

TEEKAY CORP
Form 20-F
April 30, 2018
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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, 2017

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)

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Telephone: (441) 298-2530

(Address and telephone number of principal executive offices)

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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.

89,127,041 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 ☒

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

Indicate by check mark 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 ☒ No ☐

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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 ☒ 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 ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

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

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

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PART I

This annual report of Teekay Corporation on Form 20-F for the year ended December 31, 2017 (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), references in this Annual Report to Teekay Tankers refer to Teekay Tankers Ltd. (NYSE: TNK), and references in this Annual Report 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; 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 publicly-listed equity-accounted investee Teekay Offshore (together 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, including our working capital deficit, 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, including unfinanced newbuildings, refinance existing debt obligations and fulfill our debt obligations;

- our plans for Teekay Parent, which excludes our controlling interests in the Controlled Daughter Entities and our equity-accounted investment in Teekay Offshore, and includes Teekay and its remaining subsidiaries, not to have a direct ownership in any floating production, storage and offloading (or FPSO) units, and to increase its free cash flow per share and reduce its debt levels;

- offshore, liquefied natural gas (or LNG), liquefied petroleum gas (or LPG), Long Range 2 (or LR2) and tanker market conditions and fundamentals, including the balance of supply and demand in these markets and spot tanker charter rates, fleet growth, price of oil, and oil production in the tanker market, including the expected tanker market recovery during the latter part of 2018 and into 2019;

- the expected lifespan of our vessels, including our expectations as to any impairment of our vessels;

- our future growth prospects and future trends of the markets in which we operate;

- 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;

- certainty of completion, estimated delivery and completion dates, commencement dates and rates of charters and charter extensions, intended financing and estimated costs, and the location of service and intended use for newbuildings, acquisitions and conversions;

- our expectations regarding the ability of Awilco LNG ASA (or Awilco), and 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, including obligations relating to two of Teekay LNG's LNG carriers completing charters with Awilco in 2019;

- our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charter or whose charter contract is expiring;
- the future resumption of a LNG plant in Yemen operated by Yemen LNG Company Limited (or YLNG), 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 2018 as a result of the charter payment deferral;
- expected funding of Teekay LNG's proportionate share of the remaining shipyard installment payments for its joint venture with China LNG, CETS Investment Management (HK) Co. Ltd. and BW LNG Investments Pte. Ltd. (or the Pan Union Joint Venture);
- the cost of supervision and crew training in relation to the Pan Union Joint Venture, and our expected recovery of a portion of those costs;
- our expectation that the owner of Teekay LNG's Suezmax tanker under capital lease, the Toledo Spirit, will cancel the charter contract for the vessel and sell it to a third party, rather than requiring Teekay LNG to purchase the vessel under capital lease;
- 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;

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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 supply, modification and charter of a floating storage unit (or FSU) vessel for the project;

Teekay Offshore's ability to recover the lower day rate on the Petrojarl I FPSO unit under the amended variable rate contract;

- the future valuation or impairment of goodwill;
- our expectations and estimates regarding future charter business, including with respect to minimum charter hire payments, revenues and our vessels' ability to perform to specifications and maintain their hire rates in the future;
- 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, our ability to recover dry-docking expenses from charterers, 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 contracts to fulfill their contractual obligations;
- the impact of, and our ability to comply with, new and existing governmental regulations and maritime self-regulatory organization standards and environmental liabilities applicable to our business, including the expected cost to install ballast water treatment systems on our vessels in compliance with the International Marine Organization (or IMO) proposals;
- the outcome of the investigation into allegations of improper payments by one of our subsidiaries to Brazilian agents;
- the timing of the new shuttle tanker contract of affreightment (or CoA) contracts and the number of shuttle tankers to serve these new CoAs;
- the ability of Teekay Offshore to grow its long-distance ocean towage and offshore installation services business;
- expected uses of proceeds from vessel or securities transactions;
- our entering into joint ventures or partnerships with companies;
- our expectations regarding the benefits of the Brookfield Transaction (as defined below in Item 5);
- our expectations regarding whether the UK taxing authority can successfully challenge the tax benefits available under certain of our former and current leasing arrangements, and the potential financial exposure to us if such a challenge is successful;
- 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;
- our expectations regarding uncertain tax positions;
- 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 SEC).

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

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

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Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay for fiscal years 2013 through 2017, 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, 2017 (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).

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands of U.S. Dollars, except share and per share data)				
Income Statement Data:					
Revenues	\$1,880,332	\$2,328,569	\$2,450,382	\$1,993,920	\$1,830,085
Income from vessel operations ⁽¹⁾	6,700	384,290	625,132	427,159	62,746
Interest expense	(268,400)	(282,966)	(242,469)	(208,529)	(181,396)
Interest income	6,290	4,821	5,988	6,827	9,708
Realized and unrealized (loss) gain on non-designated derivative instruments	(38,854)	(35,091)	(102,200)	(231,675)	18,414
Equity (loss) income	(37,344)	85,639	102,871	128,114	136,538
Foreign exchange (loss) gain	(26,463)	(6,548)	(2,195)	13,431	(13,304)
Other (loss) income	(53,981)	(39,013)	1,566	(1,152)	5,646
Income tax (expense) recovery	(12,232)	(24,468)	16,767	(10,173)	(2,872)
Net (loss) income	(529,072)	86,664	405,460	124,002	35,480
Less: Net loss (income) attributable to non-controlling interests	365,796	(209,846)	(323,309)	(178,759)	(150,218)
Net (loss) income attributable to shareholders of Teekay Corporation	(163,276)	(123,182)	82,151	(54,757)	(114,738)
Per Common Share Data:					
Basic (loss) earnings attributable to shareholders of Teekay Corporation	(1.89)	(1.62)	1.13	(0.76)	(1.63)
Diluted (loss) earnings attributable to shareholders of Teekay Corporation	(1.89)	(1.62)	1.12	(0.76)	(1.63)
Cash dividends declared	0.2200	0.2200	1.7325	1.2650	1.2650
Balance Sheet Data (at end of year):					
Cash and cash equivalents	\$445,452	\$567,994	\$678,392	\$806,904	\$614,660
Restricted cash	106,722	237,248	176,437	119,351	502,732
Vessels and equipment	5,208,544	9,138,886	9,366,593	8,106,247	7,351,144
Net investments in direct financing leases	495,990	660,594	684,129	704,953	727,262
Total assets	8,092,437	12,814,752	13,061,248	11,779,690	11,506,393
Total debt (including obligations related to capital leases)	4,578,162	7,032,385	7,443,213	6,715,526	6,658,491
Capital stock and additional paid-in capital	919,078	887,075	775,018	770,759	713,760
Non-controlling interest	2,102,465	3,189,928	2,782,049	2,290,305	2,071,262

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Total equity	2,879,656	4,089,293	3,701,074	3,388,633	3,203,050	
Number of outstanding shares of common stock	89,127,041	86,149,975	72,711,371	72,500,502	70,729,399	
Other Financial Data:						
Net revenues ⁽²⁾	\$1,726,566	\$2,190,230	\$2,334,595	\$1,866,073	\$1,717,867	
EBITDA ⁽³⁾	231,099	961,102	1,134,674	758,781	641,126	
Adjusted EBITDA ⁽³⁾	898,246	1,268,668	1,393,696	1,037,284	817,382	
Total debt to total capitalization ⁽⁴⁾	61.4	% 63.2	% 66.8	% 66.5	% 67.5	%
Net debt to total net capitalization ⁽⁵⁾	58.3	% 60.4	% 64.0	% 63.1	% 63.4	%
Capital expenditures:						
Expenditures for vessels and equipment	\$1,054,052	\$648,326	\$1,795,901	\$994,931	\$753,755	

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

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands of U.S. Dollars)				
Asset impairments and net (loss) gain on sale of vessels, equipment and other operating assets	\$(270,743)	\$(112,246)	\$(70,175)	\$11,271	\$(166,358)
Restructuring charges	(5,101)	(26,811)	(14,017)	(9,826)	(6,921)
	\$ (275,844)	\$ (139,057)	\$ (84,192)	\$ 1,445	\$ (173,279)

Net revenues is a non-GAAP financial measure. consistent with general practice in the shipping industry, we use net revenues (defined as revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time charters, the charterer pays the voyage expenses, which are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, whereas under voyage-charter contracts the ship-owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship-owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our (2) customers by charging higher rates under the contract or billing the expenses to them. As a result, although revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call “net revenues,” are comparable across the different types of contracts. We principally use net revenues because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. Net revenues should not be considered as an alternative to revenues or any other measure of financial performance in accordance with GAAP. Net revenues is adjusted for expenses that we classify as voyage expenses and, therefore, may not be comparable to similarly titled measures of other companies. The following table reconciles net revenues with revenues.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands of U.S. Dollars)				
Revenues	\$1,880,332	\$2,328,569	\$2,450,382	\$1,993,920	\$1,830,085
Voyage expenses	(153,766)	(138,339)	(115,787)	(127,847)	(112,218)
Net revenues	\$1,726,566	\$2,190,230	\$2,334,595	\$1,866,073	\$1,717,867

EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before restructuring charges, foreign exchange loss (gain), items included in other loss (income), asset impairments, and net loss (gain) on sale of vessels, equipment and other operating assets, amortization of in-process revenue contracts, unrealized (gains) loss (3) 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 measures by management and by external users of our financial statements, such as investors, as discussed below.

Financial and operating performance. EBITDA and Adjusted EBITDA assist our management and 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 as financial and operating measures 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.

Liquidity. EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses (which may vary significantly from period to period), EBITDA and Adjusted EBITDA provide consistent measures of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization structure (including assessing how much debt to incur and whether changes to our capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of our business to generate cash sufficient to meet our financial and operational needs, including dividends on shares of our common stock and repayments under debt instruments.

Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net 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, and our historical consolidated Adjusted EBITDA to net operating cash flow.

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	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands of U.S. Dollars)				
Income Statement Data:					
Reconciliation of EBITDA and Adjusted EBITDA to Net (loss) income					
Net (loss) income	\$(529,072)	\$86,664	\$405,460	\$124,002	\$35,480
Income tax expense (recovery)	12,232	24,468	(16,767)	10,173	2,872
Depreciation and amortization	485,829	571,825	509,500	422,904	431,086
Interest expense, net of interest income	262,110	278,145	236,481	201,702	171,688
EBITDA	231,099	961,102	1,134,674	758,781	641,126
Restructuring charges	5,101	26,811	14,017	9,826	6,921
Foreign exchange loss (gain) ^(a)	26,463	6,548	2,195	(13,431)	13,304
Items included in other loss (income) ^{(b) (c)}	48,750	42,401	—	7,699	—
Asset impairments and net loss (gain) on sale of vessels, equipment and other operating assets	270,743	112,246	70,175	(11,271)	166,358
Amortization of in-process revenue contracts	(26,958)	(28,109)	(30,085)	(40,939)	(61,700)
Unrealized (gains) losses on derivative instruments	(13,634)	(69,401)	(38,319)	100,496	(178,731)
Realized losses on interest rate swaps	53,921	87,320	108,036	125,424	122,439
Realized losses on interest rate swap amendments and terminations	610	8,140	10,876	1,319	35,985
Loss on deconsolidation of Teekay Offshore (note 3)	104,788	—	—	—	—
Write-downs related to equity-accounted investments	46,168	2,357	—	—	—
Adjustments relating to equity income ^(d)	151,195	119,253	122,127	99,380	71,680
Adjusted EBITDA	898,246	1,268,668	1,393,696	1,037,284	817,382
Reconciliation of Adjusted EBITDA to net operating cash flow					
Net operating cash flow	513,745	620,783	775,832	456,177	299,295
Expenditures for dry docking	50,899	45,964	68,380	74,379	72,205
Interest expense, net of interest income	262,110	278,145	236,481	201,702	171,688
Change in non-cash working capital items related to operating activities	(106,567)	(38,333)	12,291	(60,631)	(64,184)
Equity income (loss), net of dividends received	(87,602)	47,563	(3,203)	94,726	121,144
Other items ^{(b) (c)}	54,834	73,022	48,859	34,982	(19,791)
Restructuring charges	5,101	26,811	14,017	9,826	6,921
Realized losses on interest rate swaps	53,921	87,320	108,036	125,424	122,439
Realized losses on interest rate swap resets and terminations	610	8,140	10,876	1,319	35,985
Adjustments relating to equity income ^(d)	151,195	119,253	122,127	99,380	71,680
Adjusted EBITDA	898,246	1,268,668	1,393,696	1,037,284	817,382

(a) Foreign exchange loss (gain) includes the unrealized gain of \$82.7 million in 2017 (2016 – gain of \$75.0 million, 2015 – loss of \$89.2 million, 2014 – loss of \$167.3 million, and 2013 – loss of \$65.4 million) on cross currency swaps.

