ANNUAL REPORT 1997

FRONTLINE

Frontline Ltd. is a major, Bermuda based, tanker company. The fleet, which is one of the most modern in the world, consists of 25 Suezmax tankers (of which 9 are Combination Carriers) and 6 VLCC tankers, totalling 5.4 million dead weight tons. In addition to this the Company will take delivery of 2 Suezmax and 10 VLCC newbuildings in the period 1998-2000.

Through the corporate transactions undertaken over the last two years, Frontline has emerged as a leading tanker company within the VLCC and Suezmax segments. The idea behind refocusing Frontline was to provide our customers with a more flexible and reliable alternative, and use this flexibility to develop unique industrial relations that would give material benefits to our customers as well as the Company.

INDEX

Five-year financial highlights [1)]

	1997	1996	1995	1994	1993
Income statement data ($ mill.)					
Freight revenues	**259.7**	178.2	197.2	164.2	169.4
Net operating income before depreciation	**112.2**	38.9	53.8	30.8	12.6
- of which, Gain on sale of vessels	-	6.2	-	-	-9.1
Net operating income after depreciation	**55.5**	5.1	22.2	0.4	-23.3
Net other expenses (incl. finan. items)	**38.0**	19.1	19.6	21.8	22.2
Net income before taxes	**17.4**	-14.0	2.6	-21.4	-45.5
Profitability ratios (%)					
Return on capital employed	**5.8**	1.7	5.9	0.7	-2.8
Return on stockholders equity	**4.1**	-5.5	1.7	-12.9	-27.8
Year end financial position					
Total assets ($ mill.)	**1 333.1**	921.1	549.9	534.3	563.8
Liquid assets ($ mill.)	**86.9**	58.0	68.2	72.6	73.9
Unutilized overdraft facilities ($ mill.)	**-**	11.0	11.0	11.0	11.0
Net indebtedness ($ mill.)	**686.3**	504.0	285.1	264.3	277.1
Stockholders' equity ($ mill.)	**519.3**	327.7	165.7	166.5	189.5
Equity/assets ratio (%)	**39.0**	35.6	30.1	31.2	33.6
Debt/equity ratio (%)	**1.5**	1.7	2.2	2.0	1.9
Interest cover (%)	**1.4**	0.6	1.1	0.2	-0.5
Investments ($ mill.)					
Net investments	**482.6**	411.9	35.6	-1.8	-40.0
Per share data ($) [2)]					
Stockholders' equity	**1.13**	1.03	1.19	1.19	1.66
Stockholders' equity, fully diluted	**1.13**	1.07	1.24	1.19	1.73
EPS Basic	**0.05**	-0.09	0.02	-0.15	-0.47
EPS Diluted	**0.05**	0.09	0.02	-0.12	-0.37
Market price at year end	**1.25**	1.07	0.78	0.86	0.77
Dividend	**-**	-	-	-	-
P/E ratio	**25.0**	neg.	39.0	neg.	neg.
Outstanding shares as per 31.12. (mill.)	**461.1**	321.6	141.1	141.1	141.1
Average number of shares (mill.)	**361.9**	148.7	141.1	141.1	141.1

1) Figures for 1993-94 are according to Swedish GAAP, 1995-97 are according to US GAAP.
2) Per share data are adjusted for the 1:3.2635 split.

Capital Employed: Total assets minus non-interest bearing liabilities.

Debt/Equity Ratio: Interest bearing current and long-term liabilities, divided by stockholders' equity.

Earnings per Share: Net income (loss), divided by the average number of shares outstanding during the year.

Earnings per Share Fully Diluted: Net income (loss), divided by the average number of shares outstanding, taking into account potential dilutive effects (see Note 7).

Equity/Assets Ratio: Stockholders' equity divided by total assets.

Interest Cover: Net income (loss) before interest expenses divided by interest expense.

Net Indebtedness: Interest bearing liabilities minus liquid assets.

Net Investments: Investments in fixed assets minus the sales proceeds from divested fixed assets. For the purpose of calculating this number in 1997, the investment in ICB Shipping AB is included.

P/E Ratio: Price/earnings ratio. Year end share price divided by Earnings per Share.

Return on Capital Employed: Net income (loss) before interest expense, as a percentage of average capital employed.

Return on Stockholders Equity: Net income (loss), as a percentage of average stockholders' equity.

Stockholders Equity per Share: Stockholders' equity divided by the numbers of shares.

Report of the Board of Directors

1997 marks a year of change for Frontline. During the year, Frontline redomiciled, entered into an amalgamation with London & Overseas Freighters Limited (LOF), acquired 52 per cent of ICB Shipping AB (ICB) as part of a takeover attempt, and several share issues were completed. The Company entered into contracts for a substantial fleet expansion through a newbuilding program and the focus was redefined, resulting in the closure of the dry-bulk operations. Frontline's strategy has been to become one of the world's largest tanker companies: to do this the Company has acted as one of the consolidators in the industry.

REDOMICILATION

In late 1996 and early 1997, the Board of Directors initiated a study on how to reduce vessel operating costs and the cost of taxation for the Group as a whole. In addition, the performance of the dry-bulk operations was evaluated. This led to the decision to redomicile the holding company from Sweden to Bermuda, and to establish a management company based in Oslo. The head office in Stockholm was closed down and subsequently corporate headquarters have been established in Bermuda. In addition the loss-making dry-bulk operations were closed down, except for those related to the Group's OBO vessels.

In June 1997, Frontline Ltd. (the newly formed Bermuda parent company) offered all shareholders in Frontline AB one share in the former in exchange for one share in the latter. Shareholders accounting for 99.6 per cent of Frontline AB's share capital accepted the offer. The Frontline share was delisted in Stockholm, and a listing on the Oslo Stock Exchange was obtained. This has led to a substantial increase in share trading volume, as discussed in the section on Shareholders Information.

ACQUISITION OF LONDON AND OVERSEAS FREIGHTERS (LOF)

During the same period, Frontline initiated negotiations with LOF, a Bermuda based publicly traded company, with the objective of taking over this company. LOF had a modern fleet consisting of three double hull Suezmaxes in addition to three middle-aged Panamax tankers. LOF also had listings of its shares in London (LSE) and New York (the latter in the form of American Depositary Shares traded on NASDAQ). On September 29, Frontline announced an offer to acquire a minimum of 50.1 per cent and a maximum of 90 per cent of the shares in LOF. Shareholders with shareholdings of approximately 79.74 per cent accepted the offer. In May 1998, Frontline and LOF completed the amalgamation in which Frontline's shareholders exchanged Frontline shares for LOF shares. LOF is the surviving company, and has been renamed Frontline Ltd. As a result of this transaction, Frontline is now listed in Oslo, London and New York.

ICB SHIPPING AKTIEBOLAG (ICB)

On September 1, 1997, Frontline announced its intention to submit an offer to acquire all shares in ICB, a publicly traded Swedish company whose principal assets consist of modern tankers. ICB owns and/or operates a fleet of 13 vessels consisting of six VLCCs and seven Suezmax tankers. Frontline's original offer, which consisted of a combination of cash and Frontline shares, was rejected by ICB's board. ICB countered by announcing on September 25 that it had agreed to acquire Astro Tankers, the tanker business of the Angelicoussis family. On October 1, Frontline announced its final offer of SEK 130 per share to ICB A-shareholders and SEK 115 per share to the ICB B-shareholders. By this date, Frontline had acquired 51.7 per cent of the share capital and 31.4 per cent of the voting power in ICB.

Frontline has not been able to gain any significant influence in ICB, as illustrated by the absence of Frontline representation on the ICB Board. In January 1998, Frontline withdrew the offer to ICB's shareholders, and has subsequently increased its holding in excess of 55 per cent of the share capital and 33.3 per cent of the voting power. In April 1998, Frontline received a dividend of $5.3 million on its investment in ICB.

The Board is considering several options for a solution to the stalemate. At this time no further comment is appropriate. While the Board acknowledges that the current situation is far from ideal, it is our belief that the impact on the Company should be minimal. ICB is a well-run company and the investment Frontline has made does not interfere with the remainder of Frontline's operations. The Board will continue to work for a solution on the ICB issue.

FLEET DEVELOPMENT

As explained above, the Board decided to exit the dry-bulk market, except for the exposure to that market through the OBO fleet. Frontline has terminated the charters on seven of the nine dry-bulk vessels the Company had in place at the beginning of 1997.

The Board has refocused the Company, so that the core business is defined as larger, modern crude tankers of the VLCC and Suezmax size. As part of this exercise, in late 1996, Frontline acquired options to newbuilding contracts on two Suezmax vessels from parties related to its main shareholder and Chairman. In 1997, the Group acquired a further six options for newbuilding contracts for one more Suezmax and five VLCCs. In connection with the move to Bermuda, the Company stated that it intended to exercise the options before the end of 1997. The options on the three Suezmaxes were declared in August 1997, and the vessels delivered during the summer of 1998. In January 1998, Frontline entered into two more newbuilding contracts, each for one Suezmax to be delivered in early 2000.

The options on the VLCCs were extended, and Frontline declared these options in March 1998. The first of these vessels was delivered in July. The other four vessels will be delivered during the first half of 1999.

In September, Frontline acquired the Suezmax vessel Sea Spirit from a company indirectly controlled by Frontline's Chairman, in exchange for shares and taking on the vessel's debt.

By acquiring 79.74 per cent of the shares in LOF in October, Frontline gained control over three modern Suezmax vessels plus three middle-aged Panamax tankers. The latter, being incompatible with Frontline's defined strategy, were subsequently sold in December.

In May 1998, the Company announced the acquisition, through its subsidiary Independent Tankers Corporation, of three holding companies from Cambridge Partners. These companies controlled four modern Suezmaxes chartered to Chevron and six newbuilding contracts for the same number of VLCCs, four of which will be chartered to British Petroleum and two to Chevron. All the charterparties are for a minimum of eight years. Frontline Ltd. has not given any guarantees for the financial performance of Independent Tankers' subsidiaries.

Through the transactions discussed above, Frontline has emerged as a pure tanker company. It is one of the world's largest tanker companies, with a total size of 9.0 million deadweight tons (dwt).

