Ship Finance International

LIMITED

2003 Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Ship Finance International Limited.

In our opinion, the accompanying predecessor combined carve-out balance sheet and the related predecessor combined carve-out statements of operations, cash flows and changes in stockholder's equity present fairly, in all material respects, the financial position of the predecessor to Ship Finance International Limited and its subsidiaries (the Company) at December 31, 2003 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on January 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 142.

PricewaterhouseCoopers DA
Oslo, Norway
22 March 2004

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Ship Finance International Limited.

In our opinion, the accompanying predecessor combined carve-out balance sheet and the related predecessor combined carve-out statements of operations, cash flows and changes in stockholder's equity present fairly, in all material respects, the financial position of the predecessor to Ship Finance International Limited and its subsidiaries (the Company) at December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on January 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 142.

PricewaterhouseCoopers
Hamilton, Bermuda
28 November 2003

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Ship Finance International Limited.

In our opinion, the accompanying predecessor combined carve-out statements of operations, cash flows and changes in stockholder's equity present fairly, in all material respects, the results of operations and their cash flows of the predecessor to Ship Finance International Limited and its subsidiaries (the Company) for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on January 1, 2001 the Company changed its method of accounting for drydocking costs and adopted Statement of Financial Accounting Standard No. 133.

PricewaterhouseCoopers DA
Oslo, Norway
28 November 2003

SHIP FINANCE INTERNATIONAL LIMITED
Audited Predecessor Combined Carve-out Statements of Operations for the years ended December 31, 2003, 2002 and 2001
(in thousands of $)

	Year ended December 31,		
	2003	**2002**	**2001**
Operating revenues			
Time charter revenues	40,759	10,873	5,804
Bareboat charter revenues	25,986	30,121	27,067
Voyage charter revenues	628,323	324,180	453,784
Total operating revenues	695,068	365,174	486,655
Operating expenses			
Voyage expenses and commission	148,533	93,996	75,199
Ship operating expenses	81,989	81,369	85,105
Depreciation and amortization	106,015	96,773	88,603
Administrative expenses	9,715	6,945	7,030
Total operating expenses	346,252	279,083	255,937
Net operating income	348,816	86,091	230,718
Other income (expenses)			
Interest income	5,866	8,511	4,346
Interest expense	(35,117)	(42,126)	(58,892)
Share of results of associated companies	22,098	(10,125)	14,259
Foreign currency exchange gain (loss)	(10,442)	(5,644)	6,246
Other financial items, net	3,591	(4,541)	(9,139)
Net other income (expenses)	(14,004)	(53,925)	(43,180)
Net income before cumulative effect of change in accounting principle	334,812	32,166	187,538
Cumulative effect of change in accounting principle	-	(14,142)	24,472
Net income (loss)	334,812	18,024	212,010

See accompanying Notes that are an integral part of these Predecessor Combined Carve-out Financial Statements

SHIP FINANCE INTERNATIONAL LIMITED
Audited Predecessor Combined Carve-out Balance Sheets as of December 31, 2003 and 2002
(in thousands of $)

	December 31, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	26,519	20,634
Trade accounts receivable	23,896	22,993
Other receivables	7,251	6,967
Inventories	16,248	19,949
Voyages in progress	34,916	30,648
Prepaid expenses and accrued income	2,234	1,699
Total current assets	111,064	102,890
Newbuildings and vessel purchase options	8,370	8,370
Vessels and equipment, net	1,863,504	1,904,146
Investment in associated companies	160,082	93,673
Deferred charges	4,304	4,338
Other long term assets	9,024	10,190
Total assets	2,156,348	2,123,607
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term debt and current portion of long-term debt	141,522	131,293
Trade accounts payable	4,664	5,215
Accrued expenses	18,729	26,621
Mark to market valuation of derivatives	9,217	16,066
Other current liabilities	10,936	7,237
Amount due to parent company	299,166	476,016
Total current liabilities	484,234	662,448
Long-term liabilities		
Long term debt	850,088	975,554
Total liabilities	1,334,322	1,638,002
Commitments and contingencies		
Stockholders' equity		
Invested equity	822,026	485,605
Total stockholders' equity	822,026	485,605
Total liabilities and stockholders' equity	2,156,348	2,123,607

See accompanying Notes that are an integral part of these Predecessor Combined Carve-out Financial Statements

SHIP FINANCE INTERNATIONAL LIMITED
Audited Predecessor Combined Carve-out Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001
(in thousands of $)

	Year ended December 31,		
	2003	2002	2001
Operating activities			
Net income (loss)	334,812	18,024	212,010
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	106,015	96,773	88,603
Amortization of deferred charges	1,019	814	775
Share of results of associated companies	(22,098)	10,125	(14,259)
Interest income, capitalized	(4,489)	(7,077)	(638)
Unrealized foreign exchange (gain) loss	10,716	5,334	(6,706)
Change in accounting principle	-	14,142	(24,472)
Adjustment of derivatives to market value	(6,850)	2,511	10,996
Release of accumulated other comprehensive income to net income	1,609	839	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Trade accounts receivable	(343)	6,517	23,292
Other receivables	(129)	(3,537)	4,817
Inventories	4,540	(10,718)	(158)
Voyages in progress	(3,061)	(23,990)	14,410
Prepaid expenses and accrued income	(285)	(72)	244
Trade accounts payable	(539)	1,115	1,351
Accrued expenses	(9,092)	3,899	(2,226)
Other current liabilities	3,698	959	(872)
Net cash provided by operating activities	415,523	115,658	307,167
Investing activities			
Additions to newbuildings, vessels and equipment	-	(249,291)	(210,036)
Investments in associated companies	(70,045)	(7,490)	(65,100)
Proceeds from sales of investments in associated companies	17,245	-	-
Net maturity (placement) of loans receivable	1,168	(1,085)	3,286
Repayment of other long term liabilities	-	(3,913)	—
Net cash provided by (used in) investing activities	(51,632)	(261,779)	(271,850)
Financing activities			
Amount due to parent company	(178,785)	41,424	(59,454)
Proceeds from long term debt	-	228,686	164,600
Repayments of long term debt	(178,236)	(126,713)	(129,208)
Debt fees paid	(985)	(2,683)	(487)
Net cash (used in) provided by financing activities	(358,006)	140,714	(24,549)
Net increase (decrease) in cash and cash equivalents	5,885	(5,407)	10,768
Cash and cash equivalents at beginning of period	20,634	26,041	15,273
Cash and cash equivalents at end of period	26,519	20,634	26,041
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	31,543	43,036	54,963

See accompanying Notes that are an integral part of these Predecessor Combined Carve-out Financial Statements

SHIP FINANCE INTERNATIONAL LIMITED
Audited Predecessor Combined Carve-out Statements of Changes in Stockholders' Equity
for the years ended December 31, 2003, 2002 and 2001

(in thousands of $)

