

# Prospectus



**Secondary Offering of 3,500,000 shares at  
NOK 33.00 per share to Qualified Holders of  
shares and warrants in Frontline Ltd.  
Purchase Period: October 18 to October 29, 1999**

**Private Placement of 4,715,000 shares at NOK 33.00**

**Conversion of USD 35 million of debt at  
NOK 33.00 per share into 8,230,000 shares**



October 1999

# Table of Contents

Executive Summary	2
Invitation to Purchase shares in Frontline	4
Terms and Instructions	5
Responsibility statements	9
Company Overview	11
Five-Year Financial Summary	19
Pro Forma Financial Information	28
Market Conditions	29
Board of Directors, Management and Auditors	34
Share Capital and Shareholder Matters	36
Risk factors	40
Regulation	44
Taxation	48
Interim Report for the period January-June, 1999	50
Consolidated Financial Statements (year ended 1998)	56
Glossary of Shipping Terms	81
Bye-Laws	83

*This Prospectus has been prepared in connection with the conversion of a part of the Metrogas Holdings Inc USD 89 million loan to Frontline Ltd. into 8,230,000 ordinary shares in Frontline Ltd., the secondary offering by Metrogas Holdings Inc of 3,500,000 of the shares received through this conversion and the private placement by Frontline Ltd. of 4,715,000 ordinary shares. This Prospectus has been controlled by and registered with the Oslo Stock Exchange in accordance with the Norwegian Stock Exchange Regulations, Section 18-1, and the Norwegian Securities and Trading Act, Section 5-1. Except for the registration of this Prospectus with the Oslo Stock Exchange, no action has been taken to permit the distribution of this Prospectus in any jurisdiction where action would be required for such purposes. Accordingly, this Prospectus may not be used for the purpose of an offer or solicited in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.*

*The 3,500,000 shares offered in the Secondary Offering shall not be offered, sold or otherwise delivered outside the Kingdom of Norway to the extent that this would be illegal pursuant to prevailing jurisdiction, or would require compliance with particular rules.*

*Any dispute regarding this Prospectus shall be governed by Norwegian law and legal decisions shall be made by Norwegian courts alone.*

*The offer to buy shares are being made only to investors who qualify as non-U.S. persons ( Non-U.S. Persons ) outside the United States pursuant to Regulation S promulgated under the United States Securities Act of 1933, as amended (the Act ). Accordingly, offers and sales will not be made either to (i) holders of the Company s American Depositary Receipts (ADRs) or (ii) holders of the Company s shares with addresses in the United States. Each purchaser of the shares offered hereby will be deemed in making its purchase to have represented that it is a Non-U.S. Person as defined in Regulation S, and to have acknowledged and agree with the following restrictions which will apply to the shares:*

**THE SHARES ISSUED IN CONNECTION WITH THE CONVERSION OF DEBT INTO SHARES AND THE SHARES ISSUED PURSUANT TO THE PRIVATE PLACEMENT HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE ACT ). THEY MAY NOT BE SOLD OR OFFERED FOR SALE WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THE SHARES HAVE BEEN REGISTERED UNDER THE ACT, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT IS AVAILABLE.**

## Executive Summary

Frontline Ltd. ( **Frontline** or the **Company** ) is a major Bermuda based tanker company. The tanker fleet, which is one of the largest and most modern in the world, consists of 27 Suezmax tankers (of which 8 are Combination Carriers) and 12 VLCC tankers, totalling 7.7 million dwt. Through the corporate transactions undertaken since 1996, when Frontline's largest shareholder Hemen Holding Limited ( **Hemen** ) became the largest shareholder in the Company, Frontline has emerged as a leading tanker company within the VLCC and Suezmax segments. The Company's aim is to provide its customers with a flexible and reliable transportation service, and use this flexibility to develop unique industrial relations that will give material benefits to the customers as well as its Company.

The Company has its origin in Frontline AB that was founded in 1985. Frontline AB was listed on the Stockholm Stock Exchange from 1989 to 1997. In May 1997, a decision was made at the general meeting in Frontline AB to change its domicile from Sweden to Bermuda and to list its shares on the Oslo Stock Exchange. The change of domicile was executed through a share for share exchange offer from the then newly formed Frontline Ltd. in Bermuda.

In September, 1997 Frontline initiated an amalgamation process with London and Overseas Freighters Limited ( **LOF** ), which was completed in May, 1998. In the amalgamation, which left LOF as the surviving company, Frontline's shareholders exchanged Frontline shares for LOF shares and LOF was subsequently renamed Frontline Ltd. As a result of this transaction, Frontline became listed on the London Stock Exchange and, through an ADR-scheme, on NASDAQ in addition to its listing on the Oslo Stock Exchange. Through the amalgamation, Frontline's fleet was increased by three Suezmax tankers and three Panamax tankers, the latter immediately being divested.

In September, 1997, Frontline submitted an offer to acquire all outstanding shares in the Swedish listed tanker company ICB Shipping AB (Publ) ( **ICB** ). The offer was regarded as hostile by the ICB board, and through ICB's two class share structure with different voting rights, the board of ICB was effectively able to hinder a take-over by Frontline. Frontline did, however, continuously increase its shareholding in ICB, and in June, 1999, Frontline had increased its holding in ICB to approximately 44 per cent of the votes and 68 per cent of the shares. Despite this substantial shareholding, Frontline was unable to exercise any significant influence over the management of ICB. On September 23, 1999, an agreement was reached according to which Frontline AB, a wholly owned subsidiary of Frontline, acquired the shares in ICB owned by the A group consortium. As a result of this transaction, Frontline took control over ICB as it became owner of slightly less than 90 per cent of the shares and approximately 93 per cent of the votes in ICB. In connection with this transaction, the ICB board decided to sell 4 of the company's VLCC tankers to the newly established ACOL Tankers Ltd. ( **ACOL** ), a company owned by members of the so-called A group consortium. The total price for the vessels was USD 189 million and the sales proceeds were used in part to repay interest bearing debt amounting to USD 175 million. The price was based on and was in accordance with valuations given by five independent shipbrokers. Through completion of these transactions, the two-year-long stalemate in ICB was terminated.

Frontline intends to co-ordinate the activities of ICB and Frontline into the existing Frontline organisation. As a result of the change of control in ICB, part of ICB's existing financing will have to be refinanced. Frontline will seek to refinance ICB as soon as possible, and thereafter submit a public bid for the remaining shares in ICB. The consolidation of Frontline and ICB will strengthen Frontline's operations and also improve its financial position. The combined cash position of

Frontline and ICB would, as an illustration, have increased from USD 62 million as at June 30, 1999, to pro forma USD 198 million as of the same date.

On September 30, 1999, Frontline entered into an agreement with its banks according to which the Company is granted increased flexibility with respect to the repayment schedule of the Company's debt. If Frontline decides to utilise this opportunity in 2000, the Company will reduce debt repayment and thereby increase its working capital by approximately USD 32 million. As of the same date, the Company completed a private placement (the **Private Placement**) of approximately USD 20 million in equity. The issue price was NOK 33.00. The total number of shares issued was 4,715,000. The shares were placed with a group of five investors. Also, on September 30, 1999, Metrogas Holdings Inc. (**Metrogas**), a company controlled by Frontline's major shareholder Hemen, converted USD 35 million of a USD 89 million loan provided to Frontline into equity (the **Conversion**). At a conversion price of NOK 33.00 defined hereafter as the (**Conversion Price**), a total of 8,230,000 shares were issued. In connection with the Conversion, it was agreed that Frontline's shareholders would be given a right to buy their pro rata part of the converted shares in order to maintain their respective proportional holding in Frontline. In accordance with the conditions for Frontline's outstanding warrants, an equal right is given to the warrant holders.

These combined measures completed as of September 30, 1999, will substantially increase Frontline's financial flexibility in the coming years. The combined transactions will increase Frontline's equity by USD 55 million, and will improve the working capital by up to USD 52 million. The proceeds from the transactions will be used to strengthen the Company's liquidity/working capital and thereby improve the Company's financial overall resistance and ensure the financing of the full take-over of ICB.

