



FRONTLINE



Frontline Ltd. is a major, Bermuda based, tanker company. The fleet, which is one of the most modern in the world, consists of 17 Suezmax tankers (of which 8 are Combination Carriers) and 10 VLCC tankers, totalling 6.1 million dead weight tons. In addition to this the Company will take delivery of 2 Suezmax newbuildings in 2000. Through the corporate transactions undertaken over the last three 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

Fleet List3
Five-year Financial Highlights5
Report of the Board of Directors ...6
Shareholder Policy 11
Index to Consolidated
Financial Statements 14
Report of Independent
Accountants 15
Consolidated Statements
of Operations 16
Consolidated Balance Sheets17
Consolidated Statements
of Cash Flows 18
Consolidated Statements of
Changes in Stockholders' Equity 19
Notes to Consolidated
Financial Statements 20
Glossary of shipping terms 36



Vessel	Manager	Flag ¹⁾	Built	Dwt	Yard
SUEZMAX TANKERS					
Lillo	ITM	LIB	1991	140,554	AESA
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	153,000	Hyundai
Front Hunter	V.Ships	LIB	1998	153,328	Hyundai
Front Warrior	V.Ships	LIB	1998	153,000	Hyundai
Front Sky			2000	153,181	Hyundai
Front Sun			2000	153,181	Hyundai
Polytrader (40%)	RMS	NO	1978	127,545	Uddevalla
Polytraveller (35%)	RMS	NO	1979	127,545	Uddevalla
SUEZMAX OBOs					
Front Breaker	ITM	LIB	1991	169,146	Daewoo
Front Climber	Acomarit	SING	1991	169,146	Hyundai
Front Driver	Acomarit	LIB	1991	169,146	Hyundai
Front Guider	Acomarit	SING	1991	169,146	Daewoo
Front Leader	Acomarit	SING	1991	169,146	Daewoo
Front Rider	Acomarit	SING	1992	169,146	Hyundai
Front Striver	Acomarit	SING	1992	169,204	Daewoo
Front Viewer	ITM	SING	1994	169,146	Daewoo
VLCCs					
Front Highness	Acomarit	SING	1991	284,317	Hyundai
Front Lady	Acomarit	SING	1991	284,497	Hyundai
Front Lord	Acomarit	SING	1991	284,497	Hyundai
Front Duke	Acomarit	SING	1992	284,420	Hyundai
Front Duchess	Acomarit	SING	1993	284,480	Hyundai
Front Century	ITM	LIB	1998	311,189	Hyundai
Front Champion	ITM	LIB	1998	311,286	Hyundai
Front Chief	ITM	LIB	1999	311,224	Hyundai
Front Commander	Acomarit	BS	1999	311,168	Hyundai
Front Crown	Acomarit	BS	1999	311,189	Hyundai
BULK CARRIERS					
World Wood	Acomarit	LIB	1973	57,000	Nagasaki

¹⁾ BS - Bahamas
LIB - Liberia
NIS - Norwegian International Ship Register
NO - Norway
SING - Singapore

Frontline's
Fleet List
as at August 1999



Five-year Financial Highlights

(in millions of \$, except otherwise indicated)

INCOME STATEMENT DATA

	1998	1997	1996	1995	1994
Freight revenues	270.4	259.7	178.2	197.2	164.2
Net operating income before depreciation	124.1	112.2	38.9	53.8	30.8
- of which, (loss) gain on sale of vessels	(1.5)	-	6.2	-	-
Net operating income after depreciation	72.5	55.5	5.1	22.2	0.4
Net other expenses (incl. finan. items)	45.4	38.0	19.1	19.6	21.8
Net income before taxes	27.0	17.4	(14.0)	2.6	(21.4)

PROFITABILITY RATIOS

Return on capital employed (%)	6.5	5.8	1.7	5.9	0.7
Return on stockholders' equity (%)	5.5	4.1	(5.5)	1.7	(12.9)

YEAR END FINANCIAL POSITION

Total assets	1,379.5	1,333.1	921.1	549.9	534.3
Liquid assets	74.0	86.9	58.0	68.2	72.6
Unutilized overdraft facilities	-	-	11.0	11.0	11.0
Net indebtedness	809.1	686.3	504.0	285.1	264.3
Stockholders' equity	457.7	519.3	327.7	165.7	166.5
Equity/assets ratio (%)	33.2	39.0	35.6	30.1	31.2
Debt/equity ratio	1.9	1.5	1.7	2.2	2.0
Interest cover	1.5	1.4	0.6	1.1	0.2

INVESTMENTS

Net investments	149.3	482.6	411.9	35.6	(1.8)
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PER SHARE DATA *(in \$, except number of shares)*

Stockholders' equity	9.93	11.30	10.30	11.90	11.90
Stockholders' equity, fully diluted	9.93	11.30	10.70	12.40	11.90
EPS Basic	0.59	0.48	(0.92)	0.20	(1.50)
EPS Diluted	0.59	0.48	(0.92)	0.20	(1.20)
Market price at year end	1.91	12.50	10.70	7.80	8.60
Dividend	-	-	-	-	-
P/E ratio	3.2	25.0	neg.	39.0	neg.
Outstanding shares as at 31.12. (mill.)	46.1	46.1	32.2	14.1	14.1
Average number of shares (mill.)	46.1	36.2	14.9	14.1	14.1

1) Figures for 1995 to 1998 are in accordance with US GAAP, figures for 1994 are in accordance with Swedish GAAP.

2) Per share data are adjusted for the 1 : 3.2635 exchange and 10 : 1 reverse stock 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 at year end.

Earnings per Share Fully Diluted: Net income (loss), divided by the average number of shares after full conversion of the debenture loan. Since this loan will no longer be converted it is disregarded in 1997. The outstanding warrants and options have not been taken into consideration.

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.

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

Frontline continued its expansion strategy during 1998. During the year, Frontline completed the amalgamation with London & Overseas Freighters Limited (LOF), further increased its stake in ICB Shipping AB (ICB) to 57 per cent, gained control over three lease structures involving a total of ten ships, all of which are financed in the US bond market, increased its newbuilding programme to ten vessels and took delivery of five of these. Two of the vessels were subsequently sold to German KGs with long-term leases back to Frontline.

MARKET

The Asian crisis and its effect on the world economy dominated 1998, and clearly showed how important the Far East economy is for the shipping industry; not only for the transport demand, but also shown through the material fall in newbuilding prices, which was caused by weaker Far Eastern currencies.

Despite the crisis in Asia the tanker market was able to hold up reasonably well in 1998. In the first three quarters oil producers continued to produce oil as if the Asian crisis was non-existent. As a result of the large inventory build-up, a production cut was introduced in the fourth quarter. This, combined with more newbuildings coming into the market, had a severe negative effect on freight rates.

Average daily TCE rate for the year is calculated by RS Platou Shipbrokers as \$30,000 per day for a modern VLCC and \$22,000 for modern Suezmax tonnage. Second-hand tonnage fell approximately 15 to 20 per cent in value while newbuilding prices declined by more than 10 per cent during the year.

Oil consumption growth for 1998 is estimated to be approximately 1 per cent, while the overall active tanker fleet increased by 1.7 per cent. A total of 7.4 million dwt newbuildings was delivered in the VLCC and the Suezmax segment in 1998, while 5.8 million dwt was sold for scrapping.

RESULTS

In 1998, Frontline produced its best results ever. Net operating income before interest, taxation and depreciation, including earnings from associated companies (EBITDA) was \$126.9 million (\$116.8 million in 1997). This result reflects the contribution of the expanded fleet and reduced administrative expenses, offset by lower trading results in all sectors in which Frontline operates, (as can be seen in the table below), and a loss on sale of two VLCCs to German KGs.

Operating expenses including drydocking provisions continued to decline for the Suezmax and Suezmax OBO segments reaching \$6,400 and \$6,700 per day respectively (1997 - \$7,500 and \$7,000 respectively). These reductions reflect the successful implementation of new ship management programmes during 1997, and thus 1998 was the first full year for these changes to take effect. The VLCCs experienced an increase in operating expenses to \$7,600 per day (1997 - \$6,700), which is explained by the structural repairs carried out on two older vessels.

Depreciation decreased for the year. This was due to the change in depreciation schedule for the fleet from 20 to 25 years. This change was effective as of the fourth quarter 1997.

