

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

**FORM 20-F**  
(Mark One)

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

**OR**

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

|                           |                   |
|---------------------------|-------------------|
| For the fiscal year ended | December 31, 2005 |
|---------------------------|-------------------|

**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                                     |         |
| Commission file number   | 0-22704 |
| <b>KNIGHTSBRIDGE TANKERS LIMITED</b>                               |         |
| (Exact name of Registrant as specified in its charter)             |         |
| <b>KNIGHTSBRIDGE TANKERS LIMITED</b>                               |         |
| (Translation of Registrant's name into English)                    |         |
| Bermuda  |         |
| (Jurisdiction of incorporation or organisation)                    |         |
| Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda |         |
| (Address of principal executive offices)                           |         |

Securities registered or to be registered pursuant to section 12(b) of the Act

| Title of each class |  | Name of each exchange |
|---------------------|--|-----------------------|
| None                |  |                       |

Securities registered or to be registered pursuant to section 12(g) of the Act.

|                                 |
|---------------------------------|
| Common Shares, \$0.01 Par Value |
| (Title of Class)                |

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

|                                 |
|---------------------------------|
| Common Shares, \$0.01 Par Value |
| (Title of Class)                |

Indicate the number of outstanding shares of each of the issuer’s classes of capital or common stock as of the close of the period covered by the annual report.

|  |
|--|
| 17,100,000 Common Shares, \$0.01 Par Value |
|  |

Indicate by check mark if 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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer                       Accelerated filer                       Non-accelerated filer

Indicate by check mark which financial statement the registrant has elected to follow:  Item 17  Item 18

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Knightsbridge Tankers Limited desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the tanker market, as a result of changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in the company's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by Knightsbridge Tanker Limited with the Securities and Exchange Commission.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

### ITEM 3. KEY INFORMATION

#### A. SELECTED FINANCIAL DATA

The selected consolidated income statement data of Knightsbridge Tankers Limited and its subsidiaries, which we refer to as the Company or Knightsbridge, with respect to the fiscal years ended December 31, 2005, 2004 and 2003, and the selected consolidated balance sheet data of the Company with respect to the fiscal years ended December 31, 2005 and 2004 have been derived from the Company's Consolidated Financial Statements included herein and should be read in conjunction with such statements and the notes thereto. The selected consolidated income statement data with respect to the fiscal year ended December 31, 2002 and 2001 and the selected consolidated balance sheet data with respect to the fiscal years ended December 31, 2003, 2002 and 2001 have been derived from consolidated financial statements of the Company not included herein. The following table should also be read in conjunction with Item 5 "Operating and Financial Review and Prospects" and the Company's Consolidated Financial Statements and Notes thereto included herein.

|   | <b>Fiscal Year Ended December 31,</b> |             |             |             |             |
|---|---------------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2005</b>                           | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> |
| <i>(in thousands of \$, except share data and ratios)</i> |                                       |             |             |             |             |
| <b>Income Statement Data:</b>                             |                                       |             |             |             |             |
| Total operating revenues                                  | 100,179                               | 135,695     | 75,246      | 40,276      | 61,534      |
| Total operating expenses                                  | 51,778                                | 42,441      | 18,457      | 18,398      | 18,393      |
| Net operating income                                      | 48,401                                | 93,254      | 56,789      | 21,878      | 43,141      |
| Net income  | 43,967                                | 85,839      | 47,461      | 12,552      | 33,915      |
| Earnings per common share                                 |                                       |             |             |             |             |
| - basic and diluted                                       | 2.57                                  | 5.02        | 2.78        | 0.73        | 1.98        |
| Cash dividends paid                                       | 77,805                                | 77,805      | 46,854      | 30,951      | 33,858      |
| <b>Balance Sheet Data (at end of year):</b>               |                                       |             |             |             |             |
| Cash and cash equivalents                                 | 12,634                                | 31,653      | 6,312       | 228         | 278         |
| Restricted cash   | 10,000                                | 10,000      | -           | -           | -           |
| Vessels, net  | 285,070                               | 301,500     | -           | -           | -           |
| Vessels under capital lease, net                          | -                                     | -           | 319,408     | 337,001     | 354,594     |
| Total assets  | 323,159                               | 365,554     | 348,443     | 347,825     | 366,204     |
| Short-term debt and current portion of long-term debt     | 11,200                                | 11,309      | 8,400       | -           | -           |
| Long-term debt  | 109,200                               | 120,400     | 116,997     | 125,397     | 125,397     |
| Stockholders' equity                                      | 195,033                               | 228,871     | 215,527     | 208,639     | 229,077     |
| Share capital   | 171,000                               | 171,000     | 171,000     | 171,000     | 171,000     |
| Common shares outstanding                                 | 17,100,000                            | 17,100,000  | 17,100,000  | 17,100,000  | 17,100,000  |
| <b>Cash Flow Data</b>                                     |                                       |             |             |             |             |
| Cash provided by operating activities                     | 70,128                                | 106,588     | 52,940      | 30,899      | 72,535      |
| Cash used in investing activities                         | -                                     | (9,310)     | -           | -           | -           |
| Cash used in financing activities                         | (89,147)                              | (71,937)    | (46,854)    | (30,951)    | (72,504)    |
| <b>Other Financial Data</b>                               |                                       |             |             |             |             |
| Equity to assets ratio (percentage) (1)                   | 60.4%                                 | 62.6%       | 61.9%       | 60.0%       | 62.6%       |
| Debt to equity ratio (2)                                  | 0.6                                   | 0.6         | 0.6         | 0.6         | 0.6         |
| Price earnings ratio (3)                                  | 9.4                                   | 6.7         | 4.5         | 20.5        | 8.1         |

Notes:

1. Equity to assets ratio is calculated as total stockholders' equity divided by total assets.
2. Debt to equity ratio is calculated as total interest bearing current and long-term liabilities, including obligations under capital leases, divided by stockholders' equity.
3. Price earnings ratio is calculated using the closing year end share price divided by basic Earnings per Share.

## **B. CAPITALIZATION AND INDEBTEDNESS**

Not Applicable

## **C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not Applicable

## **D. RISK FACTORS**

We are engaged in transporting crude oil and oil products. The following summarizes some of the risks that may materially affect our business, financial condition or results of operations. Please note: In this section, "we", "us" and "our" all refer to the Company and its subsidiaries.

### ***The cyclical nature of the tanker industry may lead to volatile changes in charter rates which may adversely affect our earnings***

Our charters with Shell International Petroleum Company Limited, or Shell International, expired in the first quarter of 2004. Historically, the tanker industry has been highly cyclical, with volatility in profitability and asset values resulting from changes in the supply of and demand for tanker capacity. If the tanker market is depressed in the future, our earnings and available cash flow may decrease. The charter rates payable under time charters or in the spot market will depend upon, among other things, economic conditions in the tanker market. Fluctuations in charter rates and vessel values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products.

The factors affecting the supply and demand for tanker vessels are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. The factors that influence demand for tanker capacity include:

- demand for oil and production of crude oil and refined petroleum products;
- changes in oil production and refining capacity;
- global and regional economic and political conditions;
- the distance oil and oil products are to be moved by sea;
- environmental and other regulatory developments; and
- changes in seaborne and other transportation patterns, including changes in the distances over which cargo is transported due to geographic changes in where commodities are produced, oil is refined and cargoes are used.

The factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- port or canal congestion;
- the number of vessels that are out of service;
- national or international regulations that may effectively cause reductions in the carrying capacity of vessels or early obsolescence of tonnage; and
- changes in global crude oil production.

If the number of new ships delivered exceeds the number of tankers being scrapped and lost, tanker capacity will increase. If the supply of tanker capacity increases and the demand for tanker capacity does not increase correspondingly, the charter rates paid for our tankers could materially decline.

***The international tanker industry has experienced historically high charter rates and vessel values in the recent past and there can be no assurance that these historically high charter rates and vessel values will be sustained***

Charter rates in the tanker industry recently have been near historically high levels. We anticipate that future demand for our vessels, and in turn our future charter rates, will be dependent upon continued economic growth in the world's economy as well as seasonal and regional changes in demand and changes in the capacity of the world's fleet. We believe that these charter rates are the result of continued economic growth in the world economy that exceeds growth in global vessel capacity. There can be no assurance that economic growth will not stagnate or decline leading to a decrease in vessel values and charter rates. A decline in charter rates could have a material adverse effect on our business, financial condition, results of operation and ability to pay dividends.

***Any decrease in shipments of crude oil from the Arabian Gulf may adversely affect our financial performance***

The demand for our very large crude carrier, or VLCC, oil tankers derives primarily from demand for Arabian Gulf crude oil, which, in turn, primarily depends on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, social and other factors can significantly affect the strength of the world's industrial economies and their demand for Arabian Gulf crude oil. One such factor is the price of worldwide crude oil. The world's oil markets have experienced high levels of volatility in the last 25 years. If oil prices were to rise dramatically, the economies of the world's industrial countries may experience a significant downturn.

Any decrease in shipments of crude oil from the Arabian Gulf would have a material adverse effect on our financial performance. Among the factors which could lead to such a decrease are:

- increased crude oil production from non-Arabian Gulf areas;
- increased refining capacity in the Arabian Gulf area;
- increased use of existing and future crude oil pipelines in the Arabian Gulf area;
- a decision by Arabian Gulf oil-producing nations to increase their crude oil prices or to further decrease or limit their crude oil production;
- armed conflict in the Arabian Gulf and political or other factors; and
- the development and the relative costs of nuclear power, natural gas, coal and other alternative sources of energy.

***Some of our vessels operate on a spot charter basis and any decrease in spot charter rates in the future may adversely affect our earnings***

Beginning in 2004, some of our vessels operate on a spot charter basis. Although spot chartering is common in the tanker industry, the spot charter market is highly competitive and spot charter rates may fluctuate significantly based upon tanker and oil supply and demand. The successful operation of our vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. We cannot assure you that future spot charters will be available at rates sufficient to enable our vessels trading in the spot market to operate profitably. In addition, bunkering, or fuel, charges that account for a substantial portion of the operating costs of our spot chartered vessels, and generally reflect prevailing oil prices, are subject to sharp fluctuations.

***The value of our vessels may fluctuate and adversely affect our liquidity and may result in breaches under our financial arrangements and sales of our vessels at a loss.***

Tanker values have generally experienced high volatility. Investors can expect the fair market value of our VLCC oil tankers to fluctuate, depending on general economic and market conditions affecting the tanker industry and competition from other shipping companies, types and sizes of vessels, and other modes of transportation. In addition, as vessels grow older, they generally decline in value. While we have refinanced our previous secured debt during 2004, declining tanker values could affect our ability to raise cash by limiting our ability to refinance vessels in the future and thereby adversely impact our liquidity. If we determine at any time that a tanker's future limited useful life and earnings require us to impair its value on our financial statements, that could result in a charge against our earnings and the reduction of our shareholders' equity. Due to the cyclical nature of the tanker market, if for any reason we sell tankers at a time when tanker prices have fallen, the sale may be at less than the tanker's carrying amount on our financial statements, with the result that we would also incur a loss and a reduction in earnings. Based on the closing price for our common shares on May 2, 2006, taking into account our total indebtedness of \$112.3 million, and assuming no other factors, such as liquidity premiums, our cash position, or

expectations of future performance, the implied value of each of our vessels was \$106.3 million. The market value of a similar vessel may be significantly lower than the implied value of our vessels.

***An increase in the supply of vessel capacity without an increase in demand for vessel capacity would likely cause charter rates and vessel values to decline, which could have a material adverse effect on our revenues and profitability***

The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels, conversion of vessels to other uses, such as floating production and storage facilities, and loss of tonnage as a result of casualties. Currently there is significant new building activity with respect to virtually all sizes and classes of vessels. If the amount of tonnage delivered exceeds the number of vessels being scrapped, vessel capacity will increase. If the supply of vessel capacity increases and the demand for vessel capacity does not, the charter rates paid for our vessels as well as the value of our vessels could materially decline. Such a decline in charter rates and vessel values would likely have a material adverse effect on our revenues and profitability.

***Our operating results from our tankers are subject to seasonal fluctuations, which may adversely affect our operating results and ability to pay dividends***

We operate our tankers in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The tanker sector is typically stronger in the fourth and first quarters of the calendar year in anticipation of increased oil consumption of oil and petroleum in the northern hemisphere during the winter months. As a result, our revenues from our tankers may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ended December 31 and March 31. This seasonality could materially affect our operating results and cash available for dividends in the future.

***We operate in the highly competitive international tanker market and we may not be able to effectively compete which would negatively affect our results of operations***

The operation of tanker vessels and transportation of crude and petroleum products and the other businesses in which we operate are extremely competitive. Competition arises primarily from other tanker owners, including major oil companies as well as independent tanker companies, some of whom have substantially greater resources than we do. Competition for the transportation of oil and oil products can be intense and depends on price, location, size, age, condition and the acceptability of the tanker and its operators to the charterers. Following the expiration of the Shell International charters in 2004, we compete with other tanker owners, including major oil companies as well as independent tanker companies for charterers. Due in part to the fragmented tanker market, competitors with greater resources could enter and operate larger fleets through acquisitions or consolidations and may be able to offer better prices and fleets, which could result in our achieving lower revenues from our VLCC oil tankers.

***Future distributions to shareholders are dependent on tanker rates and future charter arrangements***

The Company has historically paid distributions to shareholders. For the periods for which the Company's vessels were under charters to Shell International, the base rate charterhire was sufficient to pay a distribution of approximately \$1.80 per share per year. The Company paid higher distributions when additional charterhire was received from Shell International. The Company expects that charterhire paid for time charters or in the spot market now that the charters to Shell International have expired will be sufficient sources of income for the Company to continue to pay ordinary recurring expenses including installments due under its financing facility. The Company also expects that it will be able to continue to make distributions to its shareholder under the new employment regime for its vessels. These distributions are expected to be a minimum of \$1.00 dollar per share per year. However, the amounts distributed will be dependent on spot market rates and any future charter arrangements that the Company enters into.

***Compliance with environmental laws or regulations may adversely affect our operations***

The shipping industry in general, our business and the operation of our tankers in particular, are affected by a variety of governmental regulations in the form of numerous international conventions, national, state and local laws and national and international regulations in force in the jurisdictions in which such tankers operate, as well as in the country or countries in which such tankers are registered. These regulations include:

- the United States Oil Pollution Act of 1990, or OPA, which imposes strict liability for the discharge of oil into the 200-mile United States exclusive economic zone, the obligation to obtain certificates of financial responsibility for vessels trading in United States waters and the requirement that newly constructed tankers that trade in United States waters be constructed with double-hulls;
- the International Convention on Civil Liability for Oil Pollution Damage of 1969 entered into by many countries (other than the United States) relating to strict liability for pollution damage caused by the discharge of oil;
- the International Maritime Organization, or IMO, International Convention for the Prevention of Pollution from Ships with respect to strict technical and operational requirements for tankers;
- the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, with respect to crew and passenger safety;
- the International Convention on Load Lines of 1966 with respect to the safeguarding of life and property through limitations on load capability for vessels on international voyages; and
- the United States Marine Transportation Security Act of 2002.

More stringent maritime safety rules are being imposed worldwide as a result of the oil spill in November 2002 relating to the loss of the m.t. *Prestige*, a 26-year old single-hull tanker owned by a company not affiliated with us. Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. In addition, we are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations. In the event of war or national emergency, our tankers may be subject to requisition by the government of the flag flown by the tanker without any guarantee of compensation for lost profits. We believe our tankers are maintained in good condition in compliance with present regulatory requirements, are operated in compliance with applicable safety/environmental laws and regulations and are insured against usual risks for such amounts as our management deems appropriate. The tankers' operating certificates and licenses are renewed periodically during each tanker's required annual survey. However, government regulation of tankers, particularly in the areas of safety and environmental impact may change in the future and require us to incur significant capital expenditures on our ships to keep them in compliance.

***Shipping is an inherently risky business and we may not have adequate insurance***

There are a number of risks associated with the operation of ocean-going vessels, including mechanical failure, collision, human error, war, terrorism, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. Any of these events may result in loss of revenues, increased costs and decreased cash flows. In addition, following the terrorist attack in New York City on September 11, 2001, and the military response of the United States, the likelihood of future acts of terrorism may increase, and our vessels may face higher risks of attack. Future hostilities or other political instability, as shown by the attack on the *Limburg* in Yemen in October 2002, could affect our trade patterns and adversely affect our operations and our revenues, cash flows and profitability. In addition, the operation of any vessel is subject to the inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

We cannot assure investors that we will adequately insure against all risks—and we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet in the future and the insurers may not pay particular claims. For example, a catastrophic spill could exceed our insurance coverage and have a material adverse effect on our financial condition. In addition, we may not be able to procure adequate insurance coverage at commercially reasonable rates in the future and we cannot guarantee that any particular claim will be paid. In the past, new and stricter environmental regulations have led to higher costs for insurance covering environmental damage or pollution, and new regulations could lead to similar increases or even make this type of insurance unavailable. Furthermore, even if insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement ship in the event of a loss. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our payment of these calls could result in significant expenses to us that could reduce our cash flows and place strains on our liquidity and capital resources.

***Our revenues may be adversely affected if we do not successfully employ our tankers***

Following the expiration of the Shell International charters in 2004, we have determined to deploy our tankers between spot market voyage charters and time charters. Currently, three of our tankers are contractually committed to time charters, with the remaining terms of these charters expiring on dates between 2007 and 2009. Although these time charters generally provide reliable revenues, they also limit the portion of our fleet available for spot market voyages during an upswing in the tanker industry cycle, when spot market voyages might be more profitable.

The spot charter market is highly competitive, and spot market voyage charter rates may fluctuate dramatically based on tanker and oil supply and demand and other factors. We cannot assure you that future spot market voyage charters will be available at rates that will allow us to operate our tankers profitably.

***Rising fuel prices may adversely affect our profits***

Fuel is a significant, if not the largest, operating expense for many of our shipping operations when our vessels are not under period charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. As a result, an increase in the price of fuel may adversely affect our profitability.

***Our vessels may suffer damage and we may face unexpected drydocking costs, which could affect our cash flow and financial condition***

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that our insurance does not cover. The inactivity of these vessels while they are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or we may be forced to move to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while our vessels are forced to wait for space or to relocate to drydocking facilities that are farther away from the routes on which our vessels trade would decrease our earnings.

***Incurrence of expenses or liabilities may reduce or eliminate distributions***

Our policy has been to pay out available cash, less reserves for contingencies, as distributions to stockholders, and we currently intend to continue that policy. However, we could incur other expenses or contingent liabilities that would reduce or eliminate the cash available for distribution by us as dividends. Our loan agreement prohibits the declaration and payment of dividends if we are in default under such loan agreement. In addition, the declaration and payment of dividends is subject at all times to the discretion of our Board. We cannot assure you that we will pay dividends.

***Arrests of our tankers by maritime claimants could cause a significant loss of earnings for the related off hire period***

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by "arresting" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more of our tankers could result in a significant loss of earnings for the related off-hire period.

In addition, in jurisdictions where the "sister ship" theory of liability applies, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. In countries with "sister ship" liability laws, claims might be asserted against us, any of our subsidiaries or our tankers for liabilities of other vessels that we own.

***Governments could requisition our vessels during a period of war or emergency without adequate compensation, resulting in a loss of earnings***

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter

rates. This amount could be materially less than the charterhire that would have been payable otherwise. In addition, we would bear all risk of loss or damage to a vessel under requisition for hire.

***Our operations outside the United States expose us to global risks that may interfere with the operation of our vessels***

We are an international company and primarily conduct our operations outside of the United States. Changing economic, regulatory, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered affect us. Hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance. The terrorist attacks against targets in the United States on September 11, 2001 and the military response by the United States has increased the likelihood of acts of terrorism worldwide. Acts of terrorism, regional hostilities or other political instability, as shown by the attack on the *Limburg* in Yemen in October 2002, attacks on oil pipelines during and subsequent to the Iraq war in 2003 and attacks on expatriate workers in the Middle East could adversely affect the oil trade and reduce our revenue or increase our expenses.

