



***KNIGHTSBRIDGE TANKERS LIMITED***

***THIRD QUARTER 2003  
REPORT TO SHAREHOLDERS***

Knightsbridge Tankers Limited  
Registered Office  
Par-la-Ville Place, 14 Par-la-Ville Road  
Hamilton, Bermuda



Bermuda, November 28, 2003

**To the Shareholders of Knightsbridge Tankers Limited:**

Enclosed is our report for the third quarter of 2003. The report contains selected unaudited financial information accompanied by a Management's Discussion and Analysis of Financial Condition and Results of Operations for the period ended September 30, 2003.

On February 27, 1997, the Company's ship owning subsidiaries purchased five very large crude carriers ("VLCC's") from their previous owners and delivered them to Shell International Petroleum Company Limited ("Shell International"), as charterer, under separate "hell and high water" bareboat charters. Under those charters, the Company's ship owning subsidiaries receive the greater of a Base Rate of hire in the amount of \$22,069 per day per VLCC or a spot market related rate. After inclusion of a component for operating expenses of \$10,500 per day, the spot market related rate must exceed \$32,569 per day for the Company's subsidiaries to receive any Additional Hire over the Base Rate.

Based upon the determination by the London Tanker Brokers Panel, the spot market related rate totaled \$25,063 per day for the period July 1 through September 30, 2003. (The corresponding spot market related rate for the period July 1 through September 30, 2002 was determined to be \$9,093).

Accordingly, on October 15, 2003, Shell International paid to the Company's vessel owning subsidiaries charter hire at the Base Rate of \$10,151,740 July 1 through September 30, 2003. (For the period July 1 through September 30, 2002, Shell International paid charter hire at the Base Rate of \$10,151,740).

On October 15, 2003, the Board of Directors of the Company declared a distribution to shareholders of record as of October 25, 2003, payable on or about November 10, 2003, in the amount of \$0.45 per share for the period July 1 through September 30, 2003. (For the period July 1 through September 30, 2002, the distribution was \$0.45 per share.)

The Company has agreed to provide information to shareholders that are United States income tax payers by February 15, 2004, so that they may make the appropriate tax reporting and elections with the United States tax authorities with respect to the Company's status as a "Passive Foreign Investment Company". Under present United States tax rules, the amount of income reported by a shareholder is based on the Company's income on an annual basis. Therefore, by February 15, 2004, the Company will provide information enabling shareholders to determine the tax consequences of their investment in the Company, including the treatment of distributions received from the Company, for the entire year ending December 31, 2003.

The NASDAQ National Market symbol for the Company's Common Shares is "VLCCF". Please visit our website at [www.knightsbridgetankers.com](http://www.knightsbridgetankers.com).

Very truly yours,

Ola Lorentzon  
Chairman

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

Knightsbridge Tankers Limited (the "Company") was incorporated in Bermuda on September 18, 1996. In February 1997, the Company offered and sold to the public 16,100,000 common shares at an initial offering price of \$20 per share. Simultaneously, the Company sold 1,000,000 common shares at a price of \$20 per share to ICB International Limited, an indirect wholly-owned subsidiary of ICB Shipping Aktiebolag (publ) ("ICB"), a Swedish publicly traded ship owning and operating company. The Company used the proceeds of these offerings, together with advances under a \$145.6 million credit facility from an international syndicate of lenders, primarily to fund the purchase by the Company's subsidiaries of five recently constructed very large crude carrier oil tankers ("VLCC's"). Upon their purchase from their previous owners, the VLCC's were delivered on February 27, 1997, to Shell International Petroleum Company Limited ("Shell International"), a company of the Royal Dutch/Shell Group of Companies, under separate "hell and high water" bareboat charters. The term of these charters is a minimum of seven years, with an option for Shell International to extend the period for each VLCC for an additional seven-year term, to a maximum of 14 years per VLCC. The initial term expires in February 2004.

The Company has received notice that Shell International has chosen not to renew the charters for the vessels for an additional seven year term. Accordingly, the charters will expire by their terms on or about February 27, 2004.

Under the current charters, Shell pays the greater of a Base Rate of hire of \$22,069 per day or a spot market related rate, determined quarterly by the London Tankers Brokers Panel. After taking into account a component for operating costs of \$10,500 per day, Shell International pays the higher rate if the award exceeds \$32,569 per day.

