



# FRONTLINE

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INTERIM REPORT  
JULY-SEPTEMBER 1997



## **STRONG IMPROVEMENT IN FRONTLINE RESULTS**

The Board of Frontline Ltd. has in a board meeting in Hamilton, Bermuda November 22, discussed and approved the Group's results for the first nine months of 1997. The Board expresses satisfaction with the improved trend, which now clearly can be seen in Frontline's earnings. The positive development reflects the improved freight market, the increased fleet, as well as the company's improved cost structure.

### **RESULTS**

For the first nine months the Group recorded a net profit of USD 8.2 million, compared with a net loss of USD 9.6 million in the equivalent period in 1996.

The result in the first nine months includes charges of USD 4.2 million relating to non-recurring expenses in connection with the restructuring of the Group's domicile, of this USD 0.7 million has been charged in the third quarter. The Group's result does not include a gain of USD 6.5 million realized in the third quarter through the execution of the clawback arrangement with BTL and Goldtec. In accordance with US GAAP this gain is regarded as an equity transaction, thus it has not been posted in the profit and loss statement, but is taken directly into the Group's balance sheet.

Operating profit before depreciation (EBITDA) for the first nine months amounted to USD 75.7 million (USD 29.4 million in 1996). Net financial items amounted to USD 27.5 million (USD 16.8 million). The increase is due to an increase in total debt relating to the acquisition of a number of vessels in the fourth quarter 1996.

The result for the third quarter of 1997 was USD 6.2 million (USD -2.0 million) and EBITDA was USD 29.4 million (USD 11.0 million). Net financial items were USD 9.3 million (USD 5.6 million).

The Group's investments in ICB Shipping, were performed during September. The investment will be recorded according to the equity method. However, it has not been accounted for in the third quarter.

The Group's investments in the two shuttletankers M/T Polytrader and M/T Polytraveller which historically have been treated as operating income, have in accordance with US GAAP been reclassified to results from associated companies.

Average number of shares in the third quarter was 108,534,840. Earnings per share equalled USD 0.06.

### **CORPORATE MATTERS**

In early July, the Group changed domicile from Sweden to Bermuda. 99.4% of the share capital in Frontline AB participated in the change, Frontline has initiated a process of compulsory acquisition of the shares from the remaining shareholders.

In July, Frontline acquired SEK 182.7 million of the SEK 211.0 million outstanding convertible bonds. The bonds were acquired at a premium, and this was expensed as a financial item during the second quarter (USD 0.7 million).

On August 14, the Group carried out a private placement of 10,000,000 Frontline Ltd. shares at NOK 28.15 per share. The proceeds from the private placement were used to equity finance the acquisition of three Suezmax newbuildings which are presently being built at the Hyundai yard in Korea. Delivery of these ships will take place during the period June to August 1998. The newbuilding contracts are accounted for on a net basis, i.e. only the paid installments have been accounted for.

On September 1, Frontline announced an agreement with a party indirectly controlled by its Chairman, to acquire the shares in Fourways Marine Limited, the owner of the Suezmax Sea Spirit (built in 1993) in exchange for 3,000,000 Frontline shares at NOK 35 per share, plus absorption of the company's debt. The vessel was taken over on September 25. The transaction values the vessel at USD 41.7 million, which is USD 1 million less than three independent appraisals of the vessel.

In the beginning of September, the Group carried out a private placement of 21,000,000 Frontline Ltd shares at NOK 35 per share. The proceeds secured equity financing of the offer to the shareholders of ICB Shipping AB for all the shares in the last mentioned company. Throughout September, Frontline acquired shares in ICB, and currently holds 51.8% of the capital and 31.5% of the votes in that company. The total cost for this holding is USD 215 million.

The ICB Board has characterized Frontline's offer as hostile and countered with a proposal for merging with Astro Tankers, a tanker company. The general assembly of ICB voted in favor of a merger with Astro on October 17, against the votes of Frontline. Frontline will contest the decision on legal grounds due to the fact that the merger proposal and the suggested completion of the merger are, in Frontline's opinion, in breach with the Swedish Companies Act. The Board of Frontline feels confident with its current position as majority shareholder in ICB.