It is the Board's view that these measures fulfil Frontline's existing need for balance sheet improvements, and that a full consolidation of ICB can be completed within the framework of the existing capital structure.

## Invitation to Purchase shares in Frontline

At the Board meeting held on September 30, 1999, it was decided to accept an offer from Metrogas to convert USD 35 million of a USD 89 million loan to Frontline into shares in the Company. Metrogas is a company controlled by Hemen, which on September 30, 1999, together with affiliated parties, held approximately 56 per cent of the outstanding shares in Frontline, assuming full exercise of all outstanding warrants. The Conversion was executed at NOK 33.00 per share resulting in an issue of 8,230,000 new shares in the Company.

At the Board meeting it was also decided to execute the Private Placement of USD 20 million through an issue of 4,715,000 new shares in the Company. The subscription price was set at NOK 33.00 per share. These shares were placed on September 30, 1999, with a group of five institutional investors.

Prior to the Private Placement and the Conversion, the Company had 46,106,860 shares and 27,245,580 warrants, exercisable into 2,724,558 shares, outstanding. The Private Placement of 4,715,000 shares and the Conversion of debt into 8,230,000 shares has increased the share capital to USD 147,629,650, represented by 59,051,860 shares. The Board's decisions to increase the share capital by a total of USD 32,362,500 divided by 12,945,000 new shares was made under the authority granted by the Board in accordance with the decision made by the General Meeting on May 11, 1998, to increase the issued share capital up to USD 250,000,000.

In connection with the Conversion, it was agreed that Metrogas shall offer Non-U.S. Persons, excluding Hemen and affiliated parties, who had their holding of shares and warrants registered with the Norwegian Registry of Securities ( **VPS** ) as of September 30, 1999, ( **Qualified Holders** ) a right to purchase up to 3,500,000 of the converted shares (the **Offered Shares** ) in Frontline received by Metrogas as a consequence of the Conversion in proportion to their respective holding of Frontline shares and warrants (the **Secondary Offering** ) as of September 30, 1999 (the **Record Date** ).

The Board of Frontline has been authorised by Metrogas to execute the Secondary Offering on behalf of Metrogas. The purchase price in the Secondary Offering is the same as the Conversion Price. The Offered Shares to the Qualified Holders represents approximately 44 per cent of the total number of shares received by Metrogas as a consequence of the Conversion, and accordingly, the Qualified Holders will have the opportunity to maintain their relative ownership position in the Company.

The shares received by Metrogas as a consequence of the Conversion correspond to approximately one sixth of the total number of shares outstanding assuming full exercise of all outstanding warrants. Accordingly, Qualified Holders of shares and warrants are hereby offered a right to purchase one Offered Share for each whole multiple of 6 shares or each whole multiple of 60 warrants held on the Record Date.

Based on the above, 3,500,000 shares in the Company are offered by Metrogas to Qualified Holders, on the terms and conditions set forth in this Prospectus. The purchase price is NOK 33.00 per share.

Hamilton, Bermuda  
October 13, 1999

The Board of Directors of  
Frontline Ltd.

# Terms and Instructions

## ***Purchase Rights in the Secondary Offering***

In the Secondary Offering, the Qualified Holders have been granted a right to purchase the shares in Frontline which is offered by Metrogas as represents their proportionate holding of Frontline shares and/or warrants on the Record Date (the **Purchase Right** ). The Board of Frontline has been authorised by Metrogas to execute the Secondary Offering.

Qualified Holders of shares and warrants will be granted 1 Purchase Right for each share and 1 Purchase Right for each whole multiple of 10 warrants held on the Record Date. The shares offered by Metrogas in the Secondary Offering correspond to approximately one sixth of the total number of shares outstanding, prior to the Private Placement and the Conversion assuming full exercise of all outstanding warrants. Accordingly, each whole multiple of 6 Purchase Rights gives the right to purchase one share in the Secondary Offering. Qualified Holders who are granted less than 6 Purchase Rights are not qualified to participate in the Secondary Offering as no fractional shares will be offered. Unused Purchase Rights have no value after the end of the subscription period. Metrogas will retain the Offered Shares that are not purchased in the subscription period.

## ***Record Date for the Secondary Offering***

The Record Date for the Secondary Offering is September 30, 1999. Trades executed on this date with ordinary settlement in the VPS system are included.

## ***Purchase price in the Secondary Offering***

The purchase price for the Secondary Offering has been fixed at NOK 33.00 per share, equivalent to the Conversion Price in the Conversion as well as in the Private Placement. The Conversion Price was set at the closing price of Frontline s shares traded at the Oslo Stock Exchange on September 30, 1999.

## ***Subscription price in the Private Placement and the Conversion of Debt***

The subscription price in the Conversion as well as in the Private Placement has been fixed at NOK 33.00 per share. The Conversion Price was set at the closing price of Frontline s shares traded at the Oslo Stock Exchange on September 30, 1999.

## ***Purchase Form for the Secondary Offering***

The number of Purchase Rights and the number of shares each holder of shares and warrants is entitled to will be stated on the purchase form (the **Purchase Form** ) that is being sent out to all Qualified Holders together with this Prospectus. The total number of shares each Qualified Holder will be entitled to, will be rounded down to the nearest whole share by the Company s Board on behalf of Metrogas.

### ***Purchase Period and Purchase Offices for the Secondary Offering***

The Purchase Forms for the Secondary Offering must be handed in during the period October 18-29, 1999, (the **Purchase Period** ) to any of the offices below:

#### **Carnegie ASA**

Stranden 1, Aker Brygge  
P.O. Box 684 Sentrum  
N-0106 Oslo  
Norway  
Tel: + 47 22 00 93 20  
Fax: + 47 22 00 94 60

#### **Fearnley Fonds ASA**

Grev Wedels Plass 9  
P.O. 1158 Sentrum  
N 0107 Oslo  
Norway  
Tel: + 47 22 93 60 00  
Fax: + 47 22 93 63 60

The Purchase Form prepared for this purpose must be used. Correctly completed Purchase Forms must be received by the any of the offices above before 16.00 Standard European Time on October 29, 1999.

### ***Registration and Transferability of Purchase Rights in the Secondary Offering***

The Purchase Rights are registered with the VPS. The Purchase Rights have been allocated securities registration number ISIN XL-001-0001432. Shareholders rights will be substantiated by the Purchase Rights only. The Purchase Rights can not be sold or transferred. The Purchase Rights must be utilised during the Purchase Period.

### ***Allotment in the Secondary Offering***

Allotment of the shares in the Secondary Offering will be made on the following criteria:

- i) Qualified Holders will be allotted converted shares in accordance with their Purchase Rights. A purchaser may purchase less shares than the maximum amount the purchaser is entitled to.
- ii) Over subscription is not allowed. The Purchase Rights are not transferable.
- iii) The Company s Board will, on behalf of Metrogas, cancel any order which is not secured by Purchase Rights.

### ***Allotment in the Private Placement***

Allotment of the shares in the Private Placement was made discretionary by the Board among institutional investors who were approached when executing the Private Placement.

### ***Settlement in the Secondary Offering***

Payment must be made according to the instructions on the settlement note, which is expected to be sent out on or about November 3, 1999. It is expected that payment shall be made no later than November 8, 1999. The Secondary Offering proceeds will be made available to Metrogas at the same time that the shares purchased by Qualified Holders are transferred to their accounts with the VPS, which will take place shortly after settlement, estimated to be around November 12, 1999. The Company s Board, on behalf of Metrogas, reserves the right to sell shares which have not been paid for on the settlement date, without giving the purchaser prior notice, and claim compensation from

the purchaser for any loss incurred. A 12% per cent annual interest rate will be charged on late payments.