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.

(b) This net loss provision of \$23.4 million for the year ended December 31, 2016 is reported in Other (loss) income in our consolidated statements of 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. For additional information regarding the Teekay Nakilat capital leases, please read "Item 18 - Financial Statements: Note 16d – Commitments and Contingencies".

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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 (d)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,				
	2017	2016	2015	2014	2013
	(in thousands of U.S. Dollars)				
Depreciation and amortization	82,513	69,781	69,103	61,367	56,188
Interest expense, net of interest income	63,189	45,584	47,799	42,713	37,863
Income tax expense (recovery)	503	724	476	(188)	(21)
Amortization of in-process revenue contracts	(4,307)	(5,482)	(7,153)	(8,295)	(14,173)
Foreign currency exchange loss (gain)	366	132	(527)	(441)	709
Asset impairments and net loss (gain) on sale of vessels, equipment and other operating assets	5,479	4,763	(7,472)	(16,923)	—
Realized and unrealized loss (gain) on derivative instruments	3,452	3,075	15,027	21,147	(8,886)
Other	—	676	4,874	—	—
Adjustments relating to equity income	151,195	119,253	122,127	99,380	71,680

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

(5) 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.

Global crude oil prices have declined since mid-2014. The decline in oil prices has also contributed to depressed natural gas prices. Although global crude oil prices have increased since early-2016, a continuation of lower oil prices or 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 exploration for or development of new offshore oil fields, or the delay or cancelation of existing offshore projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;

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;

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;

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- 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;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, failing to extend or renew contracts upon expiration, or seeking to negotiate cancelable 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 our Daughter Entities, to fund our growth. Current market conditions generally in the energy sector and for master limited partnerships have significantly reduced our and our Daughter Entities' access to capital, particularly equity capital, compared to periods prior to mid-2014. Debt financing and refinancing are more challenging to obtain, and terms are less attractive to us. 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.

The ability of us and our Controlled Daughter Entities 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 and our Controlled Daughter Entities will need to obtain additional financing, which financing may limit our and their ability to make cash dividends and distributions, increase our or their financial leverage and result in dilution to our or their equityholders.

To fund existing and future debt obligations and capital expenditures of us and our Controlled Daughter Entities and to meet the minimum liquidity requirements under the financial covenants in our or their credit facilities, we and they 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; refinancing and increasing amounts available under various loan facilities of Teekay Tankers and Teekay LNG; negotiating new secured debt financings related to vessels under construction or other unencumbered operating vessels for Teekay Tankers and Teekay LNG.

The ability of us and our Controlled Daughter Entities to obtain external financing may be limited by our and their financial condition at the time of any such financing as well as by adverse market conditions in general. Even if we or our Controlled Daughter Entities are successful in obtaining necessary funds, the terms of such financings could limit our or their ability to pay cash dividends or distributions to security holders or operate our or their businesses as currently conducted. In addition, incurring additional debt may significantly increase interest expense and financial leverage, and 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 and our Controlled Daughter Entities' liquidity requirements, please read "Item 18 - Financial Statements: Note 16c — Commitments and Contingencies - Liquidity."

We have guaranteed significant debt of certain of our Controlled Daughter Entities, and will be directly obligated to make related payments if the Controlled Daughter Entities default in their payment obligations.

We have guaranteed obligations pursuant to certain credit facilities of Teekay Tankers. As at December 31, 2017, the aggregate outstanding balance on such credit facilities was \$252.7 million. If Teekay Tankers defaults in paying these obligations, we will be obligated to make the required payments.

We have experienced significant dilution of our ownership interest in Teekay Offshore and reduced control over the management of Teekay Offshore as a result of the issuance of Teekay Offshore common units and warrants to Brookfield and the sale of part of our interest in Teekay Offshore's general partner to Brookfield.

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. Although Teekay owned less than 50% of Teekay Offshore prior to the completion of the Brookfield Transaction, Teekay maintained control of Teekay Offshore until September 25, 2017, by virtue of its 100% ownership interest in the general partner of Teekay Offshore. Subsequent to the closing of the Brookfield Transaction, Teekay accounts for its investment in Teekay Offshore using the equity method.

As part of the Brookfield Transaction, Teekay Offshore issued to Brookfield and Teekay Parent approximately 244 million and 12 million common units, respectively, plus warrants to purchase approximately 62.4 million and 3.1 million common units, respectively, which diluted the percentage of Teekay Offshore's common units outstanding held by Teekay Parent from approximately 29% to approximately 14%.

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Additionally, Brookfield acquired from Teekay Parent a 49% interest in Teekay Offshore's general partner and an option to purchase an additional 2% interest in Teekay Offshore's general partner. If Brookfield exercises its option to purchase from Teekay Parent the additional 2% interest in Teekay Offshore's general partner, Teekay Parent will no longer have the right to elect a majority of the general partner's board of directors. Brookfield has the right to appoint four of nine directors of the general partner and reasonably approve three of the remaining nine directors prior to any exercise of the 2% option, and the terms of the amended and restated general partner LLC agreement entered into upon closing of the Brookfield Transaction restricts Teekay Offshore's general partner from, with respect to Teekay Offshore, making certain acquisitions and divestitures, entering into certain contracts, incurring certain indebtedness and expenditures, commencing or settling litigation or disputes, repurchasing or issuing securities outside of existing equity award programs, and taking other specified actions without Brookfield consent, until Brookfield exercises its 2% option and directors elected by Brookfield constitute a majority of the general partner's board of directors. These restrictions could have the effect of delaying or preventing strategic transactions involving Teekay Offshore at any time while these restrictions remain in place.

We or Teekay Offshore may fail to realize the anticipated benefits of the Brookfield Transaction, and the transition of services could adversely impact our and Teekay Offshore's ongoing operations.

We, Brookfield and Teekay Offshore entered into the Brookfield Transaction with the expectation that the investment and related transactions would result in various benefits, including, among other things, the ability to fully finance Teekay Offshore's existing growth projects, resulting in significant near-term cash flow growth, the ability to better service Teekay Offshore's customers and take advantage of future growth opportunities, and the ability to separate Teekay Offshore's shuttle tanker business into a wholly-owned subsidiary, with the subsidiary's indebtedness having no recourse to Teekay Parent, Teekay Offshore, or Teekay Offshore's subsidiaries, other than the newly-created shuttle tanker subsidiary and its subsidiaries. The success of the Brookfield Transaction will depend, in part, on our and Teekay Offshore's ability to realize such anticipated benefits. The anticipated benefits of the Brookfield Transaction may not be realized fully, or at all, or may take longer to realize than expected. Failure to achieve anticipated benefits could result in increased costs and decreases in the amounts of expected revenues or operating results of Teekay Offshore or us.

In connection with the Brookfield Transaction, Teekay entered into a transition services agreement with Teekay Offshore and its general partner which provided for, among other things, the transfer from Teekay to Teekay Offshore and its subsidiaries (a) the employment of Ingvild Sæther (President and Chief Executive Officer of Teekay Offshore Group Ltd.) and David Wong (Chief Financial Officer of Teekay Offshore Group Ltd.) and certain other persons who devoted all, or substantially all of their professional time providing services to Teekay Offshore and its subsidiaries pursuant to existing services agreements and (b) as of January 1, 2018, the Teekay subsidiaries (or the assets of such subsidiaries) that were devoted exclusively or nearly exclusively to providing services to Teekay Offshore and its subsidiaries pursuant to existing services agreements. Although the transferred personnel and assets were devoted exclusively or nearly exclusively to Teekay Offshore and its subsidiaries, it is possible that the transfer could result in the loss of key employees, the disruption of the ongoing businesses or inconsistencies in standards, controls, procedures or policies that adversely affect our and Teekay Offshore's ability to achieve the anticipated benefits of the Brookfield Transaction.

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 distribution levels.

The source of our cash flow includes cash distributions from our subsidiaries and equity-accounted investees, primarily Teekay Offshore and Teekay LNG. The amount of cash our subsidiaries and equity-accounted investees can distribute to us principally depends upon the amount of distributions declared by each of their board 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. We and Teekay LNG each maintained these reduced dividend and distribution levels throughout 2016 and 2017. 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. There is no guarantee that quarterly cash distributions payable to common unit holders of Teekay Offshore will return to historical levels. These distribution reductions by Teekay Offshore and Teekay LNG substantially reduced our cash flows from them, including by currently eliminating any distributions on our incentive distribution rights in such Daughter Entities.

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;

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- 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 our newbuilding towage vessels;
- delays in the delivery of any newbuildings and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of business.

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

- 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 our 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.

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 20% and 23% of our net revenues during 2017 and 2016, 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;

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- 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 could harm our shuttle tanker and FPSO businesses.

As at December 31, 2017, we had 30 vessels operating in Teekay Offshore's shuttle tanker fleet and eleven FPSO units operating in our and Teekay Offshore's FPSO fleet (of which two are operating in joint ventures). The revenue earned by certain shuttle tankers and FPSO units depends upon the volume of oil we transport or the volume of oil produced from offshore oil fields. Oil production levels are affected by several factors, all of which are beyond our control, including: geologic factors, including general declines in production that occur naturally over time; 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. In addition, the volume of oil we transport may be adversely affected by extended repairs to oil field installations or suspensions of field operations as a result of oil spills, operational difficulties, strikes, employee lockouts or other labor unrest. The rate of oil production at fields we service may decline from existing or future levels, and may be terminated, all of which could harm our business and operating results. In addition, if such a reduction or termination occurs, the spot tanker market rates, if any, in the conventional oil tanker trades at which we may be able to redeploy the affected shuttle tankers may be lower than the rates previously earned by the vessels under contracts of affreightment, which would also harm our business and operating results.

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

FPSO units are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. These factors increase the redeployment risk of FPSO units. Unless extended, one of our and one of Teekay Offshore's FPSO production service agreements will expire in 2018 and two further agreements of Teekay Offshore's will expire in 2019. Our clients may also terminate certain of our FPSO production service agreements prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

The duration of many of our shuttle tanker, FSO and 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.

Many of Teekay Offshore's shuttle tanker contracts have a "life-of-field" duration, which means that the contract continues until oil production at the field ceases. If production at a field terminates or a field is abandoned for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker, FSO and 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 and towage vessels 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 or LPG carriers, shuttle tankers, FSO or FPSO units, or UMS 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.

Our ability to charter our towage vessels will depend, among other things, on the state of the towage market. Towage contracts are highly competitive and are based on the level of projects undertaken by the customer base. There also exists some volatility in charter rates for LNG and LPG carriers, shuttle tankers, FSO and FPSO units, and UMS, which could also adversely affect redeployment opportunities for those vessels.

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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, UMS, and FPSO and FSO 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. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings. We recognized asset impairment charges, excluding impairment charges recognized by Teekay Offshore subsequent to its deconsolidation on September 25, 2017, of \$233 million, \$46 million and \$68 million in 2017, 2016, 2015, respectively, and net loss on sale of assets of \$38 million, \$66 million and \$2 million in 2017, 2016 and 2015, respectively.