On September 22, Frontline and London & Overseas Freighters Limited (LOF) announced that they are to amalgamate in a two step transaction. LOF owns and operates three modern double hull Suezmax tankers. On October 28, the two companies announced that Frontline as the first step of the amalgamation had acquired 79.74% of the shares in LOF. As the next step, Frontline and a subsidiary of LOF will amalgamate, leaving LOF as the surviving entity. Frontline shareholders will receive approximately 3.26 LOF shares for each Frontline share. LOF is currently listed on the NASDAQ exchange and London Stock Exchange. Through the described transaction Frontline shareholders will exchange their shares in Frontline Ltd. for new shares in LOF. The name of the combined company will later be changed to Frontline Ltd. The amalgamation process is expected to be completed in January 1998.

On September 25, Frontline issued 4.5 million shares in a private placement at NOK 38.25 per share, this was done to strengthen the equity base in connection with the ICB and LOF share acquisitions.

At Frontline Ltd.'s shareholders meeting on Bermuda on September 25, the authorized share capital was raised to USD



220,000,000 (consisting of 220,000,000 ordinary shares of par value USD 1.00 each). As per date 136,701,507 shares have been issued.

As of September 30, Frontline's recorded equity had increased during the quarter by USD 188.4 million to USD 516.1 million. The Group's cash and bank deposits totalled at the same time USD 61.0 million. In addition, Frontline had non-utilized credit facilities in the amount of USD 10.0 million.

## THE MARKET

The ton mile demand for large tankers has increased approximately 4% during the second half of 1997 compared to second half of 1996. Increased crude export from AG, and a flattening of the North Sea production level are the main reasons for this development. An interesting trend, which has been observed during the third quarter, has been the increased transport of oil to China.

The VLCC market continued the strong positive trend in the third quarter. The market for Suezmax tonnage including the Group's OBOs was weak in the first half of the third quarter, partly as a consequence of lack of Iraqi export through the Ceyhan pipeline. After UN lifted their sanctions, the Suezmax market went back to balance and Suezmax tonnage enjoyed rates in the USD 26 - 28,000 level.

The dry cargo market has remained rather weak throughout the quarter. The OBO ships have in the quarter mainly been employed in the wet market.

The VLCCs had an income on timecharter basis of USD 37,300 per day in the third quarter, and USD 29,300 per day for the first nine months.

The two Suezmaxes had an income on timecharter basis of USD 23,300 per day in the third quarter, and USD 23,300 per day for the first nine months. The OBOs had an income on timecharter basis of USD 27,100 per day in the third quarter, and USD 25,800 per day for the first nine months.

Both the two vessels chartered in commercial T/C arrangements contributed positively to the results in the third quarter.

The Board is pleased to see that the effort put into improving the quality of the company's chartering operation is now starting to give clear results.

## ORGANIZATION

As a consequence of the amalgamation with LOF, the number of employees in the Group's head office in Hamilton, Bermuda will be increased with two full-time employees. The staffing of Frontline Management's organization in Oslo has been completed, and 16 persons are employed. The Swedish office has been closed down.

In the Board meeting November 22, senior lawyer in Appleby, Spurling and Kempe, Mr. Kenneth Douglas, was appointed as new member of the Board in Frontline Ltd. He will replace Ms. Jill Virgil-Smith.

## OUTLOOK

The positive development in the third quarter has continued into fourth quarter. Average T/C rates for the company's VLCC tonnage in the fourth quarter is expected to be higher

than in the third quarter. Also the Suezmaxes and the OBOs have shown improved earnings so far in the fourth quarter.

The combination with LOF gives the company additional fleet exposure, and the transaction is expected to increase cashflow and earnings per share.

The Directors are currently considering several alternatives for the financing of the four VLCC newbuildings in which Frontline holds options. In addition, it is expected that the company during the fourth quarter will receive options for a fifth and a sixth VLCC through a similar arrangement. In view of the current bullish outlook for the market, the Board will focus on financing solutions, which minimize the need for issuing new equity.

Independent valuation appraisals of the newbuilding contracts indicate that there already is significant net value in the newbuilding options. No value has been assigned to the newbuilding options in Frontline's balance sheet.

Net financial expenses are expected to increase in the fourth quarter as a result of the additional debt taken up in connection with the ICB, LOF and Sea Spirit investments.

As a consequence of the Group's improved financial strength, the Group has requested improved terms of the existing financing arrangements. The banks have reacted positively to the request.

The results for the fourth quarter will be significantly positively influenced by the equity accounting of the company's majority position in ICB, and also by the consolidation of the 80% holding in LOF.