	Invested equity
Balance at December 31, 2000	**259,632**
Net income	212,010
Transition adjustment on adoption of SFAS 133	(2,844)
Change in fair values of derivative instruments accounted for as cash flow hedges	(2,056)
Other comprehensive income (loss)	(4,900)
Comprehensive income	207,110
Balance at December 31, 2001	**466,742**
Net income	18,024
Release of accumulated other comprehensive income to net income	839
Other comprehensive income (loss)	839
Comprehensive income	18,863
Balance at December 31, 2002	**485,605**
Net income	334,812
Release of accumulated other comprehensive income to net income	1,609
Other comprehensive income (loss)	1,609
Comprehensive income	336,421
Balance at December 31, 2003	**822,026**

See accompanying Notes that are an integral part of these Predecessor Combined Carve-out Financial Statements

1. GENERAL

Ship Finance International Limited (the "Company" or "Ship Finance") was incorporated in Bermuda on October 10, 2003 for the purpose of acquiring certain of the shipping assets of its parent company, Frontline Ltd. ("Frontline"). Frontline is a publicly listed Bermuda based shipping company engaged primarily in the ownership and operation of oil tankers, including oil/bulk/ore ("OBO") carriers. The Company is a wholly owned subsidiary of Frontline. Frontline operates tankers of two sizes: very large crude carriers ("VLCCs") which are between 200,000 and 320,000 deadweight tons ("dwt"), and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. Frontline is a holding company which operates through subsidiaries and joint ventures located in Bermuda, Isle of Man, Liberia, Norway, Panama, Singapore, the Bahamas and Sweden.

These predecessor combined carve-out financial statements have been prepared to reflect the combination of certain of Frontline's wholly owned VLCC and Suezmax owning subsidiaries, interests in joint ventures plus a purchase option to acquire a further VLCC.

These predecessor combined carve-out financial statements have been prepared in contemplation of a proposed transaction to be entered into between the Company and Frontline. Pursuant to a fleet purchase agreement executed in December 2003, effective January 1, 2004, the Company acquired from Frontline certain of Frontline's wholly owned VLCC and Suezmax owning subsidiaries, including certain subsidiaries acquired or expected to be acquired through a reorganization of interests in certain joint ventures plus a purchase option to acquire a further VLCC (together the "Vessel Interests").

2. ACCOUNTING POLICIES

Basis of accounting

For the years ended December 31, 2003, 2002 and 2001, the predecessor combined carve-out financial statements presented herein have been carved out of the consolidated financial statements of Frontline. These predecessor combined carve-out financial statements include the combined assets, liabilities and results of operations and cash flows of the corporations listed in Note 4 and the combined interests in joint ventures listed in Note 11. These predecessor combined carve-out financial statements for the years ended December 31, 2003, 2002 and 2001 therefore reflect the following:

- the historical book values of the corporations listed in Note 4 and the interests in associated companies listed in Note 11, held by Frontline on January 1, 2001; and
- the acquisitions undertaken by Frontline in the three year period ended December 31, 2003 as described in Note 21. These acquired corporations have been accounted for at fair value at the date of acquisition.

The predecessor combined carve-out financial statements are prepared in accordance with accounting principles generally accepted in the United States. The predecessor combined carve-out financial statements include the assets and liabilities of the Company’s planned subsidiaries. Investments in companies in which the Company directly or indirectly holds more than 50 per cent of the voting control are combined, unless the Company is unable to control the investee. Subsidiaries acquired have been combined with effect from the acquisition date.

Investments in companies in which the Company holds between 20 per cent and 50 per cent of an ownership interest, and over which the Company exercises significant influence, are accounted for using the equity method. The Company records its investments in equity-method investees on the predecessor combined carve-out balance sheets as "Investment in associated companies" and its share of the investees' earning or losses in the predecessor combined carve-out statements of operations as "Share in results from associated companies". Six companies in which the Company owns 50.1 per cent have been accounted for using the equity method as the Company is not able to exercise control.

Frontline is a shipping company with activities that include the ownership and operation of oil tankers and dry bulk carriers as well as leasing of vessels and participation in tanker owning joint venture arrangements. Frontline is also involved in the purchase and sale of vessels. Where Frontline's assets, liabilities, revenues and expenses relate to the specific Vessel Interests, these have been identified and carved out for inclusion in these financial statements. Frontline's shipping interests and other assets, liabilities, revenues and expenses that do not relate to the Vessel Interests have been identified and not included in these financial statements. The preparation of the carved out financial statements requires allocation of certain assets and liabilities and expenses where these items are not identifiable as related to one specific activity. Administrative overheads of Frontline that cannot be related to a specific vessel type of operations have been allocated pro-rata based on the number of vessels in the Company compared with the number in Frontline's total fleet. Management has deemed that the related allocations are reasonable to present the financial position, results of operations, and cash flows of the Company. Management believes the various allocated amounts would not materially differ from those that would have been achieved had Ship Finance operated on a stand-alone basis for all periods presented. However, the financial position, results of operations and cash flows of the Company are not necessarily indicative of those that would have been achieved had the Company operated autonomously for all periods presented as the Company may have made different operational and investment decisions as a Company independent of Frontline.

The majority of the Company's assets, liabilities, revenues and expenses are vessel specific and are included in the vessel owning subsidiaries financial statements. However, in addition, the following significant allocations have been made:

Goodwill: Goodwill has arisen on certain of the acquisitions undertaken in the three year period ended December 31, 2003 as described in Note 21. Goodwill has been allocated to Ship Finance on the basis that the vessels obtained in these acquisitions, and which the goodwill is considered to relate to, are included in these predecessor combined carve-out financial statements. The associated amortization of goodwill has also been allocated to Ship Finance and recognized in these predecessor combined carve-out financial statements.

Long term debt: An allocation of corporate debt of Frontline has been made which totals $8,608,000, $9,308,000 and $nil, as of December 31, 2003, December 31, 2002 and 2001, respectively. This debt has been allocated as it relates specifically to an entity of which the Company has a purchase option. The associated interest expense has also been allocated to these predecessor combined carve-out financial statements.

Interest rate swaps: For the purposes of the predecessor combined carve-out financial statements, interest rate swaps specific to carved out debt have been included. In addition, non-debt specific interest rate swaps with notional principal amounts of $50,000,000 have been included on the basis that such swaps were intended to cover the floating rate debt that has been included in these predecessor combined carve-out statements. The associated mark to market adjustments arising on the swaps has also been allocated to these predecessor combined carve-out financial statements and is included in other financial items, net.

Administrative expenses: Frontline's overheads relate primarily to management organizations in Bermuda and Oslo that manage the business. These overhead costs include salaries and other employee related costs, office rents, legal and professional fees and other general administrative expenses. Other employee related costs include costs recognized in relation to Frontline's employee share option plan. The amount of such costs, presented as part of administrative expenses, which was allocated from these organizations was $8,995,000, $5,364,000 and $4,532,000 for the years ended December 31, 2003, 2002 and 2001 respectively.

No allocation of interest income has been made and interest income reported in the predecessor combined carve-out financial statements represents interest income earned by the vessel owning subsidiaries and interest earned on loans to joint ventures.

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. The predecessor combined carve-out financial statements do not purport to be indicative of either the future financial position, results of operations or cash flows had Ship Finance been a stand-alone entity for the periods presented.

