshore will return to historical levels.

Effective May 2018, Teekay Tankers eliminated the payment of its minimum quarterly dividend of $0.03 per share in order to preserve liquidity during the cyclical downturn of the tanker spot market. Otherwise, its dividend policy remains the same, with quarterly dividends expected to range from 30% to 50% of its quarterly adjusted net income, subject to reserves its Board of Directors may determine are necessary for the prudent operations of Teekay Tankers.

These distribution reductions by Teekay Offshore, Teekay LNG and Teekay Tankers substantially reduced our cash flows from them, including by currently eliminating any distributions on our incentive distribution rights in Teekay Offshore and Teekay LNG.

The amount of cash our subsidiaries and equity-accounted investees generate from their operations may fluctuate from quarter-to-quarter based on, among other things:

- the rates they obtain from their charters, voyages and contracts;
- the price and level of production of, and demand for, crude oil, LNG and LPG, including the level of production at the offshore oil fields Teekay Offshore services under contracts of affreightment;
- the operating performance of our and Teekay Offshore's FPSO units, whereby receipt of incentive-based revenue from the FPSO units is dependent upon the fulfillment of the applicable performance criteria;
- the level of their operating costs, such as the cost of crews and repairs and maintenance;
- the number of off-hire days for their vessels and the timing of, and number of days required for, dry docking of vessels;
- the rates, if any, at which Teekay Offshore may be able to redeploy shuttle tankers in the spot market as conventional oil tankers during any periods of reduced or terminated oil production at fields serviced by contracts of affreightment;
- the rates, if any, at which our subsidiaries and equity-accounted investees may be able to redeploy vessels, particularly FPSO units, after they complete their charters or contracts and are redelivered to us;
- the rates, if any, and ability, at which our subsidiaries and equity-accounted investees may be able to contract our newbuilding vessels, including Teekay Offshore's towage vessels;
- the rates, if any, at which Teekay Tankers can deploy tankers in revenue sharing arrangements and/or the spot market;
- delays in the delivery of any newbuildings or in any future conversions of upgrades of existing vessels, and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of business.

The actual amount of cash our subsidiaries and equity-accounted investees have available for distribution also depends on other factors such as:

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- the level of their capital expenditures, including for maintaining vessels or converting existing vessels for other uses and complying with regulations;
- their debt service requirements and restrictions on distributions contained in their debt agreements, including financial ratio covenants which may indirectly restrict loans, distributions or dividends;
- fluctuations in their working capital needs;
- their ability to make working capital borrowings; and
- the amount of any cash reserves, including reserves for future maintenance capital expenditures, working capital and other matters, established by the Boards of Directors of the Daughter Entities at their discretion.

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

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The cyclical nature of the tanker industry may lead to volatile changes in charter rates and significant fluctuations in the utilization of our vessels, which may adversely affect our earnings and profitability.
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. 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. If the tanker market is depressed, our earnings may decrease, particularly with respect to the conventional tanker vessels owned by Teekay Tankers, which accounted for approximately 44% and 23% of our consolidated revenues during 2018 and 2017, respectively. These vessels are primarily employed on the spot-charter market, which is highly volatile and fluctuates based upon tanker and oil supply and demand. Declining spot rates in a given period generally will result in corresponding declines in operating results for that period. 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. Future spot rates 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. 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 and political 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.
Reduction in oil produced from offshore oil fields may adversely affect the results of operations from our FPSO units.
As at December 31, 2018, we had three FPSO units operating in our fleet. The revenue earned by certain FPSO units depends upon 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; mechanical failure or operator error; the rate of technical developments in extracting oil and related infrastructure and implementation costs; and operator decisions based on revenue compared to costs from continued operations.

Factors that may affect an operator’s decision to initiate or continue production include: changes in oil prices; capital budget limitations; the availability of necessary drilling and other governmental permits; the availability of qualified personnel and equipment; the quality of drilling prospects in the area; and regulatory changes. 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.

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. These factors increase the redeployment risk of FPSO units. 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.

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The duration of many of our FPSO 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.
Certain FPSO 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.
Charter rates for conventional oil and product tankers may fluctuate substantially over time and may be lower when we are attempting to re-charter these vessels, which could adversely affect our operating results. Any changes in charter rates for LNG carriers, LPG carriers, or FPSO units could also adversely affect redeployment opportunities for those vessels.
Our ability to re-charter our conventional oil and product tankers following expiration of existing time-charter contracts and the rates payable upon any renewal or replacement charters will depend upon, among other things, the state of the conventional tanker market. Conventional oil and product tanker trades are highly competitive and have experienced significant fluctuations in charter rates based on, among other things, oil, refined petroleum product and vessel demand. For example, an oversupply of conventional oil tankers can significantly reduce their charter rates. There also exists some volatility in charter rates for LNG and LPG carriers, and FPSO units, which could also adversely affect redeployment opportunities for those vessels. If upon scheduled expiration or any early termination we are unable to renew or replace fixed-rate charters on favorable terms, if at all, or if we choose not to renew or replace fixed-rate charters, we may employ applicable vessels in the volatile spot market. Increasing our exposure to the spot market, particularly during periods of unfavorable market conditions, could harm our results of operations and make them more volatile.
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 units can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in oil and energy markets;
- a substantial or extended decline in demand for oil or natural gas;
- increases in the supply of vessel capacity;
- competition from more technologically advanced vessels;
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise; and
- a decrease in oil reserves in the fields and other fields in which our FPSO units or other vessels might otherwise be deployed.

Vessel values may decline from existing levels. If operation of a vessel is not profitable, or if we cannot redeploy 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 fair market value or the disposal of the vessel at a fair market value that is lower than its book value could result in a loss on its sale and adversely affect our results of operations and financial condition. Teekay Parent anticipates selling its three FPSO units in the future. If the sales price for any such transactions is lower than the carrying value of the applicable FPSO unit, we could incur a material impairment charge.

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 impairment charge against our earnings. Such a determination involves numerous assumptions and estimates, some of which require more discretion and are less predictable, including certain estimates for our FPSO units. We recognized asset impairment charges, excluding impairment charges recognized by Teekay Offshore subsequent to its deconsolidation on September 25, 2017, of $53.7 million, $270.7 million and $112.2 million in 2018, 2017, and 2016, respectively. The 2017 charge included impairments recognized of $205.7 million for two of our three FPSO units, the Petrojarl Banff and Petrojarl Foinaven.

Declining market values of our vessels could adversely affect our liquidity and result in breaches of our financing agreements.