Net other expenses for 1998 were \$48.2 million (1997 - \$42.6 million). This increase reflects increased average level of debt, offset by a dividend received from ICB in the second quarter of 1998. The average rate of interest of the debt at year end 1998 amounted to 7.0 per cent.

Net income for the year amounted to \$27.0 million (1997 - \$17.4 million) equal to \$0.59 per share (1997 - \$0.48). The Board proposes no dividend for 1998.

The investment in ICB is accounted for according to the cost method. The book value of the investment

TIMECHARTER EARNINGS (TCE) PER DAY

(in \$)	1998	1997	1996	1995
VLCC	31,800	32,700	27,700	n.a.
Suezmax	22,400	24,800	26,800	26,900
Suezmax OBO	21,800	25,500	23,000	24,700

Report of the Board of Directors (continued)

is adjusted to market value at the end of each period, with unrealised gains or losses recorded directly to stockholders' equity. As of December 31, 1998, the ICB shareholding was booked at SEK 140 and SEK 55 per A and B share respectively. ICB has in its annual report estimated net asset value (NAV) per share to SEK 77. The difference between NAV and book value on the ICB investment in Frontline's accounts equals \$42 million.

The sale and leaseback of the two VLCCs to German KGs will, in accordance with US GAAP, be accounted for as operational leases. At the year end Frontline had total interest bearing debt of \$883.0 million (\$773.2 million).

The acquisition and subsequent sale of three long term lease structures organised under the Independent Tankers Corporation (ITC), are treated as occurring on the same date for accounting purposes and therefore the results of ITC are not consolidated for any period in Frontline's financial statements.

The book equity per Frontline share amounts to \$9.93 per share at year end. It should be noted that a ship by ship valuation of the Frontline fleet would produce an undervaluation compared to the book value of the fleet. However, based on expected cashflows over the remaining life of the assets, the Board has concluded that it is neither necessary nor appropriate to write down the value of the fleet.

FLEET DEVELOPMENT

In January 1998, Frontline entered into two more newbuilding contracts, each for one Suezmax to be delivered in early 2000. This brought the number of Suezmax newbuildings under contract to five. The first three of these were delivered during the summer of 1998.

In March 1998, Frontline declared its options held to enter into newbuilding contracts on five VLCCs. This increased the newbuilding programme at the time to a total of ten vessels, all to be delivered from Hyundai Heavy Industries. The first two VLCCs were delivered in July and December. The third vessel was delivered in January 1999, and the final two vessels will be delivered in the third quarter of 1999.

In May 1998, Frontline announced the acquisition, through its subsidiary Independent Tankers Corporation (ITC), of three holding companies from Cambridge Partners for \$9.5 million. These companies control four modern Suezmaxes chartered to Chevron, and newbuilding contracts for six VLCCs, four of which will be chartered to British Petroleum and two to Chevron. All charter parties are for a minimum of eight years. It became apparent to the Board that a considerable amount of our shareholders and lenders had problems assessing the risk of this transaction. The requirement to consolidate ITC weakened Frontline's balance sheet accounting wise even though the \$762 million bond debt was non-recourse to Frontline. To avoid this, Frontline decided to sell ITC to Hemen Holding Limited. Frontline will remain manager for ITC's assets against management compensation and also has a 5-year call option to buy back the assets.

In December 1998, Frontline sold the two VLCCs that were delivered in 1998, to two German KG structures (limited partnerships). The transaction involved Frontline taking the vessels on an 8 years lease-back with option on the buyer's side to extend the charter for 2+1+1 years. Frontline has the right to extend the charter for 5 one year periods, provided the buyer's first option is exercised. Frontline has an option to buy the vessels and the buyer the option to sell the vessels to Frontline at certain prices and periods in time.

By the time Frontline has taken delivery of the last vessel under the current newbuilding programme in 2000, the fleet will have a total size of 6.1 million dwt, which will place it amongst the three largest tanker fleets in the world. If one includes the pro rata share of the ICB fleet and the ITC assets, the fleet will reach 10.5 million dwt, by far the largest tanker fleet.

OPERATIONS

Frontline has a strategy of extensive outsourcing. 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. The ship managers provide

Report of the Board of Directors (continued)

crewing for the Frontline's vessels; currently there are full Russian, full Indian or full Filipino crews, or combinations of these nationalities.

In May, Frontline and OMI Corp. established a joint venture, Alliance Chartering, which handles the companies' Suezmax fleets. Alliance is the largest operator of Suezmax vessels worldwide. After operating for a year, it is our view that the joint venture is a success, and the partners are seeking to expand the venture with additional partners. Through such an expansion, Alliance should further improve its service to its customers and the utilisation and thereby profitability of the partners' fleets.

Frontline has over the last year been evaluating the action and cost required, to modify Frontline's and its ship managers' IT systems in their office organisations and on board Frontline's vessels to deal with the problems related to the year 2000. At present there is no reason to believe that such modifications will subject Frontline to substantial expenditure. All vessels in the current newbuilding programme are guaranteed year 2000 compliant.

Frontline's fleet is one of the most modern in the world. The vessels to be delivered under the newbuilding programme are strengthening this profile even further. 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.

FINANCING

In December 1997, the three Suezmaxes originally owned by LOF were refinanced. The last and major part of this loan was drawn down at the time of the amalgamation in May 1998. At the same time, Frontline repaid the related \$75 million share acquisition loan.

The first two Suezmax newbuildings were financed by a facility established in December 1997; the third Suezmax and the first VLCC newbuilding were financed by facilities signed in May and July 1998. The aforementioned VLCC was subsequently sold to a German KG along with the second delivered

VLCC. By converting the financing of these two VLCCs from regular bank financing to sale and lease back, Frontline was able to free a substantial amount of cash and thereby improve its liquidity position.

The ICB acquisition facility was extended for another twelve months until September 1999, and has subsequently been reduced to \$46.5 million.

In December 1998 and March 1999 the third and fourth VLCCs were financed through regular bank financing. Proposals have been received on the final VLCC newbuilding. The market experienced a tightening in available credit during the year, but lately this has improved; partly in light of the fact that breakeven rates for banks' financing are at historically low levels and also due to the recent flattening in newbuilding prices. The latter is due to strengthening of Japanese Yen and Korean Won and the yards in these countries filling their order books with vessels that, until recently, were considered to be only suitable for construction in European yards.

The Board will continue to evaluate the optimal financing structure for Frontline, which includes the possibility of doing more leases and/or other off balance sheet arrangements.

Metrogas Holdings Inc., a company related to Frontline's Chairman, had a specific loan provided to Frontline of \$89.0 million, which was still outstanding as of year end. After year end, this loan has been converted to a separate long-term financing facility. To improve Frontline's equity position for compliance purposes towards its lending banks, Metrogas has agreed to subordinate the loan towards the banks' loans to Frontline.

In connection with the subordination of the Metrogas loan, Frontline and its lending banks have agreed to lower some of the original bank loan covenants - the solidity and liquidity covenants - in addition to a reduction of the annual instalment profile by approximately \$8 million.

CORPORATE AFFAIRS

The amalgamation with LOF was completed in May 1998 when the General Meetings of the two companies approved the amalgamation plan.

Report of the Board of Directors (continued)

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 (on the NASDAQ National Market).

During the Autumn of 1997, Frontline announced an offer to acquire all the shares in ICB. The offer was regarded as hostile by the ICB board, and through this company's two class share structure, in which an A share carries ten votes and B shares one, the board was effectively able to hinder a take-over by Frontline. A number of ICB's and its board's actions have been questioned by Frontline, and at general meetings in November 1997 and November 1998 the general meeting of ICB appointed a Special Investigator to look into these matters. In a preliminary report dated April 1999, the Investigator concluded that the board of directors of ICB had, on several occasions, wrongfully charged ICB with expenses related to rejecting the take-over bid by Frontline. The report further claimed that ICB's defensive efforts were in breach of Swedish law.

During the year, Frontline increased its shareholding in ICB to 57 per cent of the share capital. This has continued in 1999, and at the time of writing Frontline controls 69 per cent of the share capital and 44 per cent of the votes in ICB. Despite these shareholdings, Frontline has remained unable to exercise any significant influence over the management of ICB. Consequently, the investment in ICB continues to be recorded as an investment in marketable securities in Frontline's financial statements.

The Board is considering several options for a solution to the stalemate. Negotiations between the parties are currently taking place and the Board remains cautiously optimistic about the likelihood of finding a solution to the ongoing deadlock.

