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Consolidated Statements of Income

for the nine months ended December 31, 1997 and 1996

and the years ended March 31, 1997 and 1996

(in thousands, except per share)

	Notes	Nine months ended December 31, 1997 1996 <i>(unaudited)</i>		1997	Years ended March 31, 1996
Operating revenues					
Time charter income	14	\$ 12,057	\$ 13,369	\$ 17,779	\$ 17,979
Voyage charter income	14	31,590	29,861	40,259	27,787
Total charter income		43,647	43,230	58,038	45,766
Vessel voyage costs		(9,543)	(10,871)	(14,367)	(10,932)
Brokers' commission		(1,221)	(1,290)	(1,696)	(1,302)
Net operating revenues		32,883	31,069	41,975	33,532
Gain on sale of vessels		29,906	-	-	-
Operating expenses					
Vessel operating costs		10,767	10,513	14,140	12,008
Depreciation		8,746	9,587	12,781	10,283
Drydocking and special survey costs		1,430	1,626	2,140	1,627
Provision for impaired value		22,081	-	-	-
Administrative expenses		2,715	2,326	3,331	2,731
Foreign exchange (gain) loss		(96)	(114)	(123)	34
Total operating expenses		45,643	23,938	32,269	26,683
Net operating income		17,146	7,131	9,706	6,849
Other income (expenses)					
Interest income		967	640	902	1,048
Interest expense		(6,538)	(6,614)	(8,621)	(6,052)
Merger costs		(5,222)	-	-	-
Net other expenses		(10,793)	(5,974)	(7,719)	(5,004)
Net income before income taxes		6,353	1,157	1,987	1,845
Income taxes	5	14	12	18	29
Net income		\$ 6,339	\$ 1,145	\$ 1,969	\$ 1,816
Earnings per Ordinary Share					
- basic	6	\$ 0.086	\$ 0.016	\$ 0.027	\$ 0.025
- diluted		\$ 0.085	\$ 0.015	\$ 0.026	\$ 0.024

Consolidated Balance Sheets

as of December 31, 1997 and March 31, 1997

(in thousands)

	Notes	December 31, 1997	March 31, 1997
ASSETS			
Current assets			
Cash and cash equivalents		\$ 12,313	\$ 20,559
Trade accounts receivable		2,125	3,887
Other receivables		313	389
Inventories		616	1,527
Prepaid expenses and accrued income		267	469
Total current assets		15,634	26,831
Vessels and equipment, net	8, 10	156,180	207,342
Deferred charges	9	400	740
Total assets		\$ 172,214	\$ 234,913
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current maturities of long-term debt	10,14	\$ 1,400	\$ 9,705
Trade accounts payable		1,867	38
Accrued expenses		1,655	4,926
Time charter income received in advance		1,109	—
Income taxes payable		16	11
Drydocking and special survey provisions		1,931	2,219
Total current liabilities		7,978	16,899
Long-term liabilities			
Long-term debt	10,14	38,600	97,049
Drydocking and special survey provisions		210	1,536
Total liabilities		46,788	115,484
Commitments and contingencies	16		
Shareholders' equity			
Share capital	11	18,431	18,431
Capital in excess of par value		77,829	77,915
Warrants	12	530	683
Retained earnings		28,636	22,400
Total shareholders' equity		125,426	119,429
Total liabilities and shareholders' equity		\$ 172,214	\$ 234,913

Consolidated Statements of Cash Flows

for the nine months ended December 31, 1997 and 1996
and the years ended March 31, 1997 and 1996
(in thousands)