### **Results of Operations – Nine Months Ended September 30, 2003**

#### **Revenues**

The Company's revenues consisted of charter hire of \$52.6 million for the nine months ending September 30, 2003 compared with \$30.1 million for the first nine months of 2002. This increase is due to the fact that additional hire in the amount of \$22.5 million was paid in the first nine months of 2003 while no additional hire was paid in the first nine months of 2002.

#### **Operating Expenses**

The Company's operating expenses consist of (i) fees due to the Company's manager, ICB Shipping (Bermuda) Ltd (the "Manager"), (ii) depreciation of the vessels and (iii) administration expenses consisting of payments of insurance premiums for directors and officers liability insurance. There can be no assurance, however, that the Company will not have other expenses or contingent liabilities for which reserves will be required.

**Interest income and expense**

Interest income of \$29,007 was earned during the first nine months of 2003 compared with \$24,925 in the comparable period of 2002, an increase due to increased cash balances during the first nine months of 2003 and offset by lower interest rates in 2003.

The Company's borrowings under its primary credit facility have been effectively converted to a fixed rate pursuant to a swap arrangement to which the Company is a party. Interest on the primary credit facility has effectively been fixed at approximately 7.14 %, which resulted in interest expenses of \$6.7 million for the first nine months of 2003.

On January 1, 2001 the Company adopted SFAS No. 133, "Accounting for Derivatives and Hedging Activities", which requires that all derivative instruments be recorded on the balance sheet at their fair value. As the interest rate swap is designated as part of a hedge transaction, changes in the fair value are recorded each period in other comprehensive income. At September 30, 2003 the interest rate swap had a negative value of \$7.7 million. A separate statement for consolidated comprehensive income is included in the enclosed financial statements.

**Liquidity and Capital Resources**

Total shareholders' equity of the Company at September 30, 2003 was \$205.1 million compared to \$208.6 million at December 31, 2002. The decrease was due to net income of \$31.8 million for the period January 1 through September, 2003 less distributions to shareholders during the first nine months of 2003 of \$39.1 million and the recording of the \$3.8 million movement in the fair value of the swap in other comprehensive income/loss.

The Company's long-term debt as of September 30, 2003 and 2002, consists of \$125.4 million borrowed under its credit facility. The balance of the credit facility matures in August 2004. Interest on this balance is payable quarterly in arrears.

**Currency Exchange Rates**

The international shipping industry's functional currency is the United States Dollar and virtually all of the Company's operating revenues and expenses are expected to be denominated in United States Dollar. Accordingly, the company's operating results, following expiration or termination of the charters with Shell International, are not expected to be significantly affected by movements in currency exchange rates.

**KNIGHTSBRIDGE TANKERS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(in U.S. Dollars)

**ASSETS**

<u>Current assets</u>	<u>September 30, 2003</u> <i>(Unaudited)</i>	<u>Dec 31, 2002</u>
Cash	6,286,025	
	226,215	
Charter hire receivable	10,151,740	
	10,151,740	
Prepaid expenses	70,630	16,384
<b>Total current assets</b>	<b>16,508,395</b>	
	<b>10,394,339</b>	
Vessels under capital lease, net	323,806,407	
	337,001,052	
Capitalized financing fees and expenses, net	150,680	429,338
<b>TOTAL ASSETS</b>	<b>340,465,482</b>	
	<b>347,824,729</b>	
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**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities**

Accrued expenses and other current liabilities	2,208,953	
	2,197,824	
<b>Total current liabilities</b>	<b>2,208,953</b>	
	<b>2,197,824</b>	

Credit facility	125,397,399	
	125,397,399	
Interest rate swap agreement at fair value	7,745,442	
	11,590,392	

**Shareholders' equity**

<b>Common shares, par value \$0.01 per share:</b>		
Authorized and outstanding 17,100,000	171,000	171,000
Contributed capital surplus account	212,688,130	
	220,058,506	

Retained earnings	-	-
Accumulated other comprehensive income	<u>(7,745,442)</u>	
	(11,590,392)	
<b>Total shareholders' equity</b>	<b><u>205,113,688</u></b>	
	<b><u>208,639,114</u></b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>340,465,482</u></b>	<b><u>347,824,729</u></b>