Most of the trading fleet is employed in the spot market. It is the Board's view that the number of vessels fixed for longer terms should be increased and it is working to achieve this objective, both through time charter arrangements and through market related coverage.

OPERATIONS

Frontline has a strategy of extensive outsourcing and consequently, ship management, crewing and accounting services are provided by a number of independent and competing suppliers. At the offices in Oslo, London, Bermuda, Stockholm and Ulsan a total of 26 people are employed. Crewing for the Company's vessels is provided by the ship managers; currently there are full Russian, full Indian or full Filipino crew, or combinations of these nationalities.

In May 1998, Frontline and OMI Corp. established a joint venture, Alliance Chartering, which will handle the chartering of the companies' Suezmax fleets.

Alliance will be the largest operator of Suezmax vessels worldwide. Through this formation Frontline expects to be able to provide even better service to the Company's customers.

The Company is in the process of evaluating the action required, and likely cost, to modify Frontline's and its ship managers IT systems in their office organizations and on board Frontline's vessels to deal with problems related to the year 2000. At the present time there is no reason to believe that such modifications will subject Frontline to substantial expenditure.

Frontline's fleet is one of the most modern in the world. The vessels to be delivered under the new-building program will strengthen that profile. The newbuildings are all double hull, and their design incorporates a high degree of environmental safety features. Enhanced corrosion protection and maintenance friendly solutions have been incorporated to ensure a maximum lifetime and high operating reliability.

RESULTS

Net operating income before interest, taxation and depreciation (EBITDA) was $112.2 million ($38.9 million in 1996). This improved result is primarily due to a larger fleet size, following the acquisition of all the VLCCs, two OBO vessels and a Suezmax in late 1996, and four Suezmaxes in the fall of 1997. Further, the Group experienced improved rates for the VLCCs and OBOs, while the rate for the Suezmax fleet was slightly lower, as can be seen in the table below. Finally, the cost reduction program, which the Board initiated in connection with the redomicilation, reduced the operating expenses for the vessels substantially during the second half of 1997. Operating expenses per day including dry docking and insurance per vessel were $6,700, $7,500 and $7,000 for the VLCCs, Suezmaxes and OBOs respectively. During the year, two VLCCs and three Suezmaxes were dry docked for a total of 69 days off-hire.

Timecharter earnings per day per segment ($)

	1997	1996	1995
VLCC	32,700	27,700	n.a.
Suezmax	24,800	26,800	26,900
OBO	25,500	23,000	24,700

Management reassessed the expected life of the fleet during the fall of 1997, and decided to increase the depreciation schedule from 20 to 25 years, which reduced the annual rate of depreciation from the fourth quarter by $14.4 million. Net operating income after depreciation increased to $55.5 million ($5.1 million).
Net financial expenses increased to $38.0 million ($19.1 million). This is due to the increased size of outstanding loans caused by the increased fleet size. Net income ended at $17.4 million ($14.0 million). The Board proposes no dividend for 1997.

As a consequence of the amalgamation with LOF in May 1998, the results of LOF have been fully consolidated from November 1, 1997. The investment in ICB is accounted for according to the cost method. The book value of the investment is adjusted to market value at the end of each period, with unrealized gain/loss recorded directly to equity. As at December 31, 1997, the ICB shareholding was booked at SEK 130 and SEK 100 per A and B share respectively.

SHARE ISSUES AND SHAREHOLDER STRUCTURE

As discussed above, 99.6 per cent of the shareholders in Frontline AB accepted the offer to exchange their shares in that company for shares in Frontline Ltd. On August 14, the Group carried out a private placement of 10 million Frontline Ltd. shares at NOK 28.15 per share. The proceeds from the private placement were used to secure equity financing of the three Suezmax newbuilding contracts entered into at the same time.

At the beginning of September, Frontline agreed to acquire a Suezmax vessel, Sea Spirit, from a company indirectly controlled by Frontline's

Chairman. Three million shares were issued at a price of NOK 35 per share. At the same time, the Group carried out a private placement of 21 million shares at NOK 35 per share, the proceeds of which were used to secure equity financing of the offer to shareholders of ICB.

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 LOF acquisition.

When Frontline amalgamated with LOF on May 11, 1998, Frontline's shareholders received 3.2635 shares in LOF in exchange for each Frontline share, plus 0.1902 LOF warrants per Frontline share. A total of 446,125,368 LOF shares and 26 million LOF warrants were issued pursuant to the Amalgamation. The number of shares outstanding as at the time of writing is 461,068,609 ordinary shares of $0.25 each, while the authorized share capital is 1,000,000,000 ordinary shares of $0.25 each.

At year end Frontline's main shareholder, Hemen Holding Limited, owned 48.2 per cent of the Company. This had increased to 52.9 per cent by early August 1998. The next ten largest shareholders controlled 24.7 per cent. Currently, 97 per cent of the share capital is listed at the Oslo Stock Exchange. During the first twelve months that Frontline was listed in Oslo the share turnover ratio was 99 per cent of the average number of shares. The Board considers it to be advantageous to increase the amount of share capital listed in the US and is working to develop the Company's profile and trading volume in this market.

The Frontline share started trading in 1997 at SEK 24 or $3.49 (or $1.07 split), and closed trading at NOK 29.80 or $4.07 (or $1.25 split) on December 30, 1997. Since no dividend was paid, the return on investment was 16.7 per cent over the year. Throughout 1998 the share price has fallen steadily and reached NOK 3.05 or $0.40 on August 18, 1998, a negative return of 68 per cent. The steep reduction in the share price is due to the fall in newbuilding prices, and negative market expectations from shipping and stock market analysts following the recent Asian turmoil. This negative development affected the entire stock market, but has hit commodity shipping companies like Frontline hardest.

FINANCING

In July 1997, three vessels where refinanced as a consequence of the redomicilation. At the same time, Frontline Ltd. acquired and financed Frontline AB convertible debentures with a face value of SEK 184 million.

In connection with the acquisition of LOF, Frontline established a $100 million loan facility for refinancing LOF's vessels plus a $75 million financing for the LOF share acquisition. The latter facility was repaid in May 1998 when the companies amalgamated.

A $300 million facility was established in September for the ICB offer. This was reduced to $98 million at a later stage and has since been reduced to $70 million. This loan has been extended until September 1999.

In December, a $70 million financing was secured for the first and second Suezmax newbuildings, which were delivered during the summer of 1998. In May and July 1998, $47.5 million and $35 million financing was secured for the first VLCC and third Suezmax newbuilding.

All of the above loans have been LIBOR based. The Board is satisfied by the fact that the margin paid on the different facilities has been competitive. To limit the exposure to short term interest rates, the Company has entered into a number of interest swap arrangements, a process that has continued into 1998.

THE FUTURE

The idea behind refocusing Frontline was to provide our customers with a more flexible and reliable alternative, and use this flexibility to develop unique industrial relations that would give material benefits to our customers as well as the Company. Through the corporate transactions undertaken over the last two years, Frontline has emerged as a leading tanker company within the VLCC and Suezmax segments. The Board believes there is a need to consolidate the industry, and its strategy is for Frontline to be a driving force in this development.

Since the fall of 1997, dramatic changes in Asia have taken place. Not only has the currency crisis in a number of Asian countries led to decreased demand for crude oil and thereby demand for transportation, but newbuilding prices have softened by approximately 10 per cent. At the same time the market has been well balanced since late 1996. This balance may be threatened by the newbuilding orderbook: Suezmaxes and VLCCs equal to 16.8 per cent and 16.3 per cent of the total fleet in the two segments are scheduled to be delivered before the end of year 2000.

In order to absorb the current orderbook the market is dependent on a continuing strong demand. The Board believes the market underestimates the positive effect of a low oil price. The latter not only increases oil demand, lowers operating costs, redirects the production to "long distance production countries", but also reduces the capital tied up in storage. The current trend in the oil market, where Arabian Gulf based OPEC members, including Iraq, are regaining market share is a positive development for the market. In many ways, the situation can be seen as similar to the developments in 1986, which spurred the recovery of the Tanker market.

The overall development in the market will, to a large extent, be dependent on the owners' willingness to take vessels through fifth special surveys. Such investments will be dependent on the short-term market outlook, thereby creating "safety valves" to cope with a negative development in the market.

It is the view of the Board that the VLCC market will most likely show lower earnings in 1999 than experienced during 1997 and 1998. However, the Board does not believe in a long-term negative situation. The Suezmax market is expected to be more stable. Opportunities exist for owners of modern Suezmax tonnage due to restrictions on tonnage available for trading in the Atlantic Basin. This is due to the fact that single hull vessels older than 25 years are prohibited from trading in US waters with the exception of deep water ports (e.g. LOOP) or in designated lightering zones. This should reduce tonnage supply in the largest market for Suezmaxes. By the end of 1998, one per cent of the Suezmax fleet will have reached 25 years of age. By the end of 2001, 31 per cent will have reached that age.

The negative sentiment in the pricing of shipping shares can create interesting opportunities for corporate investments and further restructuring of the Tanker industry. In order to be able to expand Frontline, the Company is dependent on an effectively priced equity. It is a concern for the Board that market pricing of the Company's equity substantially undervalues the current value of the underlying assets.

The Board believes that the comprehensive changes that Frontline has gone through in the last year leave it well structured to face the challenges of the market and to strive to achieve its corporate strategy. The Company has established relationships with several leading oil-majors and independents and anticipates further development of these as the Company continues its progress towards its objectives of continued growth and industry consolidation.

Hamilton, Bermuda
August 31, 1998

Board of Directors
Frontline Ltd.

Shareholder Policy

Frontline's long-term strategy is to maximise shareholders' return on capital by investing the Company's capital in the VLCC and Suezmax sectors of the tanker market, Frontline's core business.

The Company currently has a policy of not paying dividends, principally due to its present commitments under the $650 million newbuilding program. However, Frontline believes that return on capital, over time, will be primarily realised through appreciation in the share price.