***Terrorist attacks, such as the attacks on the United States on September 11, 2001, and other acts of violence or war may affect the financial markets and our business, results of operations and financial condition***

As a result of the September 11, 2001 terrorist attacks and subsequent events, there has been considerable uncertainty in the world financial markets. The full effect of these events, as well as concerns about future terrorist attacks, on the financial markets is not yet known, but could include, among other things, increased volatility in the price of securities. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. Future terrorist attacks may also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenue, and costs.

***Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business***

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of contents of our vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition, results of operations and ability to pay dividends.

***Because we are a foreign corporation, you may not have the same rights that a shareholder in a United States corporation may have***

We are a Bermuda corporation. Our Memorandum of Association and Bye-Laws and the Bermuda Companies Act 1981, as amended, govern our affairs. Investors may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction. Under Bermuda law a director generally owes a fiduciary duty only to the company; not to the company's shareholders. Our shareholders may not have a direct course of action against our directors. In addition, Bermuda law does not provide a mechanism for our shareholders to bring a class action lawsuit under Bermuda law. Further, our Bye-Laws provide for the indemnification of our directors or officers against any liability arising out of any act or omission except for an act or omission constituting fraud, dishonesty or illegality.

***Because our offices and most of our assets are outside the United States, you may not be able to bring suit against us, or enforce a judgment obtained against us in the United States.***

Our executive officers, administrative activities and assets are located outside the United States. As a result, it may be more difficult for investors to effect service of process within the United States upon us, or to enforce both in the United States and outside the United States judgments against us in any action, including actions predicated upon the civil liability provisions of the federal securities laws of the United States.

***We may not be exempt from United States taxation on our United States source shipping income, which would reduce our net income and cash flow by the amount of the applicable tax***

Under the United States Internal Revenue Code of 1986, or the Code, 50 per cent of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, is characterized as United States source shipping income and such income is subject to a 4 per cent United States federal income tax without allowance for deduction, unless that corporation qualifies for exemption under Section 883 of the Code.

We expect that we and each of our subsidiaries will qualify for this statutory tax exemption and we will take this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to United States federal income tax on our United States source income. Therefore, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this statutory tax exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4 per cent United States federal income tax on United States sources shipping income. The imposition of this taxation could have an adverse effect on our business.

***Investor confidence and the market price of our common stock may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.***

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002, which will require us to include in our annual report on Form 20-F our management's report on, and assessment of the effectiveness of, our internal controls over financial reporting. In addition, our independent registered public accounting firm will be required to attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. These requirements will first apply to our annual report for the fiscal year ending December 31, 2006. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, we will not be in compliance with all of the requirements imposed by Section 404. Any failure to comply with Section 404 could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common stock. We believe the total cost of our initial compliance and the future ongoing costs of complying with these requirements may be substantial.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Knightsbridge Tankers Limited was incorporated in Bermuda on September 18, 1996. The Company's registered and principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda, and its telephone number is +1 (441) 295-0182. References herein to the Company include the Company and all of its subsidiaries, unless otherwise indicated. The Company was incorporated for the purpose of the acquisition, disposition, ownership, leasing and chartering of, through wholly-owned subsidiaries (the "Original Subsidiaries"), five very large crude oil carriers (the "Vessels"). The Company used the net proceeds of its initial public offering and bank debt to fund the purchase by the Original Subsidiaries of the Vessels. Upon their purchase from their previous owners on February 27, 1997 until March 2004, the Company chartered its Vessels to Shell International on long-term "hell and high water" bareboat charters (the "Charters"). The term of each of these Charters was a minimum of seven years, with an option for Shell International to extend the period for each Vessel's Charter for an additional seven year term, to a maximum of approximately 14 years per Charter. Shell International did not extend the bareboat charters for any of the Vessels for a second seven year period. Consequently, the Charters expired for all five Vessels, in accordance with their terms, during March 2004 and the Vessels were redelivered to the Company. Following the redelivery, the Company has entered into a five year time charter for one of its vessels while two of the Company's vessels have each been time chartered for a period of three years. The Company's remaining two vessels are trading on the spot market and since April 2005 have participated in a pooling arrangement with Frontline Ltd., or Frontline, a Bermuda based tanker owner and operator listed on the New York Stock Exchange, London Stock Exchange and the Oslo Stock Exchange.

At the 2005 Annual General Meeting of the Company, the Shareholders approved amending its Bye-Laws to remove restrictive provisions that limited the Company to the transactions described above and related activities including the ownership of subsidiaries engaged in the acquisition, disposition, ownership, leasing and chartering of the Vessels following the termination of the Charters in 2004, and engaging in activities necessary, suitable or convenient to accomplish, or in connection with or incidental to, the foregoing, including refinancing its original debt obligation related to its initial public offering (the "Credit Facility"). The Company expects that its only source of operating revenue, from which the Company may pay distributions to shareholders of its common shares, par value \$0.01 per share, will be cash payments from subsidiaries to the Company.

In connection with the purchase of the original Vessels, the Company had entered into conditional sale arrangements with a third party banking institution (the "UK Lessor"). Under the arrangements (the "Conditional Sale Agreements"), each of the Company's vessel-owning subsidiaries agreed with the UK Lessor that the UK Lessor was entitled to purchase the Vessels from the subsidiaries, by payment of the purchase price in installments over a period of twenty-five years, subject to certain conditions described below. For the duration of the Charters, the vessels were leased back to the Company's subsidiaries. The lease agreements did not encumber or obligate the Company's current or future cash flows and had no effect on the Company's financial position.

The UK Lessor's obligation under each Conditional Sale Agreement to pay the first installment of the purchase price for the vessel was subject to the following conditions: (i) the UK Lessor had not terminated the related Conditional Sale Agreement prior to the Vessel being delivered by the subsidiary or a representative of the UK Lessor; (ii) the Company's subsidiary had not terminated the Agreement prior to giving notice of delivery of the Vessel; (iii) the UK Lessor had received notice of delivery of the Vessel from the subsidiary; (iv) the UK Lessor had received an invoice for the first installment of the purchase price; (v) the representations and warranties by the subsidiary in the Conditional Sale Agreement (regarding capital expenditures of the subsidiary and the purchase price of the vessel) continued to be true; and (vi) the Vessel had not suffered a loss. Upon termination of the Charters in 2004, each of the Company's subsidiaries had the right as the UK Lessor's sales agent to arrange for the disposition of the Conditional Sale Agreement (and the right to take title to the related Vessel), or to arrange for the sale of the related Vessel, for an amount equal to the fair market value of that Vessel. In connection with the termination of the Charters, the Company's subsidiaries arranged for newly formed subsidiaries (the "New Subsidiaries") to purchase the Conditional Sale Agreements from the UK Lessor by way of novation for fair market value consideration, thereby transferring the right to take title to the Vessels under the Conditional Sale Agreements to the Company's New Subsidiaries. The New Subsidiaries took title to the Vessels during the first half of March 2004 and the Conditional Sale Agreements are no longer in effect. There was no gain or loss booked by the Company on the transaction as the fair market value consideration was deemed equal to the Vessel book value at the date of acquisition.

Each Vessel was registered in the Republic of the Marshall Islands by the relevant New Subsidiary. The Company also repaid its existing loans, on March 2, 2004, and together with the New Subsidiaries entered into a new loan agreement (the "Loan Agreement") with The Royal Bank of Scotland plc (the "Lender"), pursuant to which the Company borrowed \$140.0 million in the form of five loans of \$28 million each in respect of a Vessel (together, the "Loan"). The Company is obligated to repay the Loan in twenty-eight quarterly installments of \$2.8 million and a final installment of \$61.6 million on the last payment date. The Loan Agreement provides for payment of interest on the outstanding principal balance of the Loan, quarterly in arrears, at the annual rate of LIBOR plus a margin. If a New Subsidiary sells or disposes of the related Vessel, the Company will be obligated to make a loan prepayment which will be applied against the principal balance of the Loan relating to the Vessel. The Loan Agreement is secured by, among other things, a guarantee from each New Subsidiary, a mortgage on each Vessel and an assignment of any charter with respect to a Vessel. The failure by the Company to make payments due and payable under the Loan Agreement could result in the acceleration of all principal and interest on the Loan Agreement, the enforcement by the Lender of its rights with respect to the security therefore, and the consequent forfeiture by the Company of one or more of the Vessels. The Loan Agreement also provides for other customary events of default.

The Loan Agreement contains a number of covenants made by the Company and each of the New Subsidiaries that, among other things, restrict the ability of the Company to incur additional indebtedness, pay dividends if the Company is in default, create liens on assets or dispose of assets. In addition, the Company and the relevant New Subsidiary is subject to additional covenants pursuant to the Loan Agreement pertaining primarily to the maintenance and operation of each of the Vessels.

## B. BUSINESS OVERVIEW

We are an international tanker company and our primary business activity is the international seaborne transportation of crude oil. Our fleet consists of five double-hull VLCCs, one of which was built in 1996 and four of which were built in 1995.

### Expired Long-Term Charters

Pursuant to the Charters, Shell International paid a daily charterhire commencing on the delivery date at a rate comprised of two primary components: (i) the base rate, a fixed minimum rate of charterhire equal to \$22,069 per Vessel per day, payable quarterly in arrears, and (ii) additional hire, an additional charterhire equal to the excess, if any, of a weighted average of the daily time charter rates for three round-trip trade routes traditionally served by VLCCs, less an agreed amount of \$10,500, representing daily operating costs over the base rate

### New Operations

Each of the Vessels is now owned by a New Subsidiary and has been renamed and reflagged in the Marshall Islands and is currently deployed either on time charters or in the spot market, operating on routes between the Arabian Gulf and the Far East, Northern Europe, the Caribbean and the Louisiana Offshore Oil Port. The following chart provides information on the current deployment of our Vessels:

| Vessel Name                      | Employment       | Expiration Date |
|----------------------------------|------------------|-----------------|
| Camden                           | Time charter     | March, 2009     |
| Chelsea                          | Spot market/Pool | n/a             |
| Mayfair                          | Spot market/Pool | n/a             |
| TI Ningbo (formerly Hampstead)   | Time charter     | April, 2007     |
| TI Qingdao (formerly Kensington) | Time charter     | April, 2007     |

We believe that operating our Vessels between time charter and the spot market will enable us to take advantage of higher charter rates in the spot market, while maintaining stability through long-term charters.

### Management Agreement

Upon expiration of the Charters in 2004, we amended our agreement with ICB Shipping (Bermuda) Limited (the "Manager") pursuant to which the Manager now assumes operational responsibility for the Vessels and has agreed to recharter the Vessels, subject to the approval of the Board of Directors. Under the management agreement the Manager is required to manage the day-to-day business of the Company subject, always, to the objectives and policies of the Company as established from time to time by the Board. All decisions of a material nature concerning the business of the Company are reserved to the Company's Board of Directors. The management agreement will terminate in 2012, unless earlier terminated pursuant to the terms thereof, as discussed below.

For its services under the management agreement during the period of the Charters, the Manager was entitled to a Management Fee equal to \$750,000 per annum. In view of the change in the structure of operations such that the Company now performs certain operational responsibilities with respect to the Vessels since the termination of the Charters, the Management Fee was reduced to \$630,000 per year in the first quarter of 2004 and subsequently increased to \$1,150,000 in the first quarter of 2006. The Company is now responsible for paying its own administrative expenses including such items as audit fees, legal and professional fees, registrars fees, and directors and officers fees and expenses. The Company believes that these management fees are substantially on the same terms that would be obtained from a non-affiliated party. The Manager was not affiliated with the Company, the Charterer or Guarantors at the time these fees were negotiated.

Upon the expiration of the Charters in 2004 and the Company's shareholders' decision to continue the Company in business and not sell the Vessels, the Manager became obligated under the management agreement to attempt to recharter each Vessel on an arms-length basis upon such terms as the Manager deems appropriate, subject to the approval of the Board. The Manager receives a commission equal to 1.25 per cent of the gross freight earned from such rechartering (which is the standard industry commission). The Manager, on behalf of the Company, may utilize

the services of brokers and lawyers, and enter into such compensation arrangements with them, subject to the Board's approval, as the Manager deems appropriate.

The Company may terminate the management agreement at any time upon 30 day's notice to the Manager for any reason, provided that any such termination shall have been approved by a resolution duly adopted by the affirmative vote of the holders of at least 66-2/3 per cent of the Company's outstanding Common Shares. The Company may terminate the management agreement at any time upon five business days' prior written notice to the Manager in the event of the Manager's material breach thereof, the failure of the Manager to maintain adequate authorization to perform its duties thereunder, the Manager's insolvency, in the event that it becomes unlawful for the Manager to perform its duties thereunder or if the Manager ceases to be wholly-owned, directly or indirectly, by Frontline. The Manager may terminate the management agreement upon ten business days' prior written notice to the Company in the event that the Company undergoes a "change of control" which is the election of any director whose election was not recommended by the then current Board. The Company believes that in the case of any termination of the management agreement, the Company could obtain an appropriate alternative arrangement for the management of the Company, although there can be no assurance that such alternative arrangement would not cause the Company to incur additional cash expenses.

### **Industry Conditions**

The oil tanker industry has been highly cyclical, experiencing volatility in charterhire rates and vessel values resulting from changes in the supply of and the demand for crude oil and tanker capacity. The demand for tankers is influenced by, among other factors, the demand for crude oil, global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, oil production, armed conflicts, port congestion, canal closures, embargoes and strikes. In addition, the Company anticipates that the future demand for VLCCs, such as the Vessels, will also be dependent upon continued economic growth in the United States, Continental Europe and the Far East and competition from pipelines and other sizes of tankers. Adverse economic, political, social or other developments in any of these regions could have an adverse effect on the Company's business and results of operations. In addition, even if demand for crude oil grows in these areas, demand for VLCCs may not necessarily grow and may even decline. Demand for crude oil is affected by, among other things, general economic conditions, commodity prices, environmental concerns, taxation, weather and competition from alternatives to oil. Demand for the seaborne carriage of oil depends partly on the distance between areas that produce crude oil and areas that consume it and their demand for oil. The incremental supply of tanker capacity is a function of the delivery of new vessels and the number of older vessels scrapped, in lay-up, converted to other uses, reactivated or lost. Such supply may be affected by regulation of maritime transportation practices by governmental and international authorities. All of the factors influencing the supply of and demand for oil tankers are outside the control of the Company, and the nature, timing and degree of changes in industry conditions are unpredictable.

VLCCs are specifically designed for the transportation of crude oil and, due to their size, are used to transport crude oil primarily from the Arabian Gulf to the Far East, Northern Europe, the Caribbean and the Louisiana Offshore Oil Port ("LOOP"). While VLCCs are increasingly being used to carry crude oil from other areas, any decrease in shipments of crude oil from the Arabian Gulf would have a material adverse effect on the Company.

Among the factors which could lead to such a decrease are (i) increased crude oil production from non-Arabian Gulf areas, (ii) increased refining capacity in the Arabian Gulf area, (iii) increased use of existing and future crude oil pipelines in the Arabian Gulf area, (iv) a decision by Arabian Gulf oil-producing nations to increase their crude oil prices or to further decrease or limit their crude oil production, (v) armed conflict in the Arabian Gulf or along VLCC trading routes, (vi) political or other factors and (vii) the development and the relative costs of nuclear power, natural gas, coal and other alternative sources of energy.

VLCC demand is primarily a function of demand for Arabian Gulf crude oil, which in turn is primarily dependent on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, political, social and other factors can significantly affect the strength of the world's industrial economies and their demand for Arabian Gulf crude oil. One such factor is the price of worldwide crude oil. The world's oil markets have experienced high levels of volatility in the last 25 years. If oil prices were to rise dramatically, the economies of the world's industrial countries may experience a significant downturn. See Item 5. Operating and Financial Review and Prospects -- Operating Results -- The Tanker Market.

## **Vessel Values**

Tanker values have generally experienced high volatility. The fair market value of oil tankers, including the Vessels, can be expected to fluctuate, depending upon general economic and market conditions affecting the tanker industry and competition from other shipping companies, types and sizes of vessels, and other modes of transportation. In addition, as vessels grow older, they may be expected to decline in value.

Since the mid-1970s, during most periods there has been a substantial worldwide oversupply of crude oil tankers, including VLCCs. In addition, the market for secondhand VLCCs has generally been weak since the mid-1970s. However, in the last three years the industry has experienced new historic highs for tanker values. Notwithstanding the aging of the world tanker fleet and the adoption of new environmental regulations which will result in a phase-out of many single hull tankers, significant deliveries of new VLCCs would adversely affect market conditions.

## **Seasonality**

Historically, oil trade and therefore charter rates, increased in the winter months and eased in the summer months as demand for oil in the Northern Hemisphere rose in colder weather and fell in warmer weather. The tanker industry in general is less dependent on the seasonal transport of heating oil than a decade ago as new uses for oil and oil products have developed, spreading consumption more evenly over the year.

## **Competition**

The market for international seaborne crude oil transportation services is highly fragmented and competitive. Seaborne crude oil transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent ship owner fleets. In addition, several owners and operators pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned and operated fleets. Many major oil companies and other oil trading companies, the primary charterers of the vessels owned by the Company, also operate their own vessels and use such vessels not only to transport their own crude oil but also to transport crude oil for third party charterers in direct competition with independent owners and operators in the tanker charter market. Competition for charters is intense and is based upon price, location, size, age, condition and acceptability of the vessel and its manager. Competition is also affected by the availability of other size vessels to compete in the trades in which the Company engages.

## **Risk of Loss and Insurance**

There are a number of risks associated with the operation of ocean-going vessels, including mechanical failure, collision, property loss, cargo loss, or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, the operation of any vessel is subject to the inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. The United States Oil Pollution Act of 1990, or OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. We bear all risks associated with the operation of the Vessels, including, without limitation, any total loss of one or more Vessels.

The Manager is responsible for arranging for the insurance of our vessels in line with standard industry practice. In accordance with that practice, we maintain hull and machinery and war risks insurance, which include the risk of actual or constructive total loss, and protection and indemnity insurance. Our protection and indemnity insurance, or P&I insurance, covers third-party liabilities and other related expenses from, among other things, injury or death of crew, passengers and other third parties, claims arising from collisions, damage to cargo and other third-party property, and pollution arising from oil or other substances. Our current P&I insurance coverage for pollution is the maximum commercially available amount of \$1.0 billion per tanker per incident and is provided by mutual protection and indemnity associations. Each of the Vessels is entered in a protection and indemnity association which is a member of the International Group of Protection and Indemnity Mutual Assurance Associations. The 12 protection and indemnity associations that comprise the International Group insure approximately 90 per cent of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each protection and indemnity association has capped its exposure to this pooling agreement at \$5.2 billion. As a member of protection and indemnity associations, which are, in turn, members of the International Group, we are

subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of protection and indemnity associations comprising the International Group.

We believe that our current insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage, consistent with standard industry practice. However, there is no assurance that all risks are adequately insured against, that any particular claims will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

### **Inspection by Classification Societies**

Every commercial vessel's hull and machinery is "classed" by a classification society authorised by its country of registry. The classification society certifies that the vessel has been built and maintained in accordance with the rules of such classification society and complies with applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a member. Our Vessels have all been certified as "in class." Each vessel is inspected by a surveyor of the classification society every year, every two and a half years and every four to five years. Should any defects be found, the classification surveyor will issue a "recommendation" for appropriate repairs which have to be made by the shipowner within the time limit prescribed.

### **Environmental and Other Regulation**

Government regulation significantly affects the ownership and operation of our tankers. Our fleet is subject to international conventions, national, state and local laws and regulations in force in the countries in which our Vessels may operate or are registered.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry) and charterers, particularly terminal operators and oil companies. Certain of these entities require us to obtain permits, licenses and certificates for the operation of our tankers. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our Vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our Vessels that will emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, such future requirements may limit our ability to do business, increase our operating costs, force the early retirement of our vessels, and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations.

