By all accounts, 2004 was an excellent year for Teekay. I will spend a few minutes this morning touching on some of the highlights of the year, and then move on to briefly consider the future of Teekay.

Financially, 2004 was an outstanding year. All of our business segments produced their best results ever, combining to generate a total $757 million in net income, or $8.63 per share. This represents a healthy 37% return on our shareholders’ equity. By comparison, in 2003 net income was $177 million, or $2.18 per share. These outstanding returns were driven by extraordinarily tight tanker market fundamentals. During 2004 oil demand grew at its fastest pace in almost a quarter century, creating an estimated seven percent increase in the demand for seaborne oil transportation at a time when global tanker capacity was already stretched. This resulted in high utilization rates of the world fleet and led to record high, and very volatile spot tanker rates. Teekay, with its large fleet of spot tankers, was ideally positioned to take advantage of these market dynamics, enjoying high absolute returns, but also outperforming our peers due to our uniform fleet, our global network of customer-directed marketing offices and our scale efficiencies.

Buying and selling cyclical assets at the right time in the cycle has always been an important part of our strategy. In 2004 we executed on this strategy by being disciplined in selling more than 20 older single-hull vessels at cyclically high prices and replacing them with a similar number of new double-hull vessels, partly through taking delivery of new ships ordered at lower prices in 2002 and partly through opportunistically concluding a series of in-charters. Through this carefully executed fleet renewal program we maintained the size of our spot tanker fleet and reduced the average age of the spot tanker fleet from almost seven years at the beginning of the year to only five years at the end of the year. The sales generated a gain of $172 million and responded to our customers’ growing preference for double hull ships, increasing the proportion of double-hull tankers in our fleet from 70 percent to almost 90 percent. Today we still have six new tankers on order for our spot segment, including ships intended for the crude oil, refined petroleum and ice class trades, as well as two vessels specially designed for the lightering trade and one tanker fixed on a long-term charter to a customer.
We also achieved outstanding operational performance, continuing to raise the bar for the shipping industry in safety, quality and service. We believe one of the cornerstones of Teekay’s success has been our ability to excel in an environment with growing regulatory pressure and zero tolerance for pollution. Our customers’ trust in our operations is a key success factor, and every day we are focused on operational excellence and delivering flawless service to our customers. We are very proud of the fact that in 2004 we performed 8,000 cargo operations for 110 customers in 75 countries, delivering two billion barrels of oil, with zero spills attributable to Teekay. We continue to set new standards for operational excellence. By managing all aspects of the construction and operation of our ships in-house, we are leaders in risk management and provide our customers with a superior combination of world-class assets operated by world-class people delivering first class customer service. Our operational innovations over the past year include our award-winning “SCOPE” initiative, - the first seafarer competency system ever to be certified in the shipping industry - , our ship-specific structural integrity program, and our ground-breaking research into operational risk probability, which is used to formulate risk mitigation strategies in our operations.

2004 was an exciting year for our world-leading offshore loading franchise. The offshore loading business is logistically intense and complex, using sophisticated, dynamically positioned shuttle tankers to lift oil from offshore fields in the North Sea, Brazil and other regions on a just-in-time basis. During 2004 this sector of our business transported an average of 2.6 million barrels every day and completed more than 1500 voyages. As you can imagine, this business requires us to work closely with our customers to ensure uninterrupted production at their fields, and provides us with an unparalleled opportunity to forge strong alliances with them. In our opinion, the outlook for this sector is positive. High oil prices are stimulating investment in offshore oil production, which is projected to increase globally to 36 million barrels per day by 2008, up from 26 million barrels per day in 2003. Technological advances continue to facilitate the revitalization of older, shut down fields as well as the development of smaller, more remote offshore oil fields for which shuttle tankers are more competitive than fixed sub sea pipelines. We believe our expertise in shuttle tankers and scheduling logistics coupled with our strong customer relationships position us to benefit from the future growth in this area. Incidentally, one of the synergies realized over the course of the past year was our ability to deploy these shuttle tankers in the spot market when they were not being used to service the requirements of our offshore customers, thereby increasing the utilization and profitability of these tankers.

Perhaps the most exciting highlight for 2004 was our decisive entry into the liquefied natural gas, or LNG, shipping sector. According to the U.S. Department of Energy, natural gas is the world’s fastest-growing primary energy source. Due to the vast distances between where the reserves of natural gas are located and where it is consumed, the International Energy Agency has projected that the LNG shipping industry will continue to grow rapidly, with worldwide LNG trade projected to increase at a 7% compounded annual rate of growth from 2002 to 2010. This growth opportunity, coupled with our strategy of following our customers, who are making significant investments in the LNG sector, propelled us into this sector. In April 2004 we completed the acquisition of Naviera F. Tapias S.A. of Spain, which included four LNG carriers all on long-term charters to major Spanish energy companies. A few months later we secured strategically important contracts for three more LNG ships on 20-year charters in connection with the development of the massive gas reserves in Qatar. In late 2004 we announced the filing
of a registration statement for an initial public offering of our recently-created subsidiary, Teekay LNG Partners L.P. We were delighted with the positive response to the initial public offering, which closed on May 10. The offering was 7 to 8 times oversubscribed and priced at $22.00, the very top of our projected range, after we increased the size of the offering from 5.5 million units to 6 million units to try and meet some of the demand. It has traded up since the offering.