SHARE PRICE DEVELOPMENT

Frontline Ltd. was first listed on the Oslo Stock Exchange ("OSE") on July 8, 1997 at a share price of NOK 28.80 or NOK 8.82 restated to reflect the split of 3.2635 after the amalgamation with LOF. Prior to the listing at OSE, Frontline was listed on the Stockholm Stock Exchange ("SSE"). At the start of 1997, Frontline shares traded at SEK 24.00 (or SEK 7.35 split). During the period traded at SSE, the highest price of the share was SEK 30.50 (SEK 9.35 split) and the lowest price was SEK 23.00 (SEK 7.05 split).

At year end 1997 the share traded at the OSE at NOK 29.80 (NOK 9.13 split). The increase in price represented a return of 3.47 per cent for the last six months of 1997. During the same period the OSE-index and the shipping index at OSE rose respectively by 2.76 and 8.20 per cent. During the period traded at OSE in 1997, the highest price of the share was NOK 39.50 (NOK 12.10 restated) and the lowest price was NOK 28.80 (NOK 8.82 split).

In the first half of 1998 the share suffered a substantial fall in value. This was primarily due to the fall in newbuilding prices, and negative market expectations from shipping and stock market analysts following the recent turmoil in Asia. This negative development affected the entire stock market, but hit commodity shipping companies like Frontline hardest.

At the close of the first half of 1998 the Frontline share traded at NOK 4.10 which represented a negative return of 55.1 per cent since year end 1997. In the same period the OSE-index and the shipping index at OSE gave respectively a return of 0.01 per cent and negative 13.79 per cent. The Frontline share traded at a high NOK 30.50 (NOK 9.35 split) and a low NOK 3.90 during this period. The negative development in the share price has continued during the summer. As of August 18, the closing price was NOK 3.05, or a negative return of 66.6 per cent since year end.

Frontline strives to sustain share liquidity. The transfer from SSE to OSE has increased the trading in the share as predicted. During the last twelve months traded on the SSE, 47.4 million shares were traded, equal to an annual turnover ratio of 65 per cent. Similar figures for the first twelve months at OSE where 426 million shares (adjusted for split) traded and annual turnover ratio of 99 per cent.

In addition to the OSE-listing, Frontline has achieved a listing on the London Stock Exchange ("LSE") and NASDAQ through the amalgamation with LOF. Currently 97 per cent of the share capital is listed on the OSE. Obviously, this implies that trading on the LSE and NASDAQ is limited. Frontline will focus on ways to improve the amount of share capital listed outside the OSE, as a mean to improve the attraction of the listing on the two mentioned exchanges.

The Frontline share has been traded on all trading days at the OSE since listing in 1997.

SHARES AND CAPITAL STOCK

In July 1997, when Frontline was redomiciled from Sweden to Bermuda, 98,201,507 Frontline Ltd. shares were issued, each with a par value of $1.00.

During the fall of 1997, Frontline carried out three cash issues for a total of $158.8 million to secure equity financing of the LOF and ICB transactions plus the three Suezmax newbuilding contracts acquired. Further, the company issued shares valued at $14.6 million in a non-cash issue in exchange for a vessel.

After redomiciliation, the amalgamation with LOF, cash and non-cash share issues, the capital stock of Frontline Ltd. amounts to $115,267,152, divided into 461,068,609 shares of $0.25 each. All shares entitle their holders to equal voting power and dividends. The changes in Frontline's capital stock since 1985 are presented in a separate table.

SHAREHOLDER STRUCTURE

At the end of 1997 Frontline had 5,746 shareholders. By the close of the first half of 1998 the figure was 7,495. Frontline's major shareholder is Hemen Holding Limited, which is indirectely controlled by Frontline Ltd.'s Chairman John Fredriksen. Shares owned by Hemen Holding Limited represented 1997 46.6 per cent of the total outstanding shares by year end. The equivalent figure by the end of July 1998 was 52.9 per cent. The other main shareholders, as well as the distribution of shares are listed in separate tables.

REPORTING OF FINANCIAL FIGURES AND RESULTS

Frontline emphasises that information on the Company's performance is released promptly to our shareholders and the relevant stock markets. In addition to the Annual Report, results will be published on a quarterly basis and press releases will be issued to cover other important events. Frontline holds regular meetings with investors and analysts in Oslo, London and New York.

The Company regrets the delay in publishing this Annual Report and assures shareholders that financial information will be provided on a timely basis hereafter.

Financial and other relevant information is currently available at http://www.huginonline.com/. From early fall 1998 such information, as well as filings with the Securities and Exchange Commission (SEC), will also be accessible at Frontline's homepage at http://www.frontline.bm/.

SHAREHOLDERS IN FRONTLINE LTD. AS OF DECEMBER 31, 1997

Shareholders name/entity :	Shares	%
Hemen Holding Limited	214,958,586	46.62%
Odin Norden Aksjefondet	22,834,546	4.95%
Morgan Stanley & Co.	19,075,158	4.14%
Brown Brothers Harriman & Co.	13,801,994	2.99%
Odin Norge Aksjefondet	12,633,498	2.74%
Skandinaviska Enskilda Banken	9,301,970	2.02%
Morgan Guaranty Trust Co.	8,963,203	1.94%
Chase Manhattan Bank	8,531,442	1.85%
Storebrand Livsforsikring	8,042,243	1.74%
Chase Manhattan Bank	5,906,935	1.28%
Chase Nominees Limited	4,833,000	1.05%
State Street Bank & Trust Co.	4,020,795	0.87%
Verdipapirfondet Delphi Norge	3,948,835	0.86%
Statoils Pensjonskasse	3,638,803	0.79%
Verdipapirfondet Avanse Kapital	3,121,864	0.68%
Verdipapirfondet K-Kapital	3,114,032	0.68%
Boston Safe Department & Trust	3,037,013	0.66%
Vesta Forsikring AS	3,003,562	0.65%
Remaining shareholders	108,291,130	23.49%
Total	**461,058,609**	**100%**

Shareholder Policy (continued)

DISTRIBUTION OF SHARES AS OF DECEMBER 31, 1997

Range from -to	Shareholders		Shares	
	No.	%	No.	%
1 - 9,999	5,349	93.35%	12,035,881	2.61%
10,000 - 99,999	276	4.82%	25,137,213	5.45%
100,000 - 999,999	91	1.59%	83,394,507	18.09%
More than 1,000,000	14	0.24%	340,491,008	73.85%
Total	**5,730**	**100.00%**	**461,058,609**	**100.00%**

CHANGES IN FRONTLINE'S CAPITAL STOCK

Year	Transaction	Total number of shares	Capital stock 1)
Frontline AB			
1985	Closing balance	500,000	50,000,000
1988	Split 5 : 1	2,500,000	50,000,000
1988	Bonus share issue 1 : 1	5,000,000	100,000 000
1988	New share issue (initial public offering)	20,000,000	400,000,000
1989	Non-cash issue 2)	23,250,000	465,000,000
1993	New share issue	43,250,000	865,000,000
1996	Conversion of debenture loan	43,250,500	865,010,000
1996	Non-cash issues 3)	98,550,500	1,971,010,000
Frontline Ltd.			
1997	Redomiciliation and listing at OSE 4)	98,201,507	98,201,507
1997	Cash issue 3)	108,201,507	108,201,507
1997	Cash issue 5)	129,201,507	129,201,507
1997	Non-cash issue 3)	132,201,507	132,201,507
1997	Cash issue 6)	136,701 507	136,701,507
1997	Split 3.2635 : 1 7)	461,058,609	115,264,652
1998	Options exercised	461,068,609	115,267,152

1) SEK for Frontline AB and U.S. dollars for Frontline Ltd.

2) In connection with the acquisition of business operations.

3) In connection with the acquisition of ships.

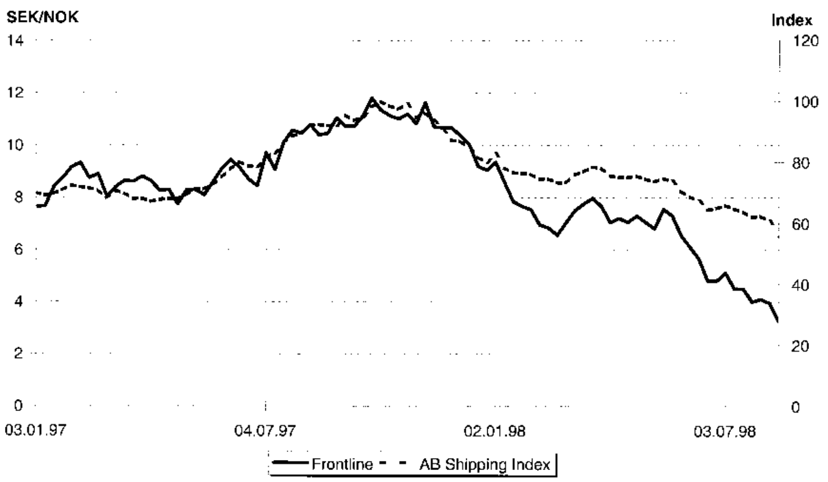
4) Oslo Stock Exchange (OSE).

5) Equity financing of ICB shares.

6) Equity financing of LOF shares.

7) In connection with the amalgamation with LOF, despite the fact that the amalgamation was approved on May 11, 1998, the amalgamation is for accounting purposes considered to have taken place on November 1, 1997. Par value changed from $1 to $0.25.

FRONTLINE VS ALFRED BERG SHIPPING INDEX 1997 – 1998



Index to Consolidated Financial Statements

Report of Independent Accountants

To the Board of Directors
and Stockholders of Frontline Ltd.