### **Environmental Regulation**

#### ***International Maritime Organization (IMO)***

The International Maritime Organization, or IMO, (the United Nations agency for maritime safety and the prevention of marine pollution by ships), has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, which has been updated through various amendments, or the "MARPOL Convention". The MARPOL Convention relates to environmental standards including oil leakage or spilling, garbage management, as well as the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. In March 1992, the IMO adopted regulations that set forth pollution prevention requirements applicable to tankers, which became effective in July 1993. These regulations, which have been adopted by over 150 nations, including many of the jurisdictions in which our tankers

operate, provide for, among other things, phase-out of single hull tankers and more stringent inspection requirements; including, in part, that:

- tankers between 25 and 30 years old must be of double-hull construction or of a mid-deck design with double-sided construction, unless: (1) they have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30 per cent of the length of the cargo tank section of the hull or bottom; or (2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);
- tankers 30 years old or older must be of double-hull construction or mid-deck design with double-sided construction; and
- all tankers are subject to enhanced inspections.

Also, under IMO regulations, a tanker must be of double hull construction or a mid-deck design with double-sided construction, or be of another approved design ensuring the same level of protection against oil pollution, if the tanker:

- is the subject of a contract for a major conversion or original construction on or after July 6, 1993;
- commences a major conversion or has its keel laid on or after January 6, 1994; or
- completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

In April 2001, the IMO accelerated its existing timetable for the phase-out of single-hull oil tankers. that became effective in September 2002. These regulations require the phase-out of most single-hull oil tankers by 2015 or earlier, depending on the age of the tanker and whether it has segregated ballast tanks. Under the regulations, the flag state administration may allow for some newer single hull ships registered in its country that conform to certain technical specifications to continue operating until the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull tankers that are allowed to operate until their 25th anniversary to ports or offshore terminals.

In December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC, adopted an amendment to a MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G accelerating the phase-out of single hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation, single hull oil tankers must be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

| <b>Category of Oil Tankers</b>   | <b>Date or Year</b>  |
|--|--|
| Category 1 oil tankers of 20,000 deadweight tonnage, or dwt, and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks  | April 5, 2005 for ships delivered on April 5, 1982 or earlier; or 2005 for ships delivered after April 5, 1982   |
| Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements<br><br>and<br><br>Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers. | April 5, 2005 for ships delivered on April 5, 1977 or earlier 2005 for ships delivered after April 5, 1977 but before January 1, 1978<br>2006 for ships delivered in 1978 and 1979<br>2007 for ships delivered in 1980 and 1981<br>2008 for ships delivered in 1982<br>2009 for ships delivered in 1983<br>2010 for ships delivered in 1984 or later |

Under the revised regulations, the flag state administration may allow for some newer single hull oil tankers registered in its country that conform to certain technical specifications to continue operating until the earlier of the anniversary of the date of delivery of the vessel in 2015 or the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull oil tankers that are allowed to operate until the earlier of their anniversary date of delivery in 2015 or their 25th anniversary to ports or offshore terminals.

The MEPC, in October 2004, adopted a unified interpretation to regulation 13G that clarified the date of delivery for tankers that have been converted. Under the interpretation, where an oil tanker has undergone a major conversion that has resulted in the replacement of the fore-body, including the entire cargo carrying section, the major conversion completion date of the oil tanker shall be deemed to be the date of delivery of the ship, provided that:

- the oil tanker conversion was completed before July 6, 1996;
- the conversion included the replacement of the entire cargo section and fore-body and the tanker complies with all the relevant provisions of MARPOL Convention applicable at the date of completion of the major conversion; and
- the original delivery date of the oil tanker will apply when considering the 15 years of age threshold relating to the first technical specifications survey to be completed in accordance with MARPOL Convention.

In December 2003, the MEPC adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil, or HGO. The new regulation bans the carriage of HGO in single hull oil tankers of 5,000 dwt and above after April 5, 2005, and in single hull oil tankers of 600 dwt and above but less than 5,000 dwt, no later than the anniversary of their delivery in 2008. Under regulation 13H, HGO means any of the following:

- crude oils having a density at 15°C higher than 900 kg/m<sup>3</sup>;
- fuel oils having either a density at 15°C higher than 900 kg/m<sup>3</sup> or a kinematic viscosity at 50°C higher than 180 mm<sup>2</sup>/s;
- bitumen, tar and their emulsions.

Under the regulation 13H, the flag state administration may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15°C higher than 900 kg/m<sup>3</sup> but lower than 945 kg/m<sup>3</sup>, that conform to certain technical specifications and, in the opinion of the such administration, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state administration may also allow continued operation of a single hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of the such administration, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

The flag state administration may also exempt an oil tanker of 600 dwt and above carrying HGO as cargo if the ship is either engaged in voyages exclusively within an area under the its jurisdiction, or is engaged in voyages exclusively within an area under the jurisdiction of another party, provided the party within whose jurisdiction the ship will be operating agrees. The same applies to vessels operating as floating storage units of HGO.

Any port state, however, can deny entry of single hull tankers carrying HGO which have been allowed to continue operation under the exemptions mentioned above, into the ports or offshore terminals under its jurisdiction, or deny ship-to-ship transfer of HGO in areas under its jurisdiction except when this is necessary for the purpose of securing the safety of a ship or saving life at sea.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI was ratified in May 2004 and became effective in May 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Compliance with these regulations could require the installation of expensive emission control systems and could have an adverse financial impact on the

operation of our vessels. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

The operation of our vessels is also affected by the requirements set forth in the IMO's Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. The Manager will rely upon the safety management system that the Manager and its third party technical managers have developed.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state or by an appointed classification society, under the ISM Code. All of our Vessels have obtained safety management certificates.

Non compliance with the ISM Code and other IMO regulations may subject the ship-owner or a bareboat charterer to increased liability, 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. Both the U.S. Coast Guard and EU authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in United States and European Union ports, as the case may be.

Many countries have ratified and currently follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, or the 1969 Convention. Under this convention, and depending on whether the country in which the damage results is a party to the 1992 Protocol to the International Convention on Civil Liability for Oil Pollution Damage, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Under an amendment that became effective in November 2003 for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability is limited to approximately \$ 6.5 million plus approximately \$913 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to approximately 129.9 million. As the 1969 Convention calculates liability in terms of basket currencies, these figures are based on currency exchange rates on March 20, 2006. Under the 1969 Convention, the right to limit liability is forfeited where the spill is caused by the owner's actual fault; under the 1992 Protocol, a shipowner cannot limit liability where the spill is caused by the owner's intentional or reckless conduct. Vessels trading in jurisdictions that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the 1969 Convention has not been adopted, including the United States various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

#### ***The United States Oil Pollution Act of 1990***

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions, or whose vessels operate in United States waters, which includes the United States' territorial sea and its two hundred nautical mile exclusive economic zone. Although OPA is primarily directed at oil tankers and product tankers, it applies to discharges by non-tanker ships, including drybulk carriers, of fuel oil, or bunkers, used to power such vessels.

Under OPA, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers. OPA defines these other damages broadly to include:

- natural resources damages and the costs of assessment thereof;
- 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; and
- 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.

Title VII of the Coast Guard and Maritime Transportation Act of 2004, or the CGMTA, recently amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more, that carries oil of any kind as a fuel for main propulsion, including bunkers, to prepare and submit a response plan for each vessel on or before August 8, 2005. Previous law was limited to vessels that carry oil in bulk as cargo. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of ore from the vessel due to operational activities or casualties.

OPA limits the liability of responsible parties to the greater of \$1,200 per gross ton or \$10 million per tanker that is over 3,000 gross tons per discharge (subject to possible adjustment for inflation). These limits of liability do not apply, if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations; or by a 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 oil removal activities. Legislation pending in Congress would increase liability limits for single hull tankers to \$3,000 per gross ton and for double hull tankers to \$1,900 per gross ton. In addition, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels not carrying hazardous substances as cargo or residue, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our tankers call.

OPA requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under OPA. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility in the amount of \$1,500 per gross ton for tankers, coupling the OPA limitation on liability of \$1,200 per gross ton with the CERCLA liability limit of \$300 per gross ton. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one tanker will be required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum liability under OPA and CERCLA. We have provided requisite guarantees and received certificates of financial responsibility from the U.S. Coast Guard for each of our Vessels required to have one.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of \$1 billion per vessel per incident. A catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on our business.

Under OPA, with certain limited exceptions, all newly built or converted tankers operating in United States waters must be built with double-hulls. Existing vessels that do not comply with the double-hull requirement must be phased out over a 20-year period, from 1995 to 2015, based on size, age and place of discharge, unless retrofitted with double-hulls. Notwithstanding the phase-out period, OPA currently permits existing single-hull tankers to operate until the year 2015 if their operations within United States waters are limited to:

- discharging at the LOOP; or
- unloading with the aid of another vessel, a process referred to in the industry as lightening, within authorized lightening zones more than 60 miles off-shore.

Owners or operators of tankers operating in the waters of the United States must file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These 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 cleanup actions.

We have obtained vessel response plans approved by the U.S. Coast Guard for our Vessels operating in United States waters. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain tanker vessels to prepare response plans for the release of hazardous substances.

***Additional United States Environmental Requirements***

The United States Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the United States Environmental Protection Agency, or EPA, to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas are equipped with vapor control systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor control systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase our costs, we believe, based on the regulations that have been proposed to date, that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required.

The Clean Water Act, or the CWA, prohibits the discharge of oil or hazardous substances into navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages. State laws for the control of water pollution also provide varying civil, criminal and administrative penalties in the case of a discharge of petroleum or hazardous materials into state waters. The CWA complements the remedies available under the more recent OPA and CERCLA, discussed above. Under current regulations of the EPA, vessels are not required to obtain CWA permits for the discharge of ballast water in United States ports. However, as a result of a recent United States federal court decision, vessel owners and operators may be required to obtain CWA permits for the discharge of ballast water, or they will face penalties for failing to do so. Although the EPA is likely to appeal this decision, we do not know how this matter is likely to be resolved and we cannot assure you that any costs associated with compliance with the CWA’s permitting requirements will not be material to our results of operations.

The National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into United States ports through ballast water taken on by ships in foreign ports. NISA established a ballast water management program for ships entering United States waters. Under NISA, mid-ocean ballast water exchange is voluntary, except for ships heading to the Great Lakes, Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil. However, NISA’s exporting and record-keeping requirements are mandatory for vessels bound for any port in the United States. Although ballast water exchange is the primary means of compliance with the act’s guidelines, compliance can also be achieved through the retention of ballast water onboard the ship, or the use of environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. If the mid-ocean ballast exchange is made mandatory throughout the United States, or if water treatment requirements or options are instituted, the costs of compliance could increase for ocean carriers.

Our operations occasionally generate and require the transportation, treatment and disposal of both hazardous and non-hazardous wastes that are subject to the requirements of the United States Resource Conservation and Recovery Act, or RCRA, or comparable state, local or foreign requirements. In addition, from time to time we arrange for the disposal of hazardous waste or hazardous substances at offsite disposal facilities. If such materials are improperly disposed of by third parties, we might still be liable for clean up costs under applicable laws.

Several of our vessels currently carry cargoes to United States waters regularly and we believe that all of our vessels are suitable to meet OPA and other United States environmental requirements and that they would also qualify for trade if chartered to serve United States ports.

### ***European Union Tanker Restrictions***

In July 2003, the European Union adopted regulations that accelerate the IMO single hull tanker phase-out timetable. Under the regulation no oil tanker is allowed to operate under a flag of a EU member state, nor shall any oil tanker, irrespective of its flag, be allowed to enter into ports or offshore terminals under the jurisdiction of a EU member state after the anniversary of the date of delivery of the ship in the year specified in the following table, unless such tanker is a double hull oil tanker.

| <b>Category of Oil Tankers</b>   | <b>Date or Year</b>  |
|--|--|
| Category 1 oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks  | 2003 for ships delivered in 1980 or earlier<br>2004 for ships delivered in 1981<br>2005 for ships delivered in 1982 or later   |
| Category 2 – oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements<br><br>and<br><br>Category 3 – oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers. | 2003 for ships delivered in 1975 or earlier<br>2004 for ships delivered in 1976<br>2005 for ships delivered in 1977<br>2006 for ships delivered in 1978 and 1979<br>2007 for ships delivered in 1980 and 1981<br>2008 for ships delivered in 1982<br>2009 for ships delivered in 1983<br>2010 for ships delivered in 1984 or later |

Furthermore, under the regulation, all oil tankers of 5,000 dwt or less must comply with the double hull requirements no later than the anniversary date of delivery of the ship in the year 2008. The regulation, however, provides that oil tankers operated exclusively in ports and inland navigation may be exempted from the double hull requirement provided that they are duly certified under inland water legislation.

The European Union, following the lead of certain European Union nations such as Italy and Spain, as of October 2003, has also banned all single- hull tankers of 600 dwt and above carrying HGO, regardless of flag, from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single- hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction.

The European Union is also considering legislation that would: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies.-It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

## Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security Code, or ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-United States vessels from MTSA vessel security measures provided such vessels have on board a valid International Ship Security Certificate that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

## C. ORGANIZATIONAL STRUCTURE

See Exhibit 8.1 for a list of our subsidiaries.

## D. PROPERTY, PLANT AND EQUIPMENT

We operate a modern fleet of five tankers. The Vessels meet all material existing regulatory requirements affecting the Vessels and their operations. The name, dwt, hull type, flag and date of original delivery from the Builder's yard are set forth below.

| Vessel name | Approximate dwt | Hull type | Flag             | Year Built |
|-------------|-----------------|-----------|------------------|------------|
| Camden      | 298,000         | Double    | Marshall Islands | 1995       |
| Chelsea     | 298,000         | Double    | Marshall Islands | 1995       |
| Mayfair     | 298,000         | Double    | Marshall Islands | 1995       |
| TI Qingdao  | 298,000         | Double    | Marshall Islands | 1995       |
| TI Ningbo   | 298,000         | Double    | Marshall Islands | 1996       |

The Vessels are modern, high-quality double hull tankers designed for enhanced safety and reliability.

Other than its interests in the Vessels, the Company has no interest in any other property.

## ITEM 4A. UNRESOLVED STAFF COMMENTS

None

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Operating Results

#### Overview

The following discussion should be read in conjunction with Item 3 "Selected Financial Data" and the Company's audited Consolidated Financial Statements and Notes thereto included herein.

In February 1997, the Company's five Original Subsidiaries each purchased one VLCC. From their purchase in February 1997 until March 2004, the Company chartered the Vessels to Shell International on long-term "hell and high water" bareboat charters (the "Charters"). The Charters expired for all five Vessels, in accordance with their terms, in March 2004 and the Vessels were redelivered to the Company. Following the redelivery, the Company has entered into a five year time charter for one of the Vessels while two of the Company's Vessels have each been time chartered for a period of three years each. The Company's remaining two Vessels are trading on the spot market and since the second quarter of 2005 have participated in a pooling arrangement with Frontline.

The daily charterhire rate payable by Shell International was comprised of two primary components: (i) the base rate, which is a fixed minimum rate of charterhire equal to \$22,069 per Vessel per day, payable quarterly in arrears, and (ii) additional hire, which is additional charterhire (determined and paid quarterly in arrears) that would equal the excess, if any, of a weighted average of the daily time charter rates for three round-trip trade routes traditionally served by VLCCs, less an agreed amount of \$10,500 during the initial term of the Charters, representing daily operating costs over the Base Rate. The current five year time charter agreement provides revenue of approximately \$31,000 per day for the duration of the charter, while the three year time charters provide a rate of \$30,000 per day plus a 50:50 profit sharing arrangement for earnings in excess of \$30,000 per day calculated by reference to the Baltic International Trading Route, or BITR, Index.

The calculated spot market related rates for the period up until the redelivery of the Vessels in 2004, and for the year ended December 31, 2003, were as follows:

| <i>(in \$ per day)</i> | <b>2004</b> | <b>2003</b> |
|------------------------|-------------|-------------|
| First Quarter          | 90,513      | 61,713      |
| Second Quarter         | -           | 53,186      |
| Third Quarter          | -           | 25,063      |
| Fourth Quarter         | -           | 59,688      |

#### Factors Affecting Our 2005 and Future Results

The principal factors that have affected our 2005 results of operations and financial position and are expected to affect our future results of operations and financial position include:

- the earnings of our vessels in the charter market;
- vessel operating expenses including drydocking;
- administrative expenses;
- depreciation; and
- interest expense.

Prior to March 2004, we derived our historical earnings from the Charters with Shell International. In the future our Vessels may be operated under bareboat charters, time charters, voyage charters and contracts of affreightment. A bareboat charter is a contract for the use of a vessel for a specified period of time where the charterer pays substantially all of the vessel voyage costs and operating costs. A time charter is a contract for the use of a vessel for a specific period of time during which the charterer pays substantially all of the vessel voyage costs but the vessel owner pays the operating costs. A voyage charter is a contract for the use of a vessel for a specific voyage in which the vessel owner pays substantially all of the vessel voyage costs and operating costs. A contract of affreightment is

a form of voyage charter in which the owner agrees to carry a specific type and quantity of cargo in two or more shipments over an agreed period of time. Accordingly, for equivalent profitability, charter income under a voyage charter would be greater than that under a time charter to take account of the owner's payment of the vessel voyage costs. In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of average daily time charter equivalent earnings, or TCEs. For voyage charters, this is calculated by dividing net operating revenues by the number of days on charter. Days spent technical offhire are excluded from this calculation.

The tanker industry has historically been highly cyclical, experiencing volatility in profitability, vessel values and freight rates. In particular, freight and charter rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation services. We are exposed to such volatility with our Vessels operating on the spot market and it affects the profit sharing arrangement that we have for our Vessels on time charter.

Operating costs are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance. We bear the operating costs for our Vessels that are operating on the spot market and for the three Vessels that have been fixed under time charters.

Administrative expenses are composed of general corporate overhead expenses, including audit fees, directors fees and expenses, registrars fees, investor relations and publication expenses, legal and professional fees and other general administrative expenses.

Depreciation, or the periodic cost charged to our income for the reduction in usefulness and long-term value of our vessels, is also related to the number of vessels we own. We depreciate the cost of our vessels, less their estimated residual value, over their estimated useful life on a straight-line basis.

Interest expense depends on our overall borrowing levels and will change with prevailing interest rates, although the effect of these changes may be reduced by interest rate swaps or other derivative instruments. As at December 31, 2005, all of our debt was floating rate debt. We may enter into interest rate swap arrangements if we believe it is advantageous to do so.

Although inflation may have an impact on our vessel operating expenses and corporate overheads, management does not consider inflation to be a significant risk to direct costs in the current and foreseeable economic environment. In addition, in a shipping downturn, costs subject to inflation can usually be controlled because shipping companies typically monitor costs to preserve liquidity and encourage suppliers and service providers to lower rates and prices in the event of a downturn.

## **Market Overview**

For the third year in a row the tanker market was very profitable, even if 2005 could not compete with 2004. The extreme volatility witnessed in rates during 2004 was experienced to a smaller extent in 2005. According to industry reports, the TCEs for a modern VLCC ranged between lows of \$24,000 per day and highs of \$130,000 in 2005.

Lack of spare oil production capacity drove crude oil prices to above \$70 per barrel and dampened the extremely strong growth in oil consumption of close to 4.0 per cent in 2004 to 1.3 per cent in 2005 according to the International Energy Agency ("IEA"). China continued its rapid economic growth in 2005 with GDP increasing 9.8 per cent though its annual growth in oil demand was down from 15.4 per cent in 2004 to 2.4 per cent in 2005. The hurricanes Katrina and Rita which hit the United States Gulf in August and September were each among the top five most powerful storms of all time and lead to damages to production platforms which caused additional ton-miles for the last quarter of 2005. It is estimated that hurricanes reduced United States production by 0.4 million barrels per day, as an average over the year. Geopolitical tension in Nigeria, Venezuela, Iraq, Iran and other parts of the Middle East seems to have had limited effect on their production as OPEC members increased their production by 3.2 per cent in 2005 compared to total world supply which increased 1.3 per cent.

The world VLCC fleet increased by 4.7 per cent in 2005 from 444 vessels to 465 vessels. Only one VLCC was scrapped during 2005 while eight were converted. A total of 30 VLCCs were delivered during the year. The total order book for VLCCs was at 92 vessels at the end of 2005, of which 35 were ordered during the year. The order book at the year end 2005 for VLCCs represented 19.8 per cent of the existing fleet.