It is the Directors' opinion that the moderate delivery schedules for new tanker tonnage for the next two years set the basis for further improvements in the market. Increased ton-mile demand, lower efficiency and new rules and regulations coming into effect for old tonnage further improves the outlook. The current utilization of the tanker fleet is approximately 90%. Small improvements or imbalances from the current utilization level could lead to substantial improvements in the rates with consequential effects for secondhand pricing. The development in the fourth quarter with peak fixtures up to USD 60,000 per day for VLCCs confirms this view.

Based on the corporate steps taken by Frontline in 1997, the Board feels that the company now is well positioned, and remains optimistic about the future outlook for the company.

*Bermuda, November 22, 1997*

*The Board of Directors  
Frontline Ltd.*

Further information on Frontline is located at:  
<http://hugin.sol.no/FRO/>

**Income statement**

(USD 1000)

1996 July-Sept	1997 July-Sept		1997 Jan-Sept	1996 Jan-Sept	1996 Jan-Dec
44 466	62 698	Freight revenues	179 364	132 849	178 179
-17 621	-12 371	Voyage expenses	-42 837	-49 862	-67 708
<b>26 845</b>	<b>50 327</b>	<b>Income on time charter basis</b>	<b>136 527</b>	<b>82 987</b>	<b>110 471</b>
3 053	0	Gain from sale of vessels	0	3 053	6 188
-8 369	-11 460	Ship operating expenses	-32 573	-25 107	-34 926
-8 859	-6 946	Charterhire expenses	-18 956	-26 576	-34 670
-1 642	-2 472	Administrative expenses	-9 271	-4 926	-8 184
<b>11 028</b>	<b>29 449</b>	<b>Operating profit before depreciation (EBITDA)</b>	<b>75 727</b>	<b>29 431</b>	<b>38 879</b>
-8 143	-15 128	Ordinary depreciation	-43 451	-24 431	-33 752
<b>2 885</b>	<b>14 321</b>	<b>Operating profit after depreciation (EBIT)</b>	<b>32 276</b>	<b>5 000</b>	<b>5 127</b>
144	1 073	Financial income	2 910	2 101	3 643
-5 757	-10 332	Financial expenses	-30 420	-18 940	-26 207
763	1 143	Results from associated companies	3 429	2 289	3 471
<b>-1 965</b>	<b>6 205</b>	<b>Income before taxes</b>	<b>8 195</b>	<b>-9 550</b>	<b>-13 966</b>
-5	-3	Taxes	-6	-15	-15
<b>-1 970</b>	<b>6 202</b>	<b>Net profit/loss after tax</b>	<b>8 189</b>	<b>-9 565</b>	<b>-13 981</b>
	0.056	EPS (USD)	0.081		
	0.194	CEPS (USD)	0.508		
	108.5	Average number of shares (million)	101.6		

**Balance sheet**

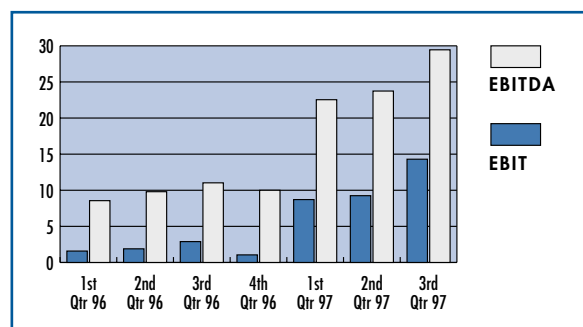
(USD 1000)

	1997 September 30	1996 September 30	1996 December 31
<b>Assets</b>			
Cash and bank deposits	61 038	69 196	58 003
Other current assets	31 262	22 694	25 949
Ships and new buildings	873 001	408 571	831 981
Associated companies	222 389	3 040	3 580
Other assets	5 157	990	1 600
<b>Fixed assets</b>	<b>1 192 847</b>	<b>504 491</b>	<b>921 113</b>
<b>Stockholders' equity and liabilities</b>			
Short-term liabilities	26 892	32 319	31 471
Current portion of long-term debt	149 873	32 901	53 934
Long-term liabilities	499 965	283 730	508 008
Stockholders' equity	516 117	155 541	327 700
<b>Total stockholders' equity and liabilities</b>	<b>1 192 847</b>	<b>504 491</b>	<b>921 113</b>

Income on timecharter basis (USD per day per ship) \*

Q 3 1997		30.9.1997	1996
37 323	VLCC	29 266	27 700
23 347	Suezmax	23 278	26 800
27 090	OBO	25 836	23 000

\* Basis = Calendar days minus off-hire



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