Cash and cash equivalents

For the purposes of the predecessor combined carve-out financial statements of cash flows, all demand and time deposits and highly liquid, low risk investments with original maturities of three months or less are considered equivalent to cash.

Inventories

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

Vessels and equipment

The cost of the vessels less estimated residual value is depreciated on a straight-line basis over the vessels' estimated remaining economic useful lives. The estimated economic useful life of the Company's double hull vessels is 25 years and for single hull vessels is either 25 years or the vessel's anniversary date in 2015, whichever comes first.

With effect from April 2001, the International Maritime Organization implemented new regulations that resulted in the accelerated phase-out of single hull vessels. As a result of this, the Company re-evaluated the estimated useful life of its single hull vessels and determined this to be either 25 years or the vessel's anniversary date in 2017 whichever came first. As a result, the estimated useful life of five of the Company's vessels was reduced in the fourth quarter of 2001. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in depreciation expense and consequently decreasing net income by $0.3 million for 2001.

In December 2003, the International Maritime Organization adopted new regulations that will result in a more accelerated phase-out of single hull vessels. As a result of this, the Company re-evaluated the estimated useful life of its single hull vessels and determined this to be either 25 years or the vessel's anniversary date in 2015 whichever came first. As a result, the estimated useful life of thirteen of the Company's vessels was reduced in the fourth quarter of 2003. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in depreciation expense and consequently decreasing net income by $1.1 million in 2003.

Newbuildings and vessel purchase options

The carrying value of the vessels under construction ("Newbuildings") represents the accumulated costs to the balance sheet date that the Company has had to pay by way of purchase installments and other capital expenditures together with capitalized loan interest and associated finance costs. No charge for depreciation is made until the vessel is put into operation.

Vessel purchase options are capitalized at the time option contracts are acquired or entered into. The Company reviews expected future cash flows, which would result from exercise of each option contract on a contract by contract basis to determine whether the carrying value of the option is recoverable. If the expected future cash flows are less than the carrying value of the option plus further costs to delivery, provision is made to write down the carrying value of the option to the recoverable amount. The carrying value of each option payment is written off as and when the Company adopts a formal plan not to exercise the option. Purchase price payments are capitalized and the total of the option payment, if any, and purchase price payment is transferred to cost of vessels, upon exercise of the option and delivery of the vessel to the Company.

Impairment of long-lived assets

The carrying value of long-lived assets that are held and used by the Company are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount and fair value less estimated costs to sell.

Deferred charges

Loan costs, including debt arrangement fees, are capitalized and amortized on a straight-line basis over the term of the relevant loan. The straight-line basis of amortization approximates the effective interest method in the Company's predecessor combined carve-out statement of operations. Amortization of loan costs is included in interest expense.

Revenue and expense recognition

Revenues and expenses are recognized on the accrual basis. Revenues are generated from freight billings, contracts of affreightment, 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 predecessor combined carve-out 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 estimated results of the voyage recorded as at the reporting date.

In December 1999, Frontline entered into an agreement with five other shipowners to operate a pool (the "Tankers Pool") of their respective VLCC fleets. The Tankers Pool commenced operations on February 1, 2000 with an initial fleet of 39 modern VLCCs. In July 2002, Frontline withdrew from the Tankers Pool. These predecessor combined carve-out financial statements reflect the operation of the Tankers Pool for those vessels included in the carve out. The operating revenues and voyage expenses of the vessels operating in the Tankers Pool, and certain other pool arrangements, are pooled and net operating revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. The same revenue and expenses principles stated above are applied in determining the pool net operating revenues.

Drydocking provisions

Normal vessel repair and maintenance costs are charged to expense when incurred.

In 2001, the Company changed its accounting policy for drydockings. Prior to 2001, provisions for future drydockings were accrued and charged to expense on a pro-rata basis over the period to the next scheduled drydockings. Effective January 1, 2001 the Company recognizes the cost of a drydocking at the time the drydocking takes place, that is, it applies the "expense as incurred" method. The expense as incurred method is considered by management to be a more reliable method of recognizing drydocking costs as it eliminates the uncertainty associated with estimating the cost and timing of future drydockings. The cumulative effect of this change in accounting principle is shown separately in the predecessor combined carve-out statements of operations for the year ended December 31, 2001 and resulted in a credit to income of $24.5 million in 2001. The cumulative effect of this change as of January 1, 2001 on the Company's combined balance sheet was to reduce total liabilities by $24.5 million.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired in business acquisitions accounted for under the purchase method. Goodwill is presented net of accumulated amortization and until December 31, 2001 was being amortized over a period of approximately 17 years. As of January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") and recorded an impairment charge of $14.1 million for the unamortised goodwill on that date that is shown separately in the predecessor combined carve-out statement of operations as a cumulative effect of change in accounting principle. The valuation of the fair value of the reporting unit used to assess the recoverability of goodwill was a combination of independent third party valuations and the quoted market price of the Company's shares. Supplemental comparative disclosure as if this accounting change had been retroactively applied is as follows:

(in thousands of $)	**2001**
Net income	
As reported	212,010
Goodwill amortization	700
Adjusted net income	212,710

Derivatives

The Company enters into interest rate swap transactions from time to time to hedge a portion of its exposure to floating interest rates. These transactions involve the conversion of floating rates into fixed rates over the life of the transactions without an exchange of underlying principal. Hedge accounting is used to account for these swaps provided certain hedging criteria are met. As of January 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS 133"). Certain hedge relationships met the hedge criteria prior to SFAS 133, but do not meet the criteria for hedge accounting under SFAS 133. The Company adopted SFAS 133 in the first quarter of fiscal year 2001 and upon initial adoption recorded certain transition adjustments resulting in recognizing the fair value of its derivatives as assets of $0.4 million and liabilities of $0.7 million. A gain of $0.2 million was recognized in income and a charge of $0.5 million made to other comprehensive income. On January 1, 2002, the Company discontinued hedge accounting for two interest rate swaps previously accounted for as cash flow hedges. This resulted in a balance of $4.9 million being frozen in accumulated other comprehensive income as at that date and this will be reclassified to the statement of operations over the life of the underlying hedged instrument.

Pre-SFAS 133 Adoption

Hedge accounting is applied where the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge with respect to the hedged item. Additionally, the derivative must result in payoffs that are expected to be inversely correlated to those of the hedged item. Derivatives are measured for effectiveness both at inception and on an ongoing basis. When hedge accounting is applied, the differential between the derivative and the underlying hedged item is accrued as interest rates change and recognized as an adjustment to interest expense. The related amount receivable from or payable to counterparties is included in accrued interest income or expense, respectively. Prior to January 1, 2001, the fair values of the interest rate swaps are not recognized in the financial statements.

If a derivative ceases to meet the criteria for hedge accounting, any subsequent gains and losses are currently recognized in income. If a hedging instrument is sold or terminated prior to maturity, gains and losses continue to be deferred until the hedged instrument is recognized in income. Accordingly, should a swap be terminated while the underlying debt remains outstanding, the gain or loss is adjusted to the basis of the underlying debt and amortized over its remaining useful life.