A summary of average TCEs for our fleet is as follows:

| <i>(in \$ per day)</i> | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| VLCCs                  | 47,111      | 68,698      | 51,731      | 32,569      | 44,217      |

Net voyage revenues, a non-GAAP measure, provides more meaningful information to us than voyage revenues, the most directly comparable GAAP measure. Net voyage revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles our net voyage revenues to voyage revenues in 2005 and 2004.

| <i>(in thousands of \$)</i>    | <b>2005</b>   | <b>2004</b>   |
|--------------------------------|---------------|---------------|
| Voyage revenues                | 57,854        | 63,812        |
| Voyage expenses and commission | 16,459        | 14,240        |
| <b>Net voyage revenues</b>     | <b>41,395</b> | <b>49,572</b> |

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following is a discussion of the accounting policies applied by us that are considered to involve a higher degree of judgment in their application. See Note 2 to our audited Consolidated Financial Statements included herein for details of all of our material accounting policies.

#### *Revenue Recognition*

Revenues are generated from freight billings, time charter and bareboat charter hires. Time charter and bareboat charter revenues are recorded over the term of the charter as service is provided. Under a voyage charter the revenues and associated voyage costs are recognized rateably over the estimated duration of the voyage. The operating results of voyages in progress at a reporting date are estimated and recognized pro-rata on a per day basis. Probable losses on voyages are provided for in full at the time such losses can be estimated. Amounts receivable or payable arising from profit sharing arrangements are accrued based on the estimated results of the voyage recorded as at the reporting date.

#### *Vessels, Depreciation and Impairment*

Prior to the termination of the capital leases with the UK Lessor, the cost of our Vessels were depreciated on a straight-line basis over the Vessels' remaining economic useful lives. When the capital leases were terminated and the Vessels were transferred to new wholly owned subsidiaries, our estimate for depreciation was revised to include an estimate for the residual value of the Vessels at the end of their useful life. As a result, the Vessels are now being depreciated based on cost less estimated residual value over their useful life. Management estimates the useful life of the Company's Vessels to be 25 years. This is a common life expectancy applied in the shipping industry. If the estimated economic useful life is incorrect, or circumstances change and the estimated economic useful life has to be revised, an impairment loss could result in future periods and/or annual depreciation expense could be increased. Our Vessels are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Factors we consider important that could affect recoverability and trigger impairment include significant underperformance relative to expected operating results, new regulations that change the estimated useful economic lives of our Vessels and significant negative industry or economic trends. In assessing the recoverability of the Vessels' carrying amounts when an indicator of impairment is present, we must make assumptions regarding estimated future cash flows. These assumptions include assumptions about the spot market rates for Vessels, the revenues the Vessel could earn under time charter, voyage charter or bareboat charter, the operating costs of our Vessels and the estimated economic useful life of our Vessels. In making these assumptions, the Company refers to historical trends and performance as well as any known future factors. If our review indicates impairment, an impairment charge is recognized based on the difference between carrying value and fair value. Fair value is typically established using an average of three independent valuations.

## Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 ("SFAS 153"). APB Opinion No. 29 Accounting for Nonmonetary Transactions ("APB 29") provides that accounting for nonmonetary transactions should be measured based on the fair value of the assets exchanged but allows certain exceptions to this principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that don't have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and shall be applied prospectively. Adoption of SFAS 153 has not affected the Company's results to date.

In May 2005, the FASB issued Statement of Financial Accounting Standards 154 Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FAS 3 ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20 Accounting Changes and FAS 3 Reporting Accounting Changes in Interim Financial Statements. Previously, most changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income for the period of the change. SFAS 154 requires retrospective application of a change in accounting principle to prior periods unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change to any period. When it is impracticable to determine the period-specific effects of an accounting change, SFAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets) for that period rather than being reported in an income statement. SFAS 154 is applicable for all accounting changes and corrections of errors occurring in fiscal years beginning after December 15, 2005. The Company will apply SFAS 154 from January 1, 2006 on a prospective basis as required.

## Results of Operations

### *Year ended December 31, 2005 compared with year ended December 31, 2004*

#### Operating revenues

| <i>(in thousands of \$)</i>     | 2005           | 2004           | Change         |
|---------------------------------|----------------|----------------|----------------|
| Time charter revenues           | 42,325         | 42,113         | 0.5%           |
| Bareboat charter revenues       | -              | 29,770         | n/a            |
| Voyage charter revenues         | 57,854         | 63,812         | (9.3)%         |
| <b>Total operating revenues</b> | <b>100,179</b> | <b>135,695</b> | <b>(26.2)%</b> |

In March 2004, our long-term bareboat Charters with Shell International expired and the Vessels commenced trading under new employment regimes. Following the expiration of the Charters, three of our Vessels have been contracted under medium-term time charters, two of which include market related profit sharing arrangements and the remaining two Vessels are trading in the spot market and have been participating in a pooling arrangement with two similar vessels since the second quarter of 2005. Under the pooling agreement revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Pool revenues of \$36.8 are included in voyage charter revenues for the year ended December 31, 2005.

The decrease in total operating revenues in 2005 compared to 2004 is a result of a combination of the new employment regimes for our Vessels and the lower spot market rates experienced by the industry. The decrease in bareboat charter revenue from 2004 is explained by the expiration of the Charters. Time charter revenues were stable and reflect a full year of trading for three of our Vessels in 2005, compared with only nine months in 2004, offset by lower profit sharing revenues in 2005 due to the weaker spot market. The decrease in voyage charter revenues in 2005 also reflects a full years trading for two of our Vessels, offset by the weaker spot market.

## Operating expenses

| <i>(in thousands of \$)</i>    | 2005   | 2004   | Change  |
|--------------------------------|--------|--------|---------|
| Voyage expenses and commission | 16,459 | 14,240 | 15.6%   |
| Ship operating expenses        | 17,211 | 9,868  | 74.4%   |
| Administrative expenses        | 988    | 1,114  | (11.3)% |
| Depreciation                   | 17,120 | 17,219 | (0.6)%  |
| Total operating expenses       | 51,778 | 42,441 | 22.0%   |

The two Vessels that trade in the spot market generated 94.1 per cent of the voyage expenses and commission as substantially all of the vessel voyage costs associated with time charters are covered by the charterer. Under the bareboat charters that ended March 2004, all ship operating costs were paid by Shell International. Following the redelivery of the Vessels we are now responsible for the Vessels' operating expenses. The increase in ship operating expenses in 2005 is a result of a full year of expenses in 2005, compared with nine months in 2004, plus the fact that four of our five Vessels were drydocked in 2005. In addition to direct drydocking costs of approximately \$2.2 million, additional repairs and maintenance costs of \$3.1 million were incurred during these drydocking.

In 2005, the decrease in administration costs relates to shareholder and public relations and legal fees which were high in 2004 due to the costs associated with the termination of the Charters and shareholder meetings. The significant portions of administration costs for the Company are directors' fees, directors and officers insurance, shareholder and public relations, management fees and audit fees.

## Interest income and expenses

| <i>(in thousands of \$)</i> | 2005    | 2004    | Change  |
|-----------------------------|---------|---------|---------|
| Interest income             | 959     | 449     | 113.6%  |
| Interest expense            | (5,310) | (7,877) | (32.6)% |
| Net interest expense        | (4,351) | (7,428) | (41.4)% |

The significant increase in interest income during 2005 is a result of the increased use of short term deposits as a result of strong cash flows in late 2004 and early 2005. Since March 2004 the Company has not paid out all available cash as dividends, as cash reserves are being held to fund future operations.

Interest expense consists of interest paid in relation to the \$140.0 million loan facility, swap interest expense and the amortization of deferred financing charges incurred in connection with the debt. The decrease in interest expense in 2005 is primarily due to the expiration of an interest rate swap in August 2004 which had effectively fixed interest at a rate of 6.74 per cent per annum. Swap interest expense was \$4.5 million in 2004. Following the expiration of this swap our debt is all floating rate at LIBOR plus a margin. The benefit of the expiration of the swap has been partially offset as LIBOR has gradually increased during 2005. In 2005 loan interest was calculated at a rate of LIBOR + 1.0 per cent margin up to March 30, 2005 and the debt was renegotiated to LIBOR + 0.7 per cent for periods thereafter.

## *Year ended December 31, 2004 compared with year ended December 31, 2003*

### Operating revenues

| <i>(in thousands of \$)</i> | 2004    | 2003   | Change  |
|-----------------------------|---------|--------|---------|
| Time charter revenues       | 42,113  | -      | n/a     |
| Bareboat charter revenues   | 29,770  | 75,246 | (60.4)% |
| Voyage charter revenues     | 63,812  | -      | n/a     |
| Total operating revenues    | 135,695 | 75,246 | 52.6%   |

Total operating revenues increased significantly in 2004 as a result of the very strong tanker market compared to 2003. The decrease in bareboat charter revenue from 2003 is explained by the expiration of the Charters in March 2004. Following the expiration of the Charters, our two Vessels operating under medium-term time charters which

include market related profit sharing arrangements and the two Vessels trading in the spot market benefited from the strong market and this is reflected in both time charters and voyage charter revenues.

### Operating expenses

| <i>(in thousands of \$)</i>    | 2004   | 2003   | Change |
|--------------------------------|--------|--------|--------|
| Voyage expenses and commission | 14,240 | -      | n/a    |
| Ship operating expenses        | 9,868  | -      | n/a    |
| Administrative expenses        | 1,114  | 864    | 28.9%  |
| Depreciation                   | 17,219 | 17,593 | (2.1)% |
| Total operating expenses       | 42,441 | 18,457 | 129.9% |

The two Vessels trading in the spot market in 2004 accounted for 83.7 per cent of the voyage expenses and commission. Ship operating expenses increased in 2004 due the Vessels new employment regime following the expiration of the Charters and the Company becoming responsible for payment of operating expenses.

In February 2004 we amended our agreement with the Manager. The management fee was reduced to \$0.63 million per annum from \$0.75 million per annum. We are now responsible to pay for our administrative expenses, which in years prior to 2004 these were covered by the Manager. Of the \$0.63 million, 39 per cent is included in administrative expenses while the remainder is classified as a ship operating expense. In 2004 we incurred administration costs related to insurance, directors' fees, shareholder and public relations, legal fees, audit fees and other professional services. The significant portion of administration costs relates to directors' fees, shareholder and public relations, and management fees at \$0.19, \$0.55, and \$0.28 million respectively.

In March 2004, the capital leases were terminated and Vessels were transferred to new vessel owning subsidiaries and classified as owned vessels. Depreciation for owned vessels is calculated based on the stated costs less estimated residual value on a straight-line basis over the estimated useful life. Depreciation for vessels under capital lease was calculated based on the stated costs on a straight-line basis over the estimated useful life.

### Interest income and expenses

| <i>(in thousands of \$)</i> | 2004    | 2003    | Change  |
|-----------------------------|---------|---------|---------|
| Interest income             | 449     | 55      | 716%    |
| Interest expense            | (7,877) | (9,334) | (15.6)% |
| Net interest expense        | (7,248) | (9,279) | (21.9)% |

The increase in interest income in 2004 reflects the increased cash balance in 2004 due to the increase in operating revenues in the year and the higher level of cash reserves being retained by the Company to fund operations.

Interest expense consists of interest paid in relation to the primary loans made to us under the Credit Facility net of the hedging effects of the Company's interest rate swap agreement, interest paid in relation to the new \$140.0 million loan facility, and also the amortisation of deferred financing charges incurred in connection with the drawdown of debt. Interest expense decreased in 2004 with the refinancing of the \$125.4 million Credit Facility and the maturity of the interest rate swap which effectively fixed interest at a rate of 6.74 per cent per annum. Under the new \$140.0 million loan facility, in 2004 we paid interest at a rate of LIBOR + 1.0 per cent margin.

### Liquidity and Capital Resources

The Company operates in a capital intensive industry and has historically financed its purchase of tankers through a combination of equity capital and borrowings from commercial banks. Our ability to generate adequate cash flows on a short and medium term basis depends substantially on the trading performance of our Vessels in the market. Market rates for charters of our Vessels have been volatile historically. Periodic adjustments to the supply of and demand for oil tankers causes the industry to be cyclical in nature. We expect continued volatility in market rates for our Vessels in the foreseeable future with a consequent effect on our short and medium term liquidity.

During the term of the Charters, the Company had fixed base rate charterhire for all of its Vessels. In each quarter where the spot market related rate was higher than the base rate, the spot market related rate was paid. The Company had a fixed management fee and its administrative expenses were comprised principally of directors' and officers'

liability insurance. Due to the expiration of the Charters and the change in the Company's operations in 2004, the Company's revenues are more exposed to fluctuations in earnings in the spot market. These fluctuations may increase or decrease revenues compared to revenues under the Charters depending on prevailing spot market rates. This applies to the two Vessels trading in the spot market and the two Vessels that are on medium term time charters that include 50:50 profit sharing arrangements for earnings in excess of \$30,000 per day calculated by reference to the BITR Index.

The Company's operating expenses have increased following the expiration of the Charters in early 2004 as vessel operating expenses are now the responsibility of the Company. Administrative expenses have also increased since accordance with the terms of the Company's management agreement with the Manager, as amended, the Company became responsible for such costs from February 1, 2004.

At December 31, 2005 we estimated the cash breakeven average daily TCE rate of \$18,723 for our VLCCs. This represents the daily rate our Vessels must earn to cover payment of budgeted operating costs (including corporate overheads), estimated interest and scheduled loan principal repayments. These rates do not take into account loan balloon repayments at maturity. Based on the current strength of the tanker market, the Company believes that working capital is sufficient for the Company's present requirements.

Short-term liquidity requirements of the Company relate to servicing our debt, payment of operating costs, funding working capital requirements and maintaining cash reserves against fluctuations in operating cash flows. Sources of short-term liquidity include cash balances, restricted cash balances, short-term investments and receipts from our customers. Revenues from time charters are generally received monthly or fortnightly in advance while revenues from voyage charters are received upon completion of the voyage.

The Company's funding and treasury activities are conducted within corporate policies to maximize investment returns while maintaining appropriate liquidity for the Company's requirements. Cash and cash equivalents are held primarily in United States dollars.

Long-term liquidity requirements of the Company include funding the replacement of Vessels and the repayment of long-term debt balances. The Company's sources of capital have been the proceeds of its initial public offering, bank loans and the finance leases. The Company has had sufficient sources of income through the payment of charterhire by Shell International during the term of the Charters to pay ordinary recurring expenses that are not borne by the Manager and the Company expects that charterhire paid for time charters or in the spot market now that the Charters have expired will be sufficient sources of income for the Company to continue to pay ordinary recurring expenses including installments due under the Loan Agreement. However, there can be no assurance that the Company will be able to pay or refinance its borrowings when the Loan becomes due, or that it will not incur extraordinary expenses.

As of December 31, 2005, 2004, and 2003, the Company had cash and cash equivalents of \$12.6 million, \$31.7 million and \$6.3 million, respectively. As of December 31, 2005, 2004, and 2003, the Company had restricted cash balances of \$10.0 million, \$10.0 million and \$nil respectively. The restricted cash balance is a result of a minimum liquidity balance which we are required to maintain at all times in conjunction with our new \$140.0 million loan facility with the Royal Bank of Scotland.

During the year ended December 31, 2005 we paid total cash dividends of \$77.8 million. In the first quarter of 2006, we declared a cash dividend of \$1.00 per share for a total cash payment of \$17.1 million.

In March 2004, the Company refinanced its Credit Facility of \$125.4 million with the Loan of \$140.0 million, incurring expenses of \$0.01 million on the debt extinguishment. The Credit Facility did not have principal installments and was due for repayment in its entirety in August 2004. At the time of entering into the Credit Facility, the Company entered into an interest rate swap agreement that provided for a fixed rate payment of 6.74 per cent on notional principal of \$125.4 million, which matured in August 2004. The Company is obligated to repay the Loan in twenty-eight quarterly installments of \$2.8 million and a final installment of \$61.6 million on the last payment date. The Loan Agreement provides for payment of interest on the outstanding principal balance of the Loan, quarterly in arrears at the annual rate of LIBOR plus a margin. The Company has not entered into any interest rate swap agreements in respect to the variable rate on the Loan Agreement.

Although the Company's activities are conducted worldwide, the international shipping industry's functional currency is the United States Dollar and virtually all of the Company's operating revenues and most of its anticipated cash expenses are expected to be denominated in United States Dollars. Accordingly, the Company's operating revenues are not expected to be adversely affected by movements in currency exchange rates or the imposition of currency controls in the jurisdictions in which the vessels operate.

#### Tabular disclosure of contractual obligations

At December 31 2005, the Company had the following contractual obligations:

|                                    | Payment due by period |             |             |               | Total   |
|------------------------------------|-----------------------|-------------|-------------|---------------|---------|
|                                    | Less than 1 year      | 1 – 3 years | 3 – 5 years | After 5 years |         |
| <i>(In thousands of \$)</i>        |                       |             |             |               |         |
| Long-term debt obligations         | 11,200                | 22,400      | 22,400      | 64,400        | 120,400 |
| Total contractual cash obligations | 11,200                | 22,400      | 22,400      | 64,400        | 120,400 |

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below are the names and positions of the directors and executive officers of the Company.

#### The Company

| Name                | Age | Position  |
|---------------------|-----|---|
| Ola Lorentzon       | 56  | Director and Chairman                               |
| Tor Olav Trøim      | 43  | Director, Chief Executive Officer and Vice-Chairman |
| Douglas C. Wolcott  | 74  | Director and Audit Committee member                 |
| David M. White      | 65  | Director and Audit Committee Chairman               |
| Timothy J. Counsell | 47  | Director  |
| Kate Blankenship    | 41  | Chief Financial Officer and Secretary               |

Pursuant to the management agreement with the Company, the Manager provides management, and advisory services to the Company. Set forth below are the names and positions of the directors, executive officers and officers of the Manager.

| Name                | Age | Position   |
|---------------------|-----|--|
| Kate Blankenship    | 41  | Director and Chairman                              |
| Inger M. Klemp      | 43  | Director and Vice-Chairman                         |
| Cora Lee Starzomski | 33  | Director   |
| Oscar Spieler       | 45  | Chief Executive Officer of Frontline Management AS |

Directors of both the Company and the Manager are elected annually, and each director elected holds office until a successor is elected. Officers of both the Company and the Manager are elected from time to time by vote of the respective board of directors and hold office until a successor is elected. Certain biographical information with respect to each director and executive officer of the Company and the Manager is set forth below.

**Ola Lorentzon** has been a director of the Company since September 18, 1996 and Chairman since May 26, 2000. Mr. Lorentzon is also a director of Consafe Offshore AB and Erik Thun AB. Mr. Lorentzon was the Managing Director of Frontline Management AS, a subsidiary of Frontline, from April 2000 until September 2003. Mr. Lorentzon was a director of the United Kingdom Protection and Indemnity Club until 2002. Until 2000 Mr. Lorentzon was a director of The Swedish Protection and Indemnity Club (SAAF), Swedish Ships Mortgage Bank

and The Swedish Shipowners' Association, Deputy Chairman of the Liberian Shipowners Council and a member of the International Association of Tanker Owners (Intertanko) Council.

**Tor Olav Trøim** has been a director, Vice-Chairman and Chief Executive Officer of the Company since May 26, 2000. Mr. Trøim has been a director of Frontline since July 1, 1996. Since May 2001, Mr. Trøim has served as a director of Golar LNG Limited, a Bermuda company listed on the Oslo Stock Exchange and the NASDAQ National Market. He is a director of Aktiv Inkasso ASA, a Norwegian Oslo Stock Exchange listed company, and Golden Ocean Group Limited, a Bermuda company listed on the Oslo Stock Exchange. He is also Chief Executive Officer and a director of Ship Finance International Limited a Bermuda company listed on the New York Stock Exchange and is a director of SeaDrill Limited, a Bermuda company listed on the Oslo Stock Exchange. Prior to his service with Frontline, from January 1992, Mr. Trøim served as Managing Director and a member of the board of Directors of DNO AS, a Norwegian oil company.

**Douglas C. Wolcott** has been a director of the Company since September 18, 1996. Mr. Wolcott has also served as President of Chevron Shipping Corporation until 1994. Mr. Wolcott previously served as Deputy Chairman and Director of the United Kingdom Protection and Indemnity Club and as a director of London & Overseas Freighters Limited. He is currently a director of the American Bureau of Shipping.