SHAREHOLDER ISSUES

When Frontline amalgamated with LOF in May, Frontline's shareholders received 3.2635 shares in LOF in exchange for each Frontline share, plus 0.1902 LOF warrants per Frontline share. Due to the low trading price of the Frontline share after the decline suffered in the first part of 1998, the Board

recommended and the General Meeting approved, a one-for-ten reverse stock split. The reverse stock split was effective October 26, 1998.

The Frontline share started trading in 1998 at NOK 93 (adjusted for exchange and reverse stock split) and closed trading in December at NOK 14.50. The highest price was on January 2 at NOK 95, and lowest on December 16 at NOK 8. The substantial decline is attributed to the Asian crisis, which led to lower newbuilding prices and therefore eroded underlying values. In addition, the negative effect of the extensive order book in the tanker sector had an impact.

At year end, Frontline's main shareholder, Hemen Holding Limited owned 53.0 per cent of the company. This has increased to 56.4 per cent by mid July. The next ten largest shareholders controlled 19.4 per cent. Currently 97 per cent of the share capital is listed on the Oslo Stock Exchange (OSE). The turnover ratio at OSE during 1998 was 90 per cent. The Board considers it advantageous to keep its US listing, and will continue to consider when the time is opportune for increasing the promotion of the Frontline stock in the US Capital market.

THE FUTURE

The focus of Frontline is to provide customers with a more flexible and reliable transport alternative, and use this flexibility to develop unique industrial relations that would give material benefits operationally, as well as financially, to our customers as well as to Frontline, its owners and its employees.

The Board sees the task of acting as a consolidator within a highly fragmented industry as an important element of such a strategy. The Board noted that during 1998 and early 1999 a number of mergers and acquisitions have taken place, which hopefully will lead to a much needed consolidation in the industry. It is our belief that this trend will continue. Although Frontline is at a stage where its focus must be on consummating the deals it has participated in over the last few years, the Board still sees Frontline as an active participant in the industry wise consolidation. Currently Frontline's ability to play an active role in this consolidation is limited by the fact that its equity trades at a

Report of the Board of Directors (continued)

discount to the underlying values of the assets. This is of major concern to the Board and the Board is seriously considering how the pricing of Frontline's equity can be improved through the implementation of credible actions.

The Board will not save any effort in order to try to find solutions to the current deadlock in ICB. It is still the Board's opinion that significant values can be given to the shareholders of ICB and Frontline if the activities in the two companies can be co-ordinated into one company.

The cost structure in Frontline has been evaluated for further improvement. A project, "Sharp knife", has been implemented in early 1999, with the goal of reducing the overall cost structure by between \$500 and \$750 per ship per day and reducing the days of technical offhire. The savings will be realised by utilising the increased buying power and maximising economic benefits of the increased fleet.

Stagnation in tanker tonnage demand, combined with a continued uncertainty in Asia, huge oil stock overhang, OPEC production cut backs and the largest delivery of newbuildings for more than 20 years will depress freight rates in 1999. A long term weak market situation, combined with the new 25 year requirements, will necessarily lead to more scrapping of old tonnage and should provide the security net which makes the current tanker market structurally sounder than during earlier declines. It is a paradox that a weak market situation in 1999 and 2000 could accelerate scrapping and thereby set the framework for better long-term earnings for Frontline's modern fleet.

The Board is disappointed to recognise that the negative development in the share price in 1998 has

created large unrealised losses for many of our owners. The negative development has been the price paid for positioning Frontline for the future. 1999 and 2000 will be challenging years for our company. The Asian crisis and the high phase of deliveries changed the short-term outlook for the market but the long-term outlook remains intact. The ageing tanker fleet will have to be renewed. In addition the expected return to increased OPEC market share, will lead to a higher need for transportation. The main focus in the interim will be to optimise Frontline's financial structure, and selectively consider new opportunities. The new deal signed with the banks and with Metrogas has substantially strengthened Frontline's financial flexibility.

As owner of one of the largest and most modern tanker fleets in the world we feel that our company is well positioned. In conclusion, the Board remains cautiously optimistic about the future, even if the reported results for 1999 will show a negative development from the 1998 numbers.

Hamilton, Bermuda
July 14, 1999

John Fredriksen
*Director, President,
Chairman and CEO*

Tor Olav Trøim
*Director and
Vice-President*

A. Shaun Morris
Director

Timothy J. Bridges
Director

Shareholder Policy

SHAREHOLDER POLICY

Frontline's long-term policy is to maximise shareholders return on capital, by investments in its core business, the VLCC and Suezmax segments of the tanker market.

Frontline currently has a policy of not paying dividends, principally due to its present commitments under the \$650 million newbuilding programme. 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. Prior to this Frontline was listed on the Stockholm Stock Exchange (SSE). After a series of ship-for-shares issues, the company was controlled by Hemen Holding Limited, and ultimately listed on OSE. In 1997 Frontline reached an agreement with London & Overseas Freighters (LOF) to amalgamate. The transaction was completed in May 1998, with LOF as the surviving entity. LOF was renamed Frontline Ltd., and each shareholder in Frontline received 3.2635 LOF shares and 0.1902 LOF warrants, in exchange for one old Frontline share.

Frontline strives to sustain high trading volume in its securities. Trading volume indeed increased substantially after the transfer from SSE to OSE, as predicted, and in both 1997 and 1998 the share was traded on all trading days at OSE. In 1998 41,726,709 shares were traded (adjusted for splits), equal to an annual turnover ratio of 90 per cent, relative to total number of outstanding shares.

Through the amalgamation with LOF Frontline achieved listing on the London Stock Exchange (LSE) and NASDAQ. However, as 97 per cent of the outstanding shares are listed at OSE, trading volume in these markets is rather low. Frontline will consider means for improving the current status of the listings at LSE and NASDAQ.

SHARES AND CAPITAL STOCK

Frontline has currently 46,106,860 shares outstanding, each with a par value of \$2.50. The capital stock amounts to \$115,267,152, which is an increase of \$2,500 from year end 1997. The latter relates to an option of 10,000 LOF shares being exercised in the first half of 1998. All shares carry equal voting and dividend rights. The changes in Frontline's capital stock are presented in a separate table.

SHAREHOLDERS IN FRONTLINE LTD. AS OF DECEMBER 31, 1998

<i>Name/entity</i>	<i>Shares</i>	<i>%</i>
Hemen Holding Limited	24,446,940	53.02
Odin Norden Aksjefondet	2,591,764	5.62
Odin Norge Aksjefondet	1,611,319	3.49
Karl Johan Fonds AS		
Meglerkonto Innland	988,222	2.14
Scandinavia Enskilda		
Foreign Securities	881,660	1.91
Hafslund Invest AS	701,985	1.52
Carnegie A.S. Egenhandelskonto	476,941	1.03
State Street Nominees Limited	438,302	0.95
Gironde-A/S	433,000	0.94
Star Bank	425,000	0.92
Odin Maritim	403,258	0.87
Loki A/S	344,600	0.75
Morgan Guaranty Trust 25% clients	296,901	0.64
UBS AG-EX SBC	293,628	0.64
Naustneset AS	293,600	0.64
Chase Manhattan Bank		
The S/A Omnibus Lendin	280,661	0.61
Bos Safe	206,700	0.45
Kristiansands Tankrederi	200,000	0.43
DNB Real-Vekst	170,875	0.37
Vesta Forsikring AS V/Fonds avd.	163,906	0.36
Remaining shareholders	10,457,598	22.68
Total	46,106,860	100.00

SHAREHOLDER STRUCTURE

At year end 1998 Frontline had 6,671 shareholders (5,730 in 1997). Frontline's major shareholder is Hemen Holding Limited, which is indirectly

Shareholder Policy (continued)

controlled by Frontline's Chairman, John Fredriksen. Hemen Holding Limited controlled by year end 53 per cent of the total number of outstanding shares. The equivalent figure for 1997 is 46.6 per cent. The shareholder structure and distribution of shares, as per December 31, 1998, are presented 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.

Financial and other information, as well as filings with the Securities and Exchange Commission (SEC) are currently available at our homepage www.frontline.bm. In addition information is accessible at Hugin on www.huginonline.com.