Post-SFAS 133 Adoption

SFAS 133, as amended by SFAS 137 "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No.133" and SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133", requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. In order to qualify for hedge accounting under SFAS 133, certain criteria and detailed documentation requirements must be met.

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 most derivatives and long term debt, standard market conventions and techniques such as options pricing models 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 realized.

Foreign currencies

The Company's functional currency is the U.S. dollar as the majority of revenues are received in U.S. dollars and a majority of the Company's expenditures are made in U.S. dollars. The Company's reporting currency is U.S. dollars. All of the Company's combined entities report in U.S. dollars.

Transactions in foreign currencies during the year are translated into U.S. 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 transaction gains or losses are included in the predecessor combined carve-out statements of operations.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. In December 2003, the FASB issued Interpretation 46 Revised, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be combined by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply in the first fiscal year or interim period ending after December 15, 2003 to variable interest entities created after January 31, 2003. The consolidation requirements apply in the first fiscal year or interim period ending after December 15, 2003 for “Special Purpose Entities” created before January 31, 2003. The consolidation requirements apply in the first fiscal year or interim period ending after March 15, 2004 for other entities created before January 31, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established.

The Company has an option to purchase the VLCC Oscilla on or before the expiry of a five-year time charter, which commenced in March 2000. Oscilla is owned and operated by an unrelated entity, Seacrest Shipping Ltd. (“Seacrest”). If the Company had exercised its option at December 31, 2003, the cost to the Company of the Oscilla would have been approximately $42.3 million and the maximum exposure to loss is $17.4 million, representing amounts outstanding from Seacrest of $9.0 million and the carrying value of the option of $8.4 million. At December 31, 2003, Seacrest had total indebtedness of $36.0 million (including $9.0 million due to the Company) and JPY674.6 million (equivalent to $6.3 million) and the fair value of the vessel Oscilla was $78.5 million.

4. COMBINED ENTITIES

The Vessel Interests are all owned by separate legal entities. The following table sets out the details of the significant subsidiaries of Frontline included in the carved out combined financial statements:

Name	Vessel	Country of Incorporation	Ownership Percentage
Granite Shipping Co. Ltd.	Front Granite	Bahamas	100%
Golden Current Limited	Opalia	Isle of Man	100%
Bonfield Shipping Ltd.	Front Driver	Liberia	100%
Fourways Marine Limited	Front Spirit	Liberia	100%
Front Ardenne Inc.	Front Ardenne	Liberia	100%
Front Brabant Inc.	Front Brabant	Liberia	100%
Front Falcon Corp.	Front Falcon	Liberia	100%
Front Glory Shipping Inc.	Front Glory	Liberia	100%
Front Pride Shipping Inc.	Front Pride	Liberia	100%
Front Saga Inc.	Front Page	Liberia	100%
Front Serenade Inc.	Front Serenade	Liberia	100%

Front Splendour Shipping Inc.	Front Splendour	Liberia	100%
Front Stratus Inc.	Front Stratus	Liberia	100%
Golden Bayshore Shipping Corporation	Navix Astral	Liberia	100%
Golden Estuary Corporation	Front Comanche	Liberia	100%
Golden Fjord Corporation	Front Commerce	Liberia	100%
Golden Seaway Corporation	New Vanguard	Liberia	100%
Golden Sound Corporation	New Vista	Liberia	100%
Golden Tide Corporation	New Circassia	Liberia	100%
Katong Investments Ltd.	Front Breaker	Liberia	100%
Langkawi Shipping Ltd.	Front Birch	Liberia	100%
Patrio Shipping Ltd.	Front Hunter	Liberia	100%
Rakis Maritime S.A.	Front Fighter	Liberia	100%
Sea Ace Corporation	Front Ace	Liberia	100%
Sibu Shipping Ltd.	Front Maple	Liberia	100%
Southwest Tankers Inc.	Front Sunda	Liberia	100%
West Tankers Inc.	Front Comor	Liberia	100%
Puerto Reinosa Shipping Co. S.A.	Front Lillo	Panama	100%
Aspinall Pte Ltd.	Front Viewer	Singapore	100%
Blizana Pte Ltd.	Front Rider	Singapore	100%
Bolzano Pte Ltd.	Mindanao	Singapore	100%
Cirebon Shipping Pte Ltd.	Front Vanadis	Singapore	100%
Fox Maritime Pte Ltd.	Front Sabang	Singapore	100%
Front Dua Pte Ltd.	Front Duchess	Singapore	100%
Front Empat Pte Ltd.	Front Highness	Singapore	100%
Front Enam Pte Ltd.	Front Lord	Singapore	100%
Front Lapan Pte Ltd.	Front Climber	Singapore	100%
Front Lima Pte Ltd.	Front Lady	Singapore	100%
Front Tiga Pte Ltd.	Front Duke	Singapore	100%
Front Tujuh Pte Ltd.	Front Emperor	Singapore	100%
Front Sembilan Pte Ltd.	Front Leader	Singapore	100%
Rettie Pte Ltd.	Front Striver	Singapore	100%
Transcorp Pte Ltd.	Front Guider	Singapore	100%

5. TAXATION

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.

United States

The Company does not accrue U.S. income taxes as, in the opinion of U.S. counsel, the Company is not engaged in a U.S. trade or business and is exempted from a gross basis tax under Section 883 of the U.S. Internal Revenue Code.

A reconciliation between the income tax expense resulting from applying the U.S. Federal statutory income tax rate and the reported income tax expense has not been presented herein as it would not provide additional useful information to users of the financial statements as the Company's net income is subject to neither Bermuda nor U.S. tax.

Other Jurisdictions

Certain of the Company's subsidiaries in Singapore are subject to taxation. The tax paid by subsidiaries of the Company that are subject to taxation is not material.

6. LEASES

The minimum future revenues to be received on time charters, bareboat charters and other contractually committed income as of December 31, 2003 are as follows:

Year ending December 31, in thousands of ¥ and $)	Yen revenues (in ¥)	Yen revenues ($ equivalent)	Dollar revenues	Total
2004	768,600	7,176	30,722	37,898
2005	766,500	7,157	30,821	37,977
2006	766,500	7,157	31,003	38,160
2007	766,500	7,157	19,790	26,947
2008	768,600	7,176	8,300	15,476
2009 and later	1,694,700	15,824	-	15,824
Total minimum lease revenues	5,531,400	51,647	120,636	172,283

The cost and accumulated depreciation of the vessels leased to third parties at December 31, 2003 and 2002 were as follows:

(in thousands of $)	December 2003	December 2002
Cost	513,470	354,199
Accumulated depreciation	45,044	29,719

7. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are presented net of allowances for doubtful accounts amounting to $724,000 and $540,000 as of December 31, 2003 and 2002 respectively.

8. OTHER RECEIVABLES

(in thousands of $)	December 2003	December 2002
Agent receivables	2,385	2,781
Other receivables	4,866	4,186
	7,251	6,967

Other receivables are presented net of allowances for doubtful accounts amounting to $nil as of each of December 31, 2003, 2002 and 2001, respectively.