**David M. White** has been a director of the Company since September 18, 1996. Mr. White was Chairman of Dan White Investment Limited which is now closed. Mr. White has also served as a director of NatWest Equity Primary Markets Limited from January 1992 to March 1996, and was previously a director of both NatWest Markets Corporate Finance Limited and NatWest Markets Securities Limited until December 1991.

**Timothy J. Counsell** has been a director of the Company since March 27, 1998. Mr. Counsell is a partner of the law firm of Appleby Spurling Hunter, Bermudian counsel to the Company and has been with that firm since 1990.

**Kate Blankenship** has been Chief Financial Officer of the Company since April 17, 2000 and Secretary of the Company since December 27, 2000. Mrs. Blankenship has been a director and Chairman of the Manager since March 2000. Mrs. Blankenship served as the Chief Accounting Officer and Secretary of Frontline between 1994 and October 2005. Mrs. Blankenship also serves as a director of Golar LNG Limited, Ship Finance International Limited, SeaDrill Limited and Golden Ocean Group Limited. She is a member of the Institute of Chartered Accountants in England and Wales.

**Inger M. Klemp** has served as Chief Financial Officer of Frontline Management AS since June 1, 2006. Mrs. Klemp has served as Vice President Finance from August 2001 until she was promoted. From 1992 to 2001 Mrs. Klemp served in various positions in Color Group ASA, a Norwegian cruise ferry operator. From 1989 to 1992 Mrs. Klemp served as Assistant Vice President in Nordea Bank Norge ASA (previously Christiania Bank).

**Cora Lee Starzomski** has been a director of the Manager since December 2004. Ms. Starzomski is a Chief Accountant with Frontline having joined the company in November 2001. She is a member of the Institute of Chartered Accountants in Canada.

**Oscar Spieler** has served as Chief Executive Officer of Frontline Management AS since October 2003, and prior to that time as Technical Director of Frontline Management AS since November 1999. From 1995 until 1999, Mr. Spieler served as Fleet Manager for Bergesen, a major Norwegian gas tanker and VLCC owner. From 1986 to 1995, Mr. Spieler worked with the Norwegian classification society DNV, working both with shipping and offshore assets.

## **B. COMPENSATION**

The Company incurred directors' fees for 2005 of \$255,000 in aggregate. In 2004, the Company incurred directors' fees of \$190,000 in aggregate. No separate compensation was paid to the Company's officers.

## C. BOARD PRACTICES

As provided in the Company's Bye-Laws, each Director shall hold office until the next Annual General Meeting following his election or until his successor is elected. The Officers of the Company are elected by the Board of Directors as soon as possible following each Annual General Meeting and shall hold office for such period and on such terms as the Board may determine.

The Company has established an audit committee comprised of Messrs. White and Wolcott, independent directors of the Company.

### **Board practices and exemptions from Nasdaq corporate governance rules**

We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of Bermuda. Therefore, we are exempt from many of Nasdaq's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification of material non-compliance with Nasdaq corporate governance practices and the establishment and composition of an audit committee and a formal written audit committee charter. The practices that we follow in lieu of Nasdaq's corporate governance rules are as follows:

- Our board of directors is currently comprised by a majority of independent directors. Under Bermuda law, we are not required to have a majority of independent directors and cannot assure you that we will continue to do so.
- In lieu of holding regular meetings at which only independent directors are present, our entire board of directors may hold regular meetings as is consistent with Bermuda law.
- In lieu of an audit committee comprised of three independent directors, our audit committee has two members, which is consistent with Bermuda law. Both members of the audit committee currently meet the Nasdaq requirement of independence.
- In lieu of a nomination committee comprised of independent directors, our board of directors is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. There is nothing to prohibit Shareholders identifying and recommending potential candidates to become board members, but pursuant to the bye-laws, directors are elected by the shareholders in duly convened annual or special general meetings.
- In lieu of a compensation committee comprised of independent directors, our board of directors is responsible for establishing the executive officers' compensation and benefits. Under Bermuda law, compensation of the executive officers is not required to be determined by an independent committee.
- In lieu of obtaining an independent review of related party transactions for conflicts of interests, consistent with Bermuda law requirements, our bye-laws do not prohibit any director from being a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested, provided that the director makes proper disclosure of same as required by the bye-laws and Bermuda law.
- Prior to the issuance of securities, we are required to obtain the consent of the Bermuda Monetary Authority as required by Bermuda law. We have obtained blanket consent from the Bermuda Monetary Authority for the issue and transfer of the Company's securities provided that such securities remain listed.
- Pursuant to Nasdaq corporate governance rules and as a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq. Bermuda law does not require that we solicit proxies or provide proxy statements to Nasdaq. Consistent with Bermuda law and as provided in our bye-laws, we are also required to notify our shareholders of meetings no less than 5 days before the meeting. Our bye-laws also provide that shareholders may designate a proxy to act on their behalf.

Other than as noted above, we are in full compliance with all other applicable Nasdaq corporate governance standards.

## **D. EMPLOYEES**

The Company has not had any employees since inception as the Manager is responsible for the management and administration of the Company.

## **E. SHARE OWNERSHIP**

As of June 1, 2006, none of the directors or officers of the Company owned any Common Shares of the Company.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. MAJOR SHAREHOLDERS**

The Company is not directly or indirectly controlled by another corporation, by a foreign government or by any other natural or legal person. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

The Company is not aware of any person who owns more than five per cent of the Company's outstanding common shares as of June 1, 2006.

### **B. RELATED PARTY TRANSACTIONS**

Not Applicable

### **C. INTERESTS OF EXPERTS AND COUNSEL**

Not Applicable

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18.

#### **Legal Proceedings**

To the best of the Company's knowledge, there are no legal or arbitration proceedings existing or pending which have had or may have, significant effects on the Company's financial position or profitability and no such proceedings are pending or known to be contemplated by governmental authorities.

#### **Dividend Policy**

Prior to the termination of the Charters, the Company's policy was to pay quarterly distributions to holders of record of Common Shares in each January, April, July and October in amounts substantially equal to the charterhire received by the Company under the Charters, less cash expenses and less any reserves required in respect of any contingent liabilities. Subsequent to the redelivery of our Vessels from Shell International, our policy continues to be to make quarterly distributions to shareholders based on the Company's earnings and cash flow. These distributions are expected to be a minimum of \$1.00 dollar per share per year. However, the amount and timing of dividends will depend on the Company's earnings, financial condition, cash position, Bermuda law affecting the payment of distributions and other factors. The Company may not be able to make distributions in quarters where earnings are low and where cash flow is insufficient. The Company's financing may also restrict distributions in certain circumstances.

There can be no assurance that the Company will not have expenses, including extraordinary expenses, which could include costs of claims and related litigation expenses or that the Company will not have contingent liabilities for which reserves are required. As an "exempted" Bermuda company, the Company does not expect to pay any income taxes in Bermuda. The Company also does not expect to pay any income taxes in the Republic of Liberia (the

jurisdiction of organization of the New Subsidiaries) or the Republic of the Marshall Islands (the jurisdiction in which the Vessels are registered).

In 2005, 2004 and 2003, the Company paid the following distributions to shareholders.

| <b>RECORD DATE</b> | <b>PAYMENT DATE</b> | <b>AMOUNT PER SHARE</b> |
|--------------------|---------------------|-------------------------|
| <b>2005</b>        |                     |                         |
| February 14, 2005  | March 11, 2005      | \$1.75                  |
| May 17, 2005       | June 1, 2005        | \$1.50                  |
| August 12, 2005    | September 6, 2005   | \$0.80                  |
| November 11, 2005  | December 5, 2005    | \$0.50                  |
| <b>2004</b>        |                     |                         |
| January 23, 2004   | February 10, 2004   | \$0.80                  |
| May 24, 2004       | June 7, 2004        | \$2.00                  |
| August 13, 2004    | August 27, 2004     | \$0.75                  |
| November 15, 2004  | November 29, 2004   | \$1.00                  |
| <b>2003</b>        |                     |                         |
| January 27, 2003   | February 7, 2003    | \$0.45                  |
| April 25, 2003     | May 8, 2003         | \$1.19                  |
| July 25, 2003      | August 8, 2003      | \$0.65                  |
| October 25, 2003   | November 10, 2003   | \$0.45                  |

#### **B. SIGNIFICANT CHANGES**

Not applicable

#### **ITEM 9. THE OFFER AND LISTING**

Not applicable except for Item 9.A.4. and Item 9.C

The following table sets forth, for the five most recent fiscal years during which the Company's Common Shares were traded on the NASDAQ National Market, the annual high and low closing prices for the Common Shares as reported by the NASDAQ National Market.

| <b>FISCAL YEAR ENDED DECEMBER 31</b> | <b>HIGH</b> | <b>LOW</b> |
|--------------------------------------|-------------|------------|
| 2005                                 | \$47.50     | \$23.76    |
| 2004                                 | \$39.25     | \$12.52    |
| 2003                                 | \$17.56     | \$8.45     |
| 2002                                 | \$18.85     | \$11.51    |
| 2001                                 | \$27.80     | \$14.32    |

The following table sets forth, for the two most recent fiscal years, the high and low closing prices for the Common Shares as reported by the NASDAQ National Market.

| <b>FISCAL YEAR ENDED DECEMBER 31, 2005</b> | <b>HIGH</b> | <b>LOW</b> |
|--|-------------|------------|
| First quarter                              | \$41.74     | \$28.00    |
| Second quarter                             | \$47.50     | \$35.98    |
| Third quarter                              | \$43.37     | \$35.95    |
| Fourth quarter                             | \$37.05     | \$23.76    |

| <b>FISCAL YEAR ENDED DECEMBER 31, 2004</b> | <b>HIGH</b> | <b>LOW</b> |
|--|-------------|------------|
| First quarter                              | \$21.29     | \$12.52    |
| Second quarter                             | \$29.67     | \$16.65    |
| Third quarter                              | \$33.26     | \$24.50    |
| Fourth quarter                             | \$39.25     | \$29.06    |

The following table sets forth, for the most recent six months, the high and low closing prices for the Common Shares as reported by the NASDAQ National Market.

| <b>Month</b>  | <b>HIGH</b> | <b>LOW</b> |
|---------------|-------------|------------|
| May 2006      | \$27.02     | \$22.50    |
| April 2006    | \$28.80     | \$24.53    |
| March 2006    | \$26.55     | \$23.98    |
| February 2006 | \$28.29     | \$25.00    |
| January 2006  | \$26.90     | \$23.90    |
| December 2005 | \$29.91     | \$23.76    |

The Company's Common Shares have been quoted on the NASDAQ National Market under the symbol "VLCCF" since its initial public offering in February 1997.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

Not Applicable

### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Incorporated by reference to "Description of Capital Stock" in the prospectus contained in the Company's Registration Statement on Form F-1, filed December 13, 1996 (File No. 333-6170).

At the 2005 Annual General Meeting of the Company the shareholders voted to amend the Company's Bye-Laws 83 and 85 by removing the restrictions that limited the Company's business activities. The changes to the Bye-Laws removed restrictions on the Company's activities such as rechartering the Vessels, refinancing or replacing the credit facility, acting in connection with the management agreement, offering Common Shares and listing them, enforcing its rights in connection with the Charters, the Credit Facility, the UK Finance Leases, the management agreement and other agreements into which the Company and its subsidiaries entered at the time of its initial public offering, and leasing, selling or otherwise disposing of the Vessels (or Vessel owning subsidiaries) on termination of the Charters or subsequent charters. These amended Bye-Laws of the Company as adopted by shareholders on June 27, 2005 are filed as Exhibit 4.2 to this Annual Report.

### **C. MATERIAL CONTRACTS**

On March 2, 2004, the Company, as borrower, and the New Subsidiaries, as new owners, entered into the Loan Agreement with The Royal Bank of Scotland plc, as lender (the "Lender"), pursuant to which the Company borrowed \$140.0 million, in the form of five loans of \$28 million each in respect of a Vessel (together, the "Loan"). The Company is obligated to repay the Loan in twenty-eight quarterly installments of \$2.8 million and a final installment of \$61.6 million on the last payment date. The Loan Agreement provides for payment of interest on the outstanding principal balance of the Loan, quarterly in arrears, at the annual rate of 1.0 per cent plus LIBOR up to March 2005 and 0.7 per cent plus LIBOR thereafter. If a New Subsidiary sells or disposes of the related Vessel, the Company will be obligated to make a loan prepayment which will be applied against the principal balance of the Loan relating to the Vessel. The Loan Agreement is secured by, among other things, a guarantee from each New Subsidiary, a mortgage on each Vessel and an assignment of any charter with respect to a Vessel. The failure by the

Company to make payments due and payable under the Loan Agreement could result in the acceleration of all principal and interest on the Loan Agreement, the enforcement by the Lender of its rights with respect to the security therefore, and the consequent forfeiture by the Company of one or more of the Vessels. The Loan Agreement also provides for other customary events of default.

The Loan Agreement contains a number of covenants made by the Company and each of the New Subsidiaries that, among other things, restrict the ability of the Company to incur additional indebtedness, pay dividends if the Company is in default, create liens on assets or dispose of assets. In addition, the Company and the relevant New Subsidiary is subject to additional covenants pursuant to the Loan Agreement pertaining primarily to the maintenance and operation of each of the Vessels.

#### **D. EXCHANGE CONTROLS**

The Company has been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority, whose permission for the issue of the Common Shares was obtained prior to the offering thereof.

The transfer of shares between persons regarded as resident outside Bermuda for exchange control purposes and the issuance of Common Shares to or by such persons may be effected without specific consent under the Bermuda Exchange Control Act of 1972 and regulations thereunder. Issues and transfers of Common Shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Bermuda Exchange Control Act 1972.

Subject to the foregoing, there are no limitations on the rights of owners of the Common Shares to hold or vote their shares. Because the Company has been designated as non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the Common Shares, other than in respect of local Bermuda currency.

In accordance with Bermuda law, share certificates may be issued only in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

The Company will take no notice of any trust applicable to any of its shares or other securities whether or not it had notice of such trust.

As an "exempted company", the Company is exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, the Company may not participate in certain business transactions including: (i) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Finance of Bermuda; (iii) the acquisition of securities created or issued by, or any interest in, any local company or business, other than certain types of Bermuda government securities or securities of another "exempted company, exempted partnership or other corporation or partnership resident in Bermuda but incorporated abroad; or (iv) the carrying on of business of any kind in Bermuda, except in so far as may be necessary for the carrying on of its business outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

There is a statutory remedy under Section 111 of the Companies Act 1981 which provides that a shareholder may seek redress in the Bermuda courts as long as such shareholder can establish that the Company's affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder. However, this remedy has not yet been interpreted by the Bermuda courts.

The Bermuda government actively encourages foreign investment in "exempted" entities like the Company that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, the Company is subject neither to taxes on its income or dividends nor to any exchange

controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by the Company, as required, without limitation. There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income other than applicable to insurance enterprises.

## **E. TAXATION**

### **Bermuda Taxation**

The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not subject to tax on income or capital gains, and no Bermuda withholding tax will be imposed upon payments of dividends by the Company to its shareholders. No Bermuda tax is imposed on holders with respect to the sale or exchange of Common Shares. Furthermore, the Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, appreciation, or any tax in the nature of an estate, duty or inheritance tax, then the imposition of any such tax shall not be applicable. The assurance further provides that such taxes, and any tax in the nature of estate duty or inheritance tax, shall not be applicable to the Company or any of its operations, nor to the shares, debentures or other obligations of the Company, until March 2016.

There are no provisions of any reciprocal tax treaty between Bermuda and the United States affecting withholding.

### **United States Taxation**

The following discussion is based upon the provisions of the United States Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed United States Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. Unless otherwise noted, references to the "Company" include the Company's Subsidiaries. This discussion assumes that we do not have an office or other fixed place of business in the United States.

### **Taxation of the Company's Shipping Income: In General**

The Company anticipates that it will derive substantially all of its gross income from the use and operation of vessels in international commerce and that this income will principally consist of freights from the transportation of cargoes, hire or lease from time or voyage charters and the performance of services directly related thereto, which the Company refers to as "shipping income."

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered to be 50 per cent derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100 per cent derived from sources within the United States. The Company is not permitted to engage in transportation that gives rise to 100 per cent United States source income.

Shipping income attributable to transportation exclusively between non-United States ports will be considered to be 100 per cent derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to United States federal income tax.

Based upon the Company's anticipated shipping operations, the Company's vessels will operate in various parts of the world, including to or from United States ports. Unless exempt from United States taxation under Section 883 of the Code ("Section 883"), the Company will be subject to United States federal income taxation, in the manner discussed below, to the extent its shipping income is considered derived from sources within the United States.

Final regulations interpreting Section 883 were promulgated by the United States Treasury Department in August 2003, which the Company refers to as the "final regulations." The final regulations became effective for calendar year taxpayers such as the Company and its subsidiaries beginning with the calendar year 2005.

### **Application of Code Section 883**

Under the relevant provisions of Section 883, the Company will be exempt from United States taxation on its United States source shipping income if:

- (i) It is organized in a qualified foreign country which is one that grants an equivalent exemption from tax to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883 (a “qualified foreign country”) and which the Company refers to as the “country of organization requirement”; and
- (ii) It can satisfy any one of the following two (2) stock ownership requirements for more than half the days during the taxable year:
  - the Company’s stock is “primarily and regularly” traded on an established securities market located in the United States or a qualified foreign country, which the Company refers to as the “Publicly-Traded Test”; or
  - more than 50 per cent of the Company’s stock, in terms of value, is beneficially owned by any combination of one or more individuals who are residents of a qualified foreign country or foreign corporations that satisfy the country of organization requirement and the Publicly-Traded Test, which the Company refers to as the “50 per cent Ownership Test.”

The United States Treasury Department has recognized Bermuda, the country of incorporation of the Company as a qualified foreign country. In addition, the United States Treasury Department has recognized Liberia and the Cayman Islands, the countries of incorporation of certain of the Company’s subsidiaries, as qualified foreign countries. Accordingly, the Company and its vessel owning subsidiaries satisfy the country of organization requirement.

Therefore, the Company’s eligibility to qualify for exemption under Section 883 is wholly dependent upon being able to satisfy one of the stock ownership requirements.

For the 2005 tax year, the Company satisfied the Publicly-Traded Test since, on more than half the days of the taxable year, the Company’s stock was primarily and regularly traded on the Nasdaq National Market.

### **Taxation in Absence of Internal Revenue Code Section 883 Exemption**

To the extent the benefits of Section 883 are unavailable with respect to any item of United States source income, the Company’s United States source shipping income, would be subject to a 4 per cent tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since under the sourcing rules described above, no more than 50 per cent of the Company’s shipping income would be treated as being derived from United States sources, the maximum effective rate of United States federal income tax on the Company’s shipping income would never exceed 2 per cent under the 4 per cent gross basis tax regime.

### **Gain on Sale of Vessels**

Regardless of whether the Company qualifies for exemption under Section 883, it will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by the Company will be considered to occur outside of the United States.

### **PFIC Status**

It is expected that any cash distributions by the Company will exceed the Company's earnings and profits for United States tax purposes, with the result that for each full year that the Charters are in place a portion of such distributions may be treated as a return of the "basis" of a United States holder's Common Shares. The Company was a passive foreign investment company (“PFIC”) through its 2003 taxable year. Beginning with its 2004 taxable year, the Company ceased to be a PFIC as a result of the expiration of the Shell International charters on February 27, 2004.

The Company was not a PFIC for United States federal income tax purposes in the 2005 taxable year and does not anticipate being a PFIC in future years, although there is no assurance that this will be the case. Assuming that the Company is not a PFIC, dividends paid by the Company to a non-corporate United States shareholder will generally be treated as “qualified dividend income” that is taxable to such shareholders at preferential United States federal income tax rates (currently through 2010) provided that the non-corporate United States shareholder satisfies certain holding period and other requirements. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a United States shareholder.