### ***Settlement in the Private Placement and the Conversion***

The Private Placement proceeds were made available to the Company at the same time as the new shares were transferred to the investors in the form of physical share certificates. The physical share certificates will be exchanged for VPS shares and transferred to the investors VPS account upon registration of this Prospectus with the Oslo Stock Exchange.

The Conversion was executed on September 30, 1999. The new shares issued in connection with the Conversion were transferred to Metrogas in the form of physical share certificates. The physical share certificates were exchanged for VPS shares and transferred to Metrogas VPS account upon registration of this Prospectus with the Oslo Stock Exchange.

### ***The Shares***

The shares issued as a consequence of the Conversion and the Private Placement are ordinary shares in the Company and will rank equally with existing shares in every respect, including the right to any dividend for the financial year 1999 from the time the shares are registered in VPS. Every share is entitled to one vote at the General Meeting. As a consequence of this, all equal shares will have all shareholder rights when registered at the individual purchaser VPS-account.

### ***Registration of Shares***

The shares are registered with the VPS. The shares ISIN number is BMG3682E1194. The Company's VPS registrar is Christiania Bank og Kreditkasse ASA, Verdipapirservice. P.O. Box 1166, Sentrum, 0107 Oslo, Norway.

### ***Stock Exchange Listings***

Frontline's shares are listed at the Oslo Stock Exchange, the London Stock Exchange and, through an ADR-scheme on NASDAQ. The shares issued as a consequence of the Conversion and the Private Placement are registered in the VPS and will, unless further action is taken by the recorded holder thereof, only be tradable at the Oslo Stock Exchange.

### ***Expenses***

The Company will pay expenses in connection with the Secondary Offering, the Private Placement and the Conversion and they are anticipated approximately as follows:

- For managing the Secondary Offering and the Private Placement, a fee amounting to NOK 2.3 million will be paid to Carnegie ASA, Oslo.
- For managing in the Private Placement and co-managing in the Secondary Offering, a fee amounting to NOK 2.3 million will be paid to Fearnley Fonds ASA, Oslo.
- For assistance in the conversion of debt, the Secondary Offering of shares and Private Placement, a fee amounting to NOK 300,000 will be paid to the law firm Wiersholm, Mellbye & Bech, Oslo.
- For assistance in the Conversion by Metrogas of a part of its loan to Frontline to equity, the Private Placement and the Secondary Offering, a fee amounting to USD 5,000 will be paid to Appleby, Spurling & Kempe, Hamilton, Bermuda.



No commission will be charged Qualified Holders that participate in the Secondary Offering. All Qualified Holders that participate in the Secondary Offering are, however, obliged to bear their own transaction costs that might occur in the settlement of the Secondary Offering.

### **Managers**

Carnegie ASA and Fearnley Fonds ASA managed the Private Placement. The Secondary Offering is managed by Carnegie ASA, with Fearnley Fonds ASA as co-manager.

### **Company Information**

The name of the Company is Frontline Ltd. Frontline is a Bermuda company subject to the Bermuda Companies Act 1981. The organisation number of the Company is EC-17460. The main addresses of the Company are:

Frontline Ltd.  
Mercury House, 101 Front Street  
P.O. Box HM 1593  
Hamilton HM GX, Bermuda  
Phone: + 1 441 295 6935  
Fax: + 1 441 295 3494  
E-mail: [frontline@front.bm](mailto:frontline@front.bm)  
Homepage: [www.frontline.bm](http://www.frontline.bm)  
[www.frontmgt.no](http://www.frontmgt.no)

Frontline Management AS  
Bryggegaten 3  
P.O. Box 1327 Vika  
N-0112 Oslo, Norway  
Phone: + 47 23 11 40 00  
Fax: + 47 23 11 40 40

# Responsibility statements

## **The Board of Directors**

This Prospectus is prepared in connection with the Private Placement of 4,715,000 shares, the conversion of USD 35 million of the Company's debt to Metrogas Holdings Inc. into 8,230,000 shares and the Secondary Offering of 3,500,000 of the shares received by Metrogas Holdings Inc. to the Qualified Holders. The Board of Directors of Frontline Ltd. confirms that the information contained in this Prospectus is, to the best of their knowledge, correct and in accordance with the facts and contains no omissions which are likely to alter the content of this Prospectus. Market evaluations and future prospects are based on best judgement.

Hamilton, Bermuda  
October 13, 1999

The Board of Directors of Frontline Ltd.

John Fredriksen  
President, Chairman and  
Chief Executive Officer

Tor Olav Trøim  
Vice President

A. Shaun Morris

Timothy J. Bridges

## **Selling shareholder**

We, the undersigned, being the only Directors of Metrogas Holdings Inc. do hereby confirm that, as of the date hereof, Metrogas Holdings Inc. is the owner of 8,230,000 ordinary shares of USD 2.50 par value in Frontline Ltd.

We further confirm that Metrogas Holdings Inc. is willing to sell up to 3,500,000 of these shares to the Qualified Holders of shares and warrants in Frontline Ltd. on the terms and conditions set forth in the Prospectus issued by the Board of Directors of Frontline Ltd. on October 13, 1999.

We confirm that the number of shares offered for sale will be blocked in favour of Carnegie ASA until all Qualified Holders accepting the offer to buy the same have received their shares.

We confirm that we are not aware of any material information relevant to the evaluation of Frontline Ltd. for investment purposes beyond what has been included in the Prospectus.

Piraeus, Greece  
October 13, 1999

The Board of Directors of Metrogas Holdings Inc.

Annita Hadjipaschali  
President

Petrus Vrontakis  
Treasurer

Smaro Julia  
Secretary

### ***The Managers***

Carnegie ASA ( **Carnegie** ) and Fearnley Fonds ASA ( **Fearnley** ) have assisted the Board and Management of Frontline in the preparation of this Prospectus. Essentially, Carnegie and Fearnley have conducted their work based on information made available by the Company and on discussions with the Company on those matters that Carnegie and Fearnley have considered to be of material importance in an evaluation of an investment in the Company's shares. Carnegie and Fearnley can, however, not provide any guarantee as to the completeness or accuracy of the contents of the Prospectus, nor can they accept any financial or legal liability in connection with transactions, which are wholly or partly based on the Prospectus as submitted. As of October 13, 1999 Carnegie owned 7,000 shares and 509,803 warrants in the Company and Fearnley owned 0 shares and 0 warrants in the Company.

Oslo, October 13, 1999

Carnegie ASA

Fearnley Fonds ASA

## Company Overview

The Company has its origin in Frontline AB which was founded in 1985. Frontline AB was listed on the Stockholm Stock Exchange from 1989 to 1997. In May 1997, a decision was made at the general meeting in Frontline AB to change the domicile of the Company from Sweden to Bermuda and to list its shares at the Oslo Stock Exchange. The change of domicile was executed through a share for share exchange offer from the then newly formed Frontline Ltd. in Bermuda.

In September, 1997 Frontline initiated an amalgamation process with LOF, which was completed in May, 1998. In the amalgamation, which left LOF as the surviving company, Frontline's shareholders exchanged Frontline shares for LOF shares. LOF was subsequently renamed Frontline Ltd. As a result of this transaction, Frontline became listed on the London Stock Exchange and, through an ADR-scheme, on NASDAQ in addition to its listing on the Oslo Stock Exchange. Through the amalgamation, Frontline's fleet was increased by three Suezmax tankers and three Panamax tankers, the latter immediately being divested.