9. NEWBUILDINGS AND VESSEL PURCHASE OPTIONS

(in thousands of $)	December 2003	December 2002
Newbuildings	—	—
Vessel purchase options	8,370	8,370
	8,370	8,370

The carrying value of newbuildings represents the accumulated costs to the balance sheet date, which the Company has paid by way of purchase installments, and other capital expenditures together with capitalized loan interest. Interest capitalized in the cost of newbuildings amounted to $nil, and $936,000 in 2003 and 2002 respectively. The Company took delivery of four newbuildings during 2002.

The Company has an option from a third party to purchase the VLCC Oscilla on expiry of a five-year time charter, which commenced in March 2000. The purchase price is equal to the outstanding mortgage debt under four loan agreements between lenders and the vessel's owning company. As at December 31, 2003 the outstanding mortgage debt of the Oscilla's owning company amounted to $35,990,067 plus ¥674,645,262 (equivalent to $6,299,209). (2002—$43,013,215 plus ¥759,454,316 (equivalent to $6,406,735)). Included in this amount at December 31, 2003 is debt of $9,023,090 due to the Company (2002—$10,190,000). The fair value assigned to this option in the purchase accounting for Golden Ocean was $8,370,000. The fair value was calculated at the time of purchase as the difference between the fair value of the vessel and the mortgage debt outstanding.

10. VESSELS AND EQUIPMENT, NET

(in thousands of $)	December 2003	December 2002
Cost	2,607,693	2,542,320
Accumulated depreciation	(744,189)	(638,174)
Net book value at end of year	1,863,504	1,904,146

Depreciation expense was $106.1 million, $96.8 million and $87.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

11. INVESTMENT IN ASSOCIATED COMPANIES

At December 31, 2003, the Company has the following participation in investments that are recorded using the equity method:

Name	Vessel/Activity	Country of Incorporation	Ownership Percentage
Ariake Transport Corporation	Ariake	Liberia	50.1%
Dundee Navigation SA	Dundee	Liberia	50.1%
Edinburgh Navigation SA	Edinburgh	Liberia	50.1%
Hitachi Hull #4983 Corporation	Hakata	Liberia	50.1%
Sakura Transport Corporation	Sakura I	Liberia	50.1%
Tokyo Transport Corporation	Tanabe	Liberia	50.1%

The equity method investees are engaged in the ownership and operation of oil tankers.

Summarized balance sheet information of the Company's equity method investees is as follows:

(in thousands of $)	December 2003	December 2002
Current assets	29,617	44,545
Non current assets	387,322	623,538
Current liabilities	(106,984)	(191,652)
Non current liabilities	(201,347)	(470,486)

Summarized statement of operations information of the Company's equity method investees is as follows:

(in thousands of $)	2003	2002	2001
Net operating revenues	93,872	61,159	49,207
Net operating income	79,434	17,879	24,612
Net income (loss).....	45,039	(19,208)	25,804

In the year ended December 31, 2003, the Company recorded an impairment charge of $5.2 million related to the other-than-temporary decline in value of its investments in Golden Lagoon Corporation and Ichiban Transport Corporation. This impairment charge was triggered by signing agreements on June 25, 2003 for the sale of our investments for proceeds which were less than book value of those investments. We disposed of those investments in July 2003 and increased our investments in Ariake Transport Corporation, Sakura Transport Corporation, Tokyo Transport Corporation and Hitachi Hull No 4983 Ltd. from 33.33% to 50.10%.

We held 50% of the shares of Golden Tide Corporation during the year ended December 31, 2002 and the six months ended June 30, 2003. The statement of operations includes our 50% share of the earnings of Golden Tide Corporation for the year ended December 31, 2002 and the six months ended June 30, 2003. On June 30, 2003 we acquired the remaining 50% of the shares of this company for $9.5 million and we combined the assets, principally the vessel, amounting to approximately $65.5 million and liabilities, principally the long-term debt, amounting to approximately $52.3 million, from that date.

12. 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 $)	December 2003	December 2002
Debt arrangement fees..	8,142	7,173
Accumulated amortization	(3,838)	(2,835)
	4,304	4,338

13. OTHER LONG TERM ASSETS

Other long-term assets represent amounts due to the Company from third party entities that own the vessel, *Oscilla*, over which the Company has a purchase option. (see Note 9).

14. GOODWILL

Goodwill is stated net of related accumulated amortization as follows:

(in thousands of $)	December 2003	December 2002
Goodwill	-	14,142
Accumulated amortization	-	(14,142)
	-	—

The Company adopted SFAS 142 effective January 1, 2002 and recorded an impairment charge of $14.1 million for the unamortised goodwill on that date (see Note 2). See Note 21 for a description of the business acquisitions that have resulted in the recording of goodwill in these carved out financial statements.

15. ACCRUED EXPENSES

(in thousands of $)	December 2003	December 2002
Ship operating and voyage expenses	15,923	22,259
Administrative expenses	152	159
Interest expense	2,654	4,203
	18,729	26,621

16. AMOUNT DUE TO PARENT COMPANY

The amount due to parent company represents principally intercompany balances between each of the subsidiaries and Frontline and the effect of the carve out of the Vessel Interests from Frontline. Frontline operates a centralized treasury function and the majority of cash earned in subsidiaries is swept up into Frontline Ltd. and is accounted for through intercompany balances.

16. AMOUNT DUE TO PARENT COMPANY

For the purposes of these predecessor combined carve-out financial statements no interest expense has been imputed on the amount due to parent company.

17. DEBT

For the purposes of the predecessor combined carve-out financial statements for the years ended December 31, 2003 and 2002, two types of debt have been included:

1. Vessel specific debt included in the subsidiary financial statements. As of December 31, 2003 and 2002 this was a total of $982,808,000 and $1,094,727,000 respectively.

2. An allocation of corporate debt of Frontline. As of December 31, 2003 and 2002 this was a total of $8,608,000 and $9,308,000 respectively.

(in thousands of $)	December 2003	December 2002
US Dollar denominated floating rate debt (LIBOR + 0.485% to 2.75%) due through 2011	901,585	1,061,030
Yen denominated floating rate debt (LIBOR + 1.125% to 1.3135%) due through 2011	89,830	43,006
Credit facilities	195	2,811
Total debt	991,610	1,106,847
Less: short term and current portion of long term debt	(141,522)	(131,293)
	850,088	975,554

The outstanding debt as of December 31, 2003 is repayable as follows:

(in thousands of $)	December 2003
2004	141,522
2005	230,993
2006	205,044
2007	111,543
2008 and later	302,508
Total debt	991,610

The weighted average interest rate for the floating rate debt denominated in US dollars was 3.07 per cent and 3.83 per cent as of December 31, 2003 and December 31, 2002, respectively. The weighted average interest rate for the floating rate debt denominated in Yen was 1.32 per cent and 1.37 per cent as of December 31, 2003 and 2002, respectively. These rates take into consideration related interest rate swaps.