Market values of vessels fluctuate depending upon general economic and market conditions affecting relevant markets and industries and competition from other shipping companies and other modes of transportation. In addition, as vessels become older, they generally decline in value. Declining vessel values could adversely affect our liquidity by limiting our ability to raise cash by refinancing vessels. Declining vessel values could also result in a breach of loan covenants and events of default under certain of our credit facilities that require us to maintain certain loan-to-value ratios. If we are unable to pledge additional collateral in the event of a decline in vessel values, the lenders under these facilities could accelerate our debt and foreclose on our vessels pledged as collateral for the loans. As of December 31, 2018, the total outstanding debt under credit facilities with this type of loan-to-value covenant tied to conventional tanker values was $575.6 million and tied to LNG carrier values was $442.2 million. We have five financing arrangements that require us to maintain vessel value to outstanding loan principal balance ratios ranging from 115% to 135%. At December 31, 2018, we were in compliance with these required ratios.

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Our growth depends on continued growth in demand for LNG and LPG, and LNG and LPG shipping.
A significant portion of our growth strategy focuses on continued expansion in the LNG and LPG shipping sectors.

Expansion of the LNG and LPG shipping sectors depends on growth in world and regional demand for LNG and LPG and marine transportation of LNG and LPG, as well as the supply of LNG and LPG. Demand for LNG and LPG and for the marine transportation of LNG and LPG could be negatively affected by a number of factors, such as:

- increases in the cost of natural gas derived from LNG relative to the cost of natural gas generally;
- increases in the cost of LPG relative to the cost of naphtha and other competing petrochemicals;
- increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;
- decreases in the consumption of natural gas due to increases in its price relative to other energy sources or other factors making consumption of natural gas less attractive;
- additional sources of natural gas, including shale gas;
- availability of alternative energy sources; and
- negative global or regional economic or political conditions, particularly in LNG and LPG consuming regions, which could reduce energy consumption or its rate of growth.

Reduced demand for LNG or LPG and LNG or LPG shipping could have a material adverse effect on future growth of Teekay LNG and could harm its 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 demand for LNG or LPG and could harm our business, results of operations and financial condition.
The intense competition in our markets may lead to reduced profitability or reduced 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 charters for our LNG and LPG carriers, 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 competition for providing services for potential gas and offshore projects from other experienced companies, including state-sponsored entities. Our competitors may have greater financial resources than us. This increased competition may cause greater price competition for 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.
Teekay Offshore is not controlled by us and may engage in competition with us.
We have 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 providing for rights of first offer on the transfer or rechartering of certain LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units. Subject to applicable exceptions, the omnibus agreement generally provides that, without the approval of the other applicable parties, (a) neither Teekay nor Teekay LNG will own or operate offshore vessels (i.e. dynamically positioned shuttle tankers, FSO units and FPSO units) that are subject to contracts with a duration of three years or more, excluding extension options, (b) neither Teekay nor Teekay Offshore will own or operate LNG carriers and (c) neither Teekay LNG nor Teekay Offshore will own or operate crude oil tankers, other than crude oil tankers

included in their respective fleets as of the dates of their respective initial public offerings and certain replacement tankers. If Teekay or its affiliates no longer control the general partner of Teekay LNG or Teekay Offshore or if there is a change of control of Teekay, the general partner of Teekay LNG or Teekay Offshore or Teekay, as applicable, may terminate relevant noncompetition and rights of first offer provisions of the omnibus agreement. During 2018, Brookfield Business Partners L.P. and its institutional investors acquired a 51% ownership interest in the general partner of Teekay Offshore and have the right to appoint a majority of the directors of the general partner's Board of Directors. This transaction constituted a change of control, giving Teekay Offshore the right to elect to terminate the omnibus agreement as it applies to Teekay Offshore, though we have not received any indication from Teekay Offshore that it intends to do so.

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The loss of any key customer or its inability to pay for our services 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, an international oil company, accounted for an aggregate of 11%, or $195.0 million, of our consolidated revenues during 2018 (2017 – two customers for 24%, or $442.4 million; 2016 – two customers for 29%, or $653.6 million). During these periods, no other customer accounted for over 10% of our revenues for the applicable period. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer, or the inability of a significant customer to pay for our services, could have a material adverse effect on our business, financial condition and results of operations.

We could lose a customer or the benefits of a contract if:

- the customer fails to make payments because of its financial inability, disagreements with us or otherwise;
- we agree to reduce the payments due to us under a contract because of the customer's inability to continue making the original payments;
- the customer exercises certain rights to terminate the contract; or
- the customer terminates the contract because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the contract.

If we lose a key customer, we may be unable to obtain replacement long-term charters. If a customer exercises its right under some charters to purchase the vessel, or terminate the charter, we may be unable to acquire an adequate replacement vessel or charter. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of any of our significant customers or a reduction in revenues from them could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends and service our debt.

In June 2017, Teekay LNG reached an agreement with Awilco to defer a portion of charter hire and extend the two LNG carrier bareboat charter contracts that were originally due to expire in November 2017 and August 2018 to December 2019, which would also include related purchase obligations on both vessels due at that time. However, there is no assurance that Awilco will be able to generate enough operating cash flows or have the ability to raise enough equity to pay for the charter hire deferrals and associated purchase obligations for the two LNG carriers.
Future adverse economic conditions, including disruptions in the global credit markets, could adversely affect our business, financial condition and results of operations.
Economic downturns and financial crises in the global markets could produce illiquidity in the capital markets, market volatility, increased exposure to interest rate and credit risks and reduced access to capital markets. If global financial markets and economic conditions significantly deteriorate in the future, we may face restricted access to the capital markets or bank lending, which may make it more difficult and costly to fund future growth. Decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.
Future adverse economic conditions or other developments may affect our customers' ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.
Future adverse economic conditions or other developments relating directly to our customers 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 for any reason 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.
Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.

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

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These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including clean-up 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. For further information about regulations affecting our business and related requirements on us, please read “Item 4. Information on the Company—B. Operations—Regulations.”

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

A principal component of our long-term 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 long-term 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 identifying suitable acquisition candidates;
- difficulties integrating the operations, personnel and business culture of acquired companies;
- difficulties 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.

Unlike newbuildings, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel’s condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity.

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, lightering vessels, oil and gas transfer operations, LNG and LPG carriers and FPSO units are 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, only certain of our LNG and LPG carriers carry insurance 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, marine disaster or natural disaster could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or under-insured 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 regulatory organizations.

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Changes in the insurance markets attributable to terrorist attacks, environmental catastrophes or political changes 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.

Past port calls by our vessels, or third-party vessels from which we derived pooling revenues, to countries that are subject to sanctions imposed by the United States and the European Union may impact investors' decisions to invest in our securities.