In September, 1997, Frontline submitted an offer to acquire all outstanding shares in the Swedish listed tanker company ICB Shipping AB (Publ). The offer was regarded as hostile by the ICB board, and through ICB's two class share structure with different voting rights, the board of ICB was effectively able to hinder a take-over by Frontline. Frontline did, however, continuously increase its shareholding in ICB. In June, 1999, Frontline had increased its holding in ICB to approximately 44 per cent of the votes and 68 per cent of the shares. Despite this substantial shareholding, Frontline was unable to exercise any significant influence over the management of ICB. On September 23, 1999, an agreement was reached according to which Frontline AB, a wholly owned subsidiary of Frontline, acquired the shares in ICB owned by the so-called A group consortium. As a result of this transaction, Frontline took control over ICB as it became owner of slightly less than 90 per cent of the shares and approximately 93 per cent of the votes in ICB. In connection with this transaction, the ICB board decided to sell 4 of the company's VLCC tankers to the newly established ACOL Tankers Ltd (ACOL), a company owned by members of the so-called A group consortium. The 4 vessels sold to ACOL were Irian, Ambon, Flores and Mindoro. The total price for the vessels was USD 189 million and the sales proceeds were used in part to repay interest bearing debt amounting to USD 175 million. The price was based on and was in accordance with valuations given by five independent shipbrokers. Through completion of these transactions, the two-year-long stalemate in ICB is terminated.

As a result of the acquisitions of vessels and shipping companies, Frontline has established itself as a world leader in the international seaborne transportation of crude oil, with one of the world's largest modern fleets of VLCC and Suezmax tankers and Suezmax OBO carriers. Pursuant to a fleet expansion program, Frontline has directly and indirectly acquired 21 tankers and OBO carriers, plus taken delivery of 10 new tankers since 1996. Frontline's fleet has a total tonnage of approximately 7.7 million dwt. The Company's fleet is one of the most modern fleets of tankers and OBO carriers in the world, comprised of vessels with an average age of 5.8 years versus an estimated industry average of over 13 years. Frontline also owns one wood-chip carrier and has minority interests in two older Suezmax tankers built in 1978 and 1979. Frontline is committed to provide quality transportation services to all its customers and to developing and maintaining long-term relationships with the major charterers of tankers. Frontline believes that its OBO carriers offer a competitive advantage in contrast to the fleets of other large tanker owning companies, since they are able to carry different types of cargo and can minimise the number of days at sea in ballast (without cargo). Frontline believes that its OBO carriers are a source of added strength and security to Frontline since the vessels have two markets in which to operate.

## **Vision and Strategy**

The Company's vision is to provide the customers with a flexible and reliable transportation service, and use this flexibility to develop unique industrial relations that will give material benefits to the customers as well as the Company. Frontline's business strategy is primarily based upon the following principles:

- (i) emphasising operational safety and quality maintenance for all of its vessels;
- (ii) complying with all current and proposed environmental regulations;
- (iii) outsourcing technical operations and crewing;
- (iv) achieving low operational costs of vessels;
- (v) achieving high utilisation of its vessels;
- (vi) competitive financing arrangements; and
- (vii) develop relationship to main charterers.

Spot market rates are typically higher than time charter rates to compensate for the lack of confirmed continual employment. After having delivered their cargo, spot market vessels typically operate in ballast (without cargo) until being rechartered. It is the time element associated with these ballast legs which Frontline seeks to minimise by efficiently chartering its OBO carriers and tankers. Frontline seeks to maximise earnings in employing vessels in the spot market or under time charters or under contracts of affreightment ( **COA** ).

Increasing global environmental concerns have created a demand in the petroleum products/crude oil seaborne transportation industry for vessels that are able to conform to the stringent environmental standards currently being imposed throughout the world. All of Frontline's OBO carriers and all of its Suezmax and VLCC tankers built since 1995 are constructed with double hull.

## **Operations**

Frontline has a strategy of extensive outsourcing. Ship management, crewing and accounting services are provided by a number of independent and competing suppliers. Independent ship managers provide crewing for Frontline's vessels. Currently, most vessels are crewed with full Russian crews, while others have full Indian or full Filipino crews, or combinations of these nationalities. Similar to structures commonly used by other shipping companies, Frontline's vessels are all owned by, or chartered to, separate subsidiaries. Frontline Management AS ( **Frontline Management** ), a wholly-owned subsidiary of Frontline, supports Frontline in the implementation of its decisions. Frontline Management is responsible for the commercial management of Frontline's shipowning subsidiaries, including chartering and insurance. Each vessel owned by Frontline is registered under Liberian, Singaporean, Norwegian or Panamanian flag. Frontline's vessels are managed by the independent ship management companies Acomarit Shipmanagement Ltd., International Tanker Management ( **ITM** ), V.Ships Norway AS ( **V.Ships** ) and Wallem Shipmanagement Inc. ( **Wallem** ). Pursuant to management agreements, each of the independent ship management companies provides operations, ship maintenance, crewing, technical support, shipyard supervision and related services to Frontline. The accounting management services for each of the shipowning subsidiaries of Frontline are provided by the ship managers and Seabridge Management Services PTE Ltd., a wholly-owned subsidiary of ICB.

Four of Frontline's vessels operate under time charters. One of Frontline's Suezmax tankers is chartered to BP Oil Espana S.A. ( **BP Espana** ) and two of the partly owned vessels are chartered to Navion ASA ( **Navion** ). The charter of the Suezmax tanker LILLO to BP Espana expires

November 2001. One charter of a Suezmax tanker to Navion expires in April 2000 and the other expires in 2003. Frontline's OBO carriers also operate under a contract of affreightment with a steel mill in Saudi Arabia for delivery of iron ore from Norway and Brazil. The contract with the steel mill in Saudi Arabia is for three-year periods, subject to renewal. This arrangement is suited to Frontline's OBOs and maximize their efficient usage. The arrangement have now been in effect for up to six years and secure employment for 3.75 vessels per year. Frontline also has entered into a market related time charter for two (with options for a third) of its VLCCs with BP Shipping. Furthermore, Frontline has entered into a one-year COA with LA Caltex. The contract is estimated to employ one vessel. Frontline also owns one wood-chip carrier, which is a handy-sized dry cargo vessel adapted to carry wood-chips.

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

It is Frontline's intention to integrate ICB into the Company by the end of March 2000 at the latest. Six of ICB's eight vessels will continue with current shipmanagers, while the operation of the two remaining will be transferred to V.Ships and Wallem. ICB's administration will be integrated into Frontline's, with the likely consequence that some personnel will be made redundant. The office in Stockholm will be closed down and all tasks transferred to Frontline Management in Oslo and Frontline in Bermuda.

A central part of Frontline's strategy is to benchmark operational performance and cost level amongst the Company's shipmanagers. It is the Company's view that the integration of the two companies offers a unique chance to improve cost and quality of operations on both Frontline's and ICB's vessels, and the systems used at the two companies' headquarters.

## **Y2K**

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.

## **Customers**

Customers of Frontline include major oil companies, refined petroleum products traders, government agencies and various other entities. No single customer accounted for more than 10 per cent of Frontline's consolidated revenues in the six month period ending June 30, 1999.

## **Competition**

The market for international seaborne crude oil transportation services is highly fragmented and competitive. Seaborne crude oil transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent ship owner fleets. In addition, several owners and operators pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned and

operated fleets. Many major oil companies and other oil trading companies, the primary charterers of the vessels owned or controlled by Frontline, also operate their own vessels and use such vessels not only to transport their own crude oil but also to transport crude oil for third party charterers in direct competition with independent owners and operators in the tanker charter market. Competition for charters is intense and is based upon price, location, size, age, condition and acceptability of the vessel. Competition is also affected by the availability of other size vessels to compete in the trades in which Frontline engages.

### **Employees**

As of September 30, 1999, Frontline, Frontline Management and Frontline Management (UK) Ltd. employ 28 people in their respective offices in Bermuda, Oslo, Korea and London. As of the same date, there were 21 people employed at ICB's offices in Stockholm and Singapore who were managing the ICB operations acquired by Frontline as of September 23, 1999.