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, 2017, the total outstanding debt under credit facilities (excluding credit facilities of Teekay Offshore) with this type of loan-to-value covenant tied to conventional tanker values was \$805.7 million and tied to LNG carrier values was \$61.1 million. We have five financing arrangements that require us to maintain vessel value to outstanding loan principal balance ratios ranging from 105% to 135%. At December 31, 2017, we were in compliance with these required ratios.

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

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

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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.

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

- decreases in the actual or projected price of oil, which could lead to a reduction in or termination of production of oil at certain fields we service, delays or cancellations of projects under development or a reduction in exploration for or development of new offshore oil fields;
- increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;
- availability of new, alternative energy sources; and
- negative global or regional economic or political conditions, particularly in oil consuming regions, which could reduce energy consumption or its growth.

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

The intense competition in our markets may lead to reduced profitability or 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, shuttle tankers, UMS, FPSO and FSO 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.

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. Two customers, international oil companies, accounted for an aggregate of 24%, or \$442.4 million of our consolidated revenues during 2017 (2016 – two customers for 29%, or \$653.6 million, 2015 – two customers for 21%, or \$495.2 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.

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If we lose a key customer, we may be unable to obtain replacement long-term charters or contracts of affreightment and may increase our exposure, with respect to any shuttle tankers redeployed on conventional oil tanker trades, to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase 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. 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.

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 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

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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.

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

Our growth has placed, and we believe it will continue to place, significant demands on our management, operational and financial resources. As we expand our operations, we must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. In addition, our Daughter Entities have increased the complexity of our operations and placed additional demands on our management. Any future joint venture, partnering or other similar transactions may further increase our complexity and demands on our management. Our future growth and financial performance will also depend on our ability to recruit, train, manage and motivate our employees to support our expanded operations and continue to improve our customer support, financial controls and information systems.

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

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

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

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill, 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.

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 Syria and Sudan. 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 commercial pooling arrangements 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.

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

- marine disaster;
- bad weather or natural disasters;
- mechanical failures;
- grounding, fire, explosions and collisions;
- piracy;
- 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.

Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is our primary existing offshore oil market, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in our results of operations, as oil production typically is lower in the fiscal quarters ended June 30 and September 30 in this region compared with production in the fiscal quarters ended March 31 and December 31. Because a number of Teekay Offshore's North Sea shuttle tankers operate under contracts of affreightment, under which revenue is based on the volume of oil transported, the results of our shuttle tanker operations in the North Sea under these contracts

generally reflect this seasonal production pattern. When we redeploy affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for our North Sea shuttle tanker operations may be negatively affected if the rates in the conventional oil tanker markets are lower than the contract of affreightment rates. In addition, we seek to coordinate some of the general dry-docking schedule of our fleet with this seasonality, which may result in lower revenues and increased dry-docking expenses during the summer months.

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We expend substantial sums during construction of newbuildings and the conversion of tankers to FPSO or FSO 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 vessel conversion, 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, 2017, Teekay LNG had 15 LNG carrier newbuildings scheduled for delivery between 2018 and 2020 (of which six are 50%-owned, two are 20%-owned and one is 30%-owned), three 50%-owned LPG carrier newbuildings scheduled for delivery during 2018 and one 30%-owned LNG receiving and regasification terminal under construction scheduled for completion in 2019. As of December 31, 2017, Teekay Offshore had five shuttle tanker newbuildings, one of which was delivered in March 2018, and one long-distance towing and offshore installation vessel newbuilding, which was delivered in February 2018. Our obligations to purchase the newbuilding vessels is not conditional upon our ability to obtain financing for such purchases. As at December 31, 2017, Teekay LNG had in place \$1.7 billion of financing for its remaining newbuilding vessels and Teekay LNG was seeking further debt financing for two newbuilding vessels. Although we believe we will obtain the remainder of the uncommitted financing for our newbuildings during 2018, there is no assurance that we will do so.

In addition, conversion of tankers to FPSO and FSO units exposes us to a number of risks, including lack of shipyard capacity and the difficulty of completing the conversions in a timely and cost-effective manner. During conversion of a vessel, we do not earn revenue from it. In addition, conversion projects may not be successful.

We make substantial capital expenditures to expand the size of our fleet. Depending on whether we finance our expenditures through cash from operations or by 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, towage, FPSO and FSO projects. We may submit additional bids from time to time. The award process relating to LNG and LPG transportation, and FPSO and FSO opportunities typically involves various stages and takes several months to complete. If we bid on and are awarded contracts relating to any LNG and LPG, FPSO and FSO projects, we will need to incur significant capital expenditures to build the related LNG and LPG carriers, and FPSO and FSO units.

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.

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

Substantially all of our revenues are earned in U.S. Dollars, although we are paid in Euros, Australian Dollars, Norwegian Kroner and British Pounds under some of our charters. A portion of our operating costs are incurred in currencies other than U.S. Dollars. This partial mismatch in operating revenues and expenses leads to fluctuations in net income due to changes in the value of the U.S. Dollar relative to other currencies, in particular the Norwegian Kroner, the 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 have entered into foreign currency forward contracts to economically hedge portions of our forecasted expenditures denominated in Norwegian Kroner. We also incur interest expense on our Norwegian Kroner-denominated bonds. We have entered into cross currency swaps to economically hedge the foreign exchange risk on the principal and interest payments of our Norwegian Kroner-denominated bonds.

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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. 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.

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.

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

Terrorist attacks, piracy and the current or future conflicts in the Middle East, 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 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 pirates, 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, piracy, 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 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 can 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.

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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 vessels owned by the Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are currently under long-term contracts expiring in 2029 with YLNG, a consortium led by Total SA. Due to the political situation in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, the Teekay LNG-Marubeni Joint Venture agreed in December 2015 to defer a portion of the charter payments for the two LNG carriers from January 1, 2016 to December 31, 2016 and further deferrals were agreed with YLNG to extend the deferral period to the end of the short-term sub-charter contracts for the Marib Spirit and Arwa Spirit, which is currently anticipated to be in August 2018 and March 2019, respectively, unless the short-term sub-charter contracts are further extended in accordance with their terms. Should the LNG plant in Yemen resume operations, it is intended that YLNG will repay the deferred amounts in full, plus interest over a period of time to be agreed upon. However, there is no assurance if or when the LNG plant will resume operations or if YLNG will repay the deferred amounts, and this deferral period may extend beyond 2018 and 2019 as it relates to the Marib Spirit and Arwa Spirit, respectively. Teekay LNG's proportionate share of the estimated impact of the charter payment deferral for 2018 compared to original charter rates earned prior to December 31, 2015 is estimated to be a reduction to equity income ranging from \$4 million to \$5 million per quarter, depending on any sub-chartering employment opportunities for the Marib Spirit and Arwa Spirit in 2018.

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.

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 Yamal LNG Project is not completed.

On July 9, 2014, Teekay LNG entered into a 50/50 joint venture with China LNG (or the Yamal LNG Joint Venture) and ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project), one of which newbuilding carriers delivered in January 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 five remaining ARC7 LNG carrier newbuildings ordered by the Yamal LNG Joint Venture, which are scheduled for delivery between the remainder of 2018 and 2020, 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 or not completed for any reason, either before or 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 or not completed 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 not completed or 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 distributions to us.

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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 OAO (or Novatek), a 50.1% owner of the Yamal LNG Project, on the Sectoral Sanctions Identifications List. OFAC previously imposed sanctions on an investor in Novatek and these sanctions also remain in effect. Effective as of November 2017, the 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 distributions. 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 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, 2017, our consolidated debt and obligations related to capital leases totaled \$4.6 billion and we had the capacity to borrow an additional \$0.5 billion under our revolving credit facilities. These credit facilities may be used by us for general corporate purposes. Our consolidated debt and obligations related to capital leases 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;

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;

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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, 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:

- pay dividends;
- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- grant liens on our assets;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into new lines of business.

Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in 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 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.

Certain of Teekay LNG's lease arrangements contain provisions whereby it has provided a tax indemnification to third parties, which may result in increased lease payments or termination of favorable lease arrangements.

Teekay LNG and certain of its joint ventures are party and were party to lease arrangements whereby the lessor could claim tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. The rentals payable under the lease arrangements are predicated on the basis of certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect or there is a change in the applicable tax legislation or the interpretation thereof by the United Kingdom (U.K.) taxing authority, the lessor is entitled to increase the rentals so as to maintain its agreed after-tax margin. Under the capital lease arrangements, Teekay LNG does not have the ability to pass these increased rentals onto its charter party. However, the terms of the lease arrangements enable Teekay LNG and its joint venture partner to jointly terminate the lease arrangements on a voluntary basis at any time. In the event of an early termination of the lease arrangements, the lessee is obliged to pay termination sums to the lessor sufficient to repay its investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of tax depreciation, if any.

Teekay LNG owns a 70% interest in Teekay Nakilat Corporation (or Teekay Nakilat Joint Venture) a subsidiary of the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or the RasGas II LNG Carriers). Under the terms of the leases in respect of the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leases, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the leases were based on certain tax and financial assumptions at the commencement of the leases and subsequently

adjusted to maintain its agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and as at December 31, 2017, the Teekay Nakilat Joint Venture's carrying amount of this estimated tax indemnification guarantee was \$62.7 million or GBP 46.4 million (December 31, 2016 - \$13.3 million or GBP 10.8 million) which is included as part of accrued liabilities and other in our consolidated balance sheets. Additionally, as at December 31, 2017, the Teekay Nakilat Joint Venture had \$7.0 million (December 31, 2016 - \$6.8 million) on deposit with the lessor as security against any future claims and recorded as part of restricted cash in our consolidated balance sheets.

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The UK taxing authority (or HMRC) has been challenging the use of similar lease structures in the UK courts. One of those challenges was eventually decided in favor of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal further. The LEL1 tax case concluded that capital allowances were not available to the lessor. On the basis of this conclusion, HMRC is now asking lessees on other leases, including the Teekay Nakilat Joint Venture, to accept that capital allowances are not available to their lessor. Under the terms of the lease, the lessor is entitled to make a determination that additional rentals are due, even where a court has not made a determination on whether capital allowances are available or where discussions are otherwise ongoing with HMRC on the matter. The Teekay Nakilat Joint Venture now believes that it is probable that the lessor will make such a determination, and demand additional rentals. As a result, in the three months ended December 31, 2017, the Teekay Nakilat Joint Venture recognized an additional tax indemnification guarantee liability of \$50.0 million (which is included in the afore-mentioned total accrued liability of \$62.7 million as at December 31, 2017) as estimated primarily based on information received from the lessor and presented in other (loss) income on the consolidated statements of (loss) income for the year ended December 31, 2017.

In addition, Teekay LNG's subsidiaries of another joint venture formed to service the Tangguh LNG project in Indonesia have lease arrangements with a third party for two LNG carriers. The terms of the lease arrangements provide similar tax and change of law risk assumption by this joint venture as Teekay LNG had with the three RasGas II LNG Carriers.

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.