#### **F. DIVIDENDS AND PAYING AGENTS**

Not Applicable

#### **G. STATEMENT BY EXPERTS**

Not Applicable

#### **H. DOCUMENTS ON DISPLAY**

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits may be inspected and copied at the public reference facilities maintained by the Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549 and at 500 West Madison Street, Suite 1400, Northwestern Atrium Center, Chicago, Illinois 60661 and are also available on our website located at [www.knightsbridgetankers.com](http://www.knightsbridgetankers.com). You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. 20549. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at the Company's headquarters at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda.

#### **I. SUBSIDIARY INFORMATION**

Not Applicable

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates primarily resulting from the floating rate of the Company's borrowings. The Company does not currently utilise interest rate swaps to manage such interest rate risk. The Company has not entered into any financial instruments for speculative or trading purposes.

The Company's borrowings under its loan facility at December 31, 2005 of \$120.4 million (December 31, 2004: \$131.6 million) bear interest at an annual rate of LIBOR plus a margin of 0.7 per cent. A one per cent change in interest rates would increase or decrease interest expense by \$1.2 million per year as of December 31, 2005. The fair value of the loan facility at December 31, 2005 was equal to the carrying amount of the facility at the same date.

#### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Neither we nor any of our subsidiaries have been subject to a material default in the payment of principal, interest, a sinking fund or purchase fund installment or any other material default that was not cured within 30 days. In addition, the payment of our dividends are not, and have not been in arrears or have not been subject to a material delinquency that was not cured within 30 days.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

### ITEM 15. CONTROLS AND PROCEDURES

#### (a) Disclosure of Controls and Procedures

As of December 31, 2005 the Company carried out an evaluation, under the supervision and with the participation of the Company's manager ICB Shipping (Bermuda) Limited, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in alerting them timely to material information relating to the Company required to be included in the Company's periodic SEC filings.

#### (b) Management's Annual Report on Internal Control over Financial Reporting

Not Applicable

#### (c) Attestation report of the registered public accounting firm

Not Applicable

#### (d) Changes in Internal Controls over Financial Reporting

There have been no changes in internal controls over financial reporting (identified in connection with management's evaluation of such internal controls over financial reporting) that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

### ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that the Company's Audit Committee has one Audit Committee Financial Expert. Mr. David White is an independent director and is the Audit Committee Financial Expert.

### ITEM 16 B. CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to all entities controlled by the Company and all employees, directors, officers and agents of the Company, including representatives and agents of the Company's manager, ICB Shipping (Bermuda) Limited. The Code of Ethics has previously been filed as Exhibit 11.1 to the Company's Annual Report on Form 20-F for the fiscal year ended December 31 2003, filed with the Securities and Exchange Commission on June 2, 2004, and is hereby incorporated by reference into this Annual Report.

The Company has posted a copy of its Code of Ethics on its website at [www.knightsbridgetankers.com](http://www.knightsbridgetankers.com). The Company will provide any person, free of charge, a copy of its Code of Ethics upon written request to the Company's registered office.

#### **ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our principal accountant for 2005 and 2004 was Moore Stephens P.C. The following table sets forth for the two most recent fiscal years the fees paid or accrued for audit and services provided by our principal accounts in each year respectively.

| <i>(in \$)</i>         | <b>2005</b>   | <b>2004</b>    |
|------------------------|---------------|----------------|
| Audit Fees (a)         | <b>96,540</b> | <b>100,000</b> |
| Audit-Related Fees (b) | -             | -              |
| Tax Fees (c)           | -             | <b>5,500</b>   |
| All Other Fees (d)     | -             | -              |
| Total                  | <b>96,540</b> | <b>105,500</b> |

**(a) Audit Fees**

Audit fees represent professional services rendered for the audit of the Company's annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements.

**(b) Audit –Related Fees**

Audit-related fees consisted of assurance and related services rendered by the principal accountant related to the performance of the audit or review of the Company's financial statements which have not been reported under Audit Fees above.

**(c) Tax Fees**

Tax fees represent fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

**(d) All Other Fees**

All other fees include services other than audit fees, audit-related fees and tax fees set forth above.

The Company's Audit Committee has adopted pre-approval policies and procedures in compliance with paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X that require the Audit Committee to approve the appointment of the independent auditor of the Company before such auditor is engaged and approve each of the audit and non-audit related services to be provided by such auditor under such engagement by the Company. All services provided by the principal auditor in 2005 were approved by the Audit Committee pursuant to the pre-approval policy.

#### **ITEM 16 D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable

#### **ITEM 16 E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not Applicable

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

Not Applicable

#### ITEM 18. FINANCIAL STATEMENTS

The following financial statements listed below and set forth on pages F-1 through F-14 are filed as part of this annual report:

##### Financial Statements for Knightsbridge Tankers Limited

|  |     |
|--|-----|
| Index to Consolidated Financial Statements of Knightsbridge Tankers Limited  | F-1 |
| Report of Independent Registered Public Accounting Firm  | F-2 |
| Report of Independent Registered Public Accounting Firm  | F-3 |
| Consolidated Statements of Operations<br>for the years ended December 31, 2005, 2004 and 2003                      | F-4 |
| Consolidated Balance Sheets as of<br>December 31, 2005 and 2004  | F-5 |
| Consolidated Statements of Cash Flows<br>for the years ended December 31, 2005, 2004 and 2003                      | F-6 |
| Consolidated Statements of Changes in<br>Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003 | F-7 |
| Notes to Consolidated Financial Statements   | F-8 |

#### ITEM 19. EXHIBITS

Number Description of Exhibit

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|       |   |
|-------|---|
| 1     | Underwriting Agreement among Knightsbridge Tankers Limited (the "Company"), Cedarhurst Tankers LDC ("Cedarhurst"), Hewlett Tankers LDC ("Hewlett"), Inwood Tankers LDC ("Inwood"), Lawrence Tankers LDC ("Lawrence") and Woodmere Tankers LDC ("Woodmere") (each of Cedarhurst, Hewlett, Inwood, Lawrence and Woodmere a "Subsidiary" and collectively the "Subsidiaries"), Lazard Freres & Co. LLC and Goldman, Sachs & Co., as representatives for the U.S. underwriters (the "Representatives"), ICB Shipping (Bermuda) Limited (the "Manager") and ICB International Ltd. ("ICB International")** |
| 4.1   | Memorandum of Association of the Company*   |
| 4.2   | Amended Bye-Laws of the Company dated June 27, 2005.  |
| 4.2.1 | Execution version of Bareboat Charter dated February 12, 1997 between Woodmere and Shell International Petroleum Company Limited ("SIPC") relating to the M.T. Myrina.**  |
| 4.2.2 | Execution version of Bareboat Charter dated February 12, 1997 between Hewlett and SIPC relating to the M.T. Megara.**   |

- 4.2.3 Execution version of Bareboat Charter dated February 12, 1997 between Inwood and SIPC relating to the M.T. Murex.\*\*
- 4.2.4 Execution version of Bareboat Charter dated February 12, 1997 between Lawrence and SIPC relating to the M.T. Macoma.\*\*
- 4.2.5 Execution version of Bareboat Charter dated February 12, 1997 between Cedarhurst and SIPC relating to the M.T. Magdala.\*\*
- 4.3.1 Execution version of Charter Guaranty dated February 12, 1997 made by Shell Petroleum N.V. ("SPNV") and The Shell Petroleum Company Limited ("SPCo") (collectively the "Guarantors") in favor of Woodmere relating to the M.T. Myrina.\*\*
- 4.3.2 Execution version of Charter Guaranty dated February 12, 1997 made by the Guarantors in favor of Hewlett relating to the M.T. Megara.\*\*
- 4.3.3 Execution version of Charter Guaranty dated February 12, 1997 made by the Guarantors in favor of Inwood relating to the M.T. Murex.\*\*
- 4.3.4 Execution version of Charter Guaranty dated February 12, 1997 made by the Guarantors in favor of Lawrence relating to the M.T. Macoma.\*\*
- 4.3.5 Execution version of Charter Guaranty dated February 12, 1997 made by the Guarantors in favor of Cedarhurst relating to the M.T. Magdala.\*\*
- 4.3.6 Execution version of Pooling Agreement dated February 27, 1997 among the Subsidiaries as owners, and Shell International Trading and Shipping Company Limited on behalf of SIPC (collectively the "Charterers") relating to the fleet spares.\*\*
- 4.4 Execution version of Charter Guaranty dated February 12, 1997 made by the Guarantors in favor of the Company.\*\*
- 4.5.1 Execution version of Management Agreement dated February 12, 1997 between the Manager and the Company (incorporated by reference from Exhibit 10.5 of the Registration Statement).\*\*
- 4.5.2 Execution version of Amendment No. 1 to Management Agreement and Accession Agreement dated [March 1, 2004] between the Manager and the Company.
- 4.6.1 Memorandum of Agreement dated October 24, 1996 among Ocala Shipping Limited ("Ocala"), the Charterers and Shell Tankers (UK) Limited ("STUK"), as buyer, relating to the M.T. Myrina (incorporated by reference from Exhibit 10.6 of the Registration Statement).\*\*
- 4.6.2 Memorandum of Agreement dated October 24, 1996 among Kerbela Shipping Corp. ("Kerbela") the Charterers and STUK relating to the M.T. Megara (incorporated by reference from Exhibit 10.7 of the Registration Statement).\*\*
- 4.6.3 Memorandum of Agreement dated October 24, 1996 among Trevoise Shipping Corp. ("Trevoise"), the Charterers and STUK relating to the M.T. Murex (incorporated by reference from Exhibit 10.8 of the Registration Statement).\*\*
- 4.6.4 Memorandum of Agreement dated October 24, 1996 among Tourmaline Shipping Limited ("Tourmaline"), the Charterers and STUK relating to the M.T. Macoma (incorporated by reference from Exhibit 10.9 of the Registration Statement).\*\*
- 4.6.5 Memorandum of Agreement dated October 24, 1996 among Fluid Navigation Ltd. ("Fluid"), the Charterers and STUK relating to the M.T. Magdala (incorporated by reference from Exhibit 10.10 of the Registration Statement).\*\*

- 4.7.1 Assignment Agreement dated November 25, 1996 from STUK and Shell International Trading & Shipping Company Limited to the Company and the Subsidiaries relating to the relevant Memorandum of Agreement (incorporated by reference from Exhibit 10.11 of the Registration Statement).\*\*
- 4.7.2 Assignment of Rights dated February 27, 1997 between Ocala as seller and Woodmere as buyer relating to the M.T. Myrina.\*\*
- 4.7.3 Assignment of Rights dated February 27, 1997 between Kerbela as seller and Hewlett as buyer regarding the M.T. Megara.\*\*
- 4.7.4 Assignment of Rights dated February 27, 1997 between Trevoise as seller and Inwood as buyer regarding the M.T. Murex.\*\*
- 4.7.5 Assignment of Rights dated February 27, 1997 between Tourmalene as seller and Lawrence as buyer regarding the M.T. Macoma.\*\*
- 4.7.6 Assignment of Rights dated February 27, 1997 between Fluid as seller and Cedarhurst as buyer regarding the M.T. Magdala.\*\*
- 4.8.1 Execution version of Letter Agreement dated February 6, 1997 among the Company, SIPC, ICB International, the Subsidiaries and the Manager (incorporated by reference from Exhibit 10.12.1 of the Registration Statement).\*\*
- 4.8.2 Execution version of Letter Agreement dated February 6, 1997 among the Company, the Manager, ICB International, SIPC and the Guarantors (incorporated by reference from Exhibit 10.12.2 of the Registration Statement).\*\*
- 4.9 UK Finance Lease Transaction Offer Letter dated November 12, 1996 made by National Westminster Bank Plc in favor of the Company and SIPC (incorporated by reference from Exhibit 10.13 of the Registration Statement).\*\*
- 4.10.1 Conditional Sale Agreement dated November 25, 1996 between NatWest Leasing (GB) Limited ("NLL") and Woodmere relating to the M.T. Myrina (incorporated by reference from Exhibit 10.14 of the Registration Statement).\*\*
- 4.10.2 Conditional Sale Agreement dated November 25, 1996 between NLL and Hewlett relating to the M.T. Megara (incorporated by reference from Exhibit 10.15 of the Registration Statement).\*\*
- 4.10.3 Conditional Sale Agreement dated November 25, 1996 between NLL and Inwood relating to the M.T. Murex (incorporated by reference from Exhibit 10.16 of the Registration Statement).\*\*
- 4.10.4 Conditional Sale Agreement dated November 25, 1996 between NLL and Lawrence relating to the M.T. Macoma (incorporated by reference from Exhibit 10.17 of the Registration Statement).\*\*
- 4.10.5 Conditional Sale Agreement dated November 25, 1996 between NLL and Cedarhurst relating to the M.T. Magdala (incorporated by reference from Exhibit 10.18 of the Registration Statement).\*\*
- 4.11.1 Execution version of Charterparty by way of Demise dated February 12, 1997 between NLL as lessor and Woodmere as leasee relating to the M.T. Myrina.\*\*
- 4.11.2 Execution version of Charterparty by Way of Demise dated February 12, 1997 between NLL as lessor and Hewlett as leasee relating to the M.T. Megara.\*\*
- 4.11.3 Execution version of Charterparty by Way of Demise dated February 12, 1997 between NLL as lessor and Inwood as leasee relating to the M.T. Murex.\*\*
- 4.11.3(a) Amendment Agreement to the Charterparty by Way of Demise dated February 27, 1997 among NLL, Inwood and SIPC.\*\*

- 4.11.4 Execution version of Charterparty by Way of Demise dated February 12, 1997 between NLL as lessor and Lawrence as leasee relating to the M.T. Macoma.\*\*
- 4.11.5 Execution version of Charterparty by Way of Demise dated February 12, 1997 between NLL as lessor and Cedarhurst as leasee relating to the M.T. Magdala.\*\*
- 4.12.1 Execution version of Direct Support Agreement dated February 12, 1997 among NLL as lessor, SIPC and Woodmere as leasee.\*\*
- 4.12.2 Execution version of Direct Support Agreement dated February 12, 1997 among NLL as lessor, SIPC and Hewlett as leasee.\*\*
- 4.12.3 Execution version of Direct Support Agreement dated February 12, 1997 among NLL as lessor, SIPC and Inwood as leasee.\*\*
- 4.12.4 Execution version of Direct Support Agreement dated February 12, 1997 among NLL as lessor, SIPC and Lawrence as leasee.\*\*
- 4.12.5 Execution version of Direct Support Agreement dated February 12, 1997 among NLL as lessor, SIPC and Cedarhurst as leasee.\*\*
- 4.13 Execution version of Lessor Direct Agreement dated February 12, 1997 among the Company as borrower, the Subsidiaries as leasees, NLL as lessor and GSI.\*\*
- 4.13(a) Amendment Agreement to the Lessor Direct Agreement dated February 27, 1997 among the Company as borrower, the Subsidiaries as leasees, NLL as lessor and The Royal Bank of Scotland Plc ("RBS") as agent.\*\*
- 4.14.1 Execution version of Lessor Mortgage and Assignment dated February 12, 1997 from NLL as chargor to Woodmere as chargee.\*\*
- 4.14.2 Execution version of Lessor Mortgage and Assignment dated February 12, 1997 from NLL as chargor to Hewlett as chargee.\*\*
- 4.14.3 Execution version of Lessor Mortgage and Assignment dated February 12, 1997 from NLL as chargor to Inwood as chargee.\*\*
- 4.14.4 Execution version of Lessor Mortgage and Assignment dated February 12, 1997 from NLL as chargor to Lawrence as chargee.\*\*
- 4.14.5 Execution version of Lessor Mortgage and Assignment dated February 12, 1997 from NLL as chargor to Cedarhurst as chargee.\*\*
- 4.15.1 Execution version of Deposit Agreement and Deposit Charge dated February 12, 1997 between Woodmere as leasee and Midland Bank PLC as a letter of credit issuing bank ("Midland").\*\*
- 4.15.2 Execution version of Deposit Agreement and Deposit Charge dated February 12, 1997 between Hewlett as leasee and Midland.\*\*
- 4.15.3 Execution version of Deposit Agreement and Deposit Charge dated February 12, 1997 between Inwood as leasee and Royal Bank of Canada Europe Limited as a letter of credit issuing bank ("RBC").\*\*
- 4.15.4 Execution version of Deposit Agreement and Deposit Charge dated February 12, 1997 between Lawrence as leasee and National Australia Bank Limited as a letter of credit issuing bank ("NAB").\*\*
- 4.15.5 Execution version of Deposit Agreement and Deposit Charge dated February 12, 1997 between Cedarhurst as leasee and NAB.\*\*

- 4.16.1 Execution version of Irrevocable Standby Letter of Credit by Midland in favor of Woodmere as leasee.\*\*
- 4.16.2 Execution version of Irrevocable Standby Letter of Credit by Midland in favor of Hewlett as leasee.\*\*
- 4.16.3 Execution version of Irrevocable Standby Letter of Credit by RBC in favor of Inwood as leasee.\*\*
- 4.16.4 Execution version of Irrevocable Standby Letter of Credit by NAB in favor of Lawrence as leasee.\*\*
- 4.16.5 Execution version of Irrevocable Standby Letter of Credit by NAB in favor of Cedarhurst as leasee.\*\*
- 4.17.1 Execution version of Reimbursement Agreement dated February 12, 1997 between Woodmere as leasee and Midland.\*\*
- 4.17.2 Execution version of Reimbursement Agreement dated February 12, 1997 between Hewlett as leasee and Midland.\*\*
- 4.17.3 Execution version of Reimbursement Agreement dated February 12, 1997 between Inwood as leasee and RBC.\*\*
- 4.17.4 Execution version of Reimbursement Agreement dated February 12, 1997 between Lawrence as leasee and NAB.\*\*
- 4.17.5 Execution version of Reimbursement Agreement dated February 12, 1997 between Cedarhurst as leasee and NAB.\*\*
- 4.18.1 Execution version of Residual Obligation Agreement dated February 12, 1997 between SIPC as obligor and Midland relating to Woodmere as lessee.\*\*
- 4.18.2 Execution version of Residual Obligation Agreement dated February 12, 1997 between SIPC as obligor and Midland relating to Hewlett as lessee.\*\*
- 4.18.3 Execution version of Residual Obligation Agreement dated February 12, 1997 between SIPC as obligor and RBC relating to Inwood as lessee.\*\*
- 4.18.4 Execution version of Residual Obligation Agreement dated February 12, 1997 between SIPC as obligor and NAB relating to Lawrence as lessee.\*\*
- 4.18.5 Execution version of Residual Obligation Agreement dated February 12, 1997 between SIPC as obligor and NAB relating to Cedarhurst as lessee.\*\*
- 4.19 Execution version of Term Loan Facility Agreement dated February 6, 1997 among the Company as borrower, the Subsidiaries as guarantors, GSI as arranger and as agent, Goldman Sachs Capital Partners L.P. as bank ("GSCP") and Goldman Sachs Capital Markets L.P. as swap counterparty ("GSCM").\*\*
- 4.19(a) Amendment Agreement to Term Loan Facility Agreement dated February 27, 1997 among the Company as borrower, the Subsidiaries as guarantors, GSI as arranger and retiring agent, Goldman Sachs International Bank as bank ("GSIB"), GSCM as swap counterparty and RBS as successor agent.\*\*
- 4.19(b) Side Letter to the Term Loan Facility Agreement dated February 27, 1997 among the Company, the Subsidiaries, SIPC, NLL and GSI.\*\*
- 4.20.1 Vessel Mortgage dated February 27, 1997 granted by Woodmere in favor of GSI relating to the M.T. Myrina.\*\*
- 4.20.2 Vessel Mortgage dated February 27, 1997 granted by Hewlett in favor of GSI relating to the M.T. Megara.\*\*