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Frontline Ltd. and its subsidiaries (the "Company") at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles in the United States. 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 audits of these financial statements in accordance with generally accepted auditing standards in the United States which 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 audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers DA

PricewaterhouseCoopers DA

Oslo, Norway
August 24, 1998

Consolidated Statements of Operations

For the years ended December 31, 1997, 1996 and 1995

(in thousands of $, except per share data)	Notes	**1997**	1996	1995
Operating revenues				
Freight revenues		**259,695**	178,179	197,236
Voyage expenses		**(62,498)**	(67,708)	(62,283)
Net operating revenues		**197,197**	110,471	134,953
Gain on sale of vessels		**-**	6,188	-
Operating expenses				
Ship operating expenses		**48,076**	34,926	31,173
Charterhire expenses		**25,734**	34,670	43,377
Administrative expenses		**11,190**	8,184	6,561
Total operating expenses		**85,000**	77,780	81,111
Net operating income before depreciation		**112,197**	38,879	53,842
Depreciation		**56,721**	33,752	31,678
Net operating income after depreciation		**55,476**	5,127	22,164
Other income (expenses)				
Interest income		**3,126**	3,314	3,968
Interest expense		**(45,945)**	(26,207)	(27,258)
Results from associated companies		**4,598**	3,471	3,984
Other financial items	4	**183**	329	(280)
Net other expenses		**(38,038)**	(19,093)	(19,586)
Net income before income taxes		**17,438**	(13,966)	2,578
Income taxes	6	**43**	15	4
Net income (loss)		**17,395**	(13,981)	2,574
Earnings per share	7			
Basic and diluted		**0.05**	(0.09)	0.02

Consolidated Balance Sheets

As of December 31, 1997 and 1996

(in thousands of $)	Notes	**1997**	1996
ASSETS			
Current assets			
Cash and cash equivalents		**86,870**	58,003
Marketable securities	9	**187,231**	27
Trade accounts receivable		**4,973**	4,117
Other receivables	10	**6,489**	4,345
Inventories		**5,462**	4,743
Voyages in progress		**9,916**	9,801
Prepaid expenses and accrued income		**6,762**	2,916
Total current assets		**307,703**	83,952
Vessels and equipment, net	11	**1,019,064**	831,981
Investment in associated companies	12	**3,754**	3,580
Deferred charges	13	**2,603**	988
Intangible assets		**–**	612
Total assets		**1,333,124**	921,113
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current maturities of long-term debt		**247,072**	53,934
Trade accounts payable		**6,211**	3,296
Accrued expenses	14	**23,282**	20,248
Income received in advance		**1,109**	–
Drydocking and survey provisions		**5,155**	3,057
Total current liabilities		**282,829**	80,535
Long-term liabilities			
Long-term debt	15	**526,078**	508,008
Drydocking and survey provisions		**3,785**	4,870
Other long-term liabilities		**1,148**	–
Total liabilities		**813,840**	593,413
Commitments and contingencies	21		
Stockholders' equity			
Share capital	16	**115,265**	80,405
Additional paid in capital		**435,932**	275,331
Warrants and options	17	**9,333**	–
Net unrealized appreciation (depreciation) on investments	9	**(30,581)**	24
Retained earnings		**(10,665)**	(28,060)
Total stockholders' equity		**519,284**	327,700
Total liabilities and stockholders' equity		**1,333,124**	921,113

Consolidated Statements of Cash Flows

For the years ended December 31, 1997, 1996 and 1995

(in thousands of $)	**1997**	1996	1995
OPERATING ACTIVITIES			
Net income (loss)	**17,395**	(13,981)	2,574
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	**56,721**	33,752	31,678
Gain from sale of fixed assets	**(985)**	(6,188)	–
Gain on sale of marketable securities	**(894)**	–	–
Loss on repurchase of outstanding debentures	**723**	–	–
Results from associated companies	**(4,598)**	(3,471)	(3,984)
Other, net	**1,219**	30	(627)
Changes in operating assets and liabilities:			
Trade accounts receivable	**2,235**	(4,117)	–
Other receivables	**(1,829)**	5,629	(5,081)
Inventories	**1,228**	(2,142)	(312)
Voyages in progress	**(115)**	(4,955)	1,909
Prepaid expenses and accrued income	**(3,094)**	1,032	402
Trade accounts payable	**1,458**	3,332	(1,013)
Accrued expenses	**(1,383)**	120	(3,729)
Drydocking and survey provisions	**(1,835)**	2,442	385
Other, net	**1,203**	–	–
Net cash provided by operating activities	**67,449**	11,483	22,202
INVESTING ACTIVITIES			
Additions to vessels and equipment	**(51,772)**	(65)	(36,601)
Purchase of LOF (net of cash acquired)	**(69,284)**	–	–
Purchase of Fourways Marine (net of cash acquired)	**(362)**	–	–
Purchase of marketable securities	**(220,592)**	–	(616)
Dividends received from associated companies	**4,424**	3,920	4,331
Proceeds from sale of vessels and equipment	**50,610**	36,212	–
Proceeds from sales of marketable securities	**3,677**	5,298	–
Net cash provided by (used in) investing activities	**(283,299)**	45,365	(32,886)
FINANCING ACTIVITIES			
Proceeds from long-term debt	**257,784**	24,645	38,041
Repayments of long-term debt	**(152,499)**	(90,642)	(27,158)
Repurchase of outstanding debentures	**(24,201)**	–	–
Debt fees paid	**(1,862)**	(1,000)	–
Proceeds from issuance of equity	**165,495**	–	–
Net cash provided by (used in) financing activities	**244,717**	(66,997)	10,883
Net increase (decrease) in cash and cash equivalents	**28,867**	(10,149)	199
Cash and cash equivalents at beginning of year	**58,003**	68,152	67,953
Cash and cash equivalents at end of year	**86,870**	58,003	68,152
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	**40,834**	35,740	26,428
Income taxes paid	**15**	6	10

Consolidated Statements of Stockholders' Equity

As of December 31, 1997, 1996 and 1995

(in thousands of $, except number of shares)	**1997**	1996	1995
NUMBER OF SHARES OUTSTANDING			
Balance at beginning of year	**321,619,557**	141,146,375	141,146,375
Conversion of debenture loan	**–**	1,632	–
Shares in Frontline AB not exchanged	**(1,138,939)**	–	–
LOF minority shares	**14,933,241**	–	–
Shares issued and options/warrants exercised	**125,644,750**	180,471,550	–
Balance at end of year	**461,058,609**	321,619,557	141,146,375
SHARE CAPITAL			
Balance at beginning of year	**80,405**	35,287	35,287
Shares in Frontline AB not exchanged	**(285)**	–	–
LOF minority shares	**3,734**	–	–
Shares issued and options/warrants exercised	**31,411**	45,118	–
Balance at end of year	**115,265**	80,405	35,287
ADDITIONAL PAID IN CAPITAL			
Balance at beginning of year	**275,331**	144,515	144,515
Shares issued and options/warrants exercised	**148,262**	130,816	–
LOF minority shares	**20,025**	–	–
Warrants issued on Amalgamation	**(7,686)**	–	–
Balance at end of year	**435,932**	275,331	144,515
WARRANTS AND OPTIONS			
Balance at beginning of year	**–**	–	–
Options and warrants assumed on Amalgamation	**1,647**	–	–
Warrants issued on Amalgamation	**7,686**	–	–
Balance at end of year	**9,333**	–	–
NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENTS			
Balance at beginning of year	**24**	–	–
Change in market value of securities available for sale	**(30,605)**	24	–
Balance at end of year	**(30,581)**	24	–
RETAINED EARNINGS			
Balance at beginning of year	**(28,060)**	(14,079)	(16,653)
Net income	**17,395**	(13,981)	2,574
Balance at end of year	**(10,665)**	(28,060)	(14,079)
Total Stockholders' Equity	**519,284**	327,700	165,723

Notes to Consolidated Financial Statements

1. GENERAL

Frontline Ltd. (the "Company" or "Frontline") originally commenced operations in 1985 as a Swedish company and was listed on the Stockholm Stock Exchange in 1989 ("Frontline AB"). The Company was incorporated under the laws of Bermuda on April 29, 1997 for the purpose of succeeding to the business of Frontline AB and, commencing in June 1997, over 99 per cent of the shares in Frontline AB were exchanged for shares in Frontline Ltd. The ordinary shares of the Company were thereafter listed on the Oslo Stock Exchange and delisted from the Stockholm Stock Exchange. Unless the context otherwise indicates, for periods subsequent to the succession of the business, the term "Company" or "Frontline" refers to Frontline Ltd. and its subsidiaries, and for periods prior to the succession of the business, the term "Company" or "Frontline" refers to Frontline AB.

Frontline Ltd. is a holding company for investments in a number of subsidiaries engaged primarily in the ownership and operation of oil tankers and oil/bulk/ore ("OBO") carriers. The Company operates through subsidiaries and partnerships located in Sweden, Norway, Singapore, Liberia and Panama. The Company is also involved in the charter, purchase and sale of vessels.

On September 22, 1997, the Company announced that it had entered into an Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with London & Overseas Freighters Limited, a Bermuda company ("LOF"), providing for a business combination in a three-step transaction. On September 29, 1997, pursuant to the Amalgamation Agreement, the Company commenced a cash tender offer (the "Offer") for at least 50.1 per cent and up to 90 per cent of the outstanding LOF Ordinary Shares par value $0.25 per share, including American Depositary Shares ("ADS") each representing ten Ordinary Shares, for a price of $1.591 per Ordinary Share (or $15.91 per ADS). The Offer expired on October 28, 1997 and effective November 1, 1997 the Company had acquired approximately 79.74 per cent of the outstanding LOF Ordinary Shares (see Note 20).

In the second step, which was completed on May 11, 1998, the Company amalgamated (the "Amalgamation") with Dolphin Limited, a Bermuda subsidiary of LOF. Each ordinary share of the Company (the "Frontline Shares") was canceled in consideration for which the stockholders of Frontline Ltd. received (i) 3.2635 Ordinary Shares of LOF and (ii) 0.1902 of a newly issued warrant ("New Warrants") to purchase one LOF Ordinary Share.

In the third step of the combination, in order to combine the assets and liabilities, LOF purchased the assets and liabilities of Frontline Ltd. which were vested in the amalgamated company at fair market value in exchange for a promissory note. This note will then be transferred by way of distribution from the amalgamated company to LOF which will in turn cancel the note. LOF is the legally surviving entity in this business combination and has been renamed Frontline Ltd. with effect from May 11, 1998. The Company is treated as the accounting acquiror and the transaction treated as a reverse acquisition. For the purposes of these financial statements, the Amalgamation is assumed to have taken place on November 1, 1997 and the results of LOF have been consolidated with effect from that date. The share capital of the Company has been restated accordingly to reflect the transaction. For periods on or after May 11, 1998, the term Company refers to Frontline Ltd. (formerly London & Overseas Freighters Limited).