	Nine months ended December 31, 1997 1996 (unaudited)		Year ended March 31, 1997 1996	
Operating activities				
Net income	\$ 6,339	\$ 1,145	\$ 1,969	\$ 1,816
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	8,746	9,587	12,781	10,283
Amortization of deferred charges	740	137	179	142
Gain on sale of vessels	(29,906)	—	—	—
Drydocking adjustment on sale of vessels	842	—	—	—
Fair value adjustment	22,081	—	—	—
(Increase) decrease in trade accounts receivable	1,762	2,011	132	(3,710)
(Increase) decrease in other receivables	76	(153)	(94)	(162)
(Increase) decrease in inventories	911	(319)	75	(1,106)
(Increase) decrease in prepaid expenses and accrued income	202	151	76	(97)
Increase (decrease) in trade accounts payable	1,829	(812)	(1,279)	324
Increase (decrease) in accrued expenses	(3,271)	(1,431)	535	2,623
Increase (decrease) in time charter income received in advance	1,109	1,519	—	(2,100)
Increase (decrease) in income taxes payable	5	(24)	(18)	6
Increase (decrease) in drydocking and special survey provisions	(1,614)	898	1,389	413
Net cash provided by (used in) operating activities	9,851	12,709	15,745	8,432
Investing activities				
Additions to vessels and equipment	(251)	(196)	(255)	(316)
Proceeds from sale of vessels and equipment	49,649	—	—	—
Additions to vessels under construction	—	—	—	(84,751)
Net cash provided by (used in) investing activities	49,398	(196)	(255)	(85,067)
Financing activities				
Proceeds from long-term debt	40,000	—	—	120,000
Scheduled repayments of long-term debt	(9,704)	(9,704)	(9,704)	(59,228)
Prepayments of long-term debt	(97,049)	—	—	—
Debt fees paid	(400)	—	—	(1,020)
Proceeds from issuance of shares	—	—	—	237
Repurchase of warrants	(342)	—	—	—
Dividends paid	—	—	—	(735)
Net cash provided by (used in) financing activities	(67,495)	(9,704)	(9,704)	59,254
Net increase (decrease) in cash and cash equivalents	(8,246)	2,809	5,786	(17,381)
Cash and cash equivalents at beginning of period/year	20,559	14,773	14,773	32,154
Cash and cash equivalents at end of period/year	\$ 12,313	\$ 17,582	\$ 20,559	\$ 14,773
Supplemental disclosure of cash flow information:				
Interest paid, net of capitalized interest	\$ 8,467	\$ 8,299	\$ 8,683	\$ 4,934
Income taxes paid	8	38	38	23

Consolidated Statements of Shareholders' Equity

for the nine months ended December 31, 1997 and 1996

and the years ended March 31, 1997 and 1996

(in thousands)

	Ordinary Share capital	Capital in excess of par value	Warrants	Retained earnings
Balance at March 31, 1995	\$ 18,338	\$ 77,612	\$ 842	\$ 19,167
Exercise of warrants	93	303	(159)	–
Net income	–	–	–	1,816
Dividends declared	–	–	–	(552)
Balance at March 31, 1996	\$ 18,431	\$ 77,915	\$ 683	\$ 20,431
Net income	–	–	–	1,969
Balance at March 31, 1997	\$ 18,431	\$ 77,915	\$ 683	\$ 22,400
Balance at March 31, 1996	\$ 18,431	\$ 77,915	\$ 683	\$ 20,431
Net income (unaudited)	–	–	–	1,145
Balance at December 31, 1996 (unaudited)	\$ 18,431	\$ 77,915	\$ 683	\$ 21,576
Balance at March 31, 1997	\$ 18,431	\$ 77,915	\$ 683	\$ 22,400
Repurchase of warrants	–	(86)	(153)	(103)
Net income	–	–	–	6,339
Balance at December 31, 1997	\$ 18,431	\$ 77,829	\$ 530	\$ 28,636

Notes to Consolidated Financial Statements

1. GENERAL

Frontline Ltd. (formerly London & Overseas Freighters Limited ("LOF")) ("the Company") originally commenced operations in 1948 as a U.K. company ("LOF plc"). The Company was incorporated under the laws of Bermuda on June 12, 1992 for the purpose of succeeding to the business of LOF plc. The Company owns and operates a fleet of oil tankers that transport crude oil and oil products to and from ports primarily in the United States. The Company has operated tankers in the crude oil and oil products trades continuously since 1950. Prior to December 1997 the Company's fleet consisted of three Panamax tankers and three Suezmax tankers, all registered under the British flag and manned by British officers. On October 29, 1997 the Company entered into agreements to sell its three Panamax tankers to subsidiaries of Pegasus Shipping (Hellas) Ltd., a Greek shipping company. The closing of the sales took place in December 1997.