- 4.20.3 Vessel Mortgage dated February 27, 1997 granted by Inwood in favor of GSI relating to the M.T. Murex.\*\*
- 4.20.4 Vessel Mortgage dated February 27, 1997 granted by Lawrence in favor of GSI relating to the M.T. Macoma.\*\*
- 4.20.5 Vessel Mortgage dated February 27, 1997 granted by Cedarhurst in favor of GSI relating to the M.T. Magdala.\*\*
- 4.21.1 Execution version of Floating Charge dated February 12, 1997 between Woodmere as chargor and GSI as agent.\*\*
- 4.21.2 Execution version of Floating Charge dated February 12, 1997 between Hewlett as chargor and GSI as agent.\*\*
- 4.21.3 Execution version of Floating Charge dated February 12, 1997 between Inwood as chargor and GSI as agent.\*\*
- 4.21.4 Execution version of Floating Charge dated February 12, 1997 between Lawrence as chargor and GSI as agent.\*\*
- 4.21.5 Execution version of Floating Charge dated February 12, 1997 between Cedarhurst as chargor and GSI as agent.\*\*
- 4.22 Execution version of Floating Charge dated February 12, 1997 between the Company as chargor and GSI as agent.\*\*
- 4.23 Execution version of Mortgage of Shares dated February 12, 1997 between the Company as chargor and GSI as agent.\*\*
- 4.24 Execution version of Borrower Assignment dated February 12, 1997 between the Company as assignor and GSI as agent.\*\*
- 4.25.1 Execution version of Guarantor (Subsidiary) Assignment dated February 12, 1997 between Woodmere as assignor and GSI as agent.\*\*
- 4.25.2 Execution version of Guarantor (Subsidiary) Assignment dated February 12, 1997 between Hewlett as assignor and GSI as agent.\*\*
- 4.25.3 Execution version of Guarantor (Subsidiary) Assignment dated February 12, 1997 between Inwood as assignor and GSI as agent.\*\*
- 4.25.4 Execution version of Guarantor (Subsidiary) Assignment dated February 12, 1997 between Lawrence as assignor and GSI as agent.\*\*
- 4.25.5 Execution version of Guarantor (Subsidiary) Assignment dated February 12, 1997 between Cedarhurst as assignor and GSI as agent.\*\*
- 4.26 Execution version of ISDA Master Agreement dated February 6, 1997 between GSCM and the Company.\*\*
- 4.27 Execution version of Intercreditor Agreement dated February 12, 1997 among the Company as borrower, the Subsidiaries as leasees (collectively with the Company as Obligors), GSI as arranger and as agent, GSCP as bank and GSCM as swap bank and SIPC, SPCo, SPNV and the Manager, each as a subordinated creditor.\*\*
- 4.27(a) Amendment Agreement dated February 27, 1997 to the Intercreditor Agreement among the Company as borrower, the Subsidiaries as leasees (collectively with the Company as Obligors), GSI as arranger, RBS

as agent, GSIB as bank, GSCM as swap bank and SIPC, SPCo, SPNV and the Manager, each as a subordinated creditor.\*\*

- 4.27(b) Finance Party Accession/Designation Agreement dated February 27, 1997 among the Company and the Subsidiaries as obligors, GSI as existing party and arranger, RBS as new party, NLL as lessor, GSIB as bank, GSCM as swap bank and SIPC, SPCo, SPNV and the Manager, each as a subordinated creditor.\*\*
- 4.28 Execution version of Multipartite Agreement dated February 12, 1997 among the Company as borrower, the Subsidiaries as guarantors, SIPC as charterer, GSI as arranger and agent, GSCP as bank and GSCM as swap bank.\*\*
- 4.29 Execution version of Subordination Agreement dated February 12, 1997 among the Company, the Subsidiaries, ICB International, the Manager, the Guarantors, SIPC and Goldman, Sachs & Co. as representative of the U.S. Underwriters, and GSI as representative of the International Underwriters.\*\*
- 4.31 Execution version of Share Purchase Agreement dated February 12, 1997 between the Company and ICB International (incorporated by reference from Exhibit 10.37 of the Company's Registration Statement on Form F-1, filed December 13, 1996 (File No. 333-6170)).\*\*\*
- 4.32.1 Execution version of Novation Agreement dated March 3, 2004 between Inwood, Calico Leasing (GB) Limited ("Calico") and KTL Camden, Inc. ("Camden"). \*\*\*
- 4.32.2 Execution version of Novation Agreement dated March 3, 2004 between Lawrence, Calico and KTL Chelsea, Inc. ("Chelsea"). \*\*\*
- 4.32.3 Execution version of Novation Agreement dated March 3, 2004 between Cedarhurst, Calico and KTL Mayfair, Inc. ("Mayfair"). \*\*\*
- 4.32.4 Execution version of Novation Agreement dated March 3, 2004 between Hewlett, Calico and KTL Hampstead, Inc. ("Hampstead"). \*\*\*
- 4.32.5 Execution version of Novation Agreement dated March 3, 2004 between Woodmere, Calico and KTL Kensington, Inc. ("Kensington"). \*\*\*
- 4.33.1 Execution version of a Deed of Release dated March 3, 2004 between Inwood, Calico and RBS relating to a Lessor Mortgage and Assignment dated February 27, 1997. \*\*\*
- 4.33.2 Execution version of a Deed of Release dated March 3, 2004 between Lawrence, Calico and RBS relating to a Lessor Mortgage and Assignment dated February 27, 1997. \*\*\*
- 4.33.3 Execution version of a Deed of Release dated March 3, 2004 between Cedarhurst, Calico and RBS relating to a Lessor Mortgage and Assignment dated February 27, 1997. \*\*\*
- 4.33.4 Execution version of a Deed of Release dated March 3, 2004 between Hewlett, Calico and RBS relating to a Lessor Mortgage and Assignment dated February 27, 1997. \*\*\*
- 4.33.5 Execution version of a Deed of Release dated March 3, 2004 between Woodmere, Calico and RBS relating to a Lessor Mortgage and Assignment dated February 27, 1997. \*\*\*
- 4.34 Form of Loan Agreement between the Company as borrower, the New Subsidiaries as new owners and RBS as lender. \*\*\*
- 4.35 Form of ISDA Master Agreement dated March 3, 2004 between the Company and RBS. \*\*\*
- 4.36.1 Execution version of General Assignment dated March 3, 2004 between Camden as owner and RBS as lender. \*\*\*

- 4.36.2 Execution version of General Assignment dated March 3, 2004 between Chelsea as owner and RBS as lender. \*\*\*
- 4.36.3 Execution version of General Assignment dated March 3, 2004 between Hampstead as owner and RBS as lender. \*\*\*
- 4.36.4 Execution version of General Assignment dated March 3, 2004 between Kensington as owner and RBS as lender. \*\*\*
- 4.36.5 Execution version of General Assignment dated March 3, 2004 between Mayfair as owner and RBS as lender. \*\*\*
- 4.37 Execution version of Account Security Deed between the Company as borrower, each of Camden, Chelsea, Hampstead, Kensington and Mayfair as a new owner, and RBS as bank. \*\*\*
- 4.38 Execution version of Manager's Undertaking by Frontline Management AS to RBS. \*\*\*
- 4.39 Execution version of Master Agreement Security Deed dated March 3, 2004 between the Company and RBS. \*\*\*
- 4.40.1 Execution version of First Preferred Marshall Islands Mortgage dated March 15, 2004 between Camden as owner and RBS as mortgagee. \*\*\*
- 4.40.2 Execution version of First Preferred Marshall Islands Mortgage dated March 5, 2004 between Chelsea as owner and RBS as mortgagee. \*\*\*
- 4.40.3 Execution version of First Preferred Marshall Islands Mortgage dated March 11, 2004 between Hampstead as owner and RBS as mortgagee. \*\*\*
- 4.40.4 Execution version of First Preferred Marshall Islands Mortgage dated March 29, 2004 between Kensington as owner and RBS as mortgagee. \*\*\*
- 4.40.5 Execution version of First Preferred Marshall Islands Mortgage dated March 18, 2004 between Mayfair as owner and RBS as mortgagee. \*\*\*
- 4.41.1 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between the Company as the chargor and RBS as the Agent. \*\*\*
- 4.41.2 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between Camden as the chargor and RBS as the Agent. \*\*\*
- 4.41.3 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between Chelsea as the chargor and RBS as the Agent. \*\*\*
- 4.41.4 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between Hampstead as the chargor and RBS as the Agent. \*\*\*
- 4.41.5 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between Kensington as the chargor and RBS as the Agent. \*\*\*
- 4.41.6 Execution version of Deed of Release dated March 3, 2004 relating to a Floating Charge dated February 12, 1997 between Mayfair as the chargor and RBS as the Agent. \*\*\*
- 4.42.1 Execution version of Deed of Release and Reassignment relating to a Guarantor Assignment dated February 12, 1997 dated March 3, 2004 between Camden as the assignor and RBS as the Agent. \*\*\*
- 4.42.2 Execution version of Deed of Release and Reassignment dated March 3, 2004 relating to a Guarantor Assignment dated February 12, 1997 between Chelsea as the assignor and RBS as the Agent. \*\*\*

- 4.42.3 Execution version of Deed of Release and Reassignment dated March 3, 2004 relating to a Guarantor Assignment dated February 12, 1997 between Hampstead as the assignor and RBS as the Agent. \*\*\*
- 4.42.4 Execution version of Deed of Release and Reassignment dated March 3, 2004 relating to a Guarantor Assignment dated February 12, 1997 between Kensington as the assignor and RBS as the Agent. \*\*\*
- 4.42.5 Execution version of Deed of Release and Reassignment dated March 3, 2004 relating to a Guarantor Assignment dated February 12, 1997 between Mayfair as the assignor and RBS as the Agent. \*\*\*
- 4.42.6 Execution version of Deed of Release and Reassignment dated March 3, 2004 relating to a Borrower Assignment dated February 12, 1997 between the Company as the assignor and RBS as the Agent. \*\*\*
- 4.43 Execution version of Deed of Release dated March 3, 2004 relating to a Mortgage of Shares dated February 12, 1997 between the Company as the assignor and RBS as the Agent. \*\*\*
- 4.44.1 Execution version of Daylight Overdraft Facility dated March 3, 2004 between Mayfair as borrower, Cedarhurst as lessee, each of Lawrence and the Company as shareholders and RBS as lender. \*\*\*
- 4.44.2 Execution version of Daylight Overdraft Facility dated March 3, 2004 between Kensington as borrower, Woodmere as lessee, each of Hewlett and the Company as shareholders and RBS as lender. \*\*\*
- 4.44.3 Execution version of Daylight Overdraft Facility dated March 3, 2004 between Chelsea as borrower, Lawrence as lessee, each of Inwood and the Company as shareholders and RBS as lender. \*\*\*
- 4.44.4 Execution version of Daylight Overdraft Facility dated March 3, 2004 between Hampstead as borrower, Hewlett as lessee, each of Cedarhurst and the Company as shareholders and RBS as lender. \*\*\*
- 4.44.5 Execution version of Daylight Overdraft Facility dated March 3, 2004 between Camden as borrower, Inwood as lessee, each of Woodmere and the Company as shareholders and RBS as lender. \*\*\*
- 8.1 List of subsidiaries of the Company.
- 11.1\* Code of Ethics, incorporated by reference to Exhibit 11.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003.
- 31.1 Certification of the Principal Executive Officer
- 31.2 Certification of the Principal Financial Officer
- 32.1 Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Executive Officer
- 32.2 Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Financial Officer

\* Incorporated by reference to same Exhibit No. in the Company's Registration Statement on Form F-1, filed December 13, 1996 (File No. 333-6170)

\*\* Incorporated by reference to same Exhibit No. in the Company's Report on Form 6-K, filed March 20, 1997 (File No. 0-29106)

\*\*\* Incorporated by reference to same Exhibit No. in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003.

## **SIGNATURES**

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

KNIGHTSBRIDGE TANKERS LIMITED

By: /s/Kate Blankenship  
\_\_\_\_\_

Kate Blankenship  
Chief Financial Officer

Dated: June 15, 2006

**Exhibit 8.1**

| <b>NAME</b>            | <b>COUNTRY OF INCORPORATION</b> | <b>OWNERSHIP INTEREST</b> | <b>VESSEL OWNED</b> |
|------------------------|---------------------------------|---------------------------|---------------------|
| New Subsidiaries:      |                                 |                           |                     |
| KTL Camden, Inc.       | Republic of Liberia             | 100%                      | Camden              |
| KTL Chelsea, Inc.      | Republic of Liberia             | 100%                      | Chelsea             |
| KTL Kensington, Inc.   | Republic of Liberia             | 100%                      | TI Qingdao          |
| KTL Hampstead, Inc.    | Republic of Liberia             | 100%                      | TI Ningbo           |
| KTL Mayfair, Inc.      | Republic of Liberia             | 100%                      | Mayfair             |
| Original Subsidiaries: |                                 |                           |                     |
| Cedarhurst Tankers LDC | Cayman Islands                  | 100%                      | -                   |
| Hewlett Tankers LDC    | Cayman Islands                  | 100%                      | -                   |
| Inwood Tankers LDC     | Cayman Islands                  | 100%                      | -                   |
| Lawrence Tankers LDC   | Cayman Islands                  | 100%                      | -                   |
| Woodmere Tankers LDC   | Cayman Islands                  | 100%                      | -                   |

**Exhibit 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

I, Tor Olav Trøim, certify that:

1. I have reviewed this annual report on Form 20-F of Knightsbridge Tankers Limited;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 15, 2006

/s/ Tor Olav Trøim

Tor Olav Trøim  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

I, Kate Blankenship, certify that:

1. I have reviewed this annual report on Form 20-F of Knightsbridge Tankers Limited;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 15, 2006

/s/ Kate Blankenship

Kate Blankenship  
Chief Financial Officer

**Exhibit 32.1**

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with this Annual Report of Knightsbridge Tankers Limited (the “Company”) on Form 20-F for the annual period ended December 31, 2005, as filed with the Securities and Exchange Commission (the “SEC”) on or about the date hereof (the “Report”), I, Tor Olav Trøim, the Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 15, 2006

/s/ Tor Olav Trøim

Tor Olav Trøim  
Principal Executive Officer

**Exhibit 32.2**

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with this Annual Report of Knightsbridge Tankers Limited (the “Company”) on Form 20-F for the annual period ended December 31, 2005, as filed with the Securities and Exchange Commission (the “SEC”) on or about the date hereof (the “Report”), I, Kate Blankenship, the Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 15, 2006

/s/ Kate Blankenship

Kate Blankenship  
Principal Financial Officer

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
Knightsbridge Tankers Limited

We have audited the accompanying consolidated balance sheets of Knightsbridge Tankers Limited and subsidiaries (the "Company"), as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the consolidated results of their operations, and their cash flows for the years ended December 31, 2005 and 2004, in conformity with U.S. generally accepted accounting principles.

MOORE STEPHENS, P. C.  
Certified Public Accountants.

New York, New York  
February 13, 2006

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
Knightsbridge Tankers Limited

We have audited the consolidated statements of operations, cash flows and changes in shareholders' equity of Knightsbridge Tankers Limited and subsidiaries (the "Company") for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated results of operations and cash flows of Knightsbridge Tankers Limited and subsidiaries for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche AB  
Stockholm, Sweden  
May 17, 2004

**Knightsbridge Tankers Limited**  
**Consolidated Statements of Operations for the years ended**  
**December 31, 2005, 2004 and 2003**  
*(in thousands of \$, except per share data)*

|                                       | 2005           | 2004           | 2003           |
|---------------------------------------|----------------|----------------|----------------|
| <b>Operating revenues</b>             |                |                |                |
| Time charter revenues                 | 42,325         | 42,113         | -              |
| Bareboat charter revenues             | -              | 29,770         | 75,246         |
| Voyage charter revenues               | 57,854         | 63,812         | -              |
| <b>Total operating revenues</b>       | <b>100,179</b> | <b>135,695</b> | <b>75,246</b>  |
| <b>Operating expenses</b>             |                |                |                |
| Voyage expenses and commission        | 16,459         | 14,240         | -              |
| Ship operating expenses               | 17,211         | 9,868          | -              |
| Administrative expenses               | 988            | 1,114          | 864            |
| Depreciation and amortisation         | 17,120         | 17,219         | 17,593         |
| <b>Total operating expenses</b>       | <b>51,778</b>  | <b>42,441</b>  | <b>18,457</b>  |
| <b>Net operating income</b>           | <b>48,401</b>  | <b>93,254</b>  | <b>56,789</b>  |
| <b>Other income (expenses)</b>        |                |                |                |
| Interest income                       | 959            | 449            | 55             |
| Interest expense                      | (5,310)        | (7,877)        | (9,334)        |
| Other financial items, net            | (83)           | 13             | (49)           |
| <b>Net other expenses</b>             | <b>(4,434)</b> | <b>(7,415)</b> | <b>(9,328)</b> |
| <b>Net income</b>                     | <b>43,967</b>  | <b>85,839</b>  | <b>47,461</b>  |
| Earnings per share: basic and diluted | <b>\$ 2.57</b> | <b>\$ 5.02</b> | <b>\$ 2.78</b> |

*See accompanying Notes that are an integral part of these Consolidated Financial Statements*

**Knightsbridge Tankers Limited**  
**Consolidated Balance Sheets as of December 31, 2005 and 2004**  
*(in thousands of \$)*

|   | 2005           | 2004           |
|---|----------------|----------------|
| <b>ASSETS</b>   |                |                |
| <b>Current Assets</b>                                 |                |                |
| Cash and cash equivalents                             | 12,634         | 31,653         |
| Restricted cash                                       | 10,000         | 10,000         |
| Trade accounts receivable                             | 7,633          | 13,232         |
| Other receivables                                     | 1,139          | 608            |
| Inventories   | 2,012          | 1,631          |
| Voyages in progress                                   | 3,667          | 6,122          |
| Prepaid expenses and accrued income                   | 645            | 416            |
| <b>Total current assets</b>                           | <b>37,730</b>  | <b>63,662</b>  |
| Vessels, net  | 285,070        | 301,500        |
| Deferred charges                                      | 359            | 392            |
| <b>Total assets</b>                                   | <b>323,159</b> | <b>365,554</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>           |                |                |
| <b>Current liabilities</b>                            |                |                |
| Short-term debt and current portion of long-term debt | 11,200         | 11,309         |
| Trade accounts payable                                | 1,974          | 465            |
| Accrued expenses                                      | 3,300          | 2,730          |
| Other current liabilities                             | 2,452          | 1,779          |
| <b>Total current liabilities</b>                      | <b>18,926</b>  | <b>16,283</b>  |
| <b>Long-term liabilities</b>                          |                |                |
| Long-term debt  | 109,200        | 120,400        |
| <b>Total liabilities</b>                              | <b>128,126</b> | <b>136,683</b> |
| <b>Stockholders' equity</b>                           |                |                |
| Share capital   | 171            | 171            |
| Contributed capital surplus account                   | 194,862        | 220,059        |
| Retained earnings                                     | -              | 8,641          |
| <b>Total stockholders' equity</b>                     | <b>195,033</b> | <b>228,871</b> |
| <b>Total liabilities and stockholders' equity</b>     | <b>323,159</b> | <b>365,554</b> |

*See accompanying Notes that are an integral part of these Consolidated Financial Statements*

**Knightsbridge Tankers Limited**  
**Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003**

| <i>(in thousands of \$)</i>   | 2005            | 2004      | 2003     |
|---|-----------------|-----------|----------|
| <b>Operating activities</b>   |                 |           |          |
| <b>Net income</b>   | <b>43,967</b>   | 85,839    | 47,461   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |           |          |
| Depreciation and amortisation   | <b>17,120</b>   | 17,219    | 17,593   |
| Amortisation of deferred charges  | <b>66</b>       | 110       | 372      |
| Changes in operating assets and liabilities:                                      |                 |           |          |
| Trade accounts receivable   | <b>5,599</b>    | 9,393     | (12,497) |
| Other receivables   | <b>(531)</b>    | (608)     | -        |
| Inventories   | <b>(381)</b>    | (1,631)   | -        |
| Voyages in progress   | <b>2,455</b>    | (6,122)   | -        |
| Prepaid expenses and accrued income   | <b>(229)</b>    | (377)     | -        |
| Trade accounts payable  | <b>1,509</b>    | 465       | -        |
| Accrued expenses  | <b>570</b>      | 521       | 11       |
| Other, net  | <b>(17)</b>     | 1,779     | -        |
| <b>Net cash provided by operating activities</b>                                  | <b>70,128</b>   | 106,588   | 52,940   |
| <b>Investing activities</b>   |                 |           |          |
| Placement of restricted cash  |                 | (10,000)  | -        |
| Compensation on vessel redelivery   | -               | 690       | -        |
| <b>Net cash used in investing activities</b>                                      |                 | (9,310)   | -        |
| <b>Financing activities</b>   |                 |           |          |
| Proceeds from long-term debt  | -               | 140,000   | -        |
| Repayments of long-term debt and credit facilities                                | <b>(11,309)</b> | (133,688) | -        |
| Debt fees paid  | <b>(33)</b>     | (444)     | -        |
| Cash dividends paid   | <b>(77,805)</b> | (77,805)  | (46,854) |
| <b>Net cash used in financing activities</b>                                      | <b>(89,147)</b> | (71,937)  | (46,854) |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <b>(19,019)</b> | 25,341    | 6,086    |
| <b>Cash and cash equivalents at beginning of year</b>                             | <b>31,653</b>   | 6,312     | 226      |
| <b>Cash and cash equivalents at end of year</b>                                   | <b>12,634</b>   | 31,653    | 6,312    |
| <b>Supplemental disclosure of cash flow information:</b>                          |                 |           |          |
| Interest paid   | <b>5,235</b>    | 9,631     | 8,952    |