On September 1, 1997, the Company announced its intention to submit an offer to acquire all of the shares of ICB Shipping AB (publ) ("ICB"). The final form of the offer was an offer to acquire all the shares of ICB in exchange for SEK 130 in cash for each of the A-shares and SEK 115 in cash for each of the B-shares. The total acquisition price was estimated to be $423 million, financed primarily by a $300 million loan facility ("ICB facility") with Chase Manhattan Bank ("Chase"). During September and October 1997, the Company acquired ICB shares for an approximate purchase price of $215 million. Through the tender offer, Frontline acquired 51.7 per cent of the outstanding shares of ICB. However, the shares purchased provide Frontline with only 31.4 per cent of the ICB voting power, since 14,428,078 Class B shares and 148,663 Class A shares were acquired. In connection with the ICB transaction, actions taken by ICB's management subsequent to the announcement of the Frontline tender offer, clearly reflect strong opposition to Frontline's ability to exercise significant influence over ICB. Accordingly, the Company has recorded its investment in ICB as an available-for-sale security in accordance with SFAS 115. On January 8, 1998, Frontline withdrew its bid for the remaining outstanding shares of ICB.

2. ACCOUNTING POLICIES

Basis of accounting
The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the assets and liabilities of the Company and its subsidiaries. All inter-company balances and transactions have been eliminated on consolidation.

Investments in companies in which Frontline directly or indirectly holds more than 50 per cent of the voting control are consolidated. Investments in partnerships are accounted for using the equity method. The Company's investment in ICB is accounted for as an available-for-sale security in accordance with SFAS 115 (see Note 1).

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

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

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

Marketable Securities
Marketable securities held by the Company are considered to be available-for-sale securities and as such are carried at fair value with resulting unrealized gains and losses, net of deferred taxes, recorded as a separate component of stockholders' equity.

Inventories
Inventories, which comprise fuel and spare parts, are stated at the lower of cost or 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' remaining economic useful lives. In the fourth quarter of 1997, management determined that the useful life of its vessels was 25 years rather than 20 years from date of construction as previously estimated. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in net income of $3.6 million and in basic and diluted earnings per share of $0.01 for the year ended December 31, 1997. Other equipment is depreciated over its estimated residual life, which approximates five years.

The carrying value of the vessels under construction represents the accumulated costs to the balance sheet date which the Company has had to pay by way of purchase installments and other capital expenditure together with capitalized loan interest and associated finance costs. No charge for depreciation is made until the vessel's completion.

Impairment of long-lived assets
The Company has adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, SFAS 121 requires that certain long-lived assets and identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less estimated costs to sell. The adoption of SFAS 121 had no effect on the Company's financial position or results of operations.

Deferred charges
Loan costs, including debt arrangement fees, are deferred and amortized on a straight-line basis over the term of the relevant loan. 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 and time charter hires. The operating results of voyages in progress are estimated and recorded pro-rata on a per day basis in the consolidated statements of operations at the end of each period. The consolidated balance sheets reflect the

deferred portion of revenues and expens es for total voyages in progress at the end of each period. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter revenues are recorded over the term of the time charter as service is provided.

Drydocking provisions
Normal vessel repair and maintenance costs are charged to expense when incurred. Provisions for future drydocking costs are accrued and charged to expense on a pro-rata basis over the period to the next drydocking. Such provisions are based on estimates made by management of expected cost and length of time between drydockings.

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. The differential 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 expense. The fair values of the interest rate swaps are not recognized in the financial statements.

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.

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 result of the exposure being hedged is settled and recognized in income. 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.

The Company has not entered into any derivative contracts for speculative or trading purposes.

Foreign currencies
The Company's functional currency is the U.S. dollar as all revenues are received in U.S. dollars and a majority of the Company's expenditures are made in U.S. dollars. The Company reports in U.S. dollars. Most of the Company's subsidiaries report in U.S. dollars. For subsidiaries that maintain their accounts in currencies other than U.S. dollars, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of stockholders' equity.

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 translation gains or losses are included in the consolidated statements of operations.

Stock-based compensation
The Company has adopted Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation", ("SFAS 123"). SFAS 123 encourages the use of a fair value based method of accounting for stock-based compensation plans. SFAS 123 also requires certain disclosures about stock-based employee compensation arrangements regardless of the method used to account for them. Entities that continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") are required to disclose the pro forma effect on net income and earnings per share that would have been recognized if the fair value method had been used. The Company has chosen to continue to account for its stock-based compensation arrangements under APB 25 (see Note 17).

Earnings per share
In 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), which requires dual presentation of basic and diluted earnings per share ("EPS") for all entities with complex capital structures. Basic EPS is computed based on the

income (loss) available to common stockholders and the weighted average number of shares outstanding for basic EPS. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments (see Note 7).

Environmental Remediation Liabilities
In 1997, the Company adopted Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities", which is effective for financial statements issued for periods beginning after December 15, 1996. The standard gives guidance on specific accounting issues that are present in the recognition, measurement and disclosure of certain environmental remediation liabilities. Compliance with this standard has not had a material impact on the Company's financial position or results of operations.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

SFAS No. 130, "Reporting Comprehensive Income" is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for recording and presenting comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial reports and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company intends to adopt SFAS 130 and SFAS 131 as appropriate in 1998.

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" is effective for fiscal years beginning after December 15, 1997. SFAS No. 132 revises current disclosure requirements for employers' pensions and other retiree benefits. SFAS No. 132 does not change the measurement or recognition of pension or other postretirement benefit plans. The Company has not yet determined the impact of this statement.

SFAS No. 133, "Accounting for Derivatives and Hedging Activities", is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (January 1, 2000 for the Company) and requires that all derivative instruments be recorded on the balance sheet at their 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. The Company anticipates that, due to its limited use of derivative instruments, the adoption of SFAS No. 133 will not have a material impact on the Company's consolidated financial statements.

4. OTHER FINANCIAL ITEMS

(in thousands of $)	1997	1996	1995
Foreign currency exchange gain (loss)	(162)	90	(243)
Other	345	239	(37)
	183	329	(280)

5. PENSIONS

In Frontline's Norwegian subsidiary, Frontline Management AS, the employees' pension arrangements are provided by defined benefit plans. The pension entitlements are normally based on years of service and final salary. Pension liabilities have been valued at the present value of future pension payments at the year-end. Future pension payments are calculated on the basis of the expected salary at the time of retirement. Pension plan assets are valued at market values as of December 31, 1997. Net pension liabilities (pension liabilities less pension plan assets) are accounted for as long-term liabilities after adjustment for net actuarial gains or losses. Net value of surpluses is accounted for under long-term receivables. Net pension costs (gross pension costs less estimated return on pension plan assets) for the period are included under administrative expenses. Gross pension costs include the present value of benefits earned by employees in the period, interest cost of pension obligations and the effect of changes in estimates.

The most recent actuarial valuation disclosed a deficit of NOK 0.12 million as at December 31, 1997. The valuation is based on the following financial assumptions: discount rate 6 per cent, rate of return 7 per cent, salary increase 3 per cent, pension increase 3 per cent.

Pension obligations for the Swedish employees are covered through the ITP-plan, which is a fully insured pension scheme for salaried employees. Pension premiums are estimated through actuarial valuations, which are invoiced in full to the Company.

For employees in England and Bermuda, the Company contributes to defined contribution plans, the cost of which is expensed as incurred.

The pension charge for 1997 was $580,000 (1996 – $370,000).

The Company believes that compliance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" would produce results not materially different from those presented.

6. TAXATION

Bermuda
Under current Bermuda law, the Company is not required to pay any 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.

In the opinion of management, a reconciliation between the income tax expense resulting from applying the U.S. Federal statutory income tax rate and the reported income tax expense does not provide any 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 Norway, Singapore and Sweden are subject to taxation in their respective jurisdictions. The income tax paid by subsidiaries of the Company which are subject to taxation is not material.

The tax charge for the year comprises:

(in thousands of $)	**1997**	1996	1995
Current tax	**43**	15	4
Deferred tax	**–**	–	–
	43	15	4

Deferred taxes resulting from temporary differences in financial and tax reporting (including net operating loss carryforwards) are calculated where appropriate. The Company has recorded a full valuation allowance as they believe it is more likely than not that the net deferred tax assets will not be realized in future periods.

Temporary differences and carryforwards which give rise to deferred tax assets, liabilities and related valuation allowances are as follows:

(in thousands of $)	**1997**	1996
Deferred tax liability – current		
Prepaid expenses	**–**	(89)
Deferred tax liability – non current		
Vessels	**–**	(1,917)
Deferred tax asset – current		
Accrued liabilities	**755**	420
ICB and convertible debenture	**8,765**	–
Deferred tax asset - non current		
Pension liabilities	**5**	–
Tax loss carryforwards	**13,158**	35,282
Valuation allowance	**(22,683)**	(33,696)
Net deferred tax asset (liability)	**0**	0

As of December 31, 1997 and 1996, the Company had $46,993,000 and $126,006,000 of net operating loss carryforwards, respectively. The loss carryforward can be utilized only against future taxable income for the respective subsidiary. Frontline AB accounts for a total of $46,666,000 as of December 31, 1997. These net operating losses do not have an expiration date. The Company's deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

7. EARNINGS PER SHARE

The computation of basic EPS is based on the weighted average number of shares outstanding during the year. The computation of diluted EPS assumes the foregoing and the exercise of stock options and warrants using the treasury stock method (see Note 17). All earnings per share, for all periods presented, have been restated to reflect the issue of (i) 3.2635 Ordinary Shares of LOF and (ii) 0.1902 of a New Warrant to purchase one LOF Ordinary Share in exchange for one ordinary share of Frontline Ltd. effective November 1, 1997 (see Note 1).