### **Risk of Loss and Insurance**

The business of the Company is affected by a number of risks, including mechanical failure of the vessels, collisions, property loss to the vessels, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labour strikes. In addition, the operation of any ocean-going vessel is subject to the inherent possibility of catastrophic marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

Frontline Management is responsible for arranging for the insurance of the Company's vessels in line with standard industry practice. In accordance with that practice, the Company maintains marine hull and machinery and war risks insurance, which includes the risk of actual or constructive total loss, and protection and indemnity insurance with mutual assurance associations. The Company from time to time carries insurance covering the loss of hire resulting from marine casualties in respect of some of its vessels. Currently, the amount of coverage for liability for pollution, spillage and leakage available to the Company on commercially reasonable terms through protection and indemnity clubs and providers of excess coverage is USD 700 million per vessel per occurrence and USD 750 million per vessel per occurrence in California. Protection and indemnity clubs are mutual marine indemnity associations formed by ship owners to provide protection from large financial loss to one member by contribution towards that loss by all members.

The Company believes that its current insurance coverage is adequate to protect against the accident-related risks involved in the conduct of its business and that it maintains appropriate levels of environmental damage and pollution insurance coverage, consistent with standard industry practice. However, there is no assurance that all risks are adequately insured against, that any particular claims will be paid or that the Company will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

### **Inspection by Classification Societies**

Frontline's vessels have been certified as In Class. Every commercial vessel's hull and machinery is classed by a classification society authorised by its country of registry. The classification society certifies that the vessel has been built and maintained in accordance with the rules of such classification society and complies with applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a member.

Each vessel is inspected by a surveyor of the classification society every year, every two and a half years and every four to five years. Should any defects be found, the classification surveyor will issue a recommendation for appropriate repairs which have to be made by the ship owner within the time limit prescribed.

### **Frontline s Fleet**

Following the acquisition of ICB, Frontline operates a substantially modern tanker fleet of 39 vessels consisting of 19 Suezmax tankers, 12 VLCC tankers and 8 Suezmax OBOs. The total tonnage of Frontline s existing fleet equals approximately 7.7 million dwt and all its wholly-owned tanker vessels were built in the 1990s. Currently, Frontline has two newbuilding contracts, each for one Suezmax to be delivered in early 2000. In addition, Frontline has one wood chip carrier.

In May 1998, Frontline announced the acquisition, through its subsidiary Independent Tankers Corporation ( **ITC** ), of three holding companies from Cambridge Partners for USD 9.5 million. These companies control four modern Suezmaxes and two VLCCs chartered to Chevron, and newbuilding contracts for four VLCCs, which will be chartered to British Petroleum. All charter parties are for a minimum of eight years. It became apparent to the Board that a considerable amount of the Company s 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 ITC s USD 762 million bond debt was non-recourse to Frontline. To avoid this, Frontline decided to sell ITC to Hemen. Frontline will remain manager for ITC s assets against management compensation and also has a 5-year call option to buy back the shares in ITC.

In December 1998, Frontline sold 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 has the option to sell the vessels to Frontline at certain prices and periods in time.

ICB has the management function for Knightsbridge Tankers Limited ( **Knightsbridge** ), a publicly listed company which controls five VLCCs (built 1995-96) which are chartered to Shell International Petroleum Company Limited. Through the acquisition of ICB, Frontline will undertake the management function in the future along with a 4.7 per cent ownership interest in Knightsbridge.

The following table sets forth the fleet operated by Frontline following the acquisition of ICB:



Vessel	Employment	Manager	Flag	Built	dwt	Shipyard	Ownership
<b>SUEZMAX TANKERS</b>							
Lillo	TC	ITM	Liberia	1991	140,554	AESA	100 %
Front Emperor	Spot Market	Acomarit	Singapore	1992	147,273	AESA	100 %
Front Spirit	Spot Market	Acomarit	Liberia	1993	147,273	AESA	100 %
Front Pride	Spot Market	Acomarit	Liberia	1993	149,686	Mitsui	100 %
Front Splendour	Spot Market	Acomarit	NIS	1995	149,745	Mitsui	100 %
Front Glory	Spot Market	Acomarit	NIS	1995	149,834	Mitsui	100 %
Front Fighter	Spot Market	V. Ships	Liberia	1998	153,000	Hyundai	100 %
Front Hunter	Spot Market	V. Ships	Liberia	1998	153,328	Hyundai	100 %
Front Warrior	Spot Market	V. Ships	Liberia	1998	153,000	Hyundai	100 %
Front Sky	-	-	-	2000	153,181	Hyundai	100 %
Front Sun	-	-	-	2000	153,181	Hyundai	100 %
Maple	Spot Market	Acomarit	Liberia	1991	152,000	Daewoo	100 %
Birch	Spot Market	Acomarit	Liberia	1991	152,000	Daewoo	100 %
Granite	TC	Wallem	Bahamas	1991	142,000	Daewoo	100 %
Sunda	Spot Market	Wallem	Liberia	1992	142,000	Daewoo	100 %
Comor	Spot Market	Wallem	Liberia	1993	152,000	Daewoo	100 %
Mindanao	Spot Market	V. Ships	Singapore	1998	158,000	Daewoo	100 %
Kim Jacob	Spot Market	-	-	1998	158,000	Daewoo	0 %
Polytrader	TC	RMS	Norway	1978	127,545	Uddevalla	40 %
Polytraveller	TC	RMS	Norway	1979	127,545	Uddevalla	35 %
Okha	FSO	Wallem	Bahamas	1999	158,000	Daewoo	50 %
<b>SUEZMAX OBOs</b>							
Front Breaker	Spot Market	ITM	Liberia	1991	169,146	Daewoo	100 %
Front Climber	Spot Market	Acomarit	Singapore	1991	169,146	Hyundai	100 %
Front Driver	Spot Market	Acomarit	Liberia	1991	169,146	Hyundai	100 %
Front Guider	Spot Market	Acomarit	Singapore	1991	169,146	Daewoo	100 %
Front Leader	Spot Market	Acomarit	Singapore	1991	169,146	Daewoo	100 %
Front Rider	Spot Market	Acomarit	Singapore	1992	169,146	Hyundai	100 %
Front Striver	Spot Market	Acomarit	Singapore	1992	169,204	Daewoo	100 %
Front Viewer	Spot Market	ITM	Singapore	1994	169,146	Daewoo	100 %
<b>VLCCs</b>							
Front Highness	Spot Market	Acomarit	Singapore	1991	284,317	Hyundai	100 %
Front Lady	Spot Market	Acomarit	Singapore	1991	284,497	Hyundai	100 %
Front Lord	Spot Market	Acomarit	Singapore	1991	284,497	Hyundai	100 %
Front Duke	Market Related TC	Acomarit	Singapore	1992	284,420	Hyundai	100 %
Front Duchess	Spot Market	Acomarit	Singapore	1993	284,480	Hyundai	100 %
Front Century	Spot Market	ITM	Liberia	1998	311,189	Hyundai	0 %
Front Champion	Spot Market	ITM	Liberia	1998	311,286	Hyundai	0 %
Front Chief	Market Related TC	ITM	Liberia	1999	311,224	Hyundai	100 %
Front Commander	Spot Market	Acomarit	Bahamas	1999	311,168	Hyundai	100 %
Front Crown	Spot Market	Acomarit	Bahamas	1999	311,168	Hyundai	100 %
Sabang	Spot Market	Wallem	Singapore	1990	285,000	Daewoo	100 %
Vanadis	Spot Market	Wallem	Singapore	1990	285,000	Daewoo	100 %
<b>BULK CARRIERS</b>							
World Wood	Spot Market	Acomarit	Liberia	1973	42,052	Nagasaki	100 %

### ***Further expansion of the Fleet***

The shipping industry is highly cyclical, experiencing volatility in profitability, vessel values and charter rates. In particular, freight and charterhire rates are strongly influenced by the supply and demand for shipping capacity. The charter rates that the Company is able to obtain for its vessels are determined in a highly competitive market. The tanker market in general has been depressed for a number of years, largely as a result of an excess of tonnage supply over demand. In 1994, the VLCC sector of the tanker market appeared to be at or near a cyclical low. Although subject to continuing volatility and cyclicalities, these markets generally improved until 1997. Freight rates weakened in 1998 and in the first half of 1999 and the tanker market is expected to continue to suffer until OPEC increases its production levels again.