On September 22, 1997, LOF announced that it had entered into an Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with Frontline Ltd., a Bermuda company ("Frontline"), providing for a business combination in a three-step transaction. In the first step, on September 29, 1997, pursuant to the Amalgamation Agreement, Frontline commenced a cash tender offer (the "Offer") for at least 50.1 percent and up to 90 percent of the outstanding Ordinary Shares of LOF par value \$0.25 per share, including American Depositary Shares 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 Frontline had acquired 58,792,575, (approximately 79.74%) of the outstanding Ordinary Shares of the Company.

In the second step, which was completed on May 11, 1998, Frontline amalgamated (the "Amalgamation") with Dolphin Limited, a Bermuda wholly-owned subsidiary of LOF, resulting in the "Amalgamated Company". Each ordinary share of Frontline (the "Frontline Shares") was canceled in consideration for which the shareholders of Frontline received (i) 3.2635 Ordinary Shares of LOF and (ii) 0.1902 of a newly issued warrant ("New Warrants") to purchase one Ordinary Share of LOF. A total of 446,125,368 Ordinary Shares of LOF and 26,000,000 New Warrants were issued and the 58,792,575 Ordinary Shares held by Frontline as a result of the Offer were canceled immediately following the Amalgamation.

In the third step of the combination in order to combine the business of LOF and Frontline, LOF purchased the assets and liabilities of Frontline which had vested in the Amalgamated Company, by reason of the Amalgamation, at fair market value in exchange for a promissory note. This note will be transferred by way of distribution from the Amalgamated Company to LOF which will in turn cancel the note. LOF, which combines the business of LOF and Frontline, is the legally surviving entity in this business combination and has been renamed Frontline Ltd. with effect from May 11, 1998. Frontline is treated as the accounting acquiror and the transaction treated as a reverse acquisition. The financial statements presented herein reflect only the results of LOF and do not include any financial information relating to Frontline or the purchase accounting adjustments related to the first step of the Amalgamation. In periods subsequent to the Amalgamation, the financial statement of the Company will be those of Frontline.

In connection with the Amalgamation, approximately 100 employees were made redundant in the nine months ended December 31, 1997 and redundancy costs of \$2,300,000 were incurred and are included in merger costs in the Consolidated Statements of Income.

In connection with the change of ownership and management of the Company, the Company's Suezmax vessels, London Glory and London Splendour were reflagged to the NIS flag and were renamed Front Glory and Front Splendour, respectively. The London Pride, was renamed Front Pride in January 1998 and was reflagged on the Liberian flag. The management of the three vessels has been placed with independent ship managers at the time of their reflagging.

Notes to Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES

Fiscal Year

Effective April 1, 1998, LOF changed its fiscal year end from March 31 to December 31. Accordingly, the consolidated financial statements present the Company's results of operations for the nine months ended December 31, 1997 and December 31, 1996 and the years ended March 31, 1997 and March 31, 1996. The information presented herein with regard to the nine months ended December 31, 1996 is unaudited.

Basis of accounting

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiary, London & Overseas Freighters (UK) Limited ("LOF (UK)"). All intercompany balances and transactions have been eliminated upon consolidation.

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions affecting the amounts reported in those financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, demand and time deposits with original maturities of three months or less are considered equivalent to cash.

Inventories

Inventories, which comprise fuel and consumable stores, 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 written off on a straight-line basis over the vessels' remaining lives. In the fourth calendar 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 approximately \$320,000. Other equipment is depreciated over its estimated residual life at rates of between 10% and 33 1/3% on a straight-line basis.

Revenue and expense recognition

Revenues and expenses are recognized on the accrual basis. Time charter revenues are recorded on a daily accrual basis. Voyage charter revenues are recorded on the percentage of completion basis. Estimated losses on voyages are provided for in full at the time such losses become evident.

Drydocking and special survey provisions

Most of the expenditure on repairs and maintenance of the vessels is incurred during drydockings, which take place at intervals of every two to three years, with additional costs when special surveys are carried out every five years. Provisions are made so that each year's results bears a proportionate share of these costs. Such provisions are based on estimates made by management of expected cost and length of time between drydockings. Actual results could differ from those estimates.

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. Deferral (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.

The Company enters into forward exchange contracts from time to time to hedge a portion of its expenses which are paid in U.K. Sterling. These expenses consist of compensation to the Company's officer staff and

Notes to Consolidated Financial Statements (continued)

administrative expenses associated with LOF (UK). Deferral (hedge) accounting is used to account for these forward exchange contracts provided certain hedging criteria are met. Realized and unrealized gains and losses on foreign currency hedging transactions that are designated and effective as hedges of firm identifiable foreign currency commitments are deferred and recognized in income in the same period as the hedged transaction.