DISTRIBUTION OF SHARES AS OF DECEMBER 31, 1998

Range from - to	Shareholders		Shares	
	No.	%	No.	%
1-9,999	6,455	96.76	4,462,614	9.68
10,000-99,999	190	2.85	5,221,012	11.32
100,000-999,999	23	0.34	7,773,211	16.86
More than 1,000,000	3	0.05	28,650,023	62.14
Total	6,671	100.00	46,106,860	100.00

CHANGES IN FRONTLINE'S CAPITAL STOCK

Year	Transaction	Total number of shares	Capital stock 1)
1997	Redomiciliation and listing at OSE 3)	98,201,507	98,201,507
1997	Cash issue 2)	108,201,507	108,201,507
1997	Cash issue 4)	129,201,507	129,201,507
1997	Non-cash issue 2)	132,201,507	132,201,507
1997	Cash issue 5)	136,701,507	136,701,507
1997	Split 3.2635 : 1 6)	461,058,609	115,264,652
1998	Options exercised	461,068,609	115,267,152
1998	Reverse split 1 : 10	46,106,860	115,267,152

1) US dollars.

2) In connection with the acquisition of ships.

3) Oslo Stock Exchange (OSE).

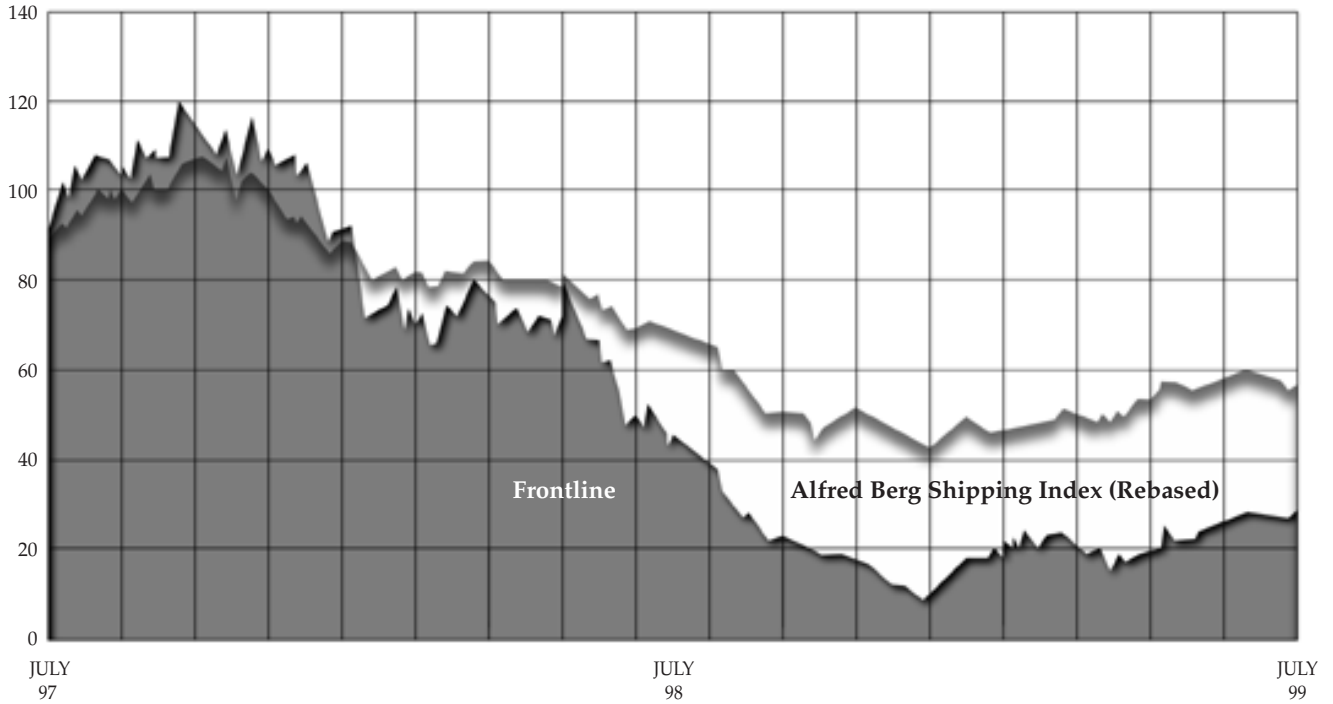
4) Equity financing of ICB shares.

5) Equity financing of LOF shares.

6) 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.

Shareholder Policy (continued)

FRONTLINE VS ALFRED BERG SHIPPING INDEX JULY 1997 – JULY 1999



Index to Consolidated Financial Statements

Report of PricewaterhouseCoopers DA, Independent Accountants	15
Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996	16
Consolidated Balance Sheets as of December 31, 1998 and 1997	17
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996	18
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996	19
Notes to Consolidated Financial Statements	20

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 subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, 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

Oslo, Norway
July 14, 1999

Consolidated Statements of Operations

For the years ended December 31, 1998, 1997 and 1996

<i>(in thousands of \$, except per share data)</i>	Notes	1998	1997	1996
Operating revenues				
Freight revenues		270,405	259,695	178,179
Voyage expenses		(66,545)	(62,498)	(67,708)
Net operating revenues		203,860	197,197	110,471
(Loss) gain on sale of vessels		(1,514)	-	6,188
Operating expenses				
Ship operating expenses		55,586	48,076	34,926
Charterhire expenses		14,889	25,734	34,670
Administrative expenses		7,757	11,190	8,184
Total operating expenses		78,232	85,000	77,780
Net operating income before depreciation		124,114	112,197	38,879
Depreciation		51,659	56,721	33,752
Net operating income after depreciation		72,455	55,476	5,127
Other income (expenses)				
Interest income		2,998	3,126	3,314
Interest expense		(59,320)	(45,945)	(26,207)
Dividends		5,324	-	-
Results from associated companies		2,807	4,598	3,471
Other financial items		2,765	183	329
Net other expenses		(45,426)	(38,038)	(19,093)
Net income (loss) before income taxes		27,029	17,438	(13,966)
Income taxes	5	30	43	15
Net income (loss)		26,999	17,395	(13,981)
Earnings per share				
Basic and diluted	6	\$ 0.59	\$ 0.48	\$ (0.92)

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets

As of December 31, 1998 and 1997

<i>(in thousands of \$)</i>	Notes	1998	1997
ASSETS			
Current Assets			
Cash and cash equivalents		74,034	86,870
Restricted cash		1,916	-
Marketable securities	8	-	165
Trade accounts receivable	9	7,683	4,973
Other receivables	10	5,545	6,489
Inventories		6,813	5,462
Voyages in progress		8,844	9,916
Prepaid expenses and accrued income		1,554	6,762
Total current assets		106,389	120,637
Newbuildings		75,681	48,474
Vessels and equipment, net	11	1,078,956	970,590
Marketable securities	8	110,157	187,066
Investment in associated companies	12	3,837	3,754
Deferred charges	13	4,501	2,603
Total assets		1,379,521	1,333,124
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	15	170,551	247,072
Trade accounts payable		7,724	6,211
Accrued expenses	14	18,414	23,282
Deferred charter revenue		81	1,109
Provisions for drydocking		1,733	5,155
Total current liabilities		198,503	282,829
Long-term liabilities			
Long-term debt	15	712,470	526,078
Provisions for drydocking		9,615	3,785
Other long-term liabilities		1,252	1,148
Total liabilities		921,840	813,840
Commitments and Contingencies			
Stockholders' equity			
Share capital	16	115,267	115,265
Additional paid in capital		435,932	435,932
Warrants and options	17	9,333	9,333
Accumulated other comprehensive income		(119,185)	(30,581)
Retained earnings (accumulated deficit)		16,334	(10,665)
Total stockholders' equity		457,681	519,284
Total liabilities and stockholders' equity		1,379,521	1,333,124

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended December 31, 1998, 1997 and 1996