The United States has imposed sanctions on several countries or regions such as Cuba, North Korea, Syria and the Crimea region of the Ukraine. The United States and the European Union (or EU) also had imposed sanctions on trade with Iran. The EU lifted these sanctions in January 2016. At that time, the U.S. lifted its secondary sanctions on Iran which applied to foreign persons but has retained its primary sanctions which apply to U.S. entities and their foreign subsidiaries. In the past, conventional oil tankers owned or chartered-in by us, or third-party vessels participating in revenue sharing arrangements (or RSAs) from which we derive revenue, made limited port calls to those countries for the loading and discharging of oil products. Those port calls did not violate U.S. or EU sanctions at the time and we intend to maintain our compliance with all U.S. and EU sanctions. In addition, we have no future contracted loadings or discharges in any of those countries and intend not to enter into voyage charter contracts for the transport of oil or gas to or from Iran or Syria.

We believe that our compliance with these sanctions and our lack of any future port calls to those countries does not and will not adversely impact our revenues, because port calls to these countries have never accounted for any material amount of our revenues. However, some investors might decide not to invest in us simply because we have previously called on, or through our participation in RSAs have previously received revenue from calls on, ports in these sanctioned countries. Any such investor reaction could adversely affect the market for our common shares.

Marine transportation and oil production is inherently risky, and an incident involving loss or damage to a vessel, significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.

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

- marine disaster;
- bad weather or natural disasters;
- mechanical failures;
- grounding, fire, explosions and collisions;
- piracy (hijacking and kidnapping);
- cyber-attack;
- 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. In addition, any damage to, or environmental contamination involving, oil production facilities serviced by our vessels could result in the suspension or curtailment of operations by our customer, which would in turn result in loss of revenues to us.

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 for our FPSO units, 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.

We and the Daughter Entities expend substantial sums during construction of newbuildings or upgrades to our or their existing vessels, including upgrades to FPSO units, 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 or upgrades to our existing FPSO units, 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.

Our newbuilding financing commitments typically have been pre-arranged. However, if we are 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, 2018, Teekay LNG had 6 LNG carrier newbuildings scheduled for delivery in 2019 (of which one is 100% owned, four are 50%-owned and one is 20%-owned), and one 30%-owned LNG receiving and regasification terminal under construction scheduled for completion in 2019. In January 2019, Teekay LNG had in place $636 million, based on its proportionate share of the remaining newbuilding installments, of financing required for the majority of its remaining newbuilding vessels, and its LNG receiving and regasification terminal under construction.

Actual results of new technologies or technologies upgrades may differ from expected results and affect our results of operations.

Teekay LNG has invested and is investing in technology upgrades such as MEGI twin engines and other equipment and designs for certain LNG carrier newbuildings, including, among other things, to improve fuel efficiency and vessel performance. These new engine designs and other equipment may not perform to expectations, which may result in performance issues or claims based on failure to achieve specification included in charter party agreements. Actual fuel consumption for Teekay LNG’s MEGI LNG carriers exceeds specified levels in certain charter party agreements, which may result in reimbursement by Teekay LNG to the charterer for the cost of the excess fuel consumed. The amount of the reimbursements generally will increase to the extent fuel prices increase, including as a result of the IMO 2020 regulations that will take effect January 1, 2020 and limit Sulphur content in vessel fuel oils. Teekay LNG is considering installing additional equipment to lower fuel consumption on these vessels and taking action against the shipbuilders for failure to deliver vessels that meet anticipated levels of fuel efficiency. Continued reimbursement obligations or unrecovered capital expenditures could harm our results of operations or financial condition.

We make substantial capital expenditures to expand the size of our fleet and generally are required to make significant installment payments for acquisitions of newbuilding vessels. Depending on whether we finance our expenditures through cash from operations or by incurring debt or issuing equity securities, our financial leverage could increase, or our shareholders could be diluted.

We regularly evaluate and pursue opportunities to provide the marine transportation requirements for various projects, and we have recently 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, typically involves various stages and takes several months to complete. If we bid on and are awarded contracts relating to any LNG and LPG projects, 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 existing liquidity, cash from operations or incur borrowings or raise capital through the incurrence of debt or issuance of additional equity, debt or hybrid 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 shareholder dilution and would increase the aggregate amount of cash required to pay quarterly dividends.

In addition, although delivery of the completed vessel will not occur until much later (approximately two to three years from the time the order is placed), we typically must pay an initial installment up-front upon signing the purchase contract. During the construction period, we generally are required to make installment payments on newbuildings prior to their delivery, in addition to incurring financing, miscellaneous construction and project management costs, but we do not derive any income from the vessel until after its delivery. If we finance these payments by issuing debt or equity securities, we will increase the aggregate amount of interest or cash required to maintain our current level of quarterly distributions/dividends to unitholders/shareholders prior to generating cash from the operation of the newbuilding.

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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, including a significant portion in British Pounds. 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 British Pound, the Euro, Singapore Dollar, Australian Dollar, and Canadian Dollar. 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, accrued liabilities, advances from affiliates and long-term debt are revalued and reported based on the prevailing exchange rate at the end of the applicable period. This revaluation historically has caused us to report significant unrealized foreign currency exchange gains or losses each period. The primary source of these gains and losses is our Euro-denominated term loans and our Norwegian Kroner-denominated bonds.

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR, EURIBOR or NIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. In addition, there is uncertainty as to the continued use of LIBOR in the future. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be eliminated or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness and obligations. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

In addition, we are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. For further information about our financial instruments at December 31, 2018, that are sensitive to changes in interest rates, please read "Item 11 - Quantitative and Qualitative Disclosures About Market Risk."

Teekay LNG may have more difficulty entering into long-term, fixed-rate LNG time-charters if the active short-term, medium-term or spot LNG shipping markets continue to develop.

LNG shipping historically has been transacted with long-term, fixed-rate time-charters, usually with terms ranging from 20 to 25 years. One of Teekay LNG’s principal strategies is to enter into additional long-term, fixed-rate LNG time-charters. In recent years, the amount of LNG traded on a spot and short-term basis (defined as contracts with a duration of 4 years or less) has been increasing. In 2018, spot and short-term trades accounted for approximately 30% of global LNG trade.

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

Many of our 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 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. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.

We and certain of our joint venture partners 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. 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.

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

Terrorist attacks, and the current or future conflicts in the Middle East, South East Asia, West Africa (Nigeria), Libya and elsewhere, and political change, may adversely affect our business, operating results, financial condition, and ability to raise capital and future growth. Continuing hostilities in the Middle East especially among Qatar, Saudi Arabia, the United Arab Emirates, Yemen and elsewhere may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services and have an adverse impact on our operations and or our ability to conduct business.

In addition, oil facilities, shipyards, vessels, pipelines and oil fields could be targets of future terrorist attacks and warlike operations and our vessels could be targets of hijackers, terrorists or warlike operations. 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 to or from certain locations. Terrorist attacks, war, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate charters, which would harm our cash flow and business.