Allegations of improper payments may harm our reputation and business

In May 2016, a former executive of Transpetro, the transportation and logistics subsidiary of Petrobras S.A. (or Petrobras), alleged in a plea bargain that a subsidiary of Teekay Offshore, among a number of other third-party shipping companies, purportedly made improper payments to obtain shuttle tanker business with Transpetro. Such payments were alleged to have been made by the subsidiary between 2004 and 2006, in an aggregate amount of approximately 1.5 million Brazilian Reals (less than \$0.5 million at the December 31, 2017 exchange rate). We conducted an extensive internal investigation, with the assistance of United States, Brazilian and Norwegian counsel and forensic accountants, to evaluate these allegations. Based on the information reasonably available and reviewed as part of the investigation, the investigation did not identify conclusive proof that we, Teekay Offshore or any of our or Teekay Offshore's subsidiaries made the alleged improper payments or that any of our or our subsidiaries' current or former employees intended for the alleged improper payments to be made. However, there is no assurance the conclusions of the investigation are accurate or will not be challenged, or that other information may not exist or become available that would affect such conclusions, and such conclusions are not binding on regulatory or governmental authorities. It is uncertain how these allegations ultimately may affect us or Teekay Offshore, if at all, including the possibility of penalties that could be assessed by relevant authorities. Any claims against us or Teekay Offshore may adversely affect our reputation, business, financial condition and operating results. In addition, any dispute with Petrobras in connection with this matter may adversely affect our relationship with Petrobras. As of the

date of this Annual Report, no legal or governmental proceedings are pending or, to our knowledge, contemplated against us or Teekay Offshore relating to these allegations.

In January 2015, Teekay Offshore, through the Libra joint venture, its 50/50 joint venture with Ocyan S.A. (or Ocyan, formerly Odebrecht Oil & Gas S.A), finalized the contract with Petrobras to provide an FPSO unit for the Libra field located in the Santos Basin offshore Brazil. The contract is being serviced by the Pioneiro de Libra (or Libra), an FPSO unit converted from Teekay Offshore's 1995-built shuttle tanker, the Navion Norvegia, which was sold by Teekay Offshore to the joint venture. The converted unit commenced operations in late-2017 under a 12-year firm period fixed-rate contract with Petrobras and its international partners. Senior Odebrecht S.A. personnel, including a former executive of Ocyan, have been implicated in corruption charges related to improper payments to Brazilian politicians and political parties. Any adverse effect of these charges against Ocyan may harm our growth prospects, reputation, financial condition and 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 offshore oil marine transportation, processing, floating accommodation, towage and storage projects and to enter into new charters or contracts of affreightment and expand our customer relationships depends 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:

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- 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.

Shuttle tankers, FSO and FPSO units, towing and offshore installation vessels and UMS 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 Consequences" 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.

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.

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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 may be subject to taxes, which could affect 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 U.S., 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 we also offer offshore oil production, storage and offloading services, primarily under long-term, fixed-rate contracts. Over the past decade, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the "Marine Midstream" sector. This transformation has included our expansion into the liquefied natural gas (or LNG) and liquefied petroleum gas (or LPG) shipping sectors through our publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or Teekay LNG), 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 Investments AS and through our equity-accounted investment Teekay Offshore Partners L.P. (NYSE: TOO) (or Teekay Offshore). The combined Teekay entities operate total assets under management of approximately \$13 billion, comprised of approximately 220 liquefied gas, offshore, and conventional tanker assets (excluding vessels managed for third parties). With offices in 14 countries and approximately 8,300 seagoing and shore-based employees, Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies. 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.

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, 2017, Teekay LNG's fleet, including newbuildings on order, had a total cargo carrying capacity of approximately 9.1 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. As of December 31, 2017, our shuttle tanker fleet, including newbuildings, had a total cargo capacity of approximately 4.8 million deadweight tonnes (or dwt), which represented approximately 47% of the total tonnage of the world shuttle tanker fleet. Please read "—B. Operations—Our Fleet."

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Teekay Parent currently owns three FPSO units. Our long-term vision is for Teekay Parent not to have a direct ownership in any vessels.

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.

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 March 1, 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 33.0% (including our 2% general partner interest) as of March 1, 2018. We maintain control of Teekay LNG by virtue of our control of the general partner and will 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 51% of the general partner interest) as of March 1, 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.

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 Teekay Parent's 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. Subsequent to the Brookfield Transaction on September 25, 2017, 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. We have determined that our investment in Teekay Offshore represents a separate operating segment and as such, individual lines of business within Teekay Offshore are no longer disclosed in our operating segments and are not discussed individually in the following sections.

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 19% of total LNG trade in 2010 to approximately 27% in 2017.

In the LNG markets, Teekay LNG competes principally with 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. Other major operators of LNG carriers include Qatar Gas Transport (Nakilat), Malaysian International Shipping Company, Mitsui O.S.K. Lines, Maran Gas Maritime, BW Gas, GasLog, NYK Line, and Golar LNG.

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.

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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 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.

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, 2017, there were approximately 502 vessels in the worldwide LNG fleet, with an average age of approximately 11 years, and an additional 119 LNG carriers under construction or on order for delivery through 2020. As of December 31, 2017, the worldwide LPG tanker fleet consisted of approximately 1,452 vessels with an average age of approximately 15 years and approximately 71 additional LPG vessels on order for delivery through 2020. LPG carriers range in size from approximately 100 to approximately 88,000 cubic meters (or cbm). Approximately 43% (in terms of vessel numbers) of the worldwide fleet is less than 5,000 cbm.

Teekay LNG includes substantially all of our LNG and LPG carriers. As at December 31, 2017, Teekay LNG had ownership interests in 35 LNG carriers, as well as 15 additional newbuilding LNG carriers on order. In addition, as at December 31, 2017, Teekay LNG had full ownership of seven LPG carriers and 50% ownership, through its joint venture agreement with Exmar, in another 18 LPG carriers, three newbuilding LPG carriers on order, 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.

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.

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, 2017, 36 of Teekay Tankers’ owned vessels, four of Teekay Tankers’ capital lease vessels and one of Teekay Tankers’ time-chartered in vessels operated in the spot market through participation in Teekay-managed RSAs or on spot voyage charters. 24 of Teekay Tankers’ owned and capital lease vessels operated in the Teekay Suezmax RSA, seven of Teekay Tankers’ owned vessels operated in the Teekay Aframax RSA and six of Teekay Tankers’ owned vessels operated in the Taurus Tankers LR2 RSA. In addition, three of Teekay Tankers’ owned vessels and one time-chartered in vessel operated in the spot market on voyage charters.

Teekay Tankers’ competition in the Aframax (80,000 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 79,999 dwt) vessels can compete for many of the same charters for which our Aframax tankers 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) (80,000 to 119,999 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) (60,000-79,999 dwt) size vessels can compete for many of the same charters for which our LR2 tankers compete.

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We believe that we have competitive advantages in the Aframax and Suezmax tanker market as a result of the quality, type and dimensions of our vessels and our market share in the Indo-Pacific and Atlantic Basins. As of December 31, 2017, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 10.2 years and our Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately 8.7 years. This compares to an average age for the world oil tanker fleet of approximately 10.4 years, for the world Aframax tanker fleet of approximately 10.2 years and for the world Suezmax tanker fleet of approximately 9.5 years.

As of December 31, 2017, other large operators of Aframax tonnage (including newbuildings on order) included Sovcomflot (approximately 48 vessels), Malaysian International Shipping Corporation (approximately 43 Aframax vessels), Sigma Pool (approximately 36 vessels), and the Navig8 Pool (approximately 17 vessels). Other large operators of Suezmax tonnage (including newbuildings on order) as of such date included the Nordic American Tankers (approximately 33 vessels), the Blue Fin Pool (approximately 23 vessels), Euronav (approximately 22 vessels), the Stena Sonangol Pool (18 vessels), Navig8 (approximately 16 vessels), and Sovcomflot (approximately 15 vessels).

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 14a - Investments".

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 revenue sharing arrangements (or RSAs).

Teekay Tankers acquired SPT (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 a fleet of four STS support vessels and has two in-chartered Aframax tankers.

Teekay Offshore

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, 2017, there were approximately 176 FPSO units operating and 22 FPSO units on order in the world fleet. At December 31, 2017, Teekay Offshore owned six FPSO units, in which it has 100% ownership interests, and two FPSO units, in which it has 50% ownership interests. Other major independent FPSO contractors are SBM Offshore N.V., BW Offshore, MODEC, Bumi Armada and Bluewater.

Shuttle Tankers

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

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Teekay Offshore's shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts for a specific offshore oil field or under contracts of affreightment for various fields. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is primarily based upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel's manager. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers could be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms. The shuttle tankers in Teekay Offshore's contract of affreightment fleet may operate in the conventional spot market during downtime or maintenance periods for oil field installations or otherwise, which provides greater capacity utilization for the fleet.

As of December 31, 2017, there were approximately 81 vessels in the world shuttle tanker fleet (including seven newbuildings), the majority of which operate in the North Sea and Brazil. Shuttle tankers also operate off the East Coast of Canada and in the U.S. Gulf. As of December 31, 2017, Teekay Offshore owned 34 shuttle tankers (including five vessels under construction and the HiLoad DP unit), in which their ownership interests ranged from 50% to 100%, and chartered-in an additional three shuttle tankers. Other shuttle tanker owners include Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, SCF Group, Viken Shipping and AET Inc. Limited (or AET), which, as of December 31, 2017, controlled fleets of 5 to 29 shuttle tankers each. We believe that we have competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of our vessels combined with our market share in the North Sea, Brazil and the East Coast of Canada.

FSO Units

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

Teekay Offshore's FSO units are generally placed on long-term, fixed-rate time charters or bareboat charters as an integrated part of the field development plan, which provides more stable cash flow to Teekay Offshore.

As of December 31, 2017, there were approximately 94 FSO units operating and five FSO units on order in the world fleet. As at December 31, 2017, Teekay Offshore had ownership interests in six FSO units, in which their ownership interests ranged from 89% to 100%. The major markets for FSO units are Asia, West Africa, Northern Europe, the Mediterranean and the Middle East. Our primary competitors in the FSO market are conventional tanker owners, who have access to tankers available for conversion, and oil field services companies and oil field engineering and construction companies who compete in the floating production system market. Competition in the FSO market is primarily based on price, expertise in FSO operations, management of FSO conversions and relationships with shipyards, as well as the ability to access vessels for conversion that meet customer specifications.

UMS

UMS are used primarily for offshore accommodation, storage and support for maintenance and modification projects on existing offshore installations, or during the installation and decommissioning of large floating exploration, production and storage units, including FPSO units, FLNG units and floating drill rigs. Teekay Offshore's UMS unit is available for world-wide operations, excluding operations on the Norwegian Continental Shelf, and includes DP3

keeping systems that are capable of operating in deep water and harsh weather.

As of December 31, 2017, there were approximately 51 DP UMS operating and 13 units on order in the world fleet.

As at December 31, 2017, Teekay Offshore's fleet consisted of one unit, the Arendal Spirit, in which Teekay Offshore owns a 100% interest.

Towage Vessels

Long-distance towing and offshore installation vessels are used for the towing, station-keeping, installation and decommissioning of large floating objects, such as exploration, production and storage units, including FPSO units, floating liquefied natural gas (or FLNG) units and floating drill rigs. Teekay Offshore operates with high-end vessels which can be defined as long-distance towing and offshore installation vessels with a bollard pull of greater than 190 tonnes and a fuel capacity of more than 2,000 metric tonnes. Teekay Offshore's focus is on intercontinental towages requiring trans-ocean movements.

Teekay Offshore's towage vessels operate on voyage-charter and spot contracts. Voyage-charter contract revenue is less volatile than revenue from spot market rates, as project budgets are prepared and maintained well in advance of the contract commencement.

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As of December 31, 2017, there were approximately 31 long-distance towing and offshore installation vessels with a bollard pull greater than 150 tonnes, which is the minimum specification for vessels in direct competition with us, operating and one long-distance towing and offshore installation vessels on order in the world fleet. At December 31, 2017, Teekay Offshore's fleet included ten long-distance towing and offshore installation vessels (including one newbuilding which was delivered in February 2018), all of which Teekay Offshore has 100% ownership interests.

Teekay Parent

In addition to Teekay Parent's significant investments in Teekay LNG, Teekay Tankers and Teekay Offshore, Teekay Parent continues to own and operate three FPSO units. 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 Daughter Entities. Our primary financial objectives for Teekay Parent is 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.