<i>(in thousands of \$)</i>	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	26,999	17,395	(13,981)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	51,659	56,721	33,752
Amortization of deferred charges	3,021	247	-
Loss (gain) from sale of vessels	1,514	(985)	(6,188)
Gain on sale of marketable securities	(389)	(894)	-
Loss on repurchase of outstanding debentures	-	723	-
Results from associated companies	(2,807)	(4,598)	(3,471)
Other, net	(2,532)	972	30
Changes in operating assets and liabilities:			
Trade accounts receivable	(2,710)	2,235	(4,117)
Other receivables	1,089	(1,829)	5,629
Inventories	(1,351)	1,228	(2,142)
Voyages in progress	1,072	(115)	(4,955)
Prepaid expenses and accrued income	5,208	(3,094)	1,032
Trade accounts payable	1,513	1,458	3,332
Accrued expenses	(5,001)	(1,383)	120
Provisions for drydocking	2,408	(1,835)	2,442
Other, net	(4,777)	1,203	-
Net cash provided by operating activities	74,916	67,449	11,483
INVESTING ACTIVITIES			
Placement of restricted cash	(1,916)	-	-
Additions to newbuildings, vessels and equipment	(352,003)	(51,772)	(65)
Acquisition of businesses (net of cash acquired)	-	(69,646)	-
Purchase of marketable securities	(10,430)	(220,592)	-
Dividends received from associated companies	2,724	4,424	3,920
Proceeds from sale of vessels and equipment	211,954	50,610	36,212
Proceeds from sales of marketable securities	392	3,677	5,298
Net cash (used in) provided by investing activities	(149,279)	(283,299)	45,365
FINANCING ACTIVITIES			
Proceeds from long-term debt	327,849	257,784	24,645
Repayments of long-term debt	(265,211)	(152,499)	(90,642)
Repurchase of outstanding debentures	-	(24,201)	-
Debt fees paid	(1,113)	(1,862)	(1,000)
Proceeds from issuance of equity	2	165,495	-
Net cash provided by (used in) financing activities	61,527	244,717	(66,997)
Net (decrease) increase in cash and cash equivalents	(12,836)	28,867	(10,149)
Cash and cash equivalents at beginning of year	86,870	58,003	68,152
Cash and cash equivalents at end of year	74,034	86,870	58,003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	60,944	40,834	35,740
Income taxes paid	31	15	6

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 1998, 1997 and 1996

<i>(in thousands of \$, except number of shares)</i>	1998	1997	1996
NUMBER OF SHARES OUTSTANDING			
Balance at beginning of year	46,105,860	32,161,955	14,114,637
Conversion of debenture loan	-	-	163
Shares in Frontline AB not exchanged	-	(113,894)	-
LOF minority shares	-	1,493,324	-
Shares issued and options/warrants exercised	1,000	12,564,475	18,047,155
Balance at end of year	46,106,860	46,105,860	32,161,955
SHARE CAPITAL			
Balance at beginning of year	115,265	80,405	35,287
Shares in Frontline AB not exchanged	-	(285)	-
LOF minority shares	-	3,734	-
Shares issued and options/warrants exercised	2	31,411	45,118
Balance at end of year	115,267	115,265	80,405
ADDITIONAL PAID IN CAPITAL			
Balance at beginning of year	435,932	275,331	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	435,932	275,331
WARRANTS AND OPTIONS			
Balance at beginning of year	9,333	-	-
Options and warrants assumed on Amalgamation	-	1,647	-
Warrants issued on Amalgamation	-	7,686	-
Balance at end of year	9,333	9,333	-
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of year	(30,581)	24	-
Other comprehensive income	(88,604)	(30,605)	24
Balance at end of year	(119,185)	(30,581)	24
RETAINED EARNINGS (ACCUMULATED DEFICIT)			
Balance at beginning of year	(10,665)	(28,060)	(14,079)
Net income	26,999	17,395	(13,981)
Balance at end of year	16,334	(10,665)	(28,060)
Total Stockholders' Equity	457,681	519,284	327,700
COMPREHENSIVE INCOME			
Net income (loss)	26,999	17,395	(13,981)
Unrealized holding (losses) gains	(83,347)	(23,173)	24
Foreign currency translation	(5,257)	(7,432)	-
Other comprehensive income	(88,604)	(30,605)	24
Comprehensive income	(61,605)	(13,210)	(13,957)

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. GENERAL

Frontline Ltd. (formerly London & Overseas Freighters Limited ("LOF") (the "Company") originally commenced operations in 1948 as a UK company ("LOF plc") and was listed on the London Stock Exchange in 1950. The Company was incorporated under the laws of Bermuda on June 12, 1992 for the purpose of succeeding to the business of LOF plc. In November 1993, the shares of LOF were listed on the NASDAQ National Market in the form of American Depositary Shares ("ADSs"), each ADS representing ten LOF shares. On May 11, 1998, LOF completed a business combination, as described below, with another Bermuda company, Frontline Ltd. ("Frontline"). LOF, the surviving entity, was renamed Frontline Ltd. effective from that date. Frontline commenced operations in 1985 as a Swedish company listed on the Stockholm Stock Exchange in 1989 ("Frontline AB"). Frontline 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, the shares in Frontline AB were exchanged for shares in Frontline. The ordinary shares of Frontline were thereafter listed on the Oslo Stock Exchange and delisted from the Stockholm Stock Exchange.

The Company, which combines the business of LOF and Frontline, 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.

Business combination

On September 22, 1997, LOF announced that it had entered into an Agreement and Plan of Amalgamation (the "Amalgamation Agreement") with Frontline, providing for a business combination in a three-step transaction. On September 29, 1997, pursuant to the Amalgamation Agreement, Frontline 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 and ADSs 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 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, Frontline amalgamated (the "Amalgamation") with Dolphin Limited, a Bermuda subsidiary of LOF. Each ordinary share of Frontline was canceled in consideration for which the stockholders of Frontline received (i) 3.2635 (restated to 0.32635) ordinary shares of LOF and (ii) 0.1902 (restated to 0.01902) of a newly issued warrant ("Frontline 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 which were vested in the amalgamated company at fair market value in exchange for a promissory note. This note will be transferred by way of distribution from the amalgamated company to the Company 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. Frontline is treated as the accounting acquiror and the transaction treated as a reverse acquisition. For the purposes of these financial statements, the Amalgamation has been recorded with effect from November 1, 1997 and the results of LOF have been consolidated 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).

Investment in ICB Shipping AB

On September 1, 1997, Frontline 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 of 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 US \$300 million loan facility ("ICB facility") with Chase Manhattan Bank ("Chase"). During September and October 1997, Frontline 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, 14,428,078 Class B shares and 148,663 Class A shares, provide Frontline with only 31.4 per cent of the ICB voting power. On January 8, 1998, Frontline withdrew its bid for the remaining outstanding shares of ICB. The Company has made further share purchases in the market during 1998, and at December 31, 1998 had 34.2 per cent of the voting power.

Notes to Consolidated Financial Statements (continued)

In connection with the ICB transaction, actions taken by ICB management subsequent to the announcement of the Frontline tender offer clearly reflect strong opposition to Frontline's ability to exercise significant influence.

The Company has not been able to control, or exercise significant influence over, ICB. Accordingly, the Company is accounting for its investment in ICB as an available-for-sale security in accordance with SFAS 115. The Company has reclassified the ICB investment from current to non-current, due to its ability and intent to retain its investment for an undefined period of time sufficient to allow for any anticipated recovery in ICB's market value.

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 intercompany balances and transactions have been eliminated on consolidation.

Investments in companies in which the Company 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 equity 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 if any, recorded as a separate component of other comprehensive income in stockholders' equity.

Inventories

Inventories, which comprise principally of fuel and lubricating oils, 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 a decrease in depreciation expense and consequently increasing net income by \$3.6 million and basic and diluted earnings per share by \$0.01, for 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 expenditures together with capitalized loan interest and associated finance costs. No charge for depreciation is made until the vessel is put into operation.

Impairment of long-lived assets

Long-lived assets that are held and used by the Company are reviewed for impairment whenever events or changes in

Notes to Consolidated Financial Statements (continued)

circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Deferred charges

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

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. 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 income or expense, respectively. 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 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 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 other comprehensive income in 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 elected to account for its stock-based compensation arrangements under APB 25.

Notes to Consolidated Financial Statements (continued)

Earnings per share

In 1997, the Company adopted SFAS 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 6).

Comprehensive income

In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. (See Statement of Changes in Stockholders' Equity).

3. ADOPTION OF NEW ACCOUNTING STANDARDS

In 1998, the Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The adoption of this standard has not had a material impact on the Company's consolidated financial statements since management considers the Company to currently operate in one market segment.

SFAS No. 133, "Accounting for Derivatives and Hedging Activities", is effective from January 1, 2001 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 has not completed its assessment of the impact that the adoption of SFAS No. 133 will have on the Company's consolidated financial statements.