Deferral (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 deferral accounting, any gains and losses are currently recognized in income. If a hedged instrument is sold or terminated prior to maturity, gains and losses continue to be deferred until the hedged instrument is 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 US dollar as all revenues are received in US dollars and a majority of the Company's expenditures are made in US dollars. As the Company's foreign operations, conducted through LOF (UK), are an integral extension of the Company's operations, the functional currency of LOF (UK) is that of its parent company. Transactions in foreign currencies during the year are translated into US 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 exchange gains or losses are included in the consolidated statements of income.

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. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to SFAS 128.

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.

Impairment of long-lived assets

Effective April 1, 1995 the Company 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 establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles, goodwill related to those assets to be held and used and long-lived assets and certain identifiable intangibles to be disposed of. 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 cost to sell. The sale of its Panamax vessels prompted the Company to undertake a review of the recoverability of its investment in its remaining vessels. The Company determined that the carrying value of the three Suezmax vessels exceeded their undiscounted forecast future net cash flows from operations. These losses were measured by the excess of the carrying value of the vessels over their estimated fair values which were based on values provided by ship brokers. The carrying value of

Notes to Consolidated Financial Statements (continued)

the vessels was reduced by \$22 million and the reduction is reported as a separate item in the Consolidated Statements of Income (Note 8).

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 and has disclosed the required pro forma effect on net income and earnings per share (Note 13).

3. 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 statements 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.

4. PENSIONS

The Company and its sea-going officers contribute to the industry-wide Merchant Navy Officers' Pension Fund ("MNOPF"), providing benefits based on average revalued pensionable salary. LOF (UK) and its employees contribute to a clerical staff scheme operated for the benefit of its shore-based employees, providing benefits based on final average pensionable salary. The assets of the schemes are held in independently administered funds. Contributions are determined on the basis of triennial valuations by qualified actuaries using the projected unit method. Effective August 1, 1996 the MNOPF was closed to new entrants and re-entrants and a new industry-wide Merchant Navy Officers' Pension Plan ("MNOPP") was established. This is a defined contribution money purchase scheme. The Company, certain sea-going officers and other employees contribute to the MNOPP and other defined contribution plans, the cost of which is funded as accrued.

The most recent actuarial valuation, dated as of March 31, 1996, for the MNOPF disclosed a surplus of £225,000,000 (\$369,000,000 based on the historic exchange rate); that as of March 31, 1995, for the clerical staff scheme, which comprises three participating employees, disclosed a surplus of £532,000 (\$867,000 based on the historic exchange rate). The assumptions with the most significant effect on the results of the valuations were that the investment returns would be 9.5% for the officers' scheme and 8.5% for the clerical staff scheme and that salary increases would average 7% for the officers and 7% for the clerical staff.

The pension charge for the nine months ended December 31, 1997 was \$226,000 (for the years ended March 31, 1997 and 1996 \$275,000 and \$184,000, respectively) of which \$210,000 applied to the MNOPF and MNOPP.

Notes to Consolidated Financial Statements (continued)

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.

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

In the opinion of management, a reconciliation between the income tax expense resulting from applying the US 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 US tax. The income tax paid by LOF (UK) is not material.

United Kingdom

The Company's subsidiary, LOF (UK), is subject to United Kingdom Corporation Tax. The tax charge (benefit) comprises:

<i>(in thousands)</i>	Nine months ended December 31,		Year ended March 31,	
	1997	1996 <i>(unaudited)</i>	1997	1996
U.K. Corporation Tax	\$ 14	\$ 12	\$ 18	\$ 29

6. EARNINGS PER SHARE

The computation of basic EPS is based on the weighted average number of ordinary shares outstanding during the period. The computation of diluted EPS assumes the foregoing and the exercise of warrants and stock options using the treasury stock method (Notes 12 and 13).