The Company believes that fleet size in the industrial shipping sector is increasingly important in negotiating terms with major clients and charterers. The Company believes that a large, high-quality VLCC, Suezmax and Suezmax OBO fleet will enhance its ability to obtain flexible terms from suppliers and shipbuilders and to produce cost savings in chartering and operations.

Based on these considerations, the Company intends to look for further opportunities to expand its fleet and acquire additional VLCCs and Suezmax tankers. Frontline believes that VLCC and Suezmax freight rates and market values will support such expansion. Due to the ageing profile of the existing world fleet, enforcement of environmental regulations and customer demand, the Company believes that there will be increased demand for modern VLCCs and Suezmax tankers needed to carry the world oil trade during the early 2000s. As a result, opportunities exist for selective investment in second hand VLCC and Suezmax tankers built in the 1990s which are in good operating condition, with prospects to yield operating profits and capital gains over the next several years. Although VLCC freight rates and market values are volatile, the Company believes that investment in such VLCC and Suezmax tankers in today's market carries a limited amount of downside risk while offering the prospect of significant upside potential.

As part of its vessel acquisition policy, the Company conducts a physical inspection of each tanker and examines its construction, prior ownership, operating history and classification records. Among the second hand VLCC and Suezmax tankers which the Company may purchase are tankers subject to existing bareboat charters or leases with major oil companies such as in the case of the ITC's subsidiaries. The Company may also purchase options to acquire such tankers at the expiration of such bareboat charters or leases.

Currently, Frontline has two Suezmax tankers on order which are being built by the Hyundai Heavy Industries shipyard in South Korea. Delivery dates are in early 2000, and delivery prices are estimated at USD 51 million per Suezmax tanker. Frontline may acquire additional assignments of newbuilding of VLCC and Suezmax tankers if Frontline determines that such contracts can be acquired at prices Frontline deems competitive. The Company cannot guarantee that its policy will be successful.

### ***Properties***

Frontline Management AS leases office space in Oslo, Norway, from Sea Shipping AS, a company controlled by Frontline's main shareholder, at market rates. Frontline leases office space in Bermuda and London.

***Legal Proceedings***

Frontline is a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims arising from the operation of its vessels. Frontline's management believes that the resolution of such claims will not have a material adverse effect on Frontline's operations or financial condition.

# Five-Year Financial Summary

<b>(USD millions, except otherwise indicated)</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
<b>Income statement data</b>					
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. financial 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)
<b>Profitability ratios</b>					
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)
<b>Year end financial position</b>					
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
Unutilised 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
<b>Investments</b>					
Net investments	149.3	482.6	411.9	35.6	(1.8)
<b>Per share data (in USD, except number of shares)</b>					
Stockholders' equity per share	9.93	11.30	10.30	11.90	11.90
Stockholders' equity per share, fully diluted	9.93	11.30	10.70	12.40	11.90
Earnings per Share, Basic	0.59	0.48	(0.92)	0.20	(1.50)
Earnings per Share, Fully 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 December 31 (million)	46.1	46.1	32.2	14.1	14.1
<b>Average number of shares (million)</b>	<b>46.1</b>	<b>36.2</b>	<b>14.9</b>	<b>14.1</b>	<b>14.1</b>

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, Basic:** 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 per centage of average stockholders equity.  
**Stockholders equity per Share:** Stockholders equity divided by the numbers of shares.

### **General**

Figures for 1995 to 1998 are in accordance with US GAAP, while figures for 1994 are in accordance with Swedish GAAP. The conversion of the financial statements for 1995-1997 into US GAAP did not involve any major changes, and hence, it is deemed that the financial statements for 1994 may be used for comparative purposes.

The Company has elected to account for its stock-based compensation arrangements under APB 25. In accordance with APB 25 no expense of granting the options is recognised at the time of grant. At the time exercising the options the proceeds are accounted for as paid-in share capital and additional paid-in capital. Under the Bermuda plan, options for a total of 129,000 shares with a weighted average exercise price of USD 14.45 were outstanding. Under the U.K. plan, respective numbers were options for 12,000 shares with a weighted average exercise price of GBP 14.

### **Comments on the Income Statement**

#### *1998 versus 1997*

Total freight revenues increased by 4 per cent in 1998 to USD 270.4 million from USD 259.7 million in 1997. This increase reflects the increase in the size of the fleet, offset by lower trading results in all sectors in which the Company operates, due presently to the state of the tanker market. The average daily TCEs earned by the VLCCs, Suezmax tankers, and Suezmax OBO carriers were USD 31,800, USD 22,400 and USD 21,800 compared with USD 32,700, USD 24,800 and USD 25,500 for 1997. The total days technical offhire, including drydockings, were 135 compared with 122 in 1997. In 1998, the Company sold two VLCCs and one woodchip carrier, thereby recording a net loss on the sales of USD 1.5 million.

For 1998, earnings before interest, tax, depreciation and amortization, including earnings from associated companies were USD 124.1 million, compared with USD 112.2 million for the comparable period 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 the Company operates.

Operating expenses (voyage expenses, ship operating expenses, charter hire on account of chartered in vessels and general and administrative costs) decreased by 2 per cent to USD 144.8 million in 1998 from USD 147.5 million in 1997. Average daily operating costs, including provisions for drydockings, decreased for the Suezmax and Suezmax OBO fleets in 1998 as the benefits of a new ship management and the cost reduction programme were realized. The average daily operating costs of the VLCCs, Suezmax tankers, and OBOs, including dry-docking and insurance costs, were USD 7,600, USD 6,400 and USD 6,700 in 1998 compared with USD 6,700, USD 7,500 and USD 7,000 for 1997. The increase in the average daily operating costs of the VLCCs reflects expenditure on structural maintenance for two of the older vessels. Administrative expenses decreased primarily due to a non-recurring charge for re-domiciling costs in 1997. In 1998, the Company undertook a further cost reduction programme and aims to reduce operating costs by an additional USD 500 to USD 750 per vessel per day. As a percentage of revenues, operating expenses decreased from 57 per cent in 1997 to 54 per cent in 1998.

Depreciation decreased by 9 per cent from USD 56.7 million in 1997 to USD 51.7 million in 1998 due to the change in the depreciation schedule for the fleet from 20 to 25 years in the fourth quarter of 1997. Net other expenses for 1998 were USD 45.4 million compared to USD 38.0 million for 1997. This increase reflects the increased average level of debt associated with the fleet expansion,

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 was 7.0 per cent.

Net income for the year amounted to USD 27.0 million compared to USD 17.4 million for 1997, which is equal to USD 0.59 per share compared to USD 0.48 per share in 1997.

#### *1997 versus 1996*

As part of its fleet expansion program, during 1997 Frontline acquired options to purchase a third Suezmax and four VLCC newbuilding contracts. During 1997, Frontline's vessels operated in both the spot market and the long term charter market.

Total freight revenues from vessels increased by 46 per cent to USD 259.7 million in 1997 from USD 178.2 million in 1996, due to an increase in the capacity of Frontline's fleet and improved charter rates. Operating expenses (voyage expenses, ship operating expenses, charter hire on account of chartered in vessels and general and administrative costs) increased by 1 per cent to USD 147.5 million in 1997 from USD 145.5 million in 1996. The change in operating expenses consisted of an increase in ship operating expenses of USD 13.2 million due to an increase in the number of vessels owned, a decrease in charter hire expenses on account of chartered in vessels of USD 8.9 million due to a reduction in the number of vessels chartered-in, and an increase in general and administrative costs of USD 3.0 million primarily due to restructuring costs in connection with the redomiciliation of Frontline from Sweden to Bermuda. As a percentage of revenues, operating expenses decreased from 82 per cent in 1996 to 57 per cent during 1997. As a result, operating income before depreciation and amortisation increased by 188 per cent to USD 112.2 million in 1997 from USD 38.9 million in 1996.