4. 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, 1998. 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 0.37 million as at December 31, 1998 (1997 - deficit of NOK 0.12 million). The valuation is based on the following financial assumptions: discount rate 6 per cent, rate of return 7 per cent, salary increase 3.5 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 total pension charge for the Company for 1998 was \$187,000 (1997 - \$580,000, 1996 - \$370,000).

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

Notes to Consolidated Financial Statements (continued)

5. TAXATION

Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2016.

United States

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

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

Other Jurisdictions

Certain of the Company's subsidiaries in Norway, Singapore and Sweden are subject to taxation in their respective jurisdictions.

The tax charge for the year comprises:

<i>(in thousands of \$)</i>	1998	1997	1996
Current tax	30	43	15
Deferred tax	-	-	-
	30	43	15

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

<i>(in thousands of \$)</i>	1998	1997
Deferred tax liability - current		
Prepaid expenses	-	-
Deferred tax liability - non current		
Vessels	-	-
Deferred tax asset - current		
Accrued liabilities	-	755
ICB and convertible debenture	30,365	8,765
Deferred tax asset - non current		
Pension liabilities	13	5
Tax loss carryforwards	4,352	13,158
Valuation allowance	(34,730)	(22,683)
Net deferred tax asset (liability)	-	-

As of December 31, 1998 and 1997, the Company had \$15,431,000 and \$46,993,000 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 \$15,431,000 as of December 31, 1998. These net operating losses do not have an expiration date. The Company's deferred tax assets in its Swedish subsidiary are reduced by a valuation allowance as it is more likely than not in the opinion of management, that deferred tax assets will not be realized in the future.

6. 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

Notes to Consolidated Financial Statements (continued)

stock method (see Note 18). Earnings per share, for all periods presented, have been restated to reflect (i) the issue of 3.2635 ordinary shares of LOF and 0.1902 of a Frontline Warrant to purchase one LOF ordinary share in exchange for one ordinary share of Frontline effective November 1, 1997 (see Note 1) and (ii) the one-for-ten reverse stock split (see Note 16).

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

<i>(in thousands of \$)</i>	1998	1997	1996
Net income (loss) available to stockholders	26,999	17,395	(13,981)

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

<i>(in thousands)</i>	1998	1997	1996
Basic earnings per share:			
Weighted average number of ordinary shares outstanding	46,107	36,189	15,274
Diluted earnings per share:			
Weighted average number of ordinary shares outstanding	46,107	36,189	15,274
Warrants and stock options	30	84	-
	46,137	36,273	15,274

7. 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, <i>(in thousands of \$)</i>	
1999	23,447
2000	18,178
2001	18,128
2002	18,480
2003	18,262
2004 and later	116,684
Total minimum lease payments	213,179

Total rental expense for operating leases was \$15,403,000, \$26,323,000 and \$35,131,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Rental income

The minimum future revenues to be received on time charters and other contractually committed income as of December 31, 1998 are as follows:

Year ending December 31, <i>(in thousands of \$)</i>	
1999	18,395
2000	18,573
2001	8,798
2002	-
2003	-
2004 and later	-
Total minimum lease revenues	45,766

Notes to Consolidated Financial Statements (continued)

The cost and accumulated depreciation of the vessels leased to a third party at December 31, 1998 were approximately \$54.3 million and \$18.7 million, respectively, and at December 31, 1997 were approximately \$103.0 million and \$17.3 million, respectively.

In addition to the minimum lease revenues disclosed above, the Company has entered into one year plus option one year market related timecharters with British Petroleum for three of the Company's VLCCs.

8. MARKETABLE SECURITIES

Marketable securities held by the Company are equity securities considered to be available-for-sale securities. With the exception of shares in Stockholms Fondsbørs which are included as at December 31, 1997, (book value \$3,000, gross unrealized gain \$162,000), all equity securities are ICB Shipping AB A-and B-shares. The shares in Stockholms Fondsbørs were sold during 1998.

<i>(in thousands of \$)</i>	1998	1997
Cost	228,239	217,812
Gross unrealized gain	-	162
Gross unrealized loss	(118,082)	(30,743)
Fair value	110,157	187,231

The unrealized loss on marketable securities, including a component of foreign currency translation, included in comprehensive income increased by \$87,501,000 for the year ended December 31, 1998 (1997 - \$30,743,000).

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are presented net of allowances for doubtful accounts amounting to \$500,000 and \$300,000 for the years ended December 31, 1998 and 1997, respectively.

10. OTHER RECEIVABLES

<i>(in thousands of \$)</i>	1998	1997
Agent receivables	3,661	3,816
Other receivables	1,884	2,673
	5,545	6,489

Other receivables are presented net of allowances for doubtful accounts amounting to \$nil and \$314,000 for the years ended December 31, 1998 and 1997 respectively.

11. VESSELS AND EQUIPMENT

<i>(in thousands of \$)</i>	1998	1997
Cost	1,336,307	1,181,282
Accumulated depreciation	(257,351)	(210,692)
Net book value at end of year	1,078,956	970,590

Included in the above amounts as at December 31, 1998 and 1997 is equipment with a net book value of \$594,000 and \$477,000, respectively. Interest capitalized in the cost of newbuildings amounted to \$8,332,000 and \$173,000 in 1998 and 1997, respectively.

Notes to Consolidated Financial Statements (continued)

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 that are capitalized and amortized on a straight-line basis to interest expense over the life of the debt instrument. The deferred charges are comprised of the following amounts:

<i>(in thousands of \$)</i>	1998	1997
Debt arrangement fees	7,781	2,862
Accumulated amortization	(3,280)	(259)
	4,501	2,603

14. ACCRUED EXPENSES

<i>(in thousands of \$)</i>	1998	1997
Voyage expenses	4,232	7,127
Ship operating expenses	6,679	2,630
Deferred revenue	-	455
Administrative expenses	685	1,986
Interest expense	5,298	6,922
Income taxes	15	16
Other	1,505	4,146
	18,414	23,282

15. DEBT

<i>(in thousands of \$)</i>	1998	1997
Floating rate debt (LIBOR + 0.70% to 3.50%) due through 2008	840,658	755,170
Fixed rate debt 8.00% due through 2001	18,833	-
	859,491	755,170
Convertible debenture loan and credit facilities	23,530	17,980
Total debt	883,021	773,150
Less: short-term and current portion of long-term debt	(170,551)	(247,072)
	712,470	526,078

The weighted average interest rate for short-term debt as of December 31, 1998 was 8.2 per cent. The weighted average interest rate for long-term debt for 1998 was 6.7 per cent.

The fixed rate debt and certain of the floating rate debt are secured by ship mortgages and, in the case of some debt, pledges of shares by each guarantor subsidiary. Various debt agreements of the Company contain certain covenants, which among other things limit the payment of dividend and require compliance with certain financial ratios. Such ratios include equity ratio covenants, minimum value clauses, and minimum free cash restrictions.

Metrogas Holdings ("Metrogas"), a company related to the Company's Chairman, had outstanding as of December 31, 1998 a specific loan of \$89.0 million provided to the Company. This loan has since been converted to a separate long-term financing facility as described below.

Notes to Consolidated Financial Statements (continued)

As of December 31, 1998, the Company did not comply with the equity ratio covenants in a number of the loan agreements. During 1999, management initiated discussions with the Company's lending banks with the purpose of lowering the breached covenant requirements in such loan agreements at least until January 1, 2001. The requested changes were made with the intention of making the Company's financing arrangements more flexible in the event of a prolonged negative market scenario, including falling second-hand prices. Included in the request for changes was a proposal to subordinate the \$89.0 million loan given by Metrogas (the "Subordinated Loan") to loans given by the Company's lending banks. In addition, the proposal included reclassifying the Subordinated Loan as equity for the purposes of calculating the Company's equity ratio.

As of July 13, 1999, the discussions with Metrogas and the Company's lending banks have been finalized and the Company and Metrogas have signed a Subordinated Convertible Loan Facility Agreement. Accordingly, the Company has received acceptance of reduced covenant levels from all but one of the Company's 19 lending banks. This one bank, however, is subject to the authority of the majority lenders, who have agreed to accept lower covenant levels until January 1, 2001.