Our Consolidated Fleet under Management

As at December 31, 2017, the combined Teekay entities operated under management a fleet of 217 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, 2017:

	Owned Vessels	Chartered-in Vessels	Newbuildings / Conversions	Total
Teekay LNG				
LNG Vessels	35	(1) —	15	(2) 50
LPG/Multigas Vessels	25	(3) 2	3	(4) 30
Suezmax Tankers	4	(5) —	—	4
Handymax Product Tanker	1	—	—	1
	65	2	18	85
Teekay Tankers				
Aframax Tankers	17	1	—	18
Suezmax Tankers	30	—	—	30
VLCC	1	(6) —	—	1
Product Tankers	9	—	—	9
STS Support Vessels	3	3	—	6
	60	4	—	64
Teekay Parent ⁽⁷⁾				
FPSO Units	3	—	—	3
Bunker Barge	—	1	—	1
	3	1	—	4
Teekay Offshore				
FPSO Units	8	—	—	8
Shuttle Tankers	28	(8) 3	5	(9) 36
FSO Units	6	(10) —	—	6
Unit for Maintenance and Safety (UMS)	1	—	—	1
Towage Vessels	9	—	1	(11) 10
HiLoad Dynamic Positioning Unit	1	—	—	1
Aframax Tankers	—	2	—	2
	53	5	6	64
Total	181	12	24	217

Includes a 52% interest in six LNG carriers, a 50% interest in one LNG carrier which was sold in January 2018, a (1)49% interest in one LNG carrier, a 40% interest in four LNG carriers, a 33% interest in four LNG carriers, and a 30% interest in one LNG carrier.

- Includes a 99% interest in three LNG newbuildings, one of which, the Magdala, was delivered in February 2018, a 50% interest in six LNG newbuildings, one of which, the Eduard Toll, was delivered in January 2018, a 30% interest in one LNG newbuilding, the Pan Americas, that was delivered in January 2018, and a 20% interest in two LNG newbuildings.
- (2)
- (3) Includes 18 LPG carriers 50%-owned by Teekay LNG. Includes one LPG carrier 50%-owned by Teekay LNG, Courcheville, that was sold in January 2018.
- (4) All LPG newbuildings are 50%-owned by Teekay LNG. Includes one LPG carrier 50%-owned by Teekay LNG, Kapellen, that was delivered in March 2018.

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- (5) Includes two vessels, the African Spirit and the European Spirit, that were classified as held-for-sale as at December 31, 2017.
- (6) VLCC is 50%-owned by Teekay Tankers.
- (7) Excludes two LNG carriers chartered from Teekay LNG, and two shuttle tankers and three FSO units chartered from Teekay Offshore, all of which are included in the respective Daughter Entity totals in this table.
- (8) Includes six shuttle tankers 50%-owned by Teekay Offshore.
- (9) Includes one shuttle tanker newbuilding, the Dorset Spirit, which was delivered in March 2018.
- (10) Includes one FSO unit 89%-owned by Teekay Offshore.
- (11) Includes one towage and offshore installation newbuilding, the ALP Keeper, which was delivered in February 2018.

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

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

Safety, Management of Ship Operations and Administration

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2008, we introduced the Quality Assurance and Training Officers 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 training program for our employees titled “Operational Leadership, The Journey” which sets out our operational expectations, the responsibilities of individual employees and our commitment to empowering our employees to work safely and live Teekay’s vision through a positive and responsible attitude. In 2016, we introduced a 5-year “Safety Road Map” that comprises a number of safety projects to further enhance the culture of safety on board Teekay’s vessels.

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

We, through certain of our subsidiaries, assist our operating subsidiaries in managing their ship operations. All vessels are operated under our comprehensive and integrated Safety Management System that complies with the International Safety Management Code (or ISM Code), the International Standards Organization’s (or ISO) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, Occupational Health and Safety Advisory Services (or OHSAS) 18001 and the Maritime Labour Convention 2006 (MLC 2006) that became effective in 2013. The management system is certified by Det Norske Veritas Germanischer Lloyd (or DNV-GL), the Norwegian classification society. It has also been separately approved by the Australian and Spanish flag administrations. Although certification is valid for five years, compliance with the above-mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV-GL and certain flag states.

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

Critical ship management functions undertaken by our subsidiaries are:

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

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management.

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

Risk of Loss and Insurance

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

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

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

We have achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems, OHSAS 18001, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

Operations Outside of the United States

Because our operations are primarily conducted outside of the United States, we are affected by currency fluctuations, to the extent we do not contract in U.S. dollars, and by changing economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Past political conflicts in those regions, particularly in the Arabian Gulf, have included attacks on tankers, mining of waterways and other efforts to disrupt shipping in the area. Vessels trading in certain regions have also been subject to acts of piracy. In addition to tankers, targets of terrorist attacks could include oil pipelines, LNG facilities and offshore oil fields. The escalation of existing, or the outbreak of future, hostilities or other political instability in regions where we operate could affect our trade patterns, increase insurance costs, increase tanker operational costs and otherwise adversely affect our operations and performance. In addition, tariffs, trade embargoes, and other economic sanctions by the United States or other countries against countries in the Indo-Pacific Basin or elsewhere as a result of terrorist attacks or otherwise may limit trading activities with those countries, which could also adversely affect our operations and performance.

Customers

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Our customers include major energy and utility companies, major oil traders, large oil and LNG consumers and petroleum product producers, government agencies, and various other entities that depend upon marine transportation. Two customers, international oil companies, accounted for an aggregate of 24%, or \$442.4 million of our consolidated revenues during 2017 (2016 – two customers for 29%, or \$653.6 million, 2015 – two customers for 21%, or \$495.2 million). During these periods, no other customer accounted for over 10% of our revenues for the applicable period. No other customer accounted for more than 10% of our consolidated revenues during 2017, 2016, or 2015. 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.

Flag, Classification, Audits and Inspections

Our vessels are registered with reputable flag states, and the hull and machinery of all of our vessels have been “Classed” by one of the major classification societies and members of International Association of Classification Societies Ltd (or IACS): Bureau Veritas (or BV), Lloyd’s Register of Shipping, the American Bureau of Shipping or DNV-GL.

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The applicable classification society certifies that the vessel's design and build conform to the applicable Class rules and meets the requirements of the applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. The classification society also verifies throughout the vessel's life that it continues to be maintained in accordance with those rules. In order to validate this, the vessels are surveyed by the classification society, in accordance to the classification society rules, which in the case of our vessels follows a comprehensive five-year special survey cycle, renewed every fifth year. During each five-year period, the vessel undergoes annual and intermediate surveys, the scrutiny and intensity of which is primarily dictated by the age of the vessel. As our vessels are modern and we have enhanced the resiliency of the underwater coatings of each vessel hull and marked the hull to facilitate underwater inspections by divers, their underwater areas are inspected in a dry dock at two and a half to five-year intervals. In-water inspection is carried out during the second or third annual inspection (i.e. during an intermediate survey).

In addition to class surveys, the vessel's flag state also verifies the condition of the vessel during annual flag state inspections, either independently or by additional authorization to class. Also, port state authorities of a vessel's port of call are authorized under international conventions to undertake regular and spot checks of vessels visiting their jurisdiction.

Processes followed onboard are audited by either the flag state or the classification society acting on behalf of the flag state to ensure that they meet the requirements of the ISM Code. DNV-GL typically carries out this task. We also follow an internal process of internal audits undertaken annually at each office and vessel.

We follow a comprehensive inspections scheme supported by our sea staff, shore-based operational and technical specialists and members of our QATO program. We carry out a minimum of two such inspections annually, which helps ensure us that:

- our vessels and operations adhere to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give reliable service;
- we are optimizing performance in terms of speed and fuel consumption; and
- our vessels' appearance supports our brand and meets customer expectations.

Our customers also often carry out vetting inspections under the Ship Inspection Report Program, which is a significant safety initiative introduced by the Oil Companies International Marine Forum to specifically address concerns about sub-standard vessels. The inspection results permit charterers to screen a vessel to ensure that it meets their general and specific risk-based shipping requirements.

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

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

Regulations

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions,

laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization (or IMO)

The IMO is the United Nations' agency for maritime safety and prevention of pollution. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction in accordance with the requirements set out in these regulations, or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double hulled.

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Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or CLC). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g., crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

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

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS, the IGC Code for LNG and LPG carriers, and the specific requirements for shuttle tankers, FSO units and FPSO units under the NPD (Norway) and HSE (United Kingdom) regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the United States Coast Guard (or USCG) and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in United States and European Union ports. The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

With regard to offshore support vessels, such as UMS, SOLAS permits certain exemptions and equivalents to be allowed by the relevant vessel's flag state. The International Code on Intact Stability, 2008 also applies generally to offshore support vessels. In 2016, the IMO's Maritime Safety Committee (or MSC) adopted amendments to the IS Code relating to ships engaged in anchor handling operations and to ships engaged in lifting and towing operations, including escort towing. These amendments are expected to enter into force on January 1, 2020. The IMO has also developed non-mandatory codes and guidelines which apply to various types or aspects of offshore support vessels. LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG and LPG carriers is currently IGC Code compliant, and each of the shipbuilding contracts for our LNG newbuildings, and for the LPG newbuildings requires IGC Code compliance prior to delivery. A revised and updated IGC Code, which takes account of advances in science and technology, was adopted by the IMO's MSC on May 22, 2014 and entered into force on January 1, 2016 with an implementation/application date of July 1, 2016.

In addition, the IMO's MSC has adopted the International Code of Safety for Ships using Gases or other Low-flashpoint Fuels (the IGF Code), which is mandatory for ships fueled by gases or other low-flashpoint fuels, setting out mandatory provisions for the arrangement, installation, control and monitoring of machinery, equipment and systems using low-flashpoint fuel.

Annex VI to the IMO's International Convention for the Prevention of Pollution from Ships (MARPOL) (or Annex VI) sets limits on sulfur oxide and nitrogen oxide (or NOx) emissions from ship exhausts and prohibits emissions of ozone

depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special “emission control areas” (or ECAs) to be established with more stringent controls on sulfur emissions. Annex VI provides for a three-tier reduction in NOx emissions from marine diesel engines, with the final tier (or Tier III) to apply to engines installed on vessels constructed on or after January 1, 2016, and which operate in the North American ECA or the U.S. Caribbean Sea ECA as well as ECAs designated in the future by the IMO. In October 2016, the IMO’s Marine Environment Protection Committee (or MEPC) approved the designation of the North Sea and the Baltic Sea as ECAs for NOx emissions; these ECAs and the related amendments to Annex VI of MARPOL (with some exceptions) shall enter into effect on January 1, 2019.

As of March 1, 2018, amendments to Annex VI impose new requirements for ships of 5,000 gross tonnage and above to collect consumption data for each type of fuel oil they use, as well as certain other data including proxies for transport work.

The IMO has issued guidance regarding protecting against acts of piracy off the coast of Somalia. We comply with these guidelines.

The IMO's Ballast Water Management Convention entered into force on September 8, 2017. As of December 31, 2017, there were 67 contracting states to the convention. The convention stipulates two standards for discharged ballast water. The D-1 standard covers ballast water exchange while the D-2 standard covers ballast water treatment. The convention requires the implementation of either the D-1 or D-2 standard. There will be a transitional period from the entry into force to the International Oil Pollution Prevention (or IOPP) renewal survey in which ballast water exchange (reg. D-1) can be employed. The IMO’s Marine Environment Protection Committee (or MEPC) agreed to a compromise on the implementation dates for the D-2 discharge standard: ships constructed on or after September 8, 2017 must comply with the D-2 standard upon delivery. Existing ships should be D-2 compliant on the first IOPP renewal following entry into force if the survey is completed on or after September 8, 2019, or a renewal IOPP survey is completed on or after September 8, 2014 but prior to September 8,

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2017. Ships should be D-2 compliant on the second IOPP renewal survey after September 8, 2017 if the first renewal survey after that date is completed prior to September 8, 2019 and if the previous two conditions are not met. Vessels will be required to meet the discharge standard D-2 by installing an approved Ballast Water Management System (or BWMS). Besides the IMO convention, ships sailing in U.S. waters are required to employ a type-approved BWMS which is compliant with USCG regulations. The USCG has approved a number of BWMS. We estimate that the installation of approved BWMS may cost between \$2 million and \$3 million per vessel.