The components of the numerator for the calculation of basic EPS and diluted EPS are as follows:

(in thousands of $)	**1997**	1996	1995
Net income (loss) available to stockholders	**17,395**	(13,981)	2,574

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

(in thousands of $)	**1997**	1996	1995
Basic earnings per share:			
Weighted average number of ordinary shares outstanding	**366,205**	152,739	141,146
Diluted earnings per share:			
Weighted average number of ordinary shares outstanding	**366,205**	152,739	141,146
Warrants and stock options assumed on amalgamation	**841**	–	–
	367,046	152,739	141,146

8. LEASES

Rental expense

Charter hire payments to third parties for contracted in vessels are accounted for as operating leases. The Company is also committed to make rental payments under operating leases for office premises. The future minimum rental payments under the Company's non-cancelable operating leases, are as follows:

Year ending December 31,

(in thousands of $)	
1998	5,694
1999	–
2000	–
2001	–
2002	–
2003 and later	–
Total minimum lease payments	5,694

Total rental expense for operating leases was $26,323,000, $35,131,000 and $43,804,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

Rental income

Time charters to third parties of the Company's vessels are accounted for as operating lease income. The minimum future revenues to be received on time charters as of December 31, 1997 are as follows:

Year ending December 31,

(in thousands of $)	
1998	15,162
1999	9,895
2000	10,073
2001	8,798
2002	–
2003 and later	–
Total minimum lease revenues	43,928

The cost and accumulated depreciation of the vessels leased to a third party at December 31, 1997 were approximately $103.0 million and $17.3 million, respectively, and at December 31, 1996 were approximately $54.3 million and $14.5 million, respectively.

9. MARKETABLE SECURITIES

Marketable securities held by the Company are all equity securities considered to be available-for-sale securities. With the exception of shares in Stockholms Fondsbørs, (bookvalue $3,000 gross unrealized gain $162,000), all equity securities are ICB Shipping AB A- and B-shares.

(in thousands of $)	**1997**	1996
Cost	**217,812**	3
Gross unrealized gain	**162**	24
Gross unrealized loss	**(30,743)**	-
Fair value	**187,231**	27

The unrealized loss on marketable securities included as a separate component of stockholders' equity increased by $30,743,000 for the year ended December 31, 1997 (1996 - $nil).

10. OTHER RECEIVABLES

(in thousands of $)	**1997**	1996
Agent receivables	**3,816**	2,607
Other receivables	**2,673**	1,738
	6,489	4,345

Other receivables are presented net of allowances for doubtful accounts amounting to $314,000 and $456,000 for the years ended December 31, 1997 and 1996, respectively.

11. VESSELS AND EQUIPMENT

(in thousands of $)	**1997**	1996
Cost	**1,229,756**	997,144
Accumulated depreciation	**(210,692)**	(165,163)
Net book value at end of year	**1,019,064**	831,981

Included in the above amounts as at December 31, 1997 is equipment with a net book value of $477,000 (1996 - $258,000) and vessels under construction amounting to $48,474,000 (1996 - $nil).

12. INVESTMENT IN ASSOCIATED COMPANIES

The Company has the following participation in partnerships which are recorded using the equity method:

	Percentage
K/S Rasmussen Teamship A/S II	40%
K/S Rasmussen Teamship A/S III	35%

13. DEFERRED CHARGES

Deferred charges represent debt arrangement fees which 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 $)	**1997**	1996
Debt arrangement fees	**2,862**	1,000
Accumulated amortization	**(259)**	(12)
	2,603	988

14. ACCRUED EXPENSES

(in thousands of $)	**1997**	1996
Voyage expenses	**7,127**	11,047
Ship operating expenses	**2,630**	1,535
Deferred revenue	**455**	1,022
Administrative expenses	**1,986**	1,128
Interest expense	**6,922**	4,441
Income taxes	**16**	15
Other	**4,146**	1,060
	23,282	20,248

15. LONG-TERM DEBT

(in thousands of $)	**1997**	1996
Promissory Notes		
LIBOR + 0.65%/1.15% due 1997	**–**	104,898
LIBOR + 0.70% due 1997-2007	**98,250**	–
LIBOR + 0.70% due 1998-2008	**10,400**	–
LIBOR + 0.75% due 1998-2008	**40,000**	–
LIBOR + 0.80% due 1998-2005	**27,500**	–
LIBOR + 1.00% due 1998	**4,350**	5,100
LIBOR + 1.00%/1.25% due 1997-2003	**378,000**	420,000
LIBOR + 1.25%/2.50% due 1998	**73,567**	–
LIBOR + 1.625% due 1997-2001	**24,282**	–
LIBOR + 2.50%/3.50% due 1998	**98,821**	–
Total promissory notes	**755,170**	529,998
Convertible debenture loan and credit facilities	**17,980**	31,944
Total debt	**773,150**	561,942
Less: current portion and short-term debt	**(247,072)**	(53,934)
	526,078	508,008

The promissory notes are secured by ship mortgages and, in the case of some notes, pledges of shares by each guarantor subsidiary. The Company is required to maintain cash balances amounting to a minimum of $45 million and 4.75 per cent of total assets. The Company also has debt covenants which restrict equity distributions to stockholders.

The number of outstanding convertible debenture share certificates in the Company's subsidiary, Frontline AB, amounted to 21,100,753 as of December 31, 1997 and 1996, respectively. The face value of each certificate is SEK 10. The conversion period is from June 25, 1992 to July 30, 1999 and loan maturity is August 24, 1999. The debenture certificates may be converted into a maximum of 6,028,786 shares at a conversion price of SEK 35 per share. Annual interest of 9 per cent is payable annually on June 24 and on the maturity date. During 1996, debenture certificates were converted into 500 shares. In July 1997, the Company acquired convertible debenture share certificates with a face value of SEK 182,655,574, bringing the face value of the total amount of convertible debentures owned by the Company to SEK 183,810,574, which was also the amount owned at December 31, 1997. The Company paid an amount of approximately $24 million for the repurchase and recorded a loss of approximately $0.7 million. The Company acquired further convertible debentures with face value SEK 660,048 in early 1998. In June 1998, convertible debentures held by the Company with face value SEK 184,462,124 were cancelled.

The outstanding promissory notes as of December 31, 1997 are repayable as follows:

Year ending December 31,

(in thousands of $)	
1998	232,538
1999	61,200
2000	61,200
2001	72,682
2002	58,000
2003 and later	269,550
Total promissory notes	755,170

16. SHARE CAPITAL

The issued and fully paid share capital of the Company has been restated for all periods presented to reflect the Amalgamation as described in Note 1. Issued and fully paid share capital is as follows:

(in thousands of $)	**1997**	1996
461,058,609 ordinary shares of $0.25 each (1996 – 321,619,557)	**115,265**	80,405

The authorized maximum share capital of the Company at December 31, 1996 was 300,000,000 shares of SEK 20 each. Following the transfer of the business to Frontline Ltd., at a shareholder meeting on September 25, 1997, an increase in the authorized share capital to 220,000,000 ordinary shares of $1.00 each was approved.

In connection with the Amalgamation with LOF, at a shareholder meeting on May 11, 1998 an increase in the authorized share capital of the Company to 1,000,000,000 ordinary shares of $0.25 each was approved. On May 11, 1998, the Company issued 446,125,368 shares pursuant to the Amalgamation described in Note 1.

During the third quarter of 1997, Frontline Ltd. exercised its outstanding ship purchase options on three Suezmax tankers. The Company issued 10,000,000 shares (restated as 32,635,000) to four large institutional investors at NOK 28.15 per share in order to finance the exercise of these options.

In September 1997, the Company entered into an agreement with a party indirectly controlled by its Chairman to acquire the shares of Fourways Marine Limited (the "Fourways Transaction"), the owner of the Suezmax Sea Spirit (built in 1993), in exchange for 3,000,000 Frontline shares (restated as 9,790,500) at NOK 35 per share plus assumption of the company’s debt. Operational control of the vessel was assumed on September 25, 1997. The share issuance to purchase Sea Spirit was valued and recorded at $41.7 million, which was $1 million less than three independent appraisals of the vessel’s fair market value.

In September 1997, the Company completed a share issuance of 21,000,000 shares (restated as 68,533,500) at NOK 35 per share (gross proceeds of NOK 735 million) to a syndicate led by two Scandinavian financial institutions. The number of outstanding shares of the Company was thereby increased from 108,201,507 to 129,201,507. The proceeds of this transaction constituted the equity financing for the Company’s offer for the shares of ICB .

On September 25, 1997, the Company issued 4,500,000 shares (restated as 14,685,750) in a private placement at NOK 38.25 per share to strengthen the equity base of the company in light of the ICB and LOF share acquisitions.

The Company has entered into call option agreements with two of its shareholders, BTL and Goldtech, whereby until October 31, 1997, the Company could order the sale of up to 2,225,000 of its shares each from BTL and Goldtech to any buyer that the Company may advise. In addition, BTL and Goldtech entered into put option agreements with the Company to each sell 1,112,500 shares of the Company at the same exercise price as in the call agreements. In July 1997, BTL and Goldtech exercised their put options. The Company placed the 1,112,500 shares each from BTL and Goldtech in the market at an average price of NOK 28.50 and NOK 29.30, respectively, resulting in additional cash to the Company of approximately $2.1 million. In August 1997, the Company exercised its remaining call agreement with BTL on 1,112,500 shares and subsequently placed these shares in the market, which resulted in additional cash to the Company of approximately $1.8 million. In September 1997, the Company exercised its remaining call agreement with Goldtech on 1,112,500 shares and subsequently placed these shares in the market, which resulted in additional cash to the Company of approximately $2.6 million.

17. WARRANTS AND SHARE OPTION PLANS

At the effective date of the Amalgamation, the Company assumed 1,245,588 warrants ("Old Warrants") to purchase shares of LOF and 2,880,000 share options. These Old Warrants and share options have been recorded at fair value as an adjustment to the purchase price on the acquisition of LOF. The fair value of each Old Warrant and share option has been estimated as at November 1, 1997 using the Black-Scholes option pricing model. Each Old Warrant entitles the holder to subscribe for one Ordinary Share in the Company at a price of £0.40 and is exercisable at any time up to December 31, 2003.