Teekay still has a 78% interest in Teekay LNG Partners, and through its interest as General Partner has full control of the partnership and the opportunity to earn so-called “high splits” as the partnership grows through accretive projects and acquisitions.

We view Teekay LNG Partners as an opportunity for investors to co-invest in LNG with Teekay Shipping. We created a separate entity for a couple of reasons: first, we wanted to capitalize on the huge opportunity in LNG shipping by attracting an investment audience who appreciate the stable, long-term nature of the business. From an investment point of view, this business is very different from Teekay’s oil tanker business, which is more cyclical in nature. Second, LNG shipping requires significant capital investments which, if we are as successful in growing the business as we hope to be, could otherwise place capital constraints on the growth of Teekay’s other business segments. Teekay LNG Partners enables us to raise capital in the markets to meet the future capital needs of this sector. In short, Teekay LNG Partners is our vehicle to participate in the projected significant growth in the LNG sector in a focused manner, consistent with the business unit structure we implemented last year to create focus in each of the different sectors we are engaged in.

Looking forward, I believe Teekay is well positioned to meet the challenges of the future. Our customers are increasingly focused on building strategic partnerships with a few carefully selected, highly capable providers of marine solutions that meet their uncompromisingly high standards. We believe this trend, over time, will profoundly change the structure of our industry and improve the way in which it operates. We have spent the last several years positioning ourselves for these developments, building our capabilities and leading the initial rounds of consolidation in our industry. We have already been a major beneficiary of the changes that have occurred, earning a much more central position in the logistics chain of some of our largest customers. We believe that Teekay today provides a broader range of transportation solutions, a higher quality of customer service, through more sophisticated systems and at a lower cost of capital than any other company in our industry.

Our mission is to become the premier provider of marine services to our customers in the oil and gas industry. We have built a unique business platform that I believe will enable us to achieve this mission through following our customers’ growing energy transportation needs and providing them with marine services that add value to their business. Our 5,500 employees, operating from 14 countries and on board some 145 ships around the world enable us to transport more than 10 percent of the world’s seaborne oil. We are integrated into our customers’ logistics chain, helping them seamlessly link their upstream oil and gas production with their downstream refining and distribution networks. This marine midstream franchise places Teekay in an excellent position to continue its long-term, profitable growth, whatever the future direction of the tanker market. A continuation of the current high cycle – a distinct possibility in the current high-growth oil demand environment – would result in continued strong earnings for Teekay,
given our low fleet net income breakeven and our substantial operating leverage. An eventual cyclical downturn should, however, allow us to accelerate our growth through our strong balance sheet and our unmatched portfolio of long-term, fixed rate contracts. In short, we believe our business strategy will steadily increase the quality of our earnings through the tanker cycle.

In closing, I would like to thank Teekay employees around the world for their hard work and dedication; our Board of Directors for their guidance; our customers for their loyal support; and our shareholders for their continued confidence in Teekay – the Marine Midstream Company.
FORWARD-LOOKING STATEMENTS

This Report to the Shareholders of Teekay Shipping Corporation contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and the Company's operations, performance and financial condition, including, in particular, statements regarding: the Company's growth strategy and measures to implement such strategy; the Company's competitive strengths and the future success of the Company. Words such as “expects,” “intends,” “plans,” “believes,” “anticipates,” “estimates” and variations of such words and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to: changes in production of or demand for LNG, oil and petroleum products, either generally or in particular regions; changes in the offshore production of oil; the cyclical nature of the tanker industry and its dependence on oil markets; the supply of tankers available to meet the demand for transportation of LNG, crude oil and petroleum products; charterers' preference for modern tankers; greater than anticipated levels of tanker newbuilding orders or less than anticipated rates of tanker scrapping; changes in trading patterns significantly impacting overall tanker tonnage requirements; changes in typical seasonal variations in tanker charter rates; the Company's dependence on spot oil voyages; competitive factors in the markets in which the Company operates; environmental and other regulation including the imposition of freight taxes and income taxes; the Company's potential inability to achieve and manage growth; risks associated with operations outside the United States; the potential inability of the Company to generate internal cash flow and obtain additional debt or equity financing to fund capital expenditures; and other factors detailed from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.