The IMO has also adopted an International Code for Ships Operating in Polar Waters (or Polar Code) which deals with matters regarding design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the two poles. The Polar Code includes both safety and environmental provisions. The Polar Code and related amendments entered into force in January 2017. The Polar Code is mandatory for new vessels built after January 1, 2017. For existing ships, this code will be applicable from the first intermediate or renewal survey, whichever occurs first, beginning on or after January 1, 2018.

MARPOL Annex I also states that oil residue may be discharged directly from the sludge tank to the shore reception facility through standard discharge connections. They may also be discharged to the incinerator or to an auxiliary boiler suitable for burning the oil by means of a dedicated discharge pump. Amendments to Annex I expand on the requirements for discharge connections and piping to ensure residues are properly disposed of. Annex I is applicable for existing vessels with a first renewal survey beginning on or after January 1, 2017.

MSC 91 adopted amendments to SOLAS Regulation II-2/10 to clarify that a minimum of two-way portable radiotelephone apparatus for each fire party for firefighters' communication shall be carried on board. These radio devices shall be of explosion proof type or intrinsically safe type. All existing ships built before July 1, 2014 should comply with this requirement by the first safety equipment survey after July 1, 2018. All new vessels constructed (keel laid) on or after July 1, 2014 must comply with this requirement at the time of delivery.

As per MSC. 338(91), requirements have been highlighted for audio and visual indicators for breathing apparatus which will alert the user before the volume of the air in the cylinder has been reduced to no less than 200 liters. This applies to ships constructed on or after July 1, 2014. Ships constructed before July 1, 2014 must comply no later than July 1, 2019.

The IMO continues to review and introduce new regulations; as such, it is impossible to predict what additional requirements, if any, may be adopted by the IMO and what effect, if any, such regulations might have on our operations.

European Union (or EU)

The EU has adopted legislation that: bans from European waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years); creates obligations on the part of EU member port states to inspect minimum percentages of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies.

Two regulations were introduced by the European Commission in September 2010, as part of the implementation of the Port State Control Directive. These came into force on January 1, 2011 and introduced a ranking system (published on a public website and updated daily) displaying shipping companies operating in the EU with the worst safety records. The ranking is judged upon the results of the technical inspections carried out on the vessels owned by a particular shipping company. Those shipping companies that have the most positive safety records are rewarded by subjecting them to fewer inspections, while those with the most safety shortcomings or technical failings recorded upon inspection will in turn be subject to a greater frequency of official inspections to their vessels.

The EU has, by way of Directive 2005/35/EC, which has been amended by Directive 2009/123/EC created a legal framework for imposing criminal penalties in the event of discharges of oil and other noxious substances from ships sailing in its waters, irrespective of their flag. This relates to discharges of oil or other noxious substances from vessels. Minor discharges shall not automatically be considered as offenses, except where repetition leads to deterioration in the quality of the water. The persons responsible may be subject to criminal penalties if they have acted with intent, recklessly or with serious negligence and the act of inciting, aiding and abetting a person to

discharge a polluting substance may also lead to criminal penalties.

The EU has adopted a Directive requiring the use of low sulfur fuel. Since January 1, 2015, vessels have been required to burn fuel with sulfur content not exceeding 0.1% while within EU member states' territorial seas, exclusive economic zones and pollution control zones that are included in SOX Emission Control Areas. Other jurisdictions have also adopted similar regulations. Since January 1, 2014, the California Air Resources Board has required vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California. China also established emission control areas and continues to establish such areas, restricting the maximum sulfur content of the fuel to be used by vessels within those areas, which limits become progressively stricter over time.

IMO regulations require that as of January 1, 2015, all vessels operating within ECAs worldwide recognized under MARPOL Annex VI must comply with 0.1% sulfur requirements. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil (or LSMGO). Certain modifications were completed on our Suezmax tankers in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or HFO), and to ensure our compliance with the EU Directive. In addition, LSMGO is more expensive than HFO and this impacts the costs of operations. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. All required vessels in our fleet trading to and within regulated low sulfur areas are able to comply with fuel requirements. The global cap on the sulfur content of fuel oil is currently 3.5%, to be reduced to 0.5% by January 1, 2020.

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The EU Ship Recycling Regulation aims to prevent, reduce and minimize accidents, injuries and other negative effects on human health and the environment when ships are recycled and the hazardous waste they contain is removed. The legislation applies to all ships flying the flag of an EU country and to vessels with non-EU flags that call at an EU port or anchorage. It sets out responsibilities for ship owners and for recycling facilities both in the EU and in other countries. Each new ship has to have on board an inventory of the hazardous materials (such as asbestos, lead or mercury) it contains in either its structure or equipment. The use of certain hazardous materials is forbidden. Before a ship is recycled, its owner must provide the company carrying out the work with specific information about the vessel and prepare a ship recycling plan. Recycling may only take place at facilities listed on the EU 'List of facilities'. In 2014, the Council Decision 2014/241/EU authorized EU countries having ships flying their flag or registered under their flag to ratify or to accede to the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships. The EU Ship Recycling Regulation is to apply generally not later than December 31, 2018, with certain provisions applicable from December 31, 2020. The EU Commission also adopted a European List of approved ship recycling facilities, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the EU Ship Recycling Regulation.

North Sea, Canada, and Brazil

Our shuttle tankers and FPSO units primarily operate in the North Sea and Brazil.

There is no international regime in force which deals with compensation for oil pollution from offshore craft, such as FPSOs. Whether the CLC and the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage 1971, as amended by the 1992 Protocol (or the Fund Convention), which deal with liability and compensation for oil pollution and the Convention on Limitation of Liability for Maritime Claims 1976, as amended by the 1996 Protocol (or the 1976 Limitation of Liability Convention), which deals with limitation of liability for maritime claims, apply to FPSOs is neither straightforward nor certain. This is due to the definition of "ship" under these conventions and the requirement that oil is "carried" on board the relevant vessel. Nevertheless, the wording of the 1992 Protocol to the CLC leaves room for arguing that FPSOs and oil pollution caused by them can come under the ambit of these conventions for the purposes of liability and compensation. However, the application of these conventions also depends on their implementation by the relevant domestic laws of the countries which are parties to them.

UK's Merchant Shipping Act 1995, as amended (or MSA), implements the CLC but uses a wider definition of a "ship" than the one used in the CLC and in its 1992 Protocol but still refers to the criteria used by the CLC. It is therefore doubtful that FPSOs fall within its wording. However, the MSA also includes separate provisions for liability for oil pollution. These apply to vessels which fall within a much wider definition and include non-seagoing vessels. It is arguable that the wording of these MSA provisions is wide enough to cover oil pollution caused by offshore crafts such as FPSOs. The liability regime under these MSA provisions is similar to that imposed under the CLC but limitation of liability is subject to the 1976 Limitation of Liability Convention regime (as implemented in the MSA). With regard to the 1976 Limitation of Liability Convention, it is, again, doubtful whether it applies to FPSOs, as it contains certain exceptions in relation to vessels constructed for or adapted to and engaged in drilling and in relation to floating platforms constructed for the purpose of exploring or exploiting natural resources of the seabed or its subsoil. However, these exceptions are not included in the legislation implementing the 1976 Limitation of Liability Convention in the UK, which is also to be found in the MSA. In addition, the MSA sets out a very wide definition of "ship" in relation to which the 1976 Limitation of Liability Convention is to apply and there is room for argument that if FPSOs fall within that definition of "ship", they are subject in the UK to the limitation provisions of the 1976 Limitation of Liability Convention.

In the absence of an international regime regulating liability and compensation for oil pollution caused by offshore oil and gas facilities, the Offshore Pollution Liability Agreement 1974 was entered into by a number of oil companies and became effective in 1975. This is a voluntary industry oil pollution compensation scheme which is funded by the parties to it. These are operators or intending operators of offshore facilities used in the exploration for and production of oil and gas located within the jurisdictions of a number of "Designated States" which include the UK, Denmark, Norway, Germany, France, Greenland, Ireland, the Netherlands, the Isle of Man and the Faroe Islands. The scheme provides for strict liability of the relevant operator for pollution damage and remedial costs, subject to a limit, and the

operators must provide evidence of financial responsibility in the form of insurance or other security to meet the liability under the scheme.

With regard to FPSOs, Chapter 7 of Annex I of MARPOL (which contains regulations for the prevention of oil pollution) sets out special requirements for fixed and floating platforms, including, amongst others, FPSOs and FSUs. The IMO's Marine Environment Protection Committee has issued guidelines for the application of MARPOL Annex I requirements to FPSOs and FSUs.

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The EU's Directive 2004/35/CE on environmental liability with regard to the prevention and remedying of environmental damage (or the Environmental Liability Directive) deals with liability for environmental damage on the basis of the "polluter pays" principle. Environmental damage includes damage to protected species and natural habitats and damage to water and land. Under this Directive, operators whose activities caused the environmental damage or the imminent threat of such damage are to be held liable for the damage (subject to certain exceptions). With regard to environmental damage caused by specific activities listed in the Directive, operators are strictly liable. This is without prejudice to their right to limit their liability in accordance with national legislation implementing the 1976 Limitation of Liability Convention. The Directive applies both to damage which has already occurred and where there is an imminent threat of damage. It also requires the relevant operator to take preventive action, to report an imminent threat and any environmental damage to the regulators and to perform remedial measures, such as clean-up. The Environmental Liability Directive has been implemented in the UK by the Environmental Damage (Prevention and Remediation) Regulations 2009.

In June 2013, the EU adopted Directive 2013/30/EU on safety of offshore oil and gas operations and amending Directive 2004/35/EC (or the Offshore Safety Directive). This new Directive lays down minimum requirements for member states and the European Maritime Safety Agency for the purposes of reducing the occurrence of major accidents related to offshore oil and gas operations, thus increasing protection of the marine environment and coastal economies against pollution, establishing minimum conditions for safe offshore exploration and exploitation of oil and gas, and limiting disruptions to the EU's energy production and improving responses to accidents. The Offshore Safety Directive sets out extensive requirements, such as preparation of a major hazard report with risk assessment, emergency response plan and safety and environmental management system applicable to the relevant oil and gas installation before the planned commencement of the operations, independent verification of safety and environmental critical elements identified in the risk assessment for the relevant oil and gas installation, and ensuring that factors such as the applicant's safety and environmental performance and its financial capabilities or security to meet potential liabilities arising from the oil and gas operations are taken into account when considering granting a license. Under the Offshore Safety Directive, Member States are to ensure that the relevant licensee is financially liable for the prevention and remediation of environmental damage (as defined in the Environmental Liability Directive) caused by offshore oil and gas operations carried out by or on behalf of the licensee or the operator. Member States must lay down rules on penalties applicable to infringements of the legislation adopted pursuant to this Directive. Member States were required to bring into force laws, regulations and administrative provisions necessary to comply with this Directive by July 19, 2015. The Offshore Safety Directive has been implemented in the UK by a number of different UK Regulations, including the Environmental Damage (Prevention and Remediation) (England) Regulations 2015, as amended, (which revoked and replaced the Environmental Damage (Prevention and Remediation) Regulations 2009)) and the Offshore Installations (Offshore Safety Directive) (Safety Case etc.) Regulations 2015, as amended, both of which entered into force on July 19, 2015.

In addition to the regulations imposed by the IMO and EU, countries having jurisdiction over North Sea areas impose regulatory requirements in connection with operations in those areas, including HSE in the United Kingdom and NPD in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea. In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions (or VOC) reduction units on most shuttle tankers serving the Norwegian continental shelf. Customers bear the cost to install and operate the VOC equipment on board the shuttle tankers.