Acts of piracy on ocean-going vessels continue to be a risk, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, Gulf of Guinea and the Indian Ocean off the coast of Somalia. While there continues to be a significant risk of piracy incidents in the Gulf of Aden and Indian Ocean, recently there have been increases in the frequency and severity of piracy incidents off the coast of West Africa and a resurgent piracy risk in the Straits of Malacca, Sulu & Celebes Sea and surrounding waters. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage may increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which are incurred to the extent we employ on-board armed security guards and escort vessels, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

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

Because our operations, and the operations of certain of our customers, are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business, including Brazil, or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil and gas from politically and economically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping.

Hostilities, strikes, or other political or economic instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in which we operate or to which we trade could harm our business and ability to make cash distributions. 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 cash flow and financial results.

Two of the six MALT LNG Carriers in the Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are currently under long-term charter contracts with YLNG. Due to the political unrest in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, commencing January 1, 2016, the Teekay LNG-Marubeni Joint Venture agreed to successive deferral arrangements with YLNG pursuant to which a portion of the charter payments were deferred. Concurrent with the anticipated expiry of the most current deferral arrangement, which is expected to occur within the first half of 2019, the Teekay LNG-Marubeni Joint Venture intends to enter into a further agreement with YLNG pursuant to which the Teekay-LNG Marubeni Joint Venture and YLNG will suspend the two charter contracts for a period of up to three years. Should the LNG plant in Yemen resume operations during such suspended term, it is intended that YLNG will be required to repay the deferred amounts plus interest over a period of installments. However, there is no assurance if or when the LNG plant will resume operations and, accordingly, if YLNG will be able to repay all or any portion of the deferred amounts.

A cyber-attack could materially disrupt our business

We rely on information technology systems and networks in our operations and the administration of our business. Cyber-attacks have increased in number and sophistication in recent years. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

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Our failure to comply with data privacy laws could damage our customer relationships and expose us to litigation risks and potential fines.

Data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services and continue to develop in ways which we cannot predict, including with respect to evolving technologies such as cloud computing. The European Union has adopted the General Data Privacy Regulation (or GDPR), a comprehensive legal framework to govern data collection, use and sharing and related consumer privacy rights which took effect in May 2018. The GDPR includes significant penalties for non-compliance. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, financial condition and results of operations.

The ARC7 LNG carrier newbuildings for the Yamal LNG Project are customized vessels and Teekay LNG's financial condition, results of operations and ability to make distributions to us could be substantially affected if the remaining portion of the Yamal LNG Project is abandoned.

On July 9, 2014, Teekay LNG's Yamal LNG Joint Venture ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project), two of which newbuilding carriers delivered in 2018. The Yamal LNG Project is a joint venture between Russia-based Novatek OAO (50.1%), France-based Total S.A. (20%), China-based China National Petroleum Corporation (20%) and Silk Road Fund (9.9%).

The four remaining ARC7 LNG carrier newbuildings ordered by the Yamal LNG Joint Venture, which are scheduled for delivery during the remainder of 2019, are being specifically built for the Arctic requirements of the Yamal LNG Project and will have limited redeployment opportunities to operate as conventional trading LNG carriers if the project is abandoned or cancelled. If the project is abandoned or cancelled after commencement of operations, the Yamal LNG Joint Venture may be unable to reach an agreement with the shipyard allowing for the termination of the shipbuilding contracts (since no such optional termination right exists under these contracts), change the vessel specifications to reflect those applicable to more conventional LNG carriers and which do not incorporate ice-breaking capabilities, or find suitable alternative employment for the newbuilding vessels on a long-term basis with other LNG projects or otherwise.

The Yamal LNG Project may be abandoned for various reasons, including, among others:

- failure to achieve expected operating results;
- changes in demand for LNG;
- adverse changes in Russian regulations or governmental policy relating to the project or the export of LNG;
- technical challenges of completing and operating the complex project, particularly in extreme Arctic conditions;
- labor disputes; and
- environmental regulations or potential claims.

If the project is abandoned, proceeds if any, received from limited Yamal LNG project sponsor guarantees and potential alternative employment, if any, of the vessels and from potential sales of components and scrapping of the vessels likely would fall substantially short of the cost of the vessels to the Yamal LNG Joint Venture. Any such shortfall could have a material adverse effect on Teekay LNG's financial condition, results of operations and ability to make cash distributions to us.

Sanctions against key participants in the Yamal LNG Project could impede completion or performance of the Yamal LNG Project, which could have a material adverse effect on us.

The U.S. Treasury Department’s Office of Foreign Assets Control (or OFAC) placed Russia-based Novatek, a 50.1% owner of the Yamal LNG Project, on the Sectoral Sanctions Identifications List. OFAC also previously imposed sanctions on an investor in Novatek and these sanctions also remain in effect. The current restrictions on Novatek prohibit U.S. persons (and their subsidiaries) from participating in debt financing transactions of greater than 60 days maturity with Novatek and, by virtue of Novatek's 50.1% ownership interest, the Yamal LNG Project. The European Union also imposed certain sanctions on Russia. These sanctions require a European Union license or authorization before a party can provide certain technologies or technical assistance, financing, financial assistance, or brokering with regard to these technologies. However, the technologies being currently sanctioned by the EU appear to focus on oil exploration projects, not gas projects. In addition, OFAC and other governments or organizations may impose additional sanctions on Novatek, the Yamal LNG Project or other project participants, which may further hinder the ability of the Yamal LNG Project to receive necessary financing. Although we believe that we are in compliance with all applicable sanctions, laws and regulations, and intend to maintain such compliance, the scope of these sanctions laws may be subject to change. Future sanctions may prohibit the Yamal LNG Joint Venture from performing under its contracts with the Yamal LNG Project, which could have a material adverse effect on Teekay LNG's financial condition, results of operations and ability to make cash distributions.

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Failure of the Yamal LNG Project to achieve expected results could lead to a default under the time-charter contracts by the charter party.

The charter party under the Yamal LNG Joint Venture's time-charter contracts for the Yamal LNG Project is Yamal Trade Pte. Ltd., a wholly-owned subsidiary of Yamal LNG, the project's sponsor. If the Yamal LNG Project does not achieve expected results, the risk of charter party default may increase. If the charter party defaults on the time-charter contracts, Teekay LNG may be unable to redeploy the vessels under other time-charter contracts or may be forced to scrap the vessels. Any such default could adversely affect Teekay LNG's results of operations and ability to make cash distributions to us.

Maritime claimants could arrest, or port authorities could detain, 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. In addition, port authorities may seek to detain our vessels in port, which could adversely affect our operating results or relationships with customers.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil and gas will lessen dramatically over the short term, in the long term, climate change may reduce the demand for oil and gas or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

We have substantial debt levels and may incur additional debt.