Substantially all of the debt is collateralised by ship mortgages and, in the case of some debt, pledges of shares by each guarantor subsidiary. Existing financing agreements impose operation and financing restrictions which may significantly limit or prohibit, among other things, the ability to incur additional indebtedness, create liens, sell capital shares of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, enter into time or consecutive voyage charters or pay dividends without the consent of our lenders. In addition, the lenders may accelerate the maturity of indebtedness under our financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence of certain events of default, including failure to comply with any of the covenants contained in our financing agreements. Various debt agreements contain certain covenants which require compliance with certain financial ratios. Such ratios include equity ratio covenants, minimum value clauses, and minimum free cash restrictions. These covenants are assessed at the parent company. i.e. at Frontline consolidated level. As of December 31, 2003 and December 31, 2002, Frontline complied with all the debt covenants of its various debt agreements.

18. SHARE CAPITAL

The Company was incorporated on October 10, 2003 with authorized share capital of 12,000 ordinary shares of $1.00 par value each. On that date, 12,000 ordinary shares of $1.00 par value each were issued to the initial shareholder, Frontline Ltd. For the purposes of these predecessor combined carve-out financial statements, the Company is assumed to have no issued share capital prior to October 10, 2003.

19. 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 has a portfolio of swaps that swap floating rate interest to fixed rate, which from a financial perspective hedge interest rate exposure. The Company does not hold or issue instruments for speculative or trading purposes. The counterparties to such contracts are J.P. Morgan Chase, Nordea Bank Norge, Credit Agricole Indosuez, Deutsche Schiffsbank, Midland Bank (HSBC), Den norske Bank and Skandinaviska Enskilda Banken. Credit risk exists to the extent that the counterparties are unable to perform under the contracts.

The Company manages its debt portfolio with interest rate swap agreements in U.S. dollars to achieve an overall desired position of fixed and floating interest rates. For the purposes of the carved out combined financial statements, interest rate swaps specific to carved out debt have been included. In addition, non debt specific interest rate swaps with notional principal amounts of $50,000,000 have been included. The Company has entered into the following interest rate swap transactions involving the payment of fixed rates in exchange for LIBOR:

Principal at December 31, 2003	Inception Date	Maturity Date	Fixed Interest Rate
(in thousands of $)			
$50,000	January 2001	January 2006	5.635%
$49,338 reducing monthly to $29,793	March 1998	March 2006	7.288%
$53,352 reducing monthly to $17,527	September 1998	August 2008	7.490%

Foreign currency risk: The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. One of the Company's subsidiaries has Yen denominated long-term debt which as of December 31, 2003 stood at Yen 9,620,805,000 and a charter contract denominated in Yen with contracted payments as set forth in Note 6. There is a risk that currency fluctuations will have a negative effect on the value of the Company's cashflows. The Company has not entered into derivative contracts for either transaction or translation risk. Accordingly, such risk may have an adverse effect on the Company's financial condition and results of operations. Fair Values The carrying value and estimated fair value of the Company's financial instruments at December 31, 2003 and 2002 are as follows:

(in thousands of $)	December 2003 Carrying Value	December 2003 Fair Value	December 2002 Carrying Value	December 2002 Fair Value
Non-Derivatives:				
Cash and cash equivalents	26,519	26,519	20,634	20,634
Short term debt and current portion of long term debt	141,522	141,522	131,293	131,293
Long term debt	850,088	850,088	975,554	975,554
Derivatives:				
Interest rate swap transactions	5,258	5,258	16,066	16,066

The carrying value of cash and cash equivalents, 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.

The fair value of interest rate swaps is estimated by taking into account the cost of entering into interest rate swaps to offset the Company's outstanding swaps. 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 the Bank of America N.A., Skandinaviska Enskilda Banken, BNP Paribas, Den norske Bank and Nordea Bank Norge. However, the Company believes this risk is remote as these banks are high credit quality financial institutions.

The majority of the vessels' gross earnings are receivable in U.S. dollars. In 2003 and 2002, no customer accounted for 10 per cent or more of freight revenues.

20. RELATED PARTY TRANSACTIONS

During 1996, 1997 and January 1998, Frontline received options to assume newbuilding contracts for the construction and purchase of five Suezmax tankers at the Hyundai Heavy Industries Co. Ltd. shipyard in South Korea for delivery in 1998 and 2000 from single-ship owning companies affiliated with Hemen Holding Ltd. ("Hemen"). Hemen is Frontline's largest shareholder and is indirectly controlled by Mr. John Fredriksen, Chairman and Chief Executive Officer of Frontline and of the Company. Two of the single-ship owning companies, owning vessels delivered in 1998, have been included in these carved out financial statements.

In September 2000 Frontline acquired a 1993-built VLCC, which was named Front Ace from a company affiliated with Hemen. This vessel was acquired for a price of $53 million which was based on three independent valuations less a $1 million discount compared to appraised market value. The single ship owning company that owns Front Ace has been included in these predecessor combined carve-out financial statements.

In February 2001, the Company acquired newbuilding contracts for the construction and purchase of three VLCC tankers at the Hitachi shipyard in Japan for delivery in 2002 from Seatankers Management Co. Ltd., a company affiliated with Hemen. These contracts were acquired for the original contract price of $72 million each plus $0.5 million per contract. These three newbuildings were delivered in 2002 and are included in these predecessor combined carve-out financial statements.

21. ACQUISITIONS

ICB Shipping AB (publ)

In September 1997, Frontline made a public offer to acquire all of the shares of ICB Shipping AB (publ) ("ICB"). Through the tender offer, by October 1997 Frontline acquired 51.7 per cent of the outstanding shares of ICB, representing 31.4 per cent of the voting rights, at a purchase price of approximately $215 million. During 1998, Frontline made further purchases of ICB Shares in the market and at December 31, 1998 had 34.2 per cent of the voting power. In the latter half of 1999 Frontline increased its shareholding in ICB to approximately 90 per cent of the capital and 93 per cent of the voting rights. In October 1999, a new Board of Directors was appointed in ICB and ICB consequently was controlled by Frontline. In December 1999, Frontline commenced a compulsory acquisition for the remaining shares in ICB and ICB was delisted from the Stockholm Stock Exchange. The carved out financial statements of the Company include all of the VLCC and Suezmax owning subsidiaries acquired by Frontline and the goodwill arising on the acquisition of ICB.

Golden Ocean Group Limited

On October 10, 2000, Frontline acquired the entire share capital of Golden Ocean Group Limited ("Golden Ocean"), a shipping group which held interests in 14 VLCCs and 10 bulk carriers. The total acquisition price paid, including amounts paid to settle allowed claims, was approximately $63.0 million. The difference between the purchase price and the net assets acquired, has been recorded as goodwill. The predecessor combined carve-out financial statements of the Company include seven VLCC owning subsidiaries acquired by Frontline, one option to acquire a VLCC and one interest in an associated company which owns a VLCC, and the goodwill arising on this acquisition.