In addition to the requirements of major IMO shipping conventions, the exploration for and production of oil and gas within the Newfoundland & Labrador (or NL) offshore area is conducted pursuant to the Canada Newfoundland and Labrador Atlantic Accord Implementation Act (the Accord Act) in accordance with the conditions of a license and authorization issued by the Canada-Newfoundland and Labrador Offshore Petroleum Board (or CNLOPB). Various regulations dealing with environmental, occupational health and safety, and other aspects of offshore oil and gas activities have been enacted under the Accord Act. The CNLOPB has also issued interpretive guidelines concerning

compliance with the regulations, and compliance with CNLOPB guidelines may be a condition of the issuance or renewal of the license and authorizations. These regulations and guidelines require that the shuttle tankers in the NL offshore area meet stringent standards for equipment, reporting and redundancy systems, and for the training and equipping of seagoing staff. Further, licensees are required by the Accord Act to provide a benefits plan satisfactory to CNLOPB. Such plans generally require the licensee to: establish an office in NL; give NL residents first consideration for training and employment; make expenditures for research and development and education and training to be carried out in NL; and give first consideration to services provided from within NL and to goods manufactured in NL. These regulatory requirements may change as regulations and CNLOPB guidelines are amended or replaced from time to time.

In addition to the regulations imposed by the IMO, Brazil imposes regulatory requirements in connection with operations in its territory, including specific requirements for the operations of vessels flagged in countries other than Brazil. Brazil has several maritime regulations and frequent amendments and updates. With respect to environmental protection while operating under Brazilian waters, the Federal Constitution establishes that the State shall regulate and impose protections to the environment, establishing liability in the civil, administrative and criminal spheres. Law no. 6938/1981 sets the National Environmental Policy and Law no. 9966/2000, known as “The Oil Law”, institutes several rules, liabilities and penalties regarding the handling oil or other dangerous substances, being applicable to foreign vessels and platforms operating in Brazilian waters.

Regulating the exploitation and production of oil and natural gas, Law no. 9.478/1997, known as “The Petroleum Law”, created the National Petroleum Agency (or ANP), responsible for regulating and supervising the industry through directives and resolutions. After the discovery of the pre-salt, the mentioned law was altered in some points by Law no. 12.351/2010 being the industry also regulated by several administrative Regulations issued by the ANP.

Additional requirements and restrictions for the operation of offshore vessels and shuttle tankers are imposed by Law 9.432/97 and by the National Waterway Transport Agency (or ANTAQ), instituted by Law 10.233/2001, by way of frequently updated administrative resolutions.

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The transit of vessels and permanence and operation of offshore units in Brazil are further regulated by the Maritime Authorities, through law and administrative Ordinances known as “NORMAM”. Under Brazil’s environmental laws, owners and operators of vessels are strictly liable for damages to the environment. Other penalties for non-compliance with environmental laws include fines, loss of tax incentives and suspension of activities. Operators such as Petrobras may impose additional requirements, such as compliance with specific health, safety and environmental standards or the use of local labor. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in Brazil.

United States

The United States has enacted an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or OPA 90) and the Comprehensive Environmental Response, Compensation and Liability Act (or CERCLA). OPA 90 affects all owners, bareboat charterers, and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of “hazardous substances” rather than “oil” and imposes strict joint and several liabilities upon the owners, operators or bareboat charterers of vessels for clean-up costs and damages arising from discharges of hazardous substances. We believe that petroleum products and LNG and LPG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG or LPG carriers and other vessels might fall within its scope.

Under OPA 90, vessel owners, operators and bareboat charterers are “responsible parties” and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include: natural resources damages and the related assessment costs; real and personal property damages; net loss of taxes, royalties, rents, fees and other lost revenues; lost profits or impairment of earning capacity due to property or natural resources damage; net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party’s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessels pollution liability coverage in the maximum coverage amount of \$1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

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

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or Coast Guard) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the Coast Guard. Under the self-insurance provisions, the ship owners or operators must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to obtain guaranties from third-party

insurers.

OPA 90 and CERCLA permit individual U.S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters, are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things: address a “worst case” scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a “worst case discharge”; describe crew training and drills; and identify a qualified individual with full authority to implement removal actions. We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG or LPG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction.

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The U.S. Clean Water Act (or the Clean Water Act) also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or EPA) titled the “Vessel General Permit” and comply with a range of effluent limitations, best management practices, reporting, inspections and other requirements. The current Vessel General Permit incorporates Coast Guard requirements for ballast water exchange and includes specific technology-based requirements for vessels, and includes an implementation schedule to require vessels to meet the ballast water effluent limitations by the first dry docking after January 1, 2016, depending on the vessel size. This permit is effective to December 18, 2018. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the Kyoto Protocol) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. In December 2015, the Paris Agreement (or the Paris Agreement) was adopted by a large number of countries at the 21st Session of the Conference of Parties (commonly known as COP 21, a conference of the countries which are parties to the United Nations Framework Convention on Climate Change; the COP is the highest decision-making authority of this organization). The Paris Agreement, which entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 in order to limit the global temperature increases to well below 2° Celsius above pre-industrial levels. Although shipping was ultimately not included in the Paris Agreement, it is expected that the adoption of the Paris Agreement may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

In July 2011, the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI and became effective on January 1, 2013. The new technical and operational measures include the “Energy Efficiency Design Index” (or the EEDI), which is mandatory for newbuilding vessels, and the “Ship Energy Efficiency Management Plan,” which is mandatory for all vessels. In October 2016, the IMO’s MEPC adopted updated guidelines for the calculation of the EEDI. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. In October 2014, the IMO’s MEPC agreed in principle to develop a system of data collection regarding fuel consumption of ships. In October 2016, the IMO adopted a mandatory data collection system under which vessels of 5,000 gross tonnages and above are to collect fuel consumption and other data and to report the aggregated data so collected to their flag state at the end of each calendar year. The new requirements entered into force on March 1, 2018. The IMO also approved a roadmap for the development of a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships with an initial strategy to be adopted in 2018 (July 7, 2017 saw the MEPC agree on a draft outline of the IMO’s strategy for reducing greenhouse gas emissions in the shipping sector) and a revised strategy to be adopted in 2023. The EU also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. The EU has adopted Regulation (EU) 2015/757 on the monitoring, reporting and verification (or MRV) of CO2 emissions from vessels (or the MRV Regulation), which entered into force on July 1, 2015. The MRV Regulation aims to quantify and reduce CO2 emissions from shipping. It lists the requirements on the MRV of carbon dioxide emissions and requires ship owners and operators to annually monitor, report and verify CO2 emissions for vessels larger than 5,000 gross tonnage calling at any EU and EFTA (Norway and Iceland) port (with a few exceptions, such as fish-catching or fish-processing vessels). Data collection takes place on a per voyage basis and

started January 1, 2018. The reported CO2 emissions, together with additional data, such as cargo and energy efficiency parameters, are to be verified by independent verifiers and sent to a central database, managed by the European Maritime Safety Agency. To comply with the MRV Regulation, we have prepared an EU MRV monitoring plan and EU MRV monitoring template in line with legislative requirement. While the EU was considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 (in the absence of a comparable system operating under the IMO), it appears that the decision to include shipping may be deferred until 2023. In the United States, the EPA issued an “endangerment finding” regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

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Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and Maritime Transportation Security Act of 2002 (U.S. specific requirements). Procedures are in place to inform the relevant reporting regimes such as Maritime Security Council Horn of Africa (or MSCHOA), the Maritime Domain Awareness for Trade - Gulf of Guinea (or MDAT-GoG), the Information Fusion Center (or IFC) whenever our vessels are calling in the Indian Ocean Region, or West Coast of Africa (or WAC) or Southeast Asia high-risk areas respectively. In order to mitigate the security risk, security arrangements are required for vessels which travel through these high-risk areas.

C. Organizational Structure

Our organizational structure includes, among others, our interests in Teekay LNG and Teekay Tankers, which are our publicly-traded subsidiaries, and our publicly-traded equity-accounted investment Teekay Offshore. We created Teekay LNG and Teekay Offshore primarily to hold assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these two limited partnerships was to:

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

We also established Teekay LNG, Teekay Tankers and Teekay Offshore to increase our access to capital to grow each of our businesses in the LNG, conventional tanker and offshore markets.

The following chart provides an overview of our organizational structure as at March 1, 2018. Please read Exhibit 8.1 to this Annual Report for a list of our subsidiaries as at March 1, 2018.

Teekay LNG is controlled by its general partner. Teekay Corporation indirectly owns a 100% beneficial ownership (1) in the general partner. However, in certain limited cases, approval of a majority of the unitholders of Teekay LNG is required to approve certain actions.

Teekay Tankers has two classes of shares: Class A common stock and Class B common stock. Teekay Corporation indirectly owns 100% of the Class B shares which have five votes each but aggregate voting power capped at 49%. (2) As a result of Teekay Corporation's ownership of Class A and Class B shares, it holds aggregate voting power of 54.1% as of March 1, 2018.

Teekay Offshore is controlled by its general partner. Teekay Corporation and an affiliate of Brookfield Business Partners L.P. (NYSE:BBU) (TSX:BBU.UN) (or Brookfield) indirectly have ownership interests of 51% and 49% of the general partner, respectively. However, in certain limited cases, approval of a majority of the unitholders of (3) Teekay Offshore is required to approve certain actions. Teekay Corporation has granted to Brookfield an option, exercisable upon certain conditions, to acquire an additional 2% interest in the general partner. As a result of the Brookfield Transaction described below, Teekay Offshore is no longer a consolidated subsidiary of Teekay Corporation.

Teekay LNG is a Marshall Islands limited partnership formed by us in 2004 as part of our strategy to expand our operations in the LNG and LPG shipping sectors. Teekay LNG provides LNG, LPG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies. As of December 31, 2017, Teekay LNG's fleet included 50 LNG carriers (including 15 newbuildings), 30 LPG/multigas

carriers (including three newbuildings, one of which was delivered in March 2018), four conventional tankers and one Handymax product tanker. Teekay LNG's ownership interests in these vessels range from 20% to 100%.

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Teekay Offshore is a Marshall Islands limited partnership formed by us in 2006 as part of our strategy to expand our operations in the offshore oil marine transportation, processing and storage sectors. As of December 31, 2017, Teekay Offshore's fleet included eight FPSO units, 36 shuttle tankers (including three chartered-in vessels and five newbuildings (including one newbuilding that was delivered in March 2018)), six FSO units, one UMS, ten towage vessels (including one newbuilding that was delivered in February 2018), one HiLoad DP unit, and two in-chartered conventional Aframax tankers. Teekay Offshore's ownership interests in its owned vessels range from 50% to 100%. Most of Teekay Offshore's vessels operate under long-term, fixed-rate contracts. Teekay Parent owns three FPSO units which pursuant to an omnibus agreement we entered into in connection with Teekay Offshore's initial public offering in 2006, we have agreed to offer to Teekay Offshore in the future. Please read "Item 7. Major Shareholders and Certain Relationships with Related Party Transactions - Competition with Teekay Tankers, Teekay Offshore and Teekay LNG" for information with respect to the omnibus agreement.

In December 2007, we added Teekay Tankers to our structure. Teekay Tankers is a Marshall Islands corporation formed by us to own our conventional tanker business. As of December 31, 2017, Teekay Tankers' fleet included 17 double-hull Aframax tankers (including one chartered-in vessel), 30 double-hull Suezmax tankers, nine product tankers, six ship-to-ship (or STS) support vessels (including three chartered-in vessels), and one VLCC, all of which trade either in the spot tanker market or under short- or medium-term, fixed-rate time-charter contracts. Teekay Tankers owns 100% of its fleet, other than a 50% interest in the VLCC and the in-chartered vessels. Teekay Tankers' primary objective is to grow through the acquisition of conventional tanker assets from third parties and from us. Through a wholly-owned subsidiary, we provide Teekay Tankers with commercial, technical, administrative, and strategic services under a long-term management agreement.

We entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when we, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.

D. Properties

Other than our vessels, we do not have any material property. Please read "Item 18. Financial Statements: Note 8 — Long-Term Debt for information about major encumbrances against our vessels.

E. Taxation of the Company

United States Taxation

The following is a discussion of the expected material U.S. federal income tax considerations applicable to us. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the Code), legislative history, applicable U.S. Treasury Regulations (or Treasury Regulations), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

Taxation of Operating Income. A significant portion of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or Transportation Income) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes income from time charters, contracts of affreightment, bareboat charters, and voyage charters.

Fifty percent (50%) of Transportation Income that either begins or ends, but that does not both begin and end, in the United States (or U.S. Source International Transportation Income) is considered to be derived from sources within the United States. Transportation Income that both begins and ends in the United States (or U.S. Source Domestic Transportation Income) is considered to be 100% derived from sources within the United States. Transportation Income exclusively between non-U.S. destinations is considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally is not subject to U.S. federal income tax.

Based on our current operations, a substantial portion of our Transportation Income is from sources outside the United States and not subject to U.S. federal income tax. However, certain of our subsidiaries which have made special U.S. tax elections to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes are potentially engaged in activities which could give rise to U.S. Source International Transportation Income. Unless the exemption from U.S. taxation under Section 883 of the Code (or the Section 883 Exemption) applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis and branch profits taxes or the 4% gross basis tax, each of which is discussed below. Furthermore, certain of our subsidiaries engaged in activities which could give rise to U.S. Source International Transportation Income rely on our ability to claim the Section 883 Exemption.

The Section 883 Exemption. In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the Section 883 Regulations), it will not be subject to the net basis and branch profits taxes or the 4% gross basis tax described below on its U.S. Source International Transportation Income. As discussed below, we believe the Section 883 Exemption will apply and we will not be taxed on our U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

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A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it (i) is organized in a jurisdiction outside the United States that grants an exemption from tax to U.S. corporations on international Transportation Income (or an Equivalent Exemption), (ii) meets one of three ownership tests (or Ownership Tests) described in the Section 883 Regulations, and (iii) meets certain substantiation, reporting and other requirements (or the Substantiation Requirements).

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

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

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate for 2018 onwards is 21%) and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a branch interest tax could be imposed on certain interest paid, or deemed paid, by us.

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

The 4% Gross Basis Tax. If the Section 883 Exemption does not apply and we are not subject to the net basis and branch profits taxes described above, we will be subject to a 4% U.S. federal income tax on our subsidiaries' gross U.S. Source International Transportation Income, without benefit of deductions. For 2017, we estimate that, if the Section 883 Exemption and the net basis tax did not apply, the U.S. federal income tax on such U.S. Source International Transportation Income would have been approximately \$5.5 million. In addition, we estimate that certain of our subsidiaries that are unable to claim the Section 883 Exemption were subject to less than \$0.2 million in the aggregate of U.S. federal income tax on the U.S. source portion of their U.S. Source International Transportation

Income for 2017 and we estimate that these subsidiaries will be subject to less than \$0.2 million in the aggregate of U.S. federal income tax on the U.S. source portion of their U.S. Source International Transportation Income in subsequent years. The amount of such tax for which we or our subsidiaries may be liable in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

Marshall Islands Taxation

We believe that neither we nor our subsidiaries will be subject to taxation under the laws of the Marshall Islands, or that distributions by our subsidiaries to us will be subject to any taxes under the laws of the Marshall Islands, other than taxes, fines, or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or re-domiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands registrar of corporations relating to our books and records and the books and records of our subsidiaries.

Other Taxation

In certain non-U.S. jurisdictions, we and our subsidiaries are subject to taxation because we or our subsidiaries are either organized in, or conduct business or operations in those jurisdictions. In other non-U.S. jurisdictions, we rely on statutory exemptions from tax. We cannot assure that any statutory exemptions from tax on which we rely will continue as tax laws in those jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read "Item 18. Financial Statements: Note 21 — Income Taxes".

Item 4A. Unresolved Staff Comments

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None.

Item 5. Operating and Financial Review and Prospects

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Teekay Corporation is an operational leader and project developer in the marine midstream space. We have general partnership interests in two publicly-listed master limited partnerships, Teekay Offshore and Teekay LNG. In addition, we have a controlling ownership of publicly-listed Teekay Tankers and we have a small fleet of directly-owned vessels. Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies.

Structure

To understand our financial condition and results of operations, a general understanding of our organizational structure is required. Our organizational structure can be divided into (a) our controlling interests in two publicly-traded subsidiaries, Teekay LNG and Teekay Tankers (together, the Controlled Daughter Entities), (b) Teekay and its remaining subsidiaries, which is referred to herein as Teekay Parent, and (c) our equity-accounted investee Teekay Offshore (together with the Controlled Daughter Entities, the Daughter Entities). Since we control the voting interests of the Controlled Daughter Entities through our ownership of the sole general partner interest of Teekay LNG and of Class A and Class B common shares of Teekay Tankers, we consolidate the results of these subsidiaries. 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. Although Teekay owned less than 50% of Teekay Offshore, Teekay maintained control of Teekay Offshore until September 25, 2017, by virtue of its 100% ownership interest in the general partner of Teekay Offshore, Teekay Offshore GP L.L.C. (or TOO GP). In connection with Brookfield's acquisition of a 49% interest in TOO GP as part of the Brookfield Transaction, Teekay and Brookfield entered into an amended limited liability company agreement whereby Brookfield obtained certain participatory rights in the management of TOO GP, which resulted in Teekay deconsolidating Teekay Offshore for accounting purposes on September 25, 2017. Subsequent to the closing of the Brookfield Transaction, Teekay has significant influence over Teekay Offshore and accounts for its investment in Teekay Offshore using the equity method.

As of December 31, 2017, we had economic interests in Teekay LNG, Teekay Tankers and Teekay Offshore (collectively, the Daughter Entities) of 33.0%, 28.8% and 14.1% respectively. Please read "Item 4.C. Information on the Company – Organizational Structure."

Teekay Offshore and Teekay LNG primarily hold assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these two master limited partnerships was to illuminate the higher value of fixed-rate cash flows to Teekay investors, realize advantages of a lower cost of equity when investing in new offshore or liquefied natural gas (or LNG) projects, enhance returns to Teekay through fee-based revenue and ownership of the partnerships' incentive distribution rights and increase our access to capital for growth. Teekay Tankers holds a substantial majority of our conventional tanker assets. In addition to Teekay Parent's significant investments in Teekay LNG, Teekay Tankers and Teekay Offshore, Teekay Parent continues to own and operate three FPSO units. 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 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.

Teekay entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when Teekay, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, floating storage and offtake (or FSO) units and FPSO units.

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). As such, a substantial majority of the information provided herein has been presented in accordance with 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. Subsequent to the Brookfield Transaction on September 25, 2017, 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, FSO units, units for maintenance and safety (or UMS) and long-distance towing and offshore installation vessels), and (3) conventional tankers. We have determined that our investment in Teekay Offshore represents a separate operating segment and that individual lines of business within Teekay Offshore are no longer disclosed in our operating segments and are not discussed individually in the following sections.

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IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS

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

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

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time charters and FPSO contracts and by us under voyage charters and contracts of affreightment.

Net Revenues. Net revenues represent revenues less voyage expenses. The amount of voyage expenses we incur for a particular charter depends upon the form of the charter. For example, under time-charter contracts and FPSO contracts the customer usually pays the voyage expenses and for contracts of affreightment the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Consequently, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different forms of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under United States generally accepted accounting principles (or GAAP).

Vessel Operating Expenses. Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase as our fleet matures and to the extent that it expands. We are taking steps to maintain these expenses at a stable level, but expect an increase in line with inflation in respect of crew, material, and maintenance costs. The strengthening or weakening of the U.S. Dollar relative to foreign currencies may result in significant decreases or increases, respectively, in our vessel operating expenses, depending on the currencies in which such expenses are incurred.

Income from Vessel Operations. To assist us in evaluating our operations by segment, we analyze our income from vessel operations for each segment, which represents the income we receive from the segment after deducting operating expenses, but prior to the deduction of interest expense, realized and unrealized gains (losses) on non-designated derivative instruments, income taxes, foreign currency and other income and losses.

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

performed determine the level of dry-docking expenditures.

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

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

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

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

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

ITEMS YOU SHOULD CONSIDER WHEN EVALUATING OUR RESULTS

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

Our revenues are affected by cyclicity in the tanker markets. The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot conventional tanker market.

- Tanker rates also fluctuate based on seasonal variations in demand. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere but weaker in the summer months as a result of lower oil consumption in the Northern Hemisphere and increased refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended December 31 and March 31.

The size of and types of vessels in our fleet continues to change. Our results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries, vessel dispositions and changes to the number of vessels we charter in, as well as our entry into new markets. Please read “—Results of Operations” below for further details about vessel dispositions, deliveries and vessels chartered in. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.

Vessel operating and other costs are facing industry-wide cost pressures. The shipping industry continues to forecast a shortfall in qualified personnel, although weak shipping and offshore markets and slowing growth may ease officer shortages. We will continue to focus on our manning and training strategies to meet future needs, but going forward crew compensation may increase. In addition, factors such as pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies and to temper the effect of inflationary and other price escalations; however, increases to operational costs are still likely to occur in the future.

- Our net income is affected by fluctuations in the fair value of our derivative instruments. Most of our existing cross currency and interest rate swap agreements and foreign currency forward contracts are not designated as hedges for accounting purposes. Although we believe the non-designated derivative instruments are economic hedges, the changes in their fair value are included in our consolidated statements of (loss) income as unrealized gains or losses on non-designated derivatives. The unrealized changes in fair value do not affect our cash flows or liquidity.

The amount and timing of dry dockings of our vessels can affect our revenues between periods. Our vessels are off hire at various times due to scheduled and unscheduled maintenance. During 2017 and 2016, on a consolidated basis we incurred 796 and 601 off-hire days relating to dry docking, respectively. The financial impact from these periods of off-hire, if material, is explained in further detail below in “—Results of Operations”. 17 of our vessels are scheduled for dry docking during 2018.

• The division of our results of operations between the Daughter Entities and Teekay Parent is impacted by the sale of vessels or operations from Teekay Parent to the Daughter Entities. The Controlled Daughter Entities (and Teekay Offshore until its deconsolidation on September 25, 2017) account for the acquisition of the vessels or operations from Teekay as a transfer of a business between entities under common control. The method of accounting for such transfers is similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. In addition, such transfers are accounted for as if the transfer occurred from the date that the acquiring subsidiary and the acquired

vessels were both under the common control of Teekay and had begun operations. As a result, the historical financial information of the Controlled Daughter Entities (and of Teekay Offshore until its deconsolidation on September 25, 2017) included in this Annual Report reflects the financial results of the vessels or operations acquired from Teekay Parent from the date the vessels or operations were both under the common control of Teekay and had begun operations but prior to the date they were owned by the Controlled Daughter Entity (or Teekay Offshore until its deconsolidation on September 25, 2017).

Our financial results are affected by fluctuations in currency exchange rates. Under GAAP, all foreign currency-denominated monetary assets and liabilities (including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, unearned revenue, advances from affiliates, and long-term debt) are revalued and reported based on the prevailing exchange rate at the end of the period. These foreign currency translations fluctuate based on the strength of the U.S. Dollar relative to the applicable foreign currency, mainly to the Euro and NOK, and are included in our results of operations. The translation of all foreign currency-denominated monetary assets and liabilities at each reporting date results in unrealized foreign currency exchange gains or losses but do not impact our cash flows.

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