As of December 31, 2018, our consolidated long-term debt and obligations related to capital leases totaled $5.0 billion and we had the capacity to borrow an additional $0.3 billion under our revolving credit facilities. These credit facilities may be used by us for general corporate purposes. In addition to our consolidated debt, as of December 31, 2018, our total proportionate interest in debt of joint ventures, excluding Teekay Offshore, we do not control was $1.8 billion, of which Teekay Tankers or Teekay LNG has guaranteed $0.9 billion and the remaining $0.9 billion has limited recourse to Teekay LNG. Our consolidated debt, capital lease obligations and joint venture debt 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, and our ability to refinance our credit facilities may be impaired or such financing may not be available on favorable terms, if at all;
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- we will need to use 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 shareholders;
- 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 obtaining additional financing, pursuing other business opportunities and responding to changing business and economic conditions.

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, lease obligations, indentures 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:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;

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- issue certain preferred shares or similar equity securities;
- make loans and investments;
- enter into a new line of business;
- incur or permit certain liens to exist;
- enter into transactions with affiliates;
- create unrestricted subsidiaries;
- transfer, sell, convey or otherwise dispose of assets;
- make certain acquisitions and investments;
- enter into agreements restricting our subsidiaries’ ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, certain of our debt agreements require, us to comply with certain financial covenants. Our ability to comply with covenants and restrictions contained in debt instruments and lease obligations 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 our financing agreements or indentures, our obligations may become immediately due and payable, and the lenders’ commitment under our credit facilities, if any, to make further loans may terminate. This could lead to cross-defaults under our other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

Furthermore, the termination of any of our charter contracts by our customers could result in the repayment of the debt facilities to which the chartered vessels relate.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. In addition, a majority of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible to bring an action against us or against these individuals in the United States. Even if successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict the enforcement of a judgment against our assets or the assets of our general partner or its directors and officers.

As a Marshall Islands corporation with our headquarters in Bermuda, and with a majority of our subsidiaries being Marshall Islands entities and also having subsidiaries in other offshore jurisdictions, our operations may be subject to economic substance requirements of the European Union, which could harm our business.

Finance ministers of the EU rate jurisdictions for tax transparency, governance, real economic activity and corporate tax rate. Countries that do not adequately cooperate with the finance ministers are put on a “grey list” or a “blacklist”. Various countries, including the Republic of the Marshall Islands and Bermuda, are currently on the blacklist.

EU member states have agreed upon a set of measures, which they can choose to apply against the listed countries, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. The European Commission has stated it will continue to support member states' efforts to develop a more coordinated approach to sanctions for the listed countries in 2019. EU legislation prohibits EU funds from being channelled or transited through entities in countries on the blacklist.

We are a Marshall Islands corporation with our headquarters in Bermuda. A majority of our subsidiaries are Marshall Islands entities and many of our subsidiaries are either organized or registered in Bermuda. It is difficult to determine how the EU blacklisting of these jurisdictions will affect our business. These jurisdictions have enacted or may enact economic substance laws and regulations with which we may be obligated to comply. We understand that recently-adopted Bermudian legislation requires each Bermudian-registered entity to maintain a substantial economic presence in Bermuda and provides that a registered entity that carries on a relevant activity may comply with the economic substance requirements if (i) it is directed and managed in Bermuda, (ii) its core income-generating activities are undertaken in Bermuda with respect to the relevant activity, (iii) it maintains adequate physical presence in Bermuda, (iv) it has adequate full-time employees in Bermuda with suitable qualifications, and (v) it incurs adequate operating expenditures in Bermuda in relation to the relevant activity. We do not know what actions the Marshall Islands may take, if any, to remove itself from the list; whether the EU will remove the Marshall Islands or Bermuda from the list; how quickly the EU would react to any changes in legislation of the Marshall Islands, Bermuda or other applicable jurisdictions; or how EU banks or other counterparties will react while we or any of our subsidiaries remain as entities organized and existing or registered under the laws of blacklisted countries. The effect of the EU blacklist, and any noncompliance by us with any legislation adopted by applicable countries to achieve removal from the list, could have a material adverse effect on our business, financial condition and operating results.

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Our joint venture arrangements impose obligations upon us but limit our control of the joint ventures, which may affect our ability to achieve our joint venture objectives.

For financial or strategic reasons, we conduct a portion of our business through joint ventures. Generally, we are obligated to provide proportionate financial support for the joint ventures although our control of the business entity may be substantially limited. Due to this limited control, we generally have less flexibility to pursue our own objectives through joint ventures or to access available cash of the joint ventures than we would with our own subsidiaries. There is no assurance that our joint venture partners will continue their relationships with us in the future or that we will be able to achieve our financial or strategic objectives relating to the joint ventures and the markets in which they operate. In addition, our joint venture partners may have business objectives that are inconsistent with ours, experience financial and other difficulties that may affect the success of the joint venture or be unable or unwilling to fulfill their obligations under the joint ventures, which may affect our financial condition or results of operations.

We depend on certain joint venture partners to assist us in operating our businesses and competing in our markets.

Our ability to compete for certain projects, enter into new charters, secure financings and expand our customer relationships depends in part on our ability to leverage our relationship with our joint venture partners and their reputation and relationships in the shipping industry. If our joint venture partners suffer material damage to its financial condition, reputation or relationships, it may harm the ability of us or our subsidiaries to:

- renew existing charters and contracts of affreightment upon their expiration;
- obtain new charters and contracts of affreightment;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms, if at all; or
- maintain satisfactory relationships with suppliers and other third parties.

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

We may experience operational problems with vessels that reduce revenue and increase costs.

FPSO units are complex and their operations are technically challenging. Marine transportation and oil production operations are subject to mechanical risks and problems as well as environmental risks. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm our business, financial condition and operating results.

Teekay Tankers’ U.S. Gulf lightering business competes with alternative methods of delivering crude oil to ports, which may limit its earnings in this area of its operations.

Teekay Tankers’ U.S. Gulf lightering business faces competition from alternative methods of delivering crude oil shipments to port, including offshore offloading facilities. While we believe that lightering offers advantages over alternative methods of delivering crude oil to U.S. Gulf ports, Teekay Tankers’ lightering revenues may be limited due to the availability of alternative methods.

Teekay Tankers’ full service lightering operations are subject to specific risks that could lead to accidents, oil spills or property damage.

Lightering is subject to specific risks arising from the process of safely bringing two large moving tankers next to each other and mooring them for lightering operations. These operations require a high degree of expertise and present a higher risk of collision compared to when docking a vessel at port. Lightering operations, similar to marine transportation in general, are also subject to risks due to events such as mechanical failures, human error, and weather conditions.

Tax Risks

In addition to the following risk factors, you should read "Item 4E — Taxation of the Company", "Item 10 — Additional Information — Material U.S. Federal Income Tax Considerations" and "Item 10 — Additional Information — Non-United States Tax Considerations" for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our common stock.