The number of outstanding convertible debenture share certificates ("Debentures") in the Company's subsidiary, Frontline AB, amounted to 2,654,540 and 21,100,753 as of December 31, 1998 and 1997, 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 Debentures 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 1997, Frontline acquired Debentures with a face value of SEK 182,655,574, and at December 31, 1997 held Debentures with a face value of SEK 183,810,574. Frontline paid approximately \$24 million for the repurchase of Debentures and recorded a loss of approximately \$0.7 million. Frontline acquired further Debentures with face value SEK 666,048 in 1998 and recorded a gain (loss) of \$nil. In June 1998, convertible debentures held by the Company with face value SEK 184,462,124 were cancelled. The face value of Debentures held by the Company at December 31, 1998 was SEK 14,498.

The outstanding debt as of December 31, 1998 is repayable as follows:

Year ending December 31, (in thousands of \$)	
1999	170,551
2000	170,060
2001	86,459
2002	64,534
2003	190,533
2004 and later	200,884
Total debt	883,021

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 and the reverse stock split described below.

Authorized share capital:

(in thousands of \$)	1998	1997
100,000,000 ordinary shares of \$2.50 each		
(1997 – 220,000,000 ordinary shares of \$1.00 each)	250,000	220,000

Issued and fully paid share capital:

(in thousands of \$, except share numbers)	1998	1997
46,106,860 ordinary shares of \$2.50 each (1997 – 46,105,860)	115,267	115,265

Notes to Consolidated Financial Statements (continued)

The Company's ordinary shares are listed on the Oslo Stock Exchange and the London Stock Exchange. The Company's ordinary shares are listed on the NASDAQ National Market in the form of ADSs. Each ADS represents one ordinary share.

Of the authorized and unissued ordinary shares, 124,558 are reserved for issue pursuant to subscription under warrants which can be exercised at any time up to December 31, 2003, 2,600,000 are reserved for issue pursuant to subscription under warrants which can be exercised at any time up to May 11, 2001 and 143,000 are reserved for issue pursuant to subscription under options granted under the Company's share option plans. As at December 31, 1998, except for the shares which would be issued on the exercise of the warrants and the options, no unissued share capital of the Company is under option or is conditionally or unconditionally to be put under option.

On October 19, 1998, at the Annual General Meeting of the Company, the stockholders approved a share consolidation of ten shares of \$0.25 par value each to one share of \$2.50 par value each. This reverse stock split was effective October 26, 1998. The number of shares authorized, issued and outstanding, earnings per share and share options and warrants disclosed have been restated for all periods presented accordingly.

In connection with the Amalgamation, at a shareholder meeting on May 11, 1998 an increase in the authorized share capital of the Company to \$250,000,000, divided into 100,000,000 ordinary shares of \$2.50 each, was approved. On May 11, 1998, the Company issued 44,612,536 shares pursuant to the Amalgamation described in Note 1.

In 1997, Frontline exercised its outstanding ship purchase options on three Suezmax tankers and issued 3,263,500 shares to four large institutional investors at NOK 86.26 per share in order to finance the exercise of these options.

In September 1997, Frontline completed a share issuance of 6,853,350 shares at NOK 107.25 per share (gross proceeds of NOK 735 million) to a syndicate led by two Scandinavian financial institutions. The number of outstanding shares of Frontline was thereby increased from 10,820,151 to 12,920,151. The proceeds of this transaction constituted the equity financing for Frontline's offer for the shares of ICB.

In September 1997, Frontline 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 979,050 Frontline shares at NOK 107.25 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.

On September 25, 1997, Frontline issued 1,468,575 shares in a private placement at NOK 117.21 per share to strengthen the equity base of the company in light of the ICB and LOF share acquisitions.

Frontline had entered into call option agreements with two of its shareholders, BTL and Goldtech, whereby until October 31, 1997, Frontline could order the sale of up to 726,129 of its shares each from BTL and Goldtech to any buyer that Frontline may advise. In addition, BTL and Goldtech entered into put option agreements with Frontline to each sell 363,064 shares of Frontline at the same exercise price as in the call agreements. In July 1997, BTL and Goldtech exercised their put options. Frontline placed the 363,064 shares each from BTL and Goldtech in the market at an average price of NOK 87.33 and NOK 89.78, respectively, resulting in additional cash to Frontline of approximately \$2.1 million. In August 1997, Frontline exercised its remaining call agreement with BTL on 363,064 shares and subsequently placed these shares in the market, which resulted in additional cash of approximately \$1.8 million. In September 1997, Frontline exercised its remaining call agreement with Goldtech on 363,064 shares and subsequently placed these shares in the market, which resulted in additional cash of approximately \$2.6 million.

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. 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 per cent or more of the Company's ordinary shares.

Notes to Consolidated Financial Statements (continued)

If any person becomes the beneficial owner of 20 per cent 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 per cent 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 per cent 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 per cent or more of its ordinary shares. The rights will expire on December 31, 2006, unless earlier exchanged or redeemed.

A number of the Company's bank loans contain a clause which prohibits dividend payments without the approval from the lending banks.

17. WARRANTS AND SHARE OPTION PLANS

At the effective date of the Amalgamation, Frontline recorded warrants to purchase 124,558 shares (restated from 1,245,588) of LOF and options to purchase 288,000 shares (restated from 2,880,000). These warrants and share options have been recorded at fair value, calculated using the Black-Scholes option pricing model, as an adjustment to the purchase price on the acquisition of LOF. These warrants entitle the holder to subscribe for one ordinary share in the Company at a price of £4.00 and are exercisable at any time up to December 31, 2003.

Pursuant to the terms of the Amalgamation Agreement, warrants to purchase 2,600,000 shares (restated from 26,000,000) in the Company were granted on the date of Amalgamation. These warrants have been recorded at an estimated fair value at November 1, 1997 using the Black-Scholes option pricing model. These warrants entitle the holder to subscribe for one ordinary share in the Company at a price of \$15.91 and are exercisable at any time up to May 11, 2001.

The following summarizes the warrant transactions:

Warrants assumed on Amalgamation	124,558
Warrants issued on Amalgamation	2,600,000
Exercised	-
Warrants outstanding at December 31, 1997	2,724,558
Exercised	-
Warrants outstanding at December 31, 1998	2,724,558

The Company 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.

Notes to Consolidated Financial Statements (continued)

The following summarizes the share options transactions relating to the Bermuda Plan:

<i>(in thousands, except per share data)</i>	Shares	Weighted average exercise price
Assumed on Amalgamation	129	\$ 14.45
Exercised	-	-
Canceled	-	-
Options outstanding at December 31, 1997	129	\$ 14.45
Exercised	-	-
Canceled	-	-
Options outstanding at December 31, 1998	129	\$ 14.45
Options exercisable at:		
December 31, 1997	121	\$ 14.63
December 31, 1998	129	\$ 14.45

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 transactions relating to the U.K. Plan:

<i>(in thousands, except per share data)</i>	Shares	Weighted average exercise price
Assumed on Amalgamation	159	£ 8.61
Exercised	-	-
Canceled	-	-
Options outstanding at December 31, 1997	159	£ 8.61
Exercised	(1)	£ 7.28
Canceled	(144)	£ 8.57
Options outstanding at December 31, 1998	14	£ 9.11
Options exercisable at:		
December 31, 1997	135	£ 8.73
December 31, 1998	12	£ 9.42

The options outstanding under the Bermuda Plan as at December 31, 1998 and December 31, 1997 have exercise prices between \$11.73 and \$15.00.

The options outstanding under the U.K. Plan at December 31, 1997 have exercise prices between £7.28 and £9.85. 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 are Chase, Christiania Bank og Kreditkasse, Midland Bank and Skandinaviska Enskilda Banken. Credit risk exists to the extent that the counterparties are unable to perform under the contracts.

Notes to Consolidated Financial Statements (continued)

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	Fixed Interest Rate
10,000	May 1996	May 2000	5.56%
50,000	February 1998	February 2003	5.685%
25,000	August 1998	August 2003	5.755%
25,000	August 1998	August 2003	5.756%
50,000	February 1998	February 2003	5.775%
50,000	March 1998	February 2003	5.885%
20,000	May 1998	May 2000	5.90%
111,384 reducing quarterly to 91,392	February 1997	February 1999	5.99%
56,259 reducing quarterly to 34,051	May 1997	May 2001	6.84%
43,580 reducing quarterly to 15,248	May 1992	November 1999	6.93%

As at December 31, 1998, the notional principal amounts subject to such swap agreements was \$441,223,000.