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

<i>(in thousands)</i>	Nine months ended December 31,		Year ended March 31,	
	1997	1996 <i>(unaudited)</i>	1997	1996
Net income available to ordinary shareholders	\$ 6,339	\$ 1,145	\$ 1,969	\$ 1,816

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

<i>(in thousands)</i>	Nine months ended December 31,		Year ended March 31,	
	1997	1996 <i>(unaudited)</i>	1997	1996
Weighted average number of Ordinary Shares outstanding	73,726	73,726	73,726	73,577
Warrants and stock options	922	923	884	920
	74,648	74,649	74,610	74,497

Notes to Consolidated Financial Statements (continued)

7. DIVIDENDS

Dividends declared by the Company are as follows:

<i>(in thousands, except per share data)</i>	Nine months ended December 31,		Year ended March 31,	
	1997	1996 <i>(unaudited)</i>	1997	1996
Dividends per Ordinary Share				
First quarter	\$ –	\$ –	\$ –	\$ 0.0025
Second quarter	–	–	–	0.0025
Third quarter	–	–	–	0.0025
Fourth quarter	–	–	–	–
	–	–	–	0.0075
Total dividends	\$ –	\$ –	\$ –	\$ 552

8. VESSELS AND EQUIPMENT

<i>(in thousands)</i>	December 31, 1997	March 31, 1997
Cost or estimated Fair Value		
London Spirit	\$ –	\$ 14,860
London Victory	–	14,882
London Enterprise	–	18,055
London Pride	50,000	76,262
Front Glory	53,500	70,232
Front Splendour	53,500	61,378
Equipment	762	785
	157,762	256,454
Accumulated depreciation	(1,582)	(49,112)
Net book value	\$ 156,180	\$ 207,342

In the quarter ended December 31, 1997, the sale of its Panamax vessels prompted the Company to undertake a review of the recoverability of its investment in its remaining vessels. The Company determined that the carrying value of the three Suezmax vessels exceeded their undiscounted forecast future net cash flows from operations. These losses were measured by the excess of the carrying value of the vessels over their estimated fair values which were based on values provided by ship brokers. The carrying value of the Suezmax vessels was reduced by \$22 million.

The following is a summary of the vessels:

Name	Date delivered	Builder	Deadweight tonnage	Time charter expiration
London Pride	July 1993	Mitsui Engineering & Shipbuilding	149,686	June 1998
Front Glory	May 1995	Mitsui Engineering & Shipbuilding	149,834	n/a
Front Splendour	December 1995	Mitsui Engineering & Shipbuilding	149,745	n/a

9. DEFERRED CHARGES

Deferred charges represent debt arrangement fees and interest rate swap realignment charges in relation to the long-term debt which are deferred and amortized to interest expense using a constant periodic rate. The

Notes to Consolidated Financial Statements (continued)

debt arrangement fees are being amortized over the life of the long-term debt. The balance of the debt arrangement fees associated with the loan which was refinanced in the period to December 31, 1997 was fully written off in that period. The interest rate swap realignment charges are being amortized over the life of the underlying swap and were fully amortized in the nine months ended December 31, 1997. The deferred charges are comprised of the following amounts:

<i>(in thousands)</i>	December 31, 1997	March 31, 1997
Debt arrangement fees	\$ 1,140	\$ 1,020
Interest rate swap realignment charges	85	85
	<u>1,225</u>	<u>1,105</u>
Accumulated amortization	<u>(825)</u>	<u>(365)</u>
	<u>\$ 400</u>	<u>\$ 740</u>

10. LONG-TERM DEBT

On December 22, 1997 the Company entered into a \$100,000,000 Long Term Loan ("Loan") with Chase Manhattan Bank ("Chase"). This loan replaced a \$120,000,000 Secured Syndicated Term Loan with Chase. This Loan was entered into to provide for the long-term financing of the Suezmax vessels following the sale of the Panamax vessels. On December 22, 1997 \$40,000,000 of the Loan was drawdown. The facility provides for a maximum of three drawdowns with the last drawdown date falling no later than May 31, 1998. The first installment falls due six months after the final drawdown date. Repayment of two thirds of the balance outstanding at the final drawdown will be made in 20 semi-annual installments, each in the amount of \$3.5 million, over ten years on a straight-line basis. The remaining one third of the balance outstanding will be repayable at the end of the ten years. Interest on the Loan is payable at a LIBOR-based rate.