**KNIGHTSBRIDGE TANKERS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(in U.S. Dollars)

	<u>Jan 1, 2003</u> <u>to September 30, 2003</u>	<u>Jan 1, 2002</u> <u>to September 30, 2002</u>
<b>Charter hire revenue</b>	<b>52,619,720</b>	<b>30,124,185</b>
<b>Operating expenses:</b>		
Depreciation of vessels under capital leases	13,194,645	13,194,645
Management fee	562,500	562,500
Administration expenses	<u>82,667</u>	<u>41,345</u>
	13,839,812	13,798,490
<b>Net operating income</b>	<b>38,779,908</b>	<b>16,325,695</b>
Interest income	29,007	24,925
Interest expense	(6,704,195)	(6,667,812)
Other financial costs	<u>(316,096)</u>	<u>(315,953)</u>
	(6,991,284)	(6,958,840)
<b>Net income</b>	<b>31,788,624</b>	<b>9,366,855</b>
	=====	=====

**KNIGHTSBRIDGE TANKERS LIMITED**  
**CONSOLIDATED COMPREHENSIVE INCOME (UNAUDITED)**  
(in U.S. Dollars)

	<u>Jan 1, 2003</u> <u>to September 30, 2003</u>	<u>Jan 1, 2002</u> <u>to September 30, 2002</u>
<b>Net income</b>	<b>31,788,624</b>	<b>9,366,855</b>
<b>Other comprehensive loss</b>		
Gain/(loss) on derivative cash flow hedging instrument	<u>3,844,950</u>	<u>(2,735,322)</u>
<b>Comprehensive income</b>	<b>35,633,574</b>	
	<u>6,631,533</u>	=====
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**KNIGHTSBRIDGE TANKERS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(in U.S. Dollars)

	<u>Jan 1, 2003</u> <u>to September 30, 2003</u>	<u>Jan 1, 2002</u> <u>to September 30, 2002</u>
<b><u>Cash flows from operating activities</u></b>		
Net income	31,788,624	9,366,855
<b>Items to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	13,194,645	13,194,645
Amortization of capitalized fees and expenses	278,658	278,658
<b>Changes in operating assets and liabilities:</b>		
Charter hire receivable and prepaid expenses	(54,246)	336,353
Accrued expenses and other current liabilities	<u>11,129</u>	<u>7,162</u>
<b>Net cash provided by operating activities</b>	<b>45,218,810</b>	<b>23,183,673</b>
<b><u>Cash flows from financing activities</u></b>		
Distribution to shareholders	<u>(39,159,000)</u>	<u>(23,256,000)</u>
<b>Net cash used in financing activities</b>	<b>(39,159,000)</b>	<b>(23,256,000)</b>
Net increase (decrease) in cash and cash equivalents	6,059,810	(72,327)
Cash and cash equivalents at beginning of period	<u>226,215</u>	<u>278,268</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>6,286,025</u></b>	<b><u>205,941</u></b>

**KNIGHTSBRIDGE TANKERS LIMITED**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
(in U.S. Dollars)

	Share Capital	Contributed capital surplus Account	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2001</b>	<b>171,000</b>		<b>238,458,720</b>	<b>-</b>	<b>(9,552,504)</b>
	<b>229,077,216</b>				
Net income	-	-	12,550,786	-	
	12,550,786				
Other comprehensive loss				(2,037,888)	
	(2,037,888)				
Distribution to shareholders	-	(18,400,214)		(12,550,786)	-
	(30,951,000)				
<b>Balance at December 31, 2002</b>	<b>171,000</b>		<b>220,058,506</b>	<b>-</b>	<b>(11,590,392)</b>
	<b>208,639,114</b>				
Net income	-	-	31,788,624	-	
	31,788,624				
Other comprehensive gain				3,844,950	
	3,844,950				
Distribution to shareholders	-	(7,370,376)	(31,788,624)	-	(39,159,000)
<b>Balance at Sept 30, 2003</b>	<b>171,000</b>	<b>212,688,130</b>	<b>-</b>	<b>(7,745,442)</b>	
	<b>205,113,688</b>				