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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. shareholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a “passive foreign investment company” (or PFIC) for such purposes in any taxable year for which either (a) at least 75% of its gross income consists of “passive income” or (b) at least 50% of the average value of the entity’s assets is attributable to assets that produce or are held for the production of “passive income.” For purposes of these tests, “passive income” includes dividends, interest, 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). By contrast, income derived from the performance of services does not constitute “passive income.”

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in Tidewater Inc. v. United States, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Internal Revenue Code of 1986, as amended (or the Code). However, the Internal Revenue Service (or IRS) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the Tidewater decision, and in its discussion stated that the time charters at issue in Tidewater would be treated as producing services income for PFIC purposes. The IRS’s statement with respect to Tidewater cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the Tidewater decision in interpreting the PFIC provisions of the Code. Nevertheless, based on the current composition of our assets and operations (and those of our subsidiaries), we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that this position would be sustained by a court if contested by the IRS 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.

If the IRS were to determine that we are or have been a PFIC for any taxable year during which a U.S. Holder (as defined below under "Item 10 — Additional Information — Material U.S. Federal Income Tax Considerations") held our common stock, such U.S. Holder would face adverse tax consequences. For a more comprehensive discussion regarding the tax consequences to U.S. Holders if we are treated as a PFIC, please read "Item 10 — Additional Information — Material U.S. Federal Income Tax Considerations — United States Federal Income Taxation of U.S. Holders — Consequences of Possible PFIC Classification".

We are subject to taxes, which reduce our operating results.

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations, which reduces our operating results. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing our operating results. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, changes in the ownership of our stock may cause us to be unable to claim an exemption from U.S. federal income tax under Section 883 of the Code. If we were not exempt from tax under Section 883 of the Code, we would be subject to U.S. federal income tax on shipping income attributable to our subsidiaries’ transportation of cargoes to or from the United States, the amount of which is not within our complete control. Also, jurisdictions in which we or our subsidiaries are organized, own assets or have operations may change their tax laws, or we may enter into new business transactions relating to such jurisdictions, which could result in increased tax liability and reduce our operating results. Please read "Item 4 — Information on the Company — Taxation of the Company."

Item 4. Information on the Company

A. Overview, History and Development

Overview

We are a leading provider of international crude oil and gas marine transportation services and through our strategic partnership in Teekay Offshore with Brookfield Business Partners L.P. and certain affiliates (collectively, Brookfield) we also offer offshore oil production, storage and offloading services. We generate revenue primarily under long-term, fixed-rate contracts with a diverse customer base of major energy and utility companies. Over the past 15 years, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being an 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), the continuation of our conventional tanker business through our publicly-listed subsidiary Teekay Tankers Ltd. (NYSE: TNK) (or Teekay Tankers), and further growth of our operations in the offshore production, storage and transportation sector through our ownership of TPO AS (formerly TPO Investments AS) and through our equity-accounted investment Teekay Offshore Partners L.P. (NYSE: TOO) (or Teekay Offshore).

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The combined Teekay entities operate total assets under management of approximately $16 billion, comprised of approximately 205 liquefied gas, offshore, and conventional tanker assets (excluding vessels managed for third parties). With offices in 14 countries and approximately 8,000 seagoing and shore-based employees, Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies. We are the world's third largest independent LNG carrier owner and operator and one of the world's largest owner and operator of mid-sized crude tankers. Teekay Offshore is the world's largest operator of shuttle tankers and fourth largest independent provider of leased floating production, storage and offloading (or FPSO) unit solutions. Our organizational structure can be divided into (a) our controlling interests in our publicly-listed subsidiaries, Teekay LNG and Teekay Tankers (or the Controlled Daughter Entities), our equity-accounted investment in Teekay Offshore (together with the Controlled Daughter Entities, the Daughter Entities), and (b) Teekay and its remaining subsidiaries, which is referred to herein as Teekay Parent.

Our business strategy across the Teekay Group is focused on the following:

- Generate attractive long-term risk-adjusted returns, utilizing our market leading positions, global footprint and operational excellence;
- Offer a wide breadth of marine midstream solutions to meet our customers' needs; and
- Provide superior customer service by maintain high reliability, safety, environmental and quality standards.

As of January 1, 2019, the Teekay group had approximately $16 billion of contracted, forward fixed-rate revenues. The revenue-weighted average remaining term of the Teekay group's contracts was approximately 8.4 years as of January 1, 2019, excluding spot market contracts and extension options. "Revenue-weighted average" represents the average remaining fixed contract duration of the applicable contracts, weighted on the basis of aggregate fixed forward payments to be received from each operating segment, excluding extension options. Fixed forward payments for Teekay Offshore are on a 100% basis and our other equity-accounted investments and joint ventures are proportionately adjusted in the calculation to reflect our ownership interests in such investments and joint ventures.

Teekay LNG includes all of our LNG and LPG carriers. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time. LPG carriers are mainly chartered to carry LPG and ammonia on time charters, on contracts of affreightment or spot voyage charters. As of December 31, 2018, Teekay LNG's fleet, including newbuildings on order, had a total cargo carrying capacity of approximately 9.2 million cubic meters. Please read "—B. Operations—Our Fleet."

Teekay Tankers includes a substantial majority of our conventional crude oil tankers and product carriers. Teekay Tankers' conventional crude oil tankers and product tankers primarily operate in the spot-tanker market or are subject to time charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. Teekay Tankers considers contracts that have an original term of less than one year in duration to be short-term. Certain of its conventional crude oil tankers and product tankers are on fixed-rate time-charter contracts with an initial duration of at least one year. Our conventional Aframax, Suezmax, and large product tankers are among the vessels included in Teekay Tankers. Please read "—B. Operations—Our Fleet."

We have chartering staff located in Singapore; London, England; and Houston, USA. 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.

Teekay Offshore includes shuttle tanker operations, FPSO units, FSO units, and offshore support which includes UMS, which primarily operate under long-term fixed-rate contracts, and long-distance towing and offshore installation vessels. The Company does not currently have any intention to reinvest in the offshore space.

Teekay Parent currently owns three FPSO units; however, Teekay Parent does not intend to retain these assets over the long term.

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 office at 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

The SEC maintains an Internet site at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our website is www.teekay.com. The information contained on our website is not part of this annual report.

Our Ownership of the Daughter Entities and Recent Equity Offerings and Transactions by Daughter Entities

Our ownership of Teekay Tankers was 28.8% as of December 31, 2018. We maintain voting control of Teekay Tankers through our ownership of shares of Class A and Class B Common Stock and continue to consolidate this subsidiary. Our ownership of Teekay LNG was 33.1% (including our 2% general partner interest) as of December 31, 2018. We maintain control of Teekay LNG by virtue of our control of the general partner and continue to consolidate this subsidiary. Our ownership interest in Teekay Offshore was 14.1% (including 13.8% of the outstanding publicly traded common units and 49% of the general partner interest) as of December 31, 2018. We have significant influence over Teekay Offshore and account for our investment in Teekay Offshore using the equity method. Please read “Item 18. Financial Statements: Note 5 — Equity Financing Transactions of the Daughter Entities.”