The Loan is secured by first priority statutory mortgages over the three Suezmax vessels in the fleet, an assignment of all the earnings and insurances of these vessels and a floating charge over the Company's assets. The Company is required to ensure that the aggregate value of the vessels is not less than 125% of the outstanding loan balance. In addition, the Loan prohibits the payment of any dividend or distribution. The Company is in compliance with all debt covenants.

The outstanding long-term debt as of December 31, 1997 is repayable as follows:

Year ending December 31, <i>(in thousands)</i>		
1998	\$	1,400
1999		2,800
2000		2,800
2001		2,800
2002		2,800
2003 and later		<u>27,400</u>
Total long-term debt	\$	<u>40,000</u>

Notes to Consolidated Financial Statements (continued)

11. SHARE CAPITAL

Share capital is as follows:

<i>(in thousands)</i>	December 31, 1997	March 31, 1997
Authorized		
100,000,000 Ordinary Shares of \$0.25 each (1996 – 100,000,000 Ordinary Shares)	\$ 25,000	\$ 25,000
Issued and fully paid		
73,725,816 Ordinary Shares of \$0.25 each (1996 – 73,725,816 Ordinary Shares)	\$ 18,431	\$ 18,431

Ordinary Shares are listed on the London Stock Exchange. Ordinary Shares are also listed on the NASDAQ National Market in the form of ADSs. Each ADS represents ten Ordinary Shares. With effect from May 12, 1998 the Ordinary shares were also listed on the Oslo Stock Exchange.

Of the authorized and unissued Ordinary Shares, 1,245,588 are reserved for issue pursuant to subscription under warrants which can be exercised at any time up to December 31, 2003 and 2,880,000 are reserved for issue pursuant to subscription under options granted under the Company's share option plans. Save for the shares which would be issued on the exercise of the existing warrants, New warrants and the options, no unissued share capital of the Company is under option or is conditionally or unconditionally to be put under option.

At a shareholders 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. Subsequent to this approval, the Company issued 446,125,368 ordinary shares pursuant to the Amalgamation described in Note 1.

On December 6, 1996, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Plan"). The Company adopted the Plan to protect shareholders against unsolicited attempts to acquire control of the Company that do not offer an adequate price to all shareholders or are otherwise not in the best interests of the Company and its shareholders. Under the Plan, each shareholder of record on December 20, 1996 received one right for each Ordinary Share held, and each registered holder of outstanding warrants received one right for each Ordinary Share for which they are entitled to subscribe. In addition, in connection with the Amalgamation, the Company issued in the aggregate 472,125,368 rights to Frontline's shareholders (446,125,368 of which rights were attached to the Ordinary Shares issued and 26,000,000 of which rights were attached to the Ordinary Shares underlying the New Warrants issued). The rights generally may not detach from the related Ordinary Shares. Each right entitles the holder to purchase from the Company one-quarter of an Ordinary Share at an initial purchase price of \$1.50. The rights will become exercisable and will detach from the Ordinary Shares a specified period of time after any person has become the beneficial owner of 20% or more of the Company's Ordinary Shares. The plan was amended as of October 29, 1997 to provide that Frontline's purchase of Ordinary Shares pursuant to the Offer would not result in the rights becoming exercisable.

If any person becomes the beneficial owner of 20% or more of the Company's Ordinary Shares, each right will entitle the holder, other than the acquiring person, to purchase for the purchase price, that number of Ordinary Shares having a market value of eight times the purchase price.

If, following an acquisition of 20% or more of the Company's Ordinary Shares, the Company is involved in certain amalgamations or other business combinations or sells or transfers more than 50% of its assets or earning power, each right will entitle the holder to purchase for the purchase price ordinary shares of the other party to the transaction having a market value of up to eight times the purchase price.

The Company may redeem the rights at a price of \$0.001 per right at any time prior to a specified period of time after a person has become the beneficial owner of 20% or more of its Ordinary Shares. The rights will

Notes to Consolidated Financial Statements (continued)

expire on December 31, 2006, unless earlier exchanged or redeemed.