*See accompanying Notes that are an integral part of these Consolidated Financial Statements*

**Knightsbridge Tankers Limited**  
**Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003**

*(in thousands of \$, except number of shares)*

|   | 2005              | 2004       | 2003       |
|---|-------------------|------------|------------|
| <b>NUMBER OF SHARES OUTSTANDING</b>                   |                   |            |            |
| Balance at beginning and end of year                  | <b>17,100,000</b> | 17,100,000 | 17,100,000 |
| <b>SHARE CAPITAL</b>                                  |                   |            |            |
| Balance at beginning of year                          | <b>171</b>        | 171        | 171        |
| Shares issued   | -                 | -          | -          |
| Shares bought back and cancelled                      | -                 | -          | -          |
| Balance at end of year                                | <b>171</b>        | 171        | 171        |
| <b>CONTRIBUTED CAPITAL SURPLUS ACCOUNT</b>            |                   |            |            |
| Balance at beginning of year                          | <b>220,059</b>    | 220,059    | 220,059    |
| Distributions to shareholders                         | <b>(25,197)</b>   | -          | -          |
| Balance at end of year                                | <b>194,862</b>    | 220,059    | 220,059    |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>  |                   |            |            |
| Balance at beginning of year                          | -                 | (5,310)    | (11,590)   |
| Other comprehensive income (loss)                     | -                 | -          | 6,280      |
| De-designation of interest rate swap                  | -                 | 5,310      | -          |
| Balance at end of year                                | -                 | -          | (5,310)    |
| <b>RETAINED EARNINGS</b>                              |                   |            |            |
| Balance at beginning of year                          | <b>8,641</b>      | 607        | -          |
| Net income  | <b>43,967</b>     | 85,839     | 47,461     |
| Dividends paid  | <b>(52,608)</b>   | (77,805)   | (46,854)   |
| Balance at end of year                                | -                 | 8,641      | 607        |
| <b>Total Stockholders' Equity</b>                     | <b>195,033</b>    | 228,871    | 215,527    |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                    |                   |            |            |
| Net income  | <b>43,967</b>     | 85,839     | 47,461     |
| Unrealised gains (losses) from derivative instruments | -                 | -          | 6,280      |
| Other comprehensive income (loss)                     | -                 | -          | 6,280      |
| Comprehensive income                                  | <b>43,967</b>     | 85,839     | 53,741     |

*See accompanying Notes that are an integral part of these Consolidated Financial Statements*

# **Knightsbridge Tankers Limited**

## **Notes to Consolidated Financial Statements**

### **1. DESCRIPTION OF BUSINESS**

Knightsbridge Tankers Limited (the "Company") was incorporated in Bermuda in September, 1996, for the purpose of the acquisition, disposition, ownership, leasing and chartering of five very large crude oil carriers, or VLCCs, (the "Vessels"), and certain related activities. The Vessels are owned through wholly-owned subsidiaries (the "Subsidiaries"). The Company's shares are listed on the NASDAQ National Market.

From February 1997 until March 2004, the Company chartered its Vessels to Shell International Petroleum Company Limited ("Shell") on long-term "hell and high water" bareboat charters (the "Charters"). The bareboat charters to Shell expired for all five Vessels, in accordance with their terms, during March 2004 and the Vessels were redelivered to the Company. Following the redelivery, the Company has entered into a five year time charter for one of its vessels while two of the Company's Vessels have each been time chartered for a period of three years. The Company's remaining two vessels are trading on the spot market and are participating in a pooling arrangement with Frontline Ltd., a Bermuda publicly traded oil tanker owning and operating company.

The daily charterhire rate payable by Shell was comprised of two primary components: (i) the base rate, which is a fixed minimum rate of charterhire equal to \$22,069 per Vessel per day, payable quarterly in arrears ("Base Rate"), and (ii) additional hire, which is additional charterhire (determined and paid quarterly in arrears) that would equal the excess, if any, of a weighted average of the daily time charter rates for three round-trip trade routes traditionally served by VLCCs, less an agreed amount of \$10,500 during the initial term of the Charters, representing daily operating costs over the Base Rate. The current five year time charter agreement provides revenue of approximately \$31,000 per day for the duration of the charter, while the three year time charters provide a rate of \$30,000 per day plus a 50:50 profit sharing arrangement for earnings in excess of \$30,000 per day calculated by reference to the Baltic International Trading Route (BITR) Index.

The business of the Company is managed by ICB Shipping (Bermuda) Limited (the "Manager"), an indirect wholly-owned subsidiary of Frontline Ltd.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the assets and liabilities of Knightsbridge Tankers Limited and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period. Effective December 31, 2004 we have reclassified amortisation of deferred charges as a component of interest expense.

#### **Reporting currency**

The Company's functional currency is the United States dollar as all revenues are received in United States dollars and a majority of the Company's expenditures are made in United States dollars. The Company and its subsidiaries report in United States dollars.

Transactions in foreign currencies during the year are translated into United States dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using

historical rates of exchange. Foreign currency translation gains or losses are included in the consolidated statements of operations.

### **Revenue and expense recognition**

Revenues and expenses are recognised on the accrual basis. Revenues are generated from freight billings, time charter and bareboat charter hires. The operating results of voyages in progress are estimated and recorded pro-rata on a per day basis in the consolidated statements of operations. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter and bareboat charter revenues are recorded over the term of the charter as service is provided. Amounts receivable or payable arising from profit sharing arrangements are accrued based on the estimates of amounts earned as at the reporting date.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Pool revenues are included in voyage charter revenues. The formula used to allocate net pool revenues allocates revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. The same revenue and expense principles stated above are applied in determining the pool's net pool revenues. In the year ended December 31, 2005 pool revenues included in voyage charter revenues were \$36.8 million.

### **Comprehensive income**

Comprehensive income is defined as the change in the Company's equity during the year from transactions and other events and circumstances from non-owner sources. Comprehensive income of the Company includes not only net income but also unrealized losses on derivative instruments used in cash flow hedges of future variable-rate interest payments on the Company's debt. Such items are reported as accumulated other comprehensive income (loss), a separate component of shareholders' equity, until such time as the amounts are included in net income.

### **Leases**

In connection with the original Vessels purchase transaction, the Company entered into conditional sale arrangements with a third party banking institution (the "UK Lessor"). Under the arrangements (the "Conditional Sale Agreements"), each of the Company's vessel-owning subsidiaries agreed with the UK Lessor that the UK Lessor was entitled to purchase the Vessels from the subsidiaries, by payment of the purchase price in installments over a period of twenty-five years, subject to certain conditions described below. For the duration of the Charters, the vessels were leased back to the Company's subsidiaries. The lease agreements did not encumber or obligate the Company's current or future cash flows and had no effect on the Company's financial position. The leasebacks were classified as capital leases by the Company. Accordingly, during the term of the leases, the Vessels remained on the Company's consolidated balance sheet and the relevant subsidiaries retained title to the respective Vessels.

The UK Lessor's obligation under each Conditional Sale Agreement to pay the first installment of the purchase price for the vessel was subject to the following conditions: (i) the UK Lessor had not terminated the related Conditional Sale Agreement prior to the Vessel being delivered by the subsidiary or a representative of the UK Lessor; (ii) the Company's subsidiary had not terminated the Agreement prior to giving notice of delivery of the Vessel; (iii) the UK Lessor had received notice of delivery of the Vessel from the subsidiary; (iv) the UK Lessor had received an invoice for the first installment of the purchase price; (v) the representations and warranties by the subsidiary in the Conditional Sale Agreement (regarding capital expenditures of the subsidiary and the purchase price of the vessel) continued to be true; and (vi) the Vessel had not suffered a loss. Upon termination of the Charters and redelivery of the Vessels to the Company in the first and second quarters of 2004, each of the Company's subsidiaries had the right as the UK Lessor's sales agent to arrange for the disposition of the Conditional Sale Agreement (and the right to take title to the related Vessel), or to arrange for the sale of the related Vessel, for an amount equal to the fair market value of that Vessel. In connection with the termination of the Charter, the Company's subsidiaries arranged for newly formed subsidiaries to purchase the Conditional Sale Agreements from the UK Lessor by way of novation for fair market value consideration, thereby transferring the right to take title to the Vessels under the Conditional Sale Agreements to the Company's new subsidiaries. The new subsidiaries took title to the Vessels during the first half of March 2004 and the Conditional Sale Agreements are no longer in effect. There was no gain or loss booked by the Company on the transaction as the fair market value consideration was deemed equal to the Vessels book values at the date of acquisition.

The Charters to Shell were classified as operating leases by the Company. The current five year and three year time charters for three of the Company's vessels are also classified as operating leases by the Company.

**Cash and cash equivalents**

For the purposes of the consolidated statements of cash flows, all demand and time deposits and highly liquid, low risk investments with maturities of three months or less at the date of purchase are considered equivalent to cash.

**Restricted cash**

Restricted cash consists of bank deposits which must be maintained in accordance with contractual loan arrangements.

**Inventories**

Inventories, which comprise principally of fuel and lubricating oils, are stated at the lower of cost and market value. Cost is determined on a first-in, first-out basis.

**Derivative instruments and hedging activities**

Interest rate swap agreements are contractual agreements between the Company and other parties to exchange the net difference between a fixed and variable interest rate periodically over the life of the contract without the exchange of the underlying principal amount of the agreement. The Company executed interest rate swaps as integral elements of the Company's original financing transactions and risk management policies to achieve specific interest rate management objectives. At the time of obtaining its original financing, the Company entered into pay-fixed, receive-floating interest rate swap agreements to hedge its exposure to future cash flow variability resulting from variable interest rates on the Company's debt.

All derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of each derivative is recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

**Financial instruments**

In determining fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including long-term debt, standard market conventions and techniques are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

**Vessels and depreciation**

Vessels are stated at costs less accumulated depreciation. Depreciation is calculated based on cost less estimated residual value, using the straight-line method, over the useful life of each vessel. The useful life of each vessel is deemed to be 25 years.

In connection with the termination of the Charters and the Conditional Sale Agreements and the redelivery of the Vessels to the Company in 2004 as described above, the Vessels have been reclassified from Vessels under Capital Lease to Vessels. Concurrently, the Company revised its estimate of the estimated residual value of the Vessels and changed it from zero to \$6.4 million per vessel. The Company believes that this revised estimate is in line with current standard industry practise. A change in accounting estimate was recognised to reflect this decision, resulting in a decrease in depreciation expense and consequently increasing net income by \$0.4 million and basic and diluted earnings per share by \$0.02, for 2004.

**Deferred charges**

Loan costs, including debt arrangement fees, are capitalised and amortised on a straight-line basis over the term of the loan. Amortisation of loan costs is included in interest expense. If the loan is repaid early, any unamortized portion of the related deferred charges is charged against income in the period in which the loan is repaid.

**Earnings per share**

Earnings per share are based on the weighted average number of common shares outstanding for the period presented. For all periods presented, the Company had no potentially dilutive securities outstanding and therefore basic and dilutive earnings per share are the same.

**Impairment of long-lived assets**

Long-lived assets that are held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, long-lived assets to be disposed of by sale are reported at the lower of their carrying amount or fair value less estimated costs to sell.

**Distributions to shareholders**

Distributions to shareholders are applied first to retained earnings. When retained earnings are not sufficient, distributions are applied to the contributed capital surplus account.

**Drydocking**

Normal vessel repair and maintenance costs are expensed when incurred. The Company recognises the cost of a dry-docking at the time the dry-docking takes place, that is, it applies the “expense as incurred” method. The expense as incurred method is considered by management to be an appropriate method of recognizing drydocking costs as it eliminates the uncertainty associated with estimating the cost and timing of future drydockings.

**Recently issued accounting standards**

In December 2004, the FASB issued Statement of Financial Accounting Standards 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (“SFAS 153”). APB Opinion No. 29 Accounting for Nonmonetary Transactions (“APB 29”) provides that accounting for nonmonetary transactions should be measured based on the fair value of the assets exchanged but allows certain exceptions to this principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that don’t have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and shall be applied prospectively. Adoption of SFAS 153 has not affected the Company’s results to date.

In May 2005, the FASB issued Statement of Financial Accounting Standards 154 Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FAS 3 (“SFAS 154”). SFAS 154 replaces APB Opinion No. 20 Accounting Changes and SFAS 3 Reporting Accounting Changes in Interim Financial Statements. Previously, most changes in accounting principle were recognised by including the cumulative effect of changing to the new accounting principle in net income for the period of the change. SFAS 154 requires retrospective application of a change in accounting principle to prior periods unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change to any period. When it is impracticable to determine the period-specific effects of an accounting change, SFAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings ( or other appropriate components of equity or net assets) for that period rather than being reported in an income statement. SFAS 154 is applicable for all accounting changes and corrections of errors occurring in fiscal years beginning after December 15, 2005. The Company will apply SFAS 154 from January 1, 2006 on a prospective basis as required.

**3. TAXATION**

The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2016.

#### 4. LEASES

The minimum future revenues to be received on time charters which are accounted for as operating leases as of December 31, 2005 are as follows:

| Year ending December 31,<br>(in thousands of \$) | Total         |
|--|---------------|
| 2006   | 33,215        |
| 2007   | 18,275        |
| 2008   | 11,315        |
| 2009   | 2,201         |
| 2010   | -             |
| 2011 and later                                   | -             |
| <b>Total minimum lease revenues</b>              | <b>65,006</b> |

#### 5. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are presented net of allowance for doubtful accounts amounting to \$0.2 million for the year ended December 31, 2005 (December 31, 2004: \$0.2 million).

#### 6. VESSELS

| (in thousands of \$)                 | 2005             | 2004      |
|--------------------------------------|------------------|-----------|
| Cost                                 | <b>439,822</b>   | 439,132   |
| Accumulated depreciation             | <b>(154,752)</b> | (137,632) |
| <b>Net book value at end of year</b> | <b>285,070</b>   | 301,500   |

Depreciation expense was \$17.1 million, \$17.2 million and \$17.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

#### 7. DEFERRED CHARGES

Deferred charges represent debt arrangement fees that are capitalized and amortized on a straight-line basis to interest expense over the life of the debt instrument. The deferred charges are comprised of the following amounts:

| (in thousands of \$)                    | 2005         | 2004 |
|---|--------------|------|
| Capitalized financing fees and expenses | <b>477</b>   | 444  |
| Accumulated amortization                | <b>(118)</b> | (52) |
| <b>Net book value at end of year</b>    | <b>359</b>   | 392  |

#### 8. DEBT

| (in thousands of \$)  | 2005            | 2004     |
|---|-----------------|----------|
| US dollar denominated floating rate debt (LIBOR + 0.7% to 1.0%) | <b>120,400</b>  | 131,600  |
|   | <b>120,400</b>  | 131,600  |
| Credit facilities   | -               | 109      |
| <b>Total debt</b>   | <b>120,400</b>  | 131,709  |
| Less: short-term and current portion of long-term debt          | <b>(11,200)</b> | (11,309) |
| <b>Total</b>  | <b>109,200</b>  | 120,400  |

The average interest rate for the floating rate debt was 4.12 per cent for the year ended December 31, 2005 and 6.46 per cent for the year ended December 31, 2004.

### **\$140.0 million loan facility**

In March 2004, the Company refinanced its existing credit facility with a \$140.0 million facility in the form of five loans of \$28.0 million, each in respect of a Vessel. This facility is repayable in twenty eight quarterly installments of \$2.8 million and a final installment of \$61.6 million on the last payment date. The facility is secured by, among other things, a mortgage on each Vessel and an assignment of any charter in respect of a Vessel.

The outstanding debt as of December 31, 2005 is repayable as follows:

| Year ending December 31,<br>(in thousands of \$) |                |
|--|----------------|
| 2006   | 11,200         |
| 2007   | 11,200         |
| 2008   | 11,200         |
| 2009   | 11,200         |
| 2010   | 11,200         |
| 2011 and later                                   | 64,400         |
| <b>Total debt</b>                                | <b>120,400</b> |

## **9. SHARE CAPITAL**

Authorised share capital:

|   | <b>2005</b>    | 2004    |
|---|----------------|---------|
| 17,100,000 ordinary shares of \$0.01 each | <b>171,000</b> | 171,000 |

Issued and fully paid share capital:

|  | <b>2005</b>    | 2004    |
|--|----------------|---------|
| 17,100,000 ordinary shares of \$0.01each | <b>171,000</b> | 171,000 |

## **10. FINANCIAL INSTRUMENTS**

### **Interest rate risk management**

In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company does not hold or issue instruments for speculative or trading purposes. As at December 31, 2005, the Company is not party to any interest rate swaps to hedge interest rate exposure

### **Foreign currency risk**

The majority of the Company's transactions, assets and liabilities are denominated in United States dollars, the functional currency of the Company. There is no significant risk that currency fluctuations will have a negative effect of the value of the Company's cash flows.

### Fair values

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2005 and 2004 are as follows:

| <i>(in thousands of \$)</i>              | <b>2005<br/>Fair Value</b> | <b>2005<br/>Carrying<br/>Value</b> | 2004<br>Fair Value | 2004<br>Carrying<br>Value |
|--|----------------------------|------------------------------------|--------------------|---------------------------|
| Cash and cash equivalents                | <b>12,634</b>              | <b>12,634</b>                      | 31,653             | 31,653                    |
| Restricted cash                          | <b>10,000</b>              | <b>10,000</b>                      | 10,000             | 10,000                    |
| Floating rate debt and credit facilities | <b>120,400</b>             | <b>120,400</b>                     | 131,709            | 131,709                   |

The carrying value of cash and cash equivalents, and restricted cash, which are highly liquid, is a reasonable estimate of fair value.

The estimated fair value for floating rate long-term debt is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

### Concentrations of risk

There is a concentration of credit risk with respect to cash and cash equivalents to the extent that substantially all of the amounts are carried with Skandinaviska Enskilda Banken, and The Royal Bank of Scotland plc. However, the Company believes this risk is remote as these banks are high credit quality financial institutions. The Company does not require collateral or other security to support financial instruments subject to credit risk.

In 2005, two customers accounted for 42 per cent of gross revenue, while in 2004 two customers accounted for 46 per cent of gross revenue. In 2003 one customer accounted for 100 per cent of gross revenue.

## 11. MANAGEMENT OF COMPANY

On February 12, 1997, the Company entered into a management agreement with the Manager under which the Manager provided certain administrative, management and advisory services to the Company for an amount of \$750,000 per year. Effective February 2004, the Company entered into an amendment to the agreement with the Manager. The management fee has been amended to \$630,000 per year, in addition to a commission of 1.25 per cent on gross freight revenues. Pursuant to the terms of the amendment, the Company is now responsible for paying its own administrative expenses. In February 2006 the management fee was increased to \$1,150,000 per annum.

## 12. SUPPLEMENTAL INFORMATION

Non-cash investing and financing activities included the following:

| <i>(in thousands of \$)</i>                      | <b>2005</b> | 2004      | 2003 |
|--|-------------|-----------|------|
| Termination of vessels under capital leases:     |             |           |      |
| Termination of vessels under capital leases, net | -           | (316,363) |      |
| Acquisition of vessels:                          |             |           |      |
| Additions to vessels, net                        | -           | 316,363   |      |

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