Pursuant to the terms of the Amalgamation Agreement, a total of 26,000,000 warrants ("New Warrants") to purchase shares in LOF were granted on the date of Amalgamation. These warrants have been recorded at an estimated fair value as at November 1, 1997 using the Black-Scholes option pricing model. Each New Warrant entitles the holder to subscribe for one Ordinary Share in the Company at a price of $1.591 and is exercisable at any time up to May 11, 2001.

LOF has in place a Bermuda Share Option Plan (the "Bermuda Plan") and a United Kingdom Share Option Plan (the "U.K. Plan"). Under the terms of the plans, the exercise price for the share options may not be less than the average of the fair market value of the underlying shares for the three dealing days before the date of grant. The number of shares granted under the plans may not in any ten year period exceed 7 per cent of the issued share capital of the Company. No consideration is payable for the grant of an option.

The Company has recorded no compensation expense for the issuance of share options. The share options assumed in connection with the Amalgamation with LOF have been treated as an adjustment to the purchase price.

Under the Bermuda Plan, options may be granted to any director or employee of the Company or subsidiary. Options are only exercisable during the period of nine years following the first anniversary date of the grant. The following summarizes the share options assumed relating to the Bermuda Plan:

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. Certain of the Company's subsidiaries report in Swedish kronor

(in thousands, except per share data)	Shares		Weighted average exercise price
Assumed on Amalgamation	1,290	$	**1.445**
Exercised	–		**–**
Canceled	–		**–**
Options outstanding at December 31, 1997	1,290	$	**1.445**
Options exercisable at December 31, 1997	1,210	$	**1.463**

Under the U.K. Plan, options may be granted to any full-time director or employee of the Company or subsidiary. Options are only exercisable during the period of seven years following the third anniversary date of the grant. The following summarizes the share options assumed relating to the U.K. Plan:

(in thousands, except per share data)	Shares		Weighted average exercise price
Assumed on Amalgamation	1,590	£	**0.861**
Exercised	–		–
Canceled	–		–
Options outstanding at December 31, 1997	1,590	£	**0.861**
Options exercisable at December 31, 1997	1,350	£	**0.873**

The options outstanding under the Bermuda Plan at December 31, 1997 have exercise prices between $1.173 and $1.500. The options that are not presently exercisable vest one year from the date of grant. The options outstanding under the U.K. Plan at December 31, 1997 have exercise prices between £0.728 and £0.985. The options that are not presently exercisable vest three years from the date of grant.

18. FINANCIAL INSTRUMENTS

Interest rate risk management
In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company does not hold or issue instruments for speculative or trading purposes. The counterparties to such contracts were Christiania Bank and Chase in 1997 and Skandinaviska Enskilda Banken in 1996. Credit risk exists to the extent that the counterparties are unable to perform under the contracts, but this risk is considered remote.

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. The Company has entered into the following interest rate swap transactions involving the payment of fixed rates in exchange for LIBOR:

Principal *(in thousands of $)*	Inception Date	Maturity Date	Interest Rate
$5,013 reducing quarterly to $1,707	July 1993	July 1998	7.78%
$10,000	May 1996	May 2000	5.56%
$20,000	May 1998	May 2000	5.90%
$43,580 reducing semi-annually to $15,248	May 1992	November 1999	6.93%
$56,259 reducing quarterly to $34,052	May 1997	May 2001	6.84%
$50,000	May 1995	May 1998	6.43%
$110,384 reducing quarterly to $91,392	February 1997	February 1999	5.99%

or Norwegian kroner and risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have a negative effect on the value of the Company's cashflows; and a translation risk, the impact of adverse currency fluctuations in the translation of foreign operations and foreign assets and liabilities into U.S. dollars for Frontline's consolidated financial statements. Frontline has not entered into forward contracts for either transaction or translation risk, which 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, 1997 are as follows:

(in thousands of $)	Carrying Value	Fair Value
Non-Derivatives:		
Cash and cash equivalents	86,870	86,870
Marketable securities	187,231	187,231
Short-term debt	247,072	247,072
Long-term debt, including convertible debt	526,078	526,078
Derivatives:		
Interest rate swap transactions	–	(1,781)

The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

The estimated fair value of marketable securities and the convertible debt were based on the quoted market price of these or similar instruments when available. The estimated fair value for long-term debt was considered to be equal to the carrying value since the variable interest rates are reset on a quarterly basis.

Fair value of interest rate swaps is estimated by taking into account the cost of entering into interest rate swaps to offset the swaps outstanding.

Concentrations of risk
There is a concentration of credit risk with respect to cash and cash equivalents and time deposits to the extent that substantially all of the amounts are carried with Skandinaviska Enskilda Banken. However, the Company believes that this bank is a high credit quality financial institution.

The majority of the vessels' gross earnings are receivable in U.S. dollars. The following are the customers that comprise 10 per cent or more of freight revenues:

(in thousands of $)	**1997**	1996	1995
Valero Refining and Marketing	**32,832**	35,740	26,428

19. RELATED PARTY TRANSACTIONS

During 1996, under agreements with the Company's largest shareholder, Hemen Holding

Limited ("Hemen"), Frontline received options to assume newbuilding contracts for the construction and purchase of two Suezmax tankers. These options originally expired in June 1997, but were extended to September 1997. The vessels are to be built by the Hyundai Heavy Industries Co. Ltd. ("Hyundai") shipyard in South Korea during 1998.

During 1997, the Company received additional options to assume six newbuilding contracts for the construction and purchase of one Suezmax tanker and five VLCC tankers from Hemen. The vessels are scheduled for delivery during 1998 and 1999. The options on the five VLCC tankers were originally to expire on September 30, 1997, but their expiration date was extended to March 31, 1998. In connection with the move to Bermuda, the Company stated that it intended to exercise the options before the end of 1997.

In the third quarter of 1997, the Company exercised its outstanding options for the purchase of three Suezmax tankers.

20. ACQUISITION OF LONDON & OVERSEAS FREIGHTERS LIMITED (LOF)

Effective November 1, 1997, the Company acquired 79.74 per cent of the outstanding Ordinary Shares of LOF for approximately $93.5 million in cash (see Note 1). The acquisition was primarily funded by a loan from Chase. The results of LOF have been consolidated with effect from the date of acquisition.

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the total purchase price has been allocated to the net assets acquired based on their estimated fair values. The difference between the total purchase price and net assets acquired was deducted from the assigned value of the three Suezmax vessels which comprise the identifiable long-term assets of LOF. The subsequent gain realized on the sale of LOF's Panamax tankers was reflected as an adjustment to the purchase price.

The following table reflects unaudited pro-forma combined results of operations of the Company and LOF on the basis that the acquisition had taken place at the beginning of the fiscal year for each of the periods presented:

(in thousands of $, except per share data)	**1997**	1996
Net operating revenues	**234,585**	150,972
Net income	**19,734**	(13,772)
Earnings per share	**0.04**	(0.03)
Shares used in computation	**461,059**	461,059

In management's opinion, the unaudited pro-forma combined results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of 1996 or at the beginning of 1997 or of future operations of the combined companies.

21. COMMITMENTS AND CONTINGENCIES

Assets Pledged *(in thousands of $)*	**1997**	1996
Ship mortgages	**572,382**	524,898
Chattel mortgages and other assets pledged	**192,788**	10,778
Restricted bank deposits	**–**	2,898
	765,170	538,574

Other Contractual Commitments
When newbuilding contracts were executed for the tankers Front Melody, which was sold in 1992, and Front Rhapsody, which was sold in 1993, Frontline also signed an agreement to finance a peseta denominated loan in a foreign bank. Under the agreements, the Company was required to make a peseta denominated deposit in the same bank. The deposits are being used to fulfill the payment commitments on the loan agreements. The deposits carry a higher interest rate than the loans. The balance was $1.6 million and $3.3 million as of December 31, 1997 and 1996 respectively. These balances are contractual commitments, since the Company's only risk is the interest gap between loans and deposits. The loan agreements specify assignment of future operating revenue of vessels for the benefit of the lender. The assignment applies only in case of default under the loan agreements.

The Company insures the legal liability risks for its shipping activities with Assuranceforeningen SKULD, a mutual protection and indemnity association. As a member of a mutual association, the Company is subject to calls payable to the association based on the Company's claims record in addition to the claims records of all other members of the association. A contingent liability exists to the extent that the claims records of the members of the association in the aggregate show significant deterioration, which result in additional calls on the members.

22. SUPPLEMENTAL INFORMATION

Non-cash investing and financing activities included the following:

(in thousands of $)	**1997**	1996	1995
Unrealized appreciation (depreciation) on investments recorded directly to equity	**(30,605)**	24	–
In connection with purchase of fixed assets:			
Long-term debt issued	**–**	269,360	17,657
Shares issued	**–**	175,934	–
Acquisition of businesses:			
Assets acquired	**248,407**	–	–
Liabilities assumed and incurred	**139,177**	–	–
Shares issued	**37,937**	–	–
Options and warrants assumed	**1,647**	–	–
Cash paid	**69,646**	–	–

23. SUBSEQUENT EVENTS

In December 1997, the Company signed a loan agreement with Banque Paribas (Suisse) S.A. ("Paribas") which secured partial financing for the three Suezmax newbuildings to be delivered in the middle of 1998. Two of the vessels have a $35 million loan in place. In March 1998, Paribas notified the Company that it had sold the loans and transferred the agent function to Midland Bank plc ("Midland"). In April 1998, the Company informed Midland that it would only pursue financing two vessels under the loan agreement. The vessels were delivered in May and July 1998.

On January 8, 1998, the Company announced that it had entered into contracts to acquire the shares in two single purpose companies, which each held one contract to build a Suezmax tanker, from companies controlled by its principal shareholder. The vessels are to be built at Hyundai in Korea to be delivered in January and March 2000.

On March 16, 1998, the Company announced that it had agreed to exercise its outstanding options for the purchase of five VLCCs from companies controlled by the principal shareholder.