Depreciation and amortisation charges increased by 68 per cent to USD 56.7 million in 1997 from USD 33.8 million in 1996 due to the purchase of vessels in late 1996. Operating income after depreciation increased more than tenfold to USD 55.5 for 1997 from USD 5.1 for 1996.

Interest and other income increased by 99 per cent to USD 38.0 million in 1997 from USD 19.1 million in 1996. Interest and finance expenses increased by 88 per cent to USD 42.6 million in 1997 from USD 22.6 million in 1996 due to higher debt levels in connection with the financing of vessels acquired in late 1996. Consequently, net income increased to USD 17.4 million in 1997 as compared to a loss of USD 14.0 million in 1996.

#### *1996 versus 1995*

During 1996, Frontline expanded its fleet by acquiring five VLCCs, one Suezmax tanker and two OBO carriers. Further, Frontline obtained options on newbuilding contracts for two Suezmax tankers to be delivered during 1998. In addition, Frontline sold two small OBO carriers in 1996.

In 1996, Frontline operated in a balanced tanker market. A modest increase in global demand for refined petroleum products in the main consuming areas coupled with increased operating costs influenced its overall financial performance.

Total freight revenues from vessels decreased by 10 per cent to USD 178.2 million in 1996 from USD 197.2 million in 1995, mainly due to the reduction in number of vessels chartered in. The decrease was partially offset by revenues from an increase in Frontline's fleet reflecting vessels acquired in late 1996. Operating expenses (voyage expenses, ship operating expenses, charter hire on account of chartered in vessels and general and administrative costs) increased by 2 per cent to USD 145.5 million in 1996 from USD 143.4 million in 1995. The change consisted of an increase in ship operating expenses of USD 4.8 million due to an increase in the number of ships owned, a decrease

in charter hire expenses on account of chartered in vessels of USD 9.8 million due to a reduction in the number of vessels chartered-in, and an increase in general and administrative costs of USD 1.6 million. As a percentage of revenues, operating expenses increased to 82 per cent in 1996 from 73 per cent in 1995. In 1996, Frontline recorded a gain of USD 6.2 million on sale of the two smaller OBO carriers, no gains or losses from vessel disposals were recorded in 1995. As a result, operating income before depreciation and amortisation (EBITDA) decreased by 28 per cent to USD 38.9 million in 1996 from USD 53.8 million in 1995.

Depreciation and amortisation charges increased by 26.6 per cent to USD 40.0 million in 1996 from USD 31.6 million in 1995, as a result of the increase in the fleet due to the acquisition of vessels in late 1996. Accordingly, operating income after depreciation (EBIT) decreased by 77.7 per cent to USD 5.1 million in 1996 from USD 22.2 million in 1995.

Interest and other income decreased by 3 per cent to USD 19.1 million in 1996 from USD 19.6 million in 1995, primarily due to lower cash balances. Consequently, Frontline incurred a loss of USD 14.0 million in 1996 as compared to a profit of USD 2.6 million in 1995.

#### *1995 versus 1994*

Total freight revenues from vessels increased by 20 per cent to USD 197.2 million in 1995 from USD 164.2 million in 1994, due to the acquisition of the two small OBO carriers, more vessels chartered in and higher freight rates for the OBO carriers and tanker vessels. Operating expenses (voyage expenses, ship operating expenses, charter hire on account of chartered in vessels and general and administrative costs) increased by 7.5 per cent to USD 143.4 million in 1995 from USD 133.4 million in 1994 primarily due to the increase in the fleet. This increase was however offset by a decrease in chartering expenses on account of chartered in vessels. As a percentage of revenues, operating expenses decreased to 73 per cent in 1995 from 81 per cent in 1994. As a result, operating income before depreciation and amortisation (EBITDA) increased by 75 per cent to USD 53.8 million in 1995 from USD 30.8 million in 1994.

Depreciation and amortisation charges increased by 4 per cent to USD 31.6 million in 1995 from USD 30.4 million in 1994. Accordingly, operating income after depreciation (EBIT) was USD 22.2 million in 1995 as compared to USD 0.4 million in 1994.

Interest and other income decreased by 10 per cent to USD 19.6 million in 1995 from USD 21.8 million in 1994 primarily due to higher cash balances in 1995. Net income in 1995 was USD 2.6 million as compared to a loss of USD 21.4 million in 1994, primarily due to improvement in the freight rates.

### **Freight Market Review**

Since 1994, the average daily earnings of the tankers and OBOs in Frontline's fleet, measured in time charter equivalent (TCE) rates, have been follows:

#### **Timecharter earnings (TCE) per day**

<b>(in USD)</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
VLCC	31,800	32,700	27,700	n.a.	n.a.
Suezmax	22,400	24,800	26,800	26,900	25,000
Suezmax OBO	21,800	25,500	23,000	24,700	22,000

After completion of the Private Placement, the conversion of USD 35 million of the USD 89 million loan and the agreement reached with the Company's banks regarding deferrals of

instalments, Frontline's cash breakeven TCE rates for 2000 have been reduced to approximately USD 21,000 for the VLCCs (including 2 lease vessels) and USD 15,000 for the Suezmaxes and OBOS.



## **Balance Sheet**

At the year end 1998, Frontline had total interest bearing debt of USD 883.0 million. The sale and leaseback of the two VLCCs to German KGs are, in accordance with US GAAP, accounted for as operational leases. 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 acquisition and subsequent sale of three long term lease structures organised under the 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 as of December 31, 1998 amounted to USD 9.93 per share. 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 cash flows 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.

## **Financing Arrangements**

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.

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 USD 89 million loan given by Metrogas to loans given by the Company's lending banks. In addition, the proposal included reclassifying the 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 were finalised and the Company and Metrogas signed a subordinated loan facility agreement. Metrogas has furthermore agreed to subordinate its claim for payment hereunder to the rights of the banks pursuant to their existing lending agreement. Accordingly, the Company 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. At the Board meeting held on September 30, 1999, an offer from Metrogas to convert USD 35 million of its USD 89 million loan to Frontline into shares in the Company was accepted. At the Conversion Price, a total of 8,230,000 shares were issued. Following the conversion into shares, Metrogas will have USD 54.0 million of its loan outstanding.

Another company controlled by Hemen, Karalee Holdings S.A, has extended short term loans to Frontline on market terms pursuant to a revolving credit facility agreement.

In May 1999, Greenwich Holdings Ltd. ( **Greenwich** ), a company indirectly controlled by the Company's chairman, extended a loan in the amount of USD 15.7 million to the Company. This loan was expanded to USD 25 million during the summer of 1999. All proceeds were used to buy

shares in ICB, finally bringing the shareholding to 68 per cent of the share capital and 44 per cent of the votes.

In connection with the acquisition of the A-group's shares in ICB, Frontline refinanced the loan given by Greenwich as mentioned above, and the outstanding loans under facilities given by Chase and Carnegie. The new loan, which is in the amount of USD 135 million, is underwritten by four of Frontline's lead banks. The new loan is a 12-month bridge facility.

In connection with acquiring ICB, Frontline is negotiating the future financing of the eight vessels remaining in ICB with ICB's banks. Frontline is pursuing a strategy whereby either the banks give their consent to Frontline's takeover or the vessel(s) have to be refinanced.

The two Suezmaxes that are to be delivered early 2000 are to be financed through regular bank financing. Frontline has received offers from banks.

The Company's instalment plan is described in the table below.

Year ending December 31 <i>In thousands of USD</i>	Instalment
1999 (last six months)	133,196
2000	68,860
2001	105,265
2002	165,049
2003	216,816
2004 and later	237,159
<b>Total</b>	<b>926,345</b>

### ***Inflation***

Although inflation has had a moderate impact on operating expenses, drydocking expenses and corporate overhead, management does not consider inflation to be a significant risk to direct costs in the current and foreseeable economic environment. In addition, in a shipping downturn, costs subject to inflation can usually be controlled because shipping companies typically monitor costs to preserve liquidity and encourage suppliers and service providers to lower rates and prices. However, in the event that inflation becomes a significant factor in the world economy, inflationary pressures could result in increased operating and financing costs.