12. WARRANTS

At the time of the reconstruction of LOF plc in 1988, 735,294 warrants were granted to each of The Royal Bank of Scotland Plc and The Bank of Nova Scotia as consideration for the waiver of the outstanding balances of the deferred loans, and Sumitomo Corporation as consideration for its obligations under the financing arrangements. As part of the arrangements for the formation of the Company, LOF plc and the Company entered into an agreement with the warrant holders whereby the Company issued 2,205,882 warrants in exchange for the outstanding LOF plc warrants. Each warrant entitles the holder to subscribe for one Ordinary Share in the Company at a price of £0.40. The warrants have been recorded at their estimated value at the time of issue. In August 1997 the Company repurchased 360,294 from Sumitomo Corporation in accordance with the terms of the warrant agreement.

The following summarizes the warrant transactions:

(in thousands)

Warrants outstanding at March 31, 1995	1,981
Exercised	(375)
Warrants outstanding at March 31, 1996	1,606
Exercised	-
Warrants outstanding at March 31, 1997	1,606
Repurchased	(360)
Warrants outstanding at December 31, 1997	1,246

13. SHARE OPTION PLANS

The Company has in place two Share Option Plans, the Bermuda Share Option Plan (the "Bermuda Plan") and the 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% of the issued share capital of the Company. No consideration is payable for the grant of an option.

The Company has recorded no compensation expenses in respect of the issuance of share options in any of the periods presented. Had the compensation costs for these plans been determined consistent with the fair value method recommended in SFAS 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

<i>(in thousands, except per share data)</i>	Nine months ended		Year ended	
	December 31,		March 31,	
	1997	1996	1997	1996
	<i>(unaudited)</i>			
Net income				
As reported	\$ 6,339	\$ 1,145	\$ 1,969	\$ 1,816
Pro forma	\$ 6,339	\$ 1,145	\$ 1,734	\$ 1,540
Earnings per ordinary share				
As reported	\$ 0.086	\$ 0.016	\$ 0.026	\$ 0.024
Pro forma	\$ 0.086	\$ 0.016	\$ 0.023	\$ 0.021

Because the SFAS 123 fair value method of accounting has not been applied to options granted prior to April 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Notes to Consolidated Financial Statements (continued)

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 or upon the termination of the option holder from employment with the Company.

The following summarizes the share option transactions under the Bermuda Plan:

<i>(in thousands, except per share data)</i>	Shares	Weighted average exercise price
Options outstanding at March 31, 1996	1,150	1.492
Granted	190	1.173
Exercised	—	—
Canceled	(50)	1.500
Options outstanding at March 31, 1997	1,290	\$ 1.445
Granted	—	—
Exercised	—	—
Canceled	—	—
Options outstanding at December 31, 1997	1,290	\$ 1.445
Options exercisable at:		
March 31, 1996	1,120	\$ 1.496
March 31, 1997	1,100	\$ 1.492
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 or upon the termination of the option holder from employment with the Company.

The following summarizes the share option transactions under the U.K. Plan:

<i>(in thousands, except per share data)</i>	Shares	Weighted average price
Options outstanding at March 31, 1996	1,440	0.895
Granted	330	0.728
Exercised	—	—
Canceled	(150)	0.907
Options outstanding at March 31, 1997	1,620	£ 0.860
Granted	—	—
Exercised	—	—
Canceled	(30)	0.813
Options outstanding at December 31, 1997	1,590	£ 0.861
Options exercisable at:		
March 31, 1996	—	£ —
March 31, 1997	400	£ 0.979
December 31, 1997	1,350	£ 0.873

No options were granted in the nine months ended December 31, 1997. The weighted average fair value of options granted under the Bermuda Plan in the years ended March 31, 1997 and 1996 was \$0.452 and \$0.511, respectively. The weighted average fair value of options granted under the U.K. Plan in the years ended March 31, 1997 and 1996 was £0.280 and £0.324, respectively. The fair value of each option grant is estimated

Notes to Consolidated Financial Statements (continued)

on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the year ended March 31, 1997: risk free interest rate of 6.34 percent; expected life of 7 years; expected volatility of 17 percent; expected dividend yield of zero percent. The following weighted average assumptions were used for grants in the year ended March 31, 1996: risk free interest rate of 5.91 percent; expected life of 7 years; expected volatility of 18.5 percent; expected dividend yield of zero percent.

The 1,290,000 options outstanding under the Bermuda Plan at December 31, 1997 have exercise prices between \$1.173 and \$1.500, with a weighted average exercise price of \$1.445.