Please read “Item 5. Operating and Financial Review and Prospects—Management’s Discussion and Analysis of Financial Condition and Results of Operations— Recent Developments and Results of Operations” for more information on recent transactions.

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B. Operations

We (excluding our investment in Teekay Offshore) have three primary lines of business: offshore production (FPSO units), liquefied gas carriers, and conventional tankers. We manage these businesses for the benefit of all stakeholders. We allocate capital and assess performance from the separate perspectives of Teekay LNG and Teekay Tankers, Teekay Parent, and its investment in Teekay Offshore, as well as from the perspective of the lines of business (the Line of Business approach). The primary focus of our organizational structure, internal reporting and allocation of resources by the chief operating decision maker, is on Teekay LNG and Teekay Tankers, Teekay Parent, and its investment in Teekay Offshore (the Legal Entity approach). However, we have continued to incorporate the Line of Business approach as in certain cases there is more than one line of business in each of Teekay LNG, Teekay Tankers and Teekay Parent, and we believe this information allows a better understanding of our performance and prospects for future net cash flows. We assess the performance of, and make decisions to allocate resources to, our investment in Teekay Offshore as a whole and not at the level of the individual lines of business within Teekay Offshore, which are (1) offshore production (FPSO units), (2) offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), and (3) conventional tankers.

Teekay LNG

Teekay LNG’s vessels primarily compete in the LNG and LPG markets. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time and the charter rate is payable to the owner on a monthly basis. LNG shipping historically has been transacted with 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), short-term time-charters and medium-term time-charters have grown in the past few years. The amount of LNG traded on a spot and short-term basis (defined as contracts with a duration of four years or less) has increased from approximately 10% of total LNG supply in 2010 to almost 30% in 2018.

In the LNG market, Teekay LNG competes principally with other private and state-controlled energy and utilities companies that 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 some major energy companies have continued to divest non-core businesses.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. LNG carriers include a sophisticated containment system that holds the LNG and provides insulation to reduce the amount of LNG that boils off naturally. That natural boil off is either used as fuel to power the engines on the ship or it can be reliquified and put back into the tanks. LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in 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.

With the exception of the Arctic Spirit and Polar Spirit, which are the only two ships in the world that utilize the Ishikawajima Harima Heavy Industries Self Supporting Prismatic Tank IMO Type B (or IHI SPB) independent tank technology, Teekay LNG's fleet makes use of one of the Gaz Transport and Technigaz (or GTT) membrane containment systems. The GTT membrane systems are used in the majority of LNG tankers now being constructed. New LNG carriers generally have an expected lifespan of approximately 35 to 40 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG carriers after they reach a certain age. As at December 31, 2018, Teekay LNG's LNG carriers, excluding newbuilding vessels but including equity-accounted vessels, had an average age of approximately eight years, compared to the world LNG carrier fleet average age of approximately 10 years. In addition, as at that date, there were approximately 555 vessels in the world LNG fleet and approximately 136 additional LNG carriers under construction or on order for delivery through 2022.

In the LPG market, Teekay LNG competes principally with independent ship owners and operators, and other private and state-controlled energy and chemical companies that generally operate captive fleets.

LPG shipping involves the transportation of three main categories of cargo: liquid petroleum gases, including propane, butane and ethane; petrochemical gases including ethylene, propylene and butadiene; and ammonia. LPG carriers are mainly chartered to carry LPG on time-charters, 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. As at December 31, 2018, Teekay LNG's LPG and multi-gas carriers had an average age of approximately eight years compared to world average of 15 years as of December 31, 2018.

As of December 31, 2018, the worldwide LPG tanker fleet consisted of approximately 1,451 vessels with an average age of approximately 15 years and approximately 74 additional LPG vessels on order for delivery through 2022. LPG carriers range in size from approximately 100 to approximately 88,000 cubic meters (or cbm). Approximately 47% (in terms of vessel numbers) of the worldwide fleet is less than 5,000 cbm. New LPG carriers generally have an expected lifespan of approximately 30 to 35 years.

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Teekay LNG includes all of our LNG and LPG carriers. As at December 31, 2018, Teekay LNG had ownership interests in 43 LNG carriers, as well as six additional newbuilding LNG carriers on order. In addition, as at December 31, 2018, Teekay LNG had full ownership of seven LPG carriers and 50% ownership, through its joint venture agreement with Exmar, in another 20 LPG carriers and two chartered-in LPG carriers.

Teekay Tankers

Teekay Tankers owns a substantial majority of our conventional crude oil tankers and product carriers. Our conventional crude oil tankers and product tankers primarily operate in the spot-tanker market or are subject to time charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. We consider contracts that have an original term of less than one year in duration to be short-term. Certain of our conventional crude oil tankers and product tankers are on fixed-rate time-charter contracts with an initial duration of at least one year.

Most of Teekay Tankers' conventional tankers operate pursuant to pooling or revenue sharing commercial management arrangements. Under such arrangements, 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 or revenue sharing commercial management arrangement, less related voyage expenses (such as fuel and port charges) and administrative expenses, are pooled and allocated to the vessel owners according to a pre-determined formula. As of December 31, 2018, 54 of Teekay Tankers' owned and leased vessels and three of Teekay Tankers' time-chartered in vessels operated in the spot market through participation in Teekay-managed RSAs or on spot voyage charters. Twenty-nine of Teekay Tankers' owned and leased vessels operated in the Suezmax RSAs, ten of Teekay Tankers' owned and leased vessels and one of Teekay Tankers' time-chartered in vessels operated in the Aframax RSAs, eight of Teekay Tankers' owned and leased vessels operated in the Taurus LR2 RSAs, and seven of Teekay Tankers' owned and leased vessels and two time-chartered in vessels operated in the spot market on voyage charters. In addition, as of December 31, 2018, two of Teekay Tankers' owned vessels operated under fixed-rate time-charter contracts.

Teekay Tankers' vessels 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.

Teekay Tankers competes 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.

Teekay Tankers' competition in the Aframax (85,000 to 124,999 dwt) market is also affected by the availability of other size vessels that compete in that market. Suezmax (125,000 to 199,999 dwt) vessels and Panamax (55,000 to 84,999 dwt) vessels can compete for many of the same charters for which our Aframax tankers compete; Aframax size vessels and VLCCs (200,000 to 319,999 dwt) can compete for many of the same charters for which our Suezmax tankers may compete. Because of their large size, Very Large Crude Carriers (or VLCCs) and Ultra Large Crude Carriers (or ULCCs) (320,000+ dwt) rarely compete directly with Aframax tankers, and ULCCs rarely compete with

Suezmax tankers for specific charters. However, because VLCCs and ULCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades and of Suezmax vessels into Aframax trades would heighten the already intense competition.