Mosvold Shipping Limited

In April 2001, the Company announced an offer for all of the shares of Mosvold Shipping Limited ("Mosvold"), a Bermuda company whose shares were listed on the Oslo Stock Exchange. Through a combination of shares acquired and acceptances of the offer, Frontline acquired 97 per cent of the shares of Mosvold. The remaining 3 per cent of the shares of Mosvold were acquired during 2001 through a compulsory acquisition. Through the purchase of Mosvold Frontline acquired two mid-70s built VLCCs and three newbuilding contracts for VLCCs. The two mid-70s built VLCCs have subsequently been sold by Frontline. The first two of the newbuildings were delivered in 2002 and the third in July 2003. The total acquisition price paid for Mosvold was approximately $70.0 million and the acquisition has been accounted for using the purchase method. The difference between the purchase price and the net assets acquired, has been assigned to the identifiable long term assets of Mosvold. Thirty employees of Mosvold were made redundant as the result of the acquisition by Frontline and severance costs of approximately $0.3 million were incurred by Mosvold in the year ended December 31, 2001. The predecessor combined carve-out financial statements of the Company include one newbuilding VLCC owning subsidiary acquired by Frontline.

22. COMMITMENTS AND CONTINGENCIES

Assets Pledged

(in thousands of $)	**December 2003**	**December 2002**
Ship mortgages	1,863,504	1,904,146

Other Contractual Commitments

Frontline insures the legal liability risks for its shipping activities with Assuranceforeningen SKULD, Assuranceforeningen Gard Gjensidig, Britannia Steam Ship Insurance Association Limited, and the United Kingdom Mutual Steamship Assurance Association (Bermuda), all mutual protection and indemnity associations. As a member of these mutual associations, Frontline is subject to calls payable to the associations based on the Frontline's claims record in addition to the claims records of all other members of the associations. A contingent liability exists to the extent that the claims records of the members of the associations in the aggregate show significant deterioration, which result in additional calls on the members.

Certain of Frontline's subsidiaries included in these predecessor combined carve-out financial statements have contractual rights to participate in the profits of the vessels New Vanguard and New Vista. Revenues arising from these arrangements have been accrued to the balance sheet date.

The charterers of two of the vessels included in these carved out combined financial statements have contractual rights to participate in the profits on sale of those vessels. If the New Vanguard or New Vista are sold, the charterer is entitled to claim up to $1 million to cover losses incurred on subcharters of the vessel. Any remaining profit is to be split 60:40 in favor of the owner.

The charterer of the vessel, Navix Astral, holds a purchase option denominated in yen to purchase the vessel. The purchase option reduces on a sliding scale over the term of the related charter and is at a strike price that is in excess of the related debt on the vessel. The option is exercisable at any time after the end of the seventh year of the charter.

23. SUBSEQUENT EVENTS

In December 2003, Frontline agreed with its partner, Overseas Shipholding, Group, Inc. ("OSG"), to reorganize their mutual interests in six associated companies, which each own a VLCC. These agreements resulted in Frontline exchanging its interests in the vessels Dundee, Sakura I and Tanabe for OSG's interests in the vessels Edinburgh, Ariake and Hakata, thereby increasing its interest in these vessels to 100.0% each. These exchanges were concluded in February 2004. These interests have been allocated to Ship Finance in these predecessor combined carve-out financial statements on the basis of Frontline's historical interest in these associated companies.

SHIP FINANCE INTERNATIONAL LIMITED
INDEX TO STAND ALONE FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITOR

To the Board of Directors and Stockholder of Ship Finance International Limited.

In our opinion, the accompanying balance sheet and the related statement of operations, cash flows and changes in stockholder's equity present fairly, in all material respects, the financial position of Ship Finance International Limited (the Company) at December 31, 2003 and the results of their operations for the period from October 10, 2003 (Inception) to December 31, 2003, and its cash flows for the period from October 10, 2003 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers DA
Oslo, Norway
6 February 2004, except for note 12, for which the date is 17 February 2004

SHIP FINANCE INTERNATIONAL LIMITED
Audited Statement of Operations for the period from October 10, 2003 (Inception) to December 31, 2003

(in thousands of $)

Operating expenses	
Administrative expenses	14
Total operating expenses	14
Other income (expenses)	
Interest income	199
Interest expense	(2,122)
Net other income (expenses)	(1,923)
Net income (loss)	(1,937)

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

SHIP FINANCE INTERNATIONAL LIMITED
Audited Balance Sheet as of December 31, 2003

(in thousands of $)

ASSETS	
Current Assets	
Restricted cash	565,500
Other receivables	211
Total current assets	565,711
Deferred charges	16,481
Total assets	582,192
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Trade accounts payable	-
Accrued expenses	4,015
Amount due to parent company	102
Total current liabilities	4,117
Long-term liabilities	
Long term debt	580,000
Total liabilities	584,117
Commitments and contingencies	-
Stockholders' equity	
Share capital (12,000 shares of $1 authorized and issued)	12
Retained deficit	(1,937)
Total stockholders' equity	(1,925)
Total liabilities and stockholders' equity	582,192

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

SHIP FINANCE INTERNATIONAL LIMITED
Audited Statement of Cash Flows for the period from October 10, 2003 (Inception) to December 31, 2003

(in thousands of $)

Operating activities	
Net loss	(1,937)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Amortization of deferred charges	69
Other receivables	(199)
Accrued expenses	2,063
Amount due to parent company	4
Net cash provided by operating activities	nil
Investing activities	
Net placement of restricted cash	(565,500)
Net cash provided by (used in) investing activities	(565,500)
Financing activities	
Proceeds from long term debt	580,000
Debt fees paid	(14,500)
Net cash (used in) provided by financing activities	565,500
Net increase (decrease) in cash and cash equivalents	nil
Cash and cash equivalents at beginning of period	nil
Cash and cash equivalents at end of period	nil
Supplemental disclosure of cash flow information:	
Interest paid, net of capitalized interest	nil

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

1. GENERAL

Ship Finance International Limited (the "Company" or "Ship Finance") was incorporated in Bermuda on October 10, 2003 for the purpose of acquiring certain of the shipping assets of its parent company, Frontline Ltd. ("Frontline"). Frontline is a publicly listed Bermuda based shipping company engaged primarily in the ownership and operation of oil tankers, including oil/bulk/ore ("OBO") carriers. The Company is a wholly owned subsidiary of Frontline. Frontline operates tankers of two sizes: very large crude carriers ("VLCCs") which are between 200,000 and 320,000 deadweight tons ("dwt"), and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. Frontline is a holding company which operates through subsidiaries and joint ventures located in Bermuda, Isle of Man, Liberia, Norway, Panama, Singapore, the Bahamas and Sweden.

On December 11, 2003 the Company entered into a purchase agreement with Frontline to purchase certain of Frontline's wholly owned VLCC and Suezmax owning subsidiaries, including certain subsidiaries acquired or expected to be acquired through a reorganization of interests in certain joint ventures plus a purchase option to acquire a further VLCC (together the "Vessel Interests").

On December 18, 2003 the Company issued $580 million of 8.5% Senior Notes due 2013 in a private offering to Qualified Institutional Buyers. The proceeds from this offering, together with a deemed equity contribution of approximately $525 million from Frontline, will be used to complete the acquisition of the Vessel Interests.

2. ACCOUNTING POLICIES

Basis of accounting

These financial statements are prepared in accordance with accounting principles generally accepted in the United States.

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.