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 Sterling, Swedish kronor 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 cash flows; 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 the Company's consolidated financial statements. The Company 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, 1998 and 1997 are as follows:

(in thousands of \$)	1998 Carrying Value	1998 Fair Value	1997 Carrying Value	1997 Fair Value
Non-Derivatives:				
Cash and cash equivalents	74,034	74,034	86,870	86,870
Marketable securities	110,157	110,157	187,231	187,231
Short-term debt	170,551	170,551	247,072	247,072
Long-term debt, including convertible debt	712,470	712,470	526,078	526,078
Derivatives:				
Interest rate swap transactions	-	(7,136)	-	(1,781)

The carrying value of cash and cash equivalents, which are highly liquid, 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 it bears variable interest rates which 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 to the extent that substantially all of the amounts are carried with Nordlandsbanken and Christiania Bank og Kreditkasse. However, the Company believes this risk is remote and that these banks are high credit quality financial institutions.

Notes to Consolidated Financial Statements (continued)

The majority of the vessels' gross earnings are receivable in U.S. dollars. In 1997 and 1996 one customer accounted for 10 per cent or more of freight revenues. In 1998, no customer accounted for more than 10 per cent or more of freight revenues.

19. RELATED PARTY TRANSACTIONS

Management believes transactions with related parties are under terms similar to those that would be arranged with other parties.

During 1996, 1997 and January 1998, Frontline received options to assume newbuilding contracts for the construction and purchase of five Suezmax tankers at the Hyundai Heavy Industries Co. Ltd. shipyard in South Korea for delivery in 1998 and 2000 from single-ship owning companies (the "Suezmax Newbuilding Companies") affiliated with Hemen Holding Ltd. ("Hemen"). Hemen is the Company's largest shareholder and is indirectly controlled by Mr. John Fredriksen, Chairman and Chief Executive Officer of the Company. The first three of the Suezmax tankers were delivered during 1998. The remaining two vessels are scheduled to be delivered in 1999.

During 1997, Frontline received options to assume from other Hemen affiliated parties, five newbuilding contracts for the construction and purchase of five VLCC tankers. These options were exercised in March 1998. The first two VLCC newbuildings were delivered in 1998, the third in January 1999 and the remaining two are scheduled to be delivered in mid 1999.

In May 1998, the Company acquired control of three shipowning and/or leasing structures which are organized in a non-recourse entity, Independent Tankers Corporation ("ITC"). The Company acquired ITC for \$9.5 million. The Company's investment in ITC was subsequently sold to Hemen for \$9.5 million with effect from July 1, 1998. The acquisition and sale of ITC are treated as occurring on the same date for accounting purposes as a result of the common control relationship between the Company and Hemen. The results of ITC are therefore not consolidated in the Company's financial statements for any period in 1998. The Company has remained as the manager of the underlying assets and has received a five year fair value call option to buy back ITC.

In June 1998, the Company obtained a loan of \$87.5 million from Metrogas to finance the acquisition of the five VLCC newbuilding contracts described above. This loan bears interest at the rate of 6.75 per cent per annum. At December 31, 1998, an amount of \$89 million was outstanding in respect of this loan, including interest accrued thereon. Interest expense recorded by the Company in 1998 in respect of this loan was \$3,780,772.

In addition to the lending arrangement described above, Hemen affiliated parties have, during 1998, provided additional short term financing to the Company. Interest accrued at a rate of 6.75 per cent per annum. Interest expense recorded by the Company in 1998 in respect of such financing was \$550,803.

20. ACQUISITIONS

Effective November 1, 1997, Frontline 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. In 1997, the results of LOF were 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.

Notes to Consolidated Financial Statements (continued)

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:

<i>(in thousands of \$, except per share data)</i>	1997	1996
Net operating revenues	234,585	150,972
Net income	19,734	(13,772)
Basic and diluted earnings per share	0.43	(0.30)

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

<i>(in thousands of \$)</i>	1998	1997
Ship mortgages	691,859	572,382
Chattel mortgages and other assets pledged	80,152	182,788
Restricted bank deposits	1,916	-
	773,927	755,170

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, Frontline 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 \$0.7 million and \$1.6 million as of December 31, 1998 and 1997 respectively. These balances are contractual commitments, since the Company's only risk is the interest rate 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:

<i>(in thousands of \$)</i>	1998	1997	1996
Unrealized appreciation (depreciation) on investments			
Recorded directly to equity	(87,501)	(30,605)	24
In connection with purchase of fixed assets:			
Long-term debt issued	-	-	269,360
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	-

Notes to Consolidated Financial Statements (continued)

23. SUBSEQUENT EVENTS

On December 29, 1998, the Company signed a loan agreement to finance the third VLCC newbuilding. The loan is in the amount of \$47.5 million and is secured by a first preferred ship mortgage. At the same time, the Company signed (i) a loan agreement for \$14.5 million, such loan being secured by a second priority ship mortgage and (ii) a further loan agreement for \$11.6 million secured by cross collateralized second priority mortgages on three of the Company's Suezmax vessels. These three loans were drawdown on January 5, 1999, concurrent with the delivery of the VLCC newbuilding, the Front Chief.

In March 1999, the Company signed a loan agreement to finance the fourth VLCC newbuilding, the Front Commander. The loan is in the amount of \$40.0 million and is secured by a first preferred ship mortgage. At the same time the Company signed (i) a loan agreement for \$14.5 million, such loan being secured by a second priority ship mortgage and (ii) a further loan agreement for \$11.6 million secured by cross collateralized second priority mortgages on three of the Company's Suezmax vessels. These three loans were drawdown on July 1, 1999, concurrent with the delivery of the Front Commander.

In May 1999, Greenwich Holdings Ltd. ("Greenwich" - a company indirectly controlled by the Company's Chairman) extended a loan in the amount of \$15,739,173 to the Company. The proceeds from the loan were used to finance the acquisition of shares in ICB Shipping AB. A loan agreement has been entered into in order to document the terms of this loan, such terms including the Company pledging the relevant shares in ICB Shipping AB to Greenwich's lender. Through this acquisition the Company increased its holding in ICB to 64 per cent of the capital and 38 per cent of the votes.

On June 16, 1999, Skandinaviska Enskilda Banken ("SEB"), the Company's largest bank syndicate, agreed to change the loan profile on the facility provided to the Company. Present quarterly installments will be reduced to \$8.4 million from \$10.5 million with a resultant increase in the final installment due on November 28, 2003 from \$136.5 million to \$174.3 million. This reduction in quarterly installments will boost the Company's liquidity by \$37.8 million during the remaining period of the loan.

On June 23, 1999, the Company accepted the terms offered for the financing of the fifth VLCC newbuilding, the Front Crown. The loan is in the amount of \$40.0 million and is secured by a first preferred ship mortgage.

On June 23, 1999, the Company announced that it had increased its holding in ICB to 68 per cent of the share capital and 44 per cent of the votes.

On June 29, 1999, the Company signed a loan agreement for refinancing the vessel "Lillo". The loan was drawdown on June 30, 1999, and partly used to repay the portion relating to Lillo under the SEB facility discussed above. The net effect of the refinancing was to improve the Company's liquidity by \$9.2 million.

As of December 31, 1998, the Company did not comply with the equity ratio covenants in a number of the loan agreements. During 1999, management initiated discussions with the Company's lending banks with the purpose of lowering the breached covenant requirements in such loan agreements at least until January 1, 2001. The requested changes were made with the intention of making the Company's financing arrangements more flexible in the event of a prolonged negative market scenario, including falling second-hand prices. Included in the request for changes was a proposal to subordinate the \$89.0 million loan given by Metrogas (the "Subordinated Loan") to loans given by the Company's lending banks. In addition, the proposal included reclassifying the Subordinated Loan as equity for the purposes of calculating the Company's equity ratio.

As of July 13, 1999, the discussions with Metrogas and the Company's lending banks have been finalized and the Company and Metrogas have signed a Subordinated Convertible Loan Facility Agreement. Accordingly, the Company has received acceptance of reduced covenant levels from all but one of the Company's 19 lending banks. This one bank, however, is subject to the authority of the majority lenders, who have agreed to accept lower covenant levels until January 1, 2001.

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 Assessment 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.

Drydocking – 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.





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- Table of Contents
- Overview
- Summary 1998
- Key figures
- Report of the Board of Directors
- Income Statement
- Balance Sheet
- Cash Flow Analysis
- Notes
- Shareholders Policy