Teekay Tankers also competes in the Long Range 2 (or LR2) (85,000 to 109,999 dwt) product tanker market. Competition in the LR2 product tanker market is affected by the availability of other size vessels that compete in the market. Long Range 1 (or LR1) (55,000-84,999 dwt) size vessels can compete for many of the same charters for which Teekay Tankers' LR2 tankers compete.

The operation of tanker vessels, as well as the seaborne transportation of crude oil and refined petroleum products, is a competitive market. There are several large operators of Aframax, Suezmax, and LR2 tonnage that provide these services globally.

Teekay Tankers believe that it has competitive advantages in the Aframax and Suezmax tanker market as a result of the quality, type and dimensions of its vessels and their market share in the Indo-Pacific and Atlantic Basins. As of December 31, 2018, its Aframax/LR2 tanker fleet (excluding Aframax/LR2-size shuttle tankers and newbuildings) had an average age of approximately 11.2 years and their Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately 10.7 years. This compares to an average age for the world oil tanker fleet of approximately 10.5 years, for the world Aframax/LR2 tanker fleet of approximately 10.0 years and for the world Suezmax tanker fleet of approximately 9.5 years.

Teekay Tankers completed a merger with TIL in November 2017, acquiring all of the remaining 27.0 million issued and outstanding common shares of TIL, in a share-for-share exchange at a ratio of 3.3 shares of Teekay Tankers' Class A common stock for each share of TIL common stock. As a result of the merger, TIL became a wholly-owned subsidiary of Teekay Tankers. At the time of the merger, TIL owned a modern fleet of 10 Suezmax tankers, six Aframax tankers and two LR2 product tankers. For additional information, please read "Item 18 - Financial Statements: Note 22 — Equity-accounted Investments".

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In May 2017, Teekay Tankers completed the acquisition from Teekay Holdings Ltd., a wholly-owned subsidiary of Teekay, of the remaining 50% interest in Teekay Tanker Operations Ltd. (or TTOL), which owns conventional tanker commercial management and technical management operations and directly administers four commercially managed tanker RSAs.

Teekay Tankers acquired a ship-to-ship transfer business (now known as Teekay Marine Solutions or TMS) in July 2015 from a company jointly owned by Teekay and I.M. Skaugen SE (or Skaugen). TMS provides a full suite of ship-to-ship transfer services in the oil, gas and dry bulk industries. In addition to full service lightering and lightering support, it also provides consultancy, terminal management and project development services. TMS owns three STS support vessels.

Teekay Parent

Our long-term vision is for Teekay Parent to be primarily a portfolio manager and project developer with the Teekay Group’s fixed assets primarily owned directly by its Controlled Daughter Entities. Our primary financial objectives for Teekay Parent are to increase the value of our three FPSO units and the value of our investments in Teekay LNG, Teekay Tankers and Teekay Offshore, increase Teekay Parent’s free cash flow per share and, as a service provider to its Daughter Entities, provide scale and other benefits across the Teekay Group. We also intend to (a) continue to reduce debt of Teekay Parent, including by selling the three FPSO units or other assets in the future and using the net proceeds to repay debt and (b) seek to increase the distributions of Teekay LNG in a sustainable manner and the dividends of Teekay Tankers as the tanker market recovers.

FPSO Units

FPSO units are offshore production facilities that are ship-shaped or cylindrical-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, FPSO units 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 well-stream 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 on board. 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. Most independent FPSO contractors have backgrounds in marine energy transportation, oil field services or oil field engineering and construction. As of December 31, 2018, there were approximately 179 FPSO units active and operating, another 23 idle FPSO units, and 16 FPSO units on order in the world fleet. At December 31, 2018, Teekay Parent owned three FPSO units, in which it has 100% ownership interests. Other major independent FPSO contractors are SBM Offshore N.V., BW Offshore, MODEC, Bumi Armada, Yinson Holdings and Bluewater.

Investment in Teekay Offshore and Other

Teekay Offshore is primarily involved with various aspects of the offshore oil industry, including (1) offshore production (FPSO units) and (2) offshore logistics (shuttle tankers, floating storage and offtake (or FSO) units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels). While the Company does not have any intention to reinvest in the offshore space, it continues to look to maximize the value of its investment in Teekay Offshore.

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Our Consolidated Fleet under Management

As at December 31, 2018, Teekay and its Controlled Daughter Entities operated under management a fleet of 155 vessels (excluding vessels managed for third parties), including chartered-in vessels and newbuildings/conversions on order. The following table summarizes our fleet under management as at December 31, 2018:

	Owned Vessels	Chartered-in Vessels	Newbuildings / Conversions	Total
Teekay LNG				
LNG Vessels	43 (1)	—	6 (2)	49
LPG/Multigas Vessels	27 (3)	2 (4)	—	29
Suezmax Tankers	1	—	—	1
Handymax Product Tanker	1	—	—	1
	72	2	6	80
Teekay Tankers				
Aframax Tankers	17	3	—	20
Suezmax Tankers	30	—	—	30
VLCC	1 (5)	—	—	1
Product Tankers	9	—	—	9
STS Support Vessels	3	3	—	6
	60	6	—	66
Teekay Parent				
FPSO Units	3	—	—	3
FSO Units	—	3	—	3
Shuttle Tankers	—	2	—	2
Bunker Barge	—	1	—	1
	3	6	—	9
Total	135	14	6	155

(1) Includes a 99% interest in nine LNG carriers, a 70% interest in three LNG carriers, a 69% interest in two LNG carriers, a 52% interest in six LNG carriers, a 50% interest in two LNG carriers, a 49% interest in one LNG carrier, a 40% interest in four LNG carriers, a 33% interest in four LNG carriers, a 30% interest in two LNG carriers, and a 20% interest in one LNG carrier.

(2) Includes a 50% interest in four LNG newbuildings, and a 20% interest in one LNG newbuilding, the Pan Africa, that was delivered in January 2019. One 100%-owned LNG newbuilding, the Yamal Spirit, was delivered in January 2019.

(3) Includes a 99% interest in seven LPG carriers and a 50% interest in 20 LPG carriers.

(4) 50% interest in both LPG carriers.

(5) VLCC is 50%-owned by Teekay Tankers.

Our vessels are of Bahamian, Belgian, Canadian, Cyprus, Danish, Greek, Hong Kong, Isle of Man, Liberian, Malta, Marshall Islands, Netherlands, Norwegian, Panama, Singapore, and Spanish registry.

Many of our Aframax and Suezmax vessels 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.

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

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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 oil spills. In 2008, we introduced the Quality Assurance and Training Officers Program (or QATO) to conduct rigorous internal audits of our processes and provide our seafarers with on-board 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. In 2010, we introduced a safety leadership program for our employees titled "Operational Leadership, The Journey" which sets out our operational expectations, the responsi