The 1,590,000 options outstanding under the U.K. Plan at December 31, 1997 have exercise prices between £0.728 and £0.985, with a weighted average exercise price of £0.861.

14. FINANCIAL INSTRUMENTS

Fair Values

Financial instruments at December 31, 1997 consist of the following:

<i>(in thousands)</i>	Carrying value	Fair value
Interest rate swap transactions	–	60

Fair values were estimated using the following methods and assumptions:

Interest rate swap transactions

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

Principal <i>(in thousands)</i>	Inception Date	Maturity Date	Rate
\$5,013, reducing quarterly to \$1,707	July 1993	July 1998	7.78%
\$50,000	May 1995	May 1998	6.43%
\$10,000	May 1996	May 2000	5.56%
\$20,000	May 1998	May 2000	5.90%

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

Foreign currency hedging transactions

The Company had no forward exchange contracts outstanding at the year end.

Other financial instruments

The carrying amount of other financial instruments approximates fair value as the long-term debt is at floating rates of interest and all other financial instruments are short-term in nature.

Off-balance sheet market and credit risk

Market risk exists with respect to changes in interest rates and foreign exchange rates. The Company enters into interest rate swap and forward exchange contracts from time to time to manage a portion of this risk. Credit risk exists to the extent that the counterparty, Chase, is unable to perform under the contracts, but this

Notes to Consolidated Financial Statements (continued)

risk is considered remote.

Concentrations of credit 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 Chase.

The majority of the vessels' gross earnings are receivable in US dollars. The following are the customers that comprise 10% or more of freight revenues:

<i>(in thousands)</i>	Nine months ended December 31,		Year ended March 31,	
	1997	1996 <i>(unaudited)</i>	1997	1996
Chevron Transport Corporation	\$ 12,057	\$ 14,383	\$ 19,621	\$ 17,979
Repsol	\$ 4,569	\$ —	\$ —	\$ —

The Company trades primarily in the transportation of crude oil, the majority of which is in the US trades.

A substantial portion of revenues from these operations is received from Chevron. Credit risk exists to the extent that there is a downturn in the transportation requirements for oil or the creditworthiness of Chevron.

15. CAPITAL AND OTHER COMMITMENTS

The Company is committed to make rental payments under an operating lease for office premises which expires in October 1998 with an option to extend to October 2000. LOF (UK) is committed to make rental payments under an operating lease for office premises which expires in June 1998.

The future minimum rental payments under these operating leases, including the option to extend, are as follows:

Year ending December 31, <i>(in thousands)</i>	
1998	\$ 218
1999	206
2000	187
2001	—
2002	—
2003 and later	—
	<hr/> \$ 611 <hr/>

16. CONTINGENT LIABILITY

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.

17. SUBSEQUENT EVENTS

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 Heavy Industries Co. Ltd. in Korea to be

Notes to Consolidated Financial Statements (continued)

delivered in January and March 2000.

On March 16, 1998 the Company announced that it had conditionally agreed to exercise its outstanding options for the purchase of five VLCCs from companies controlled by the principal shareholder. The exercise of these options is subject to the Company securing sufficient financing.

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 and thereby add six VLCC newbuildings and four modern Suezmaxes to its fleet.

On May 12, 1998 the balance of \$60,000,000 available under the Loan was drawdown.

Independent Auditors' Reports

The Board of Directors and Shareholders London & Overseas Freighters Limited

We have audited the accompanying consolidated balance sheets of London & Overseas Freighters Limited and its subsidiaries as of December 31, 1997 and March 31, 1997 and the related consolidated statements of income, cash flows and shareholders' equity for the nine month period ended December 31, 1997 and for each of the years in the two-year period ended March 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of London & Overseas Freighters Limited and its subsidiaries as of December 31, 1997 and March 31, 1997 and the results of their operations and their cash flows for the nine month period ended December 31, 1997 and each of the years in the two-year period ended March 31, 1997 in conformity with accounting principles generally accepted in the United States.

KPMG Peat Marwick
Chartered Accountants
Vallis Building
Par-la-Ville Road
Hamilton, Bermuda

February 26, 1998

Moore, Stephens & Butterfield
Chartered Accountants
Vallis Building
Par-la-Ville Road
Hamilton, Bermuda

February 26, 1998



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ANNUAL REPORT 1997



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