On May 11, 1998, the Company announced that it had entered into an agreement with parties associated with Cambridge Fund Management LLC, which will lead to the Company acquiring control of three shipowning entities for approximately $9.5 million, and thereby add six VLCC newbuildings and four modern Suezmaxes to its fleet.

In September 1997, the Company agreed to guarantee a $100 million loan facility to LOF for the long-term financing of its three Suezmax tankers. On December 23, 1997 LOF made an initial drawdown of $40 million. On May 12, 1998, the Company made a drawdown of the balance of $60 million available under the $100 million loan facility. The proceeds of this drawdown were applied to repayment of the loan provided to finance the acquisition of LOF.

In July 1998, the Company signed a loan agreement for a loan of $35 million to finance the third Suezmax newbuilding. This financing replaced the intended financing under the loan agreement described above. The vessel was delivered in July 1998.

In July 1998, the Company signed a loan agreement to finance the first VLCC newbuilding. The loan was in the amount of $47.5 million. At the same time, the Company signed a loan agreement in the amount of $14.5 million. The latter was secured as a second mortgage on the aforementioned vessel. The vessel was delivered in July 1998.

In August 1998, the Company signed an amendment to the ICB facility for an extension of the loan by 12 months until September 14, 1999.

Glossary of shipping terms

ADR – American Depository Receipt – The exchange system for trading of foreign shares in the USA.

Aframax – American Freight Rate Association. Term for a tanker of approximately 80,000 – 105,000 dwt.

Ballast – A voyage with no cargo on board to get a ship in position for the next loading port or docking. A ballast tank is a tank that is filled with seawater when a vessel is in ballast, in order to ensure stability.

Ballast ratio – Time at sea without cargo as a percentage of total time.

Bareboat (b/b) – The hiring or leasing of a vessel from one company to another (the charterer), which in turn provides crew, bunkers, stores etc. and pays all operating costs.

Bulk – Unpackaged solid cargo such as coal, ore and grain.

Bunkers – The ship's fuel.

CAP – Condition Assesment Program. Det Norske Veritas' (DNV) voluntary rating system for vessels describing and quantifying the standards of a vessel.

Capesize – Dry cargo carrier of 80,000 dwt or larger.

Charterer – Cargo owner or another person/company who hires a ship.

Charter-party – Transport contract between shipowner and shipper of goods.

COA – Contract of Affreightment – quantity contract. An agreement between shipowner and shipper concerning the freight of a defined amount of cargo. The shipowner chooses the ship.

COFR – Certificate of Financial Responsibility. Certificate required by the US Coast Guard for tonnage transporting oil products in the US economic zone (due to OPA90), to confirm the owner's financial responsibility up to a specified amount for pollution caused in US waters.

Combination carrier – Ship capable of carrying different types of cargo, thereby achieving a more uniform flow of shipments. Typically termed OBO, an abbreviation for oil, bulk, ore, which means that the vessel is designed for cargoes of these and other bulk products.

Crude (oil) – Unrefined oil directly from the reservoir.

Daily operating costs – The costs of a vessel's technical operation, crewing and insurance (ex.costs of financing).

Demurrage – Money paid to shipowner by charterer, shipper or receiver for failing to complete loading/discharging within time allowed according to charter-party.

Dispatch – Remuneration payable by shipowner to charterer, shipper or receiver for loading/discharging in less than the time allowed according to the charter-party.

Dry cargo carrier – A ship carrying general or bulk cargo.

Dry docking – To put a vessel into a dry dock for inspection, repair and maintenance. Normally done on regular basis.

Dwt (deadweight ton) – A measure expressed in metric tons (1,000 kg) or long tons (1,016 kg) of a ship's carrying capacity, including bunker oil, fresh water, crew and provisions. This is the most important commercial measure of the capacity.

Freight rate – The agreed freight charge calculated by metric tons of cargo or deadweight ton pr month (See Worldscale).

Knot – A measure of the speed of the vessel. 1 knot = 1 nautical mile per hour, that is 1,85 km/h.

Lightering – Loading/discharging offshore from/to smaller ships.

Net revenue/Time charter (t/c) equivalent – Gross freight income less voyage costs (bunker costs, port duties etc.).

OBO – Oil/Bulk/Ore carrier (see Combination carrier).

Oil-Tanker – Ship carrying crude oil or refined products. If a ship is equipped to carry several types of cargo simultaneously the ship is called a Parcel Tanker. A Shuttle Tanker is a tanker carrying oil from offshore fields to terminals. An oil tanker especially built for the transportation of refined oil products, often with inside painted/coated tanks, is called a Product Tanker.

OPA-90 – The US oil pollution Act of 1990. Federal law imposing regulations on shipowners trading in US waters.

Panamax size – Ship between 55,000 dwt and 80,000 dwt, the largest ship capable of navigating in the Panama Canal.

Product tanker – Tanker that carries refined oil products.

Shipbroker – A person/company who on behalf of shipowner/shipper negotiates a deal for the transportation of cargo at an agreed price. Shipbrokers are also active when shipping companies negotiate the purchasing and selling of ships, both second-hand tonnage and newbuilding contracts.

Ship Management – The technical administration of a ship, including services like technical operation, maintenance, repair, crewing and insurance.

Spot market – Short term contracts, normally not longer than three months in duration.

Suezmax – Tanker between 120,000 dwt and 160,000 dwt.

Time charter (t/c) – An arrangement whereby a shipowner places a crewed ship at a charterer's disposal for a certain period. Freight is customarily paid in advance. The charterer also pays for bunker charges, port duties etc.

Ton – 1,000 kilos (metric ton = 2,204 lb).

ULCC – Ultra Large Crude Carrier. Tanker of 320,000+ dwt.

VLCC – Very Large Crude Carrier. Tanker between 200,000 and 320,000 dwt.

Voyage charter – The transportation of cargo from port(s) of loading to port(s) of discharge. Payment is normally per ton of cargo, and the ship owner pays for bunkers, port and canal charges etc.

Voyage costs – Costs directly related to a specific voyage (e.g. bunkers).

Worldscale (WS) – International freight index for tankers. A method of calculation of payment for the transport of oil by ships, for a single or several consecutive voyages. Worldscale is a table giving the amount of $ pr ton oil for a number of standard routes. The rates listed in the table – so-called flat rates termed WS100 – are revised annually.

Fleet list

	Vessel	Manager	Flag[1]	Built	S.Dwt	Yard
SUEZMAX TANKERS	Lillo	Barber	LIB	1991	140 554	AESA
	Glen Maye (T/C)	Acomarit	PAN	1992	140 991	Sasebo
	Front Emperor	Acomarit	SING	1992	147 273	AESA
	Front Spirit	Acomarit	LIB	1993	147 273	AESA
	Front Pride	Acomarit	LIB	1993	149 686	Mitsui
	Front Splendour	Acomarit	NIS	1995	149 745	Mitsui
	Front Glory	Acomarit	NIS	1995	149 834	Mitsui
	Front Fighter	V.Ships	LIB	1998	153 181	Hyundai
	Front Hunter	V.Ships	LIB	1998	153 181	Hyundai
	Front Warrior	V.Ships	LIB	1998	153 181	Hyundai
	Front Sky			2000	153 181	Hyundai
	Front Sun			2000	153 181	Hyundai
	Samuel Ginn	Chevron	BS	1993	156 836	IHI
	Condoleezza Rice	Chevron	BS	1993	135 829	Ishibras
	Chevron Mariner	Chevron	LIB	1994	156 382	Ishibras
	William E. Crain	Chevron	LIB	1992	155 151	Ishibras
OBO CARRIERS	Algarrobo (T/C)	Acomarit	NIS	1984	156 252	Hyundai
	Front Breaker	Barber	LIB	1991	169 177	Daewoo
	Front Climber	Acomarit	SING	1991	169 178	Hyundai
	Front Driver	Acomarit	LIB	1991	169 177	Hyundai
	Front Guider	Acomarit	SING	1991	169 142	Daewoo
	Front Leader	Acomarit	SING	1991	169 381	Daewoo
	Front Rider	Acomarit	SING	1992	169 718	Hyundai
	Front Striver	Acomarit	SING	1992	169 204	Daewoo
	Front Viewer	Barber	SING	1992	169 381	Daewoo
VLCC TANKERS	Front Highness	Acomarit	SING	1991	284 420	Hyundai
	Front Lady	Acomarit	SING	1991	284 420	Hyundai
	Front Lord	Acomarit	SING	1991	284 420	Hyundai
	Front Duke	Acomarit	SING	1992	284 420	Hyundai
	Front Duchess	Acomarit	SING	1993	284 420	Hyundai
	Front Century	Barber	LIB	1998	311 189	Hyundai
	Front Champion			1998	311 189	Hyundai
	Front Chief			1999	311 189	Hyundai
	Front Commander			1999	311 189	Hyundai
	Front Crown			1999	311 189	Hyundai
	N/B Windsor 1	BP		1999	304 500	Samsung
	N/B Windsor 2	BP		2000	304 500	Samsung
	N/B Windsor 3	BP		2000	304 500	Samsung
	N/B Windsor 4	BP		2000	304 500	Samsung
	N/B Golden State Petro 1	Chevron		1999	308 500	Samsung
	N/B Golden State Petro 2	Chevron		1999	308 500	Samsung
BULK CARRIERS	World Wood	Acomarit	LIB	1974	46 601	Nagasaki
	Forest Sovereign	Acomarit	LIB	1974	47 150	Sasebo

[1]) BS - Bahamas, LIB - Liberia, NIS - Norway, PAN - Panama, SING - Singapore


FRONT GLORY

FRONTLINE

Frontline Ltd.
101 Front street - Hamilton HM GX, Bermuda
Telephone: +1 441 295 6935 - Telefax: 1 441 295 3494

Frontline Management AS
P.O.Box 1327 Vika, N-0112 Oslo, Norway
Telephone: +47 23 11 40 00 - Telefax: +47 23 11 40 40 - Telex: 74011

Internet: http://www.huginonline.com
Internet: http://www.frontline.bm

Frontline 97