Cash and cash equivalents

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

Deferred charges

Loan costs, including debt arrangement fees, are capitalized and amortized on a straight-line basis over the term of the relevant loan. The straight line basis of amortization approximates the effective interest method in the Company's statement of operations. Amortization of loan costs is included in interest expense.

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 most derivatives and long term debt, standard market conventions and techniques such as options pricing models 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 realized.

The Company has no independent assets or operations from those if its subsidiaries who have provided guarantees to its indebtedness. These guarantees are full and unconditional and joint and several. All of the Company's subsidiaries are guarantors.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2002, the FASB issued Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of Interpretation 45 has not had a material effect on the results of operations or financial position of the Company.

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. A variable interest entity is a legal entity that lacks either (a) equity interest holders as a group that lack the characteristics of a controlling financial interest, including: decision making ability and an interest in the entity's residual risks and rewards or (b) the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support.. Interpretation 46 requires a variable interest entity to be consolidated if any of its interest holders are entitled to a majority of the entity's residual return or are exposed to a majority of its expected losses. This party is referred to as the primary beneficiary.

In December 2003, the FASB issued FASB Interpretation 46(R), Consolidation of Variable Interest Entities. FIN 46(R) replaces FIN 46 and clarifies the accounting for interests in variable interest entities. The company will begin to apply FIN 46 (R) to entities considered to be variable interest entities for periods after December 31, 2003.

Management is currently considering the impact of FIN 46 (R).

4. TAXATION

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. United States The Company does not accrue U.S. income taxes as, in the opinion of U.S. counsel, the Company is not engaged in a U.S. trade or business and is exempted from a gross basis tax under Section 883 of the U.S. Internal Revenue Code.

A reconciliation between the income tax expense resulting from applying the U.S. Federal statutory income tax rate and the reported income tax expense has not been presented herein as it would not provide additional useful information to users of the financial statements as the Company's net income is subject to neither Bermuda nor U.S. tax.

5. 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 $)	December 31, 2003
Debt arrangement fees	16,550
Accumulated amortization	(69)
	16,481

6. ACCRUED EXPENSES

(in thousands of $)	December 31, 2003
Debt fees	1,961
Interest expense	2,054
	4,015

7. AMOUNT DUE TO PARENT COMPANY

The amount due to parent company represents advances to the Company by Frontline to fund payment of our start up costs and expenses incurred prior to our issuance of Senior Notes. For the purposes of these financial statements, no interest expense has been imputed on the balance due to Frontline.

8. DEBT

On December 15, 2003 the Company issued $580 million of senior notes. The notes are governed by an Indenture dated December 15, 2003 among the Company and Wilmington Trust Company, as trustee. The Indenture contains covenants that restrict the ability of the Company, among other things, to incur additional indebtedness, to pay dividends or make distributions of capital, to enter into certain sale and leaseback transactions, to sell assets or capital stock of its subsidiaries or to enter into transactions with affiliates. These covenants are fully explained in the Prospectus to the notes issue and in the Registration Statement that will be filed in connection with an Exchange Offer for the notes.

The notes:

- are general unsecured, senior obligations of the Company;
- are limited initially to an aggregate principal amount of $580 million;
- will mature on December 15, 2013;
- were issued in denominations of $1,000 and integral multiples of $1,000;
- are represented by one or more registered notes in global form, but in certain circumstances may be represented by notes in definitive form;
- rank equally in right of payment to any future senior indebtedness of the Company but are effectively subordinated to all future secured indebtedness of the Company, to the extent of the value of the collateral securing such Indebtedness;
- the notes will be unconditionally guaranteed on a senior unsecured basis by each subsidiary of the Company, but the guarantees will be effectively subordinated to all present and future secured indebtedness of the subsidiaries, to the extent of the value of the collateral securing such Indebtedness;
- The notes are not redeemable prior to December 15, 2008 except as described below. After that date the Company may redeem notes at redemption prices which reduce from 104.25% in 2008 to 100% in 2011 and thereafter. Prior to December 15, 2006 the Company may redeem up to 35% of the original principal amount using the cash proceeds of an initial public equity offering at a redemption price of 108.5%; and
- are expected to be eligible for trading in the PORTAL market.

Interest on the notes:

- accrues at the rate of 8.50% per annum;

- accrues from the date of issuance or the most recent interest payment date;
- is payable in cash semi-annually in arrears on June 15 and December 15, commencing on June 15, 2004;
- is payable to the holders of record on June 1 and December 1 immediately preceding the related interest payment dates; and
- is computed on the basis of a 360-day year comprised of twelve 30-day months.

9. SHARE CAPITAL

The Company was incorporated on October 10, 2003 with authorized share capital of 12,000 ordinary shares of $1.00 par value each. On that date, 12,000 ordinary shares of $1.00 par value each were issued to the initial shareholder, Frontline Ltd.

10. FINANCIAL INSTRUMENTS

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2003 are as follows:

(in thousands of $)	December 31, 2003 Carrying Value	December 31, 2003 Fair Value
Non-Derivatives:		
Restricted cash	565,500	565,500
Long term debt	580,000	580,000

The carrying value of restricted cash is a reasonable estimate of fair value.

The estimated fair value for our long-term debt is considered to be equal to the carrying value since the Company estimate that the market interest rate for debt with similar terms to our debt is the same as the interest rate on our debt.

11. COMMITMENTS AND CONTINGENCIES

Other Contractual Commitments

On December 11, 2003 the Company entered into a purchase agreement with Frontline to purchase certain of Frontline's wholly owned VLCC and Suezmax owning subsidiaries, including certain subsidiaries acquired or expected to be acquired through a reorganization of interests in certain joint ventures plus a purchase option to acquire a further VLCC (together the "Vessel Interests"). The purchase price for the Vessel Interests is $950 million and is to be settled in cash, net of a deemed equity contribution of $525 million by Frontline.

12. SUBSEQUENT EVENTS

On January 1, 2004 the Company completed the purchase of the Vessel Interests it agreed to purchase from Frontline on December 11, 2003.

As a result of these transactions the Company has acquired a fleet of 24 Suezmax tankers and 23 VLCCs with a combined deadweight tonnage of 10,498,000,000 tones and a combined book value of approximately $2,107 million.

On January 1, 2004 the Company entered into time charter agreements with Frontline Shipping Ltd., a subsidiary of

Frontline, to charter the 46 vessels for substantially the remainder of their useful lives at fixed rates.

On January 1, 2004 the Company entered into management agreements with Frontline Management (Bermuda) Ltd., a subsidiary of Frontline, to manage the 46 vessels for substantially the remainder of their useful lives at fixed rates.

On February 17, 2004 the Company entered into a senior secured credit facility agreement with a syndicate of banks with principal amount $1,058.0 million. This facility bears interest at LIBOR plus 1.25% payable quarterly in arrears and may be prepaid without penalty. The principal amortization schedule in respect of our senior secured credit facility, assuming that it is fully drawn upon, will be as follows:

Year	**Amount (dollars in millions)**
2004	$93.7
2005	93.7
2006	93.7
2007	93.7
2008	93.7
2009	89.8
At maturity in 2010	499.7