### ***Operating Currency***

The international tanker industry's functional currency is the U.S. dollar and, as a result, virtually all of Frontline's revenues are in U.S. dollars. Until June 1997, general and administrative expenses were incurred in Swedish Kroner, and thereafter in Norwegian Kroner, due to establishing Frontline Management AS in Oslo, Norway, while a significant portion of the operating expenses are incurred in U.S. dollars and, to a lesser extent, other currencies. The two Suezmax newbuildings currently on order by Frontline were ordered under shipbuilding contracts denominated in U.S. dollars. Frontline does not routinely hedge its foreign exchange exposure.

### ***Liquidity and Capital Resources***

The liquidity requirements of Frontline relate to servicing its debt, funding the equity portion of investments in vessels, funding working capital and maintaining cash reserves against fluctuations in operating cash flow. As of June 30, 1999, Frontline's cash and bank deposits was USD 62 million.

Frontline operates in a capital intensive industry requiring extensive investment in revenue producing assets. Funds invested are raised mainly from debt issuance and Frontline's internally generated funds. The equity portion of an investment in a newbuilding is usually paid in instalments, commencing one to three years in advance of delivery, for 20 per cent to 60 per cent of the vessel purchase price. Frontline currently has on order two Suezmax tankers for a total acquisition cost of approximately USD 102 million. As of September 30, 1999, Frontline had advanced approximately USD 21 million to the builder in connection with the construction of these vessels.

# Pro Forma Financial Information

June 30, 1999	Frontline	ICB	Acqui- sition	Elimi- nation	Proforma	Divest- ment	Proforma	New issues	Proforma
<b>ASSETS</b>									
<i>Short term</i>									
Cash and bank deposits	62	117			179	14	193	20	213
Other current assests	29	34			63		63		63
<i>Long term</i>									
Newbuildings	60	0			60		60		60
Vessel and equipment, net	1 135	520		-87	1 568	-189	1 379		1 379
Marketable securities	148	24	86	-234	24		24		24
Associated companies	2	0			2		2		2
Deffered charges and other assets	4	9			13		13		13
<b>Total assets</b>	<b>1 440</b>	<b>704</b>	<b>86</b>	<b>-321</b>	<b>1 909</b>	<b>-175</b>	<b>1 734</b>	<b>20</b>	<b>1 754</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
<i>Short term</i>									
Short term interest bearing debt	165	40	86		291		291		291
Other current liabilities	29	26			55	-5	50		50
<i>Long term</i>									
Long term interest bearing debt	762	317			1 079	-170	909	-35	874
Other long term liabilities	15	0			15		15		15
Stockholders' equity	469	321		-321	469		469	55	524
<b>Total liabilities and stockholders' equity</b>	<b>1 440</b>	<b>704</b>	<b>86</b>	<b>-321</b>	<b>1 909</b>	<b>-175</b>	<b>1 734</b>	<b>20</b>	<b>1 754</b>
Net interest bearing debt, USD million	865	240			1 191		1 007		952
Net gearing, %	184	75			254		215		182
Equity/assets, %	33	46			25		27		30

The Pro Forma Financial Information is based on Frontline's and ICB's respective balance sheets as of June 30, 1999 and on publicly available information only. The Pro Forma Financial Information has not been reviewed nor audited by the Company's auditors and has been prepared only for the convenience of the readers of this Prospectus. The Pro Forma combined balance sheet has not been prepared in accordance with US GAAP and is not intended to present the actual balance sheet as it will appear for financial accounting and reporting purposes. No conversion of ICB's financial statements into US GAAP has been made. For the purpose of the consolidation of ICB, it is assumed that Frontline acquired the remaining outstanding ICB shares for USD 86 million as of June 30, 1999. It is also assumed that the sale of four VLCCs to ACOL is completed as of the same date. The total price for the vessels is USD 189 million and the sales proceeds will be used in part to repay interest bearing debt amounting to USD 175 million. Furthermore, it is assumed that the Private Placement of USD 20 million and the conversion of USD 35 million of debt is completed as of the same date. Based on the assumptions, total assets in Frontline will amount to USD 1,754 million and the stockholders equity will amount to USD 524 million. The equity/assets ratio will amount to 30 per cent, compared to the actual figure of 33 per cent. The net interest bearing debt increases from USD 865 million to USD 947 million, while the net gearing decreases from 184 to 181 per cent. As of June 30, 1999, Frontline's cash and bank deposits amounted to USD 62 million. Following the consolidation of ICB and the completion of the Private Placement, the cash and bank deposits increases to pro forma USD 213 million as of the same date.

# Market Conditions

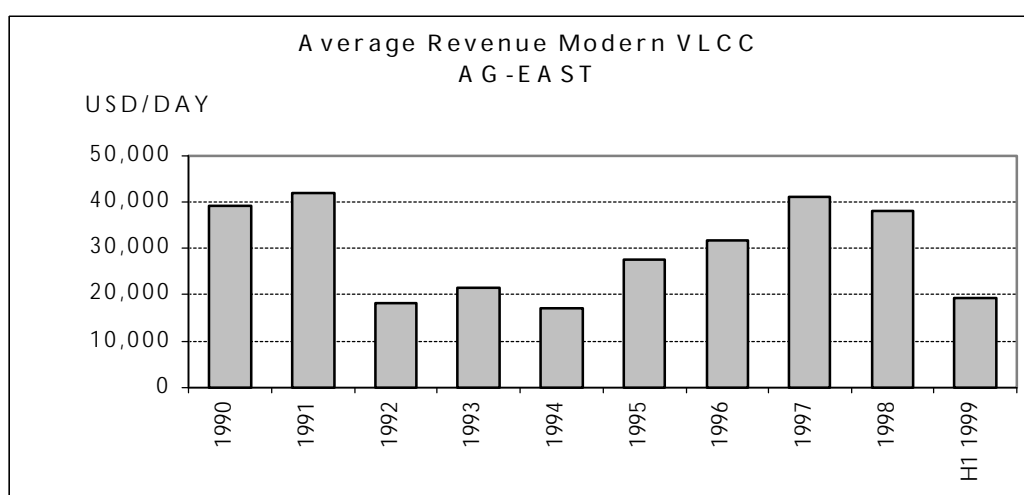
## **The Company's market position**

Frontline's fleet mainly consists of large tankers (VLCCs), medium-size tankers (Suezmaxes and Suezmax OBO carriers). These classes of tonnage account for 47 per cent, 35 per cent and 18 per cent, respectively of the Company's owned and chartered fleet, measured in terms of dwt.

The OBO carriers have generally been employed in trades that are based on fixed dry bulk legs and spot market oriented tanker legs. The Company expects that similar contracts will also account for a significant portion of the bulk trading in the future. As a consequence, these vessels - like the large and medium-size tankers - are mainly exposed to the tanker market. Reflecting the Company's exposure, the presentation below will focus on the market for medium-size and large tankers.

## **Rate development and status**

The tanker market has, in general terms, been characterized by oversupply of tonnage since the mid-1970s, when a large tanker fleet was built in response to a strong market at the time. Since then, rates have seldom been satisfactory to justify the construction cost of tonnage, and profitability in the industry has generally been low. The chart below<sup>1</sup> illustrates the average rates for modern VLCCs (on time-charter basis) over the last 10 years.



The chart shows a market improvement in freight rates from 1994 to 1997, indicating an improving balance between supply and demand of tankers. Since then, new tanker deliveries together with a stagnant demand development, has resulted in a softer market development. Freight rates achieved in both 1997 and 1998, were sufficient to provide full coverage of both capital and operational costs with current newbuilding prices.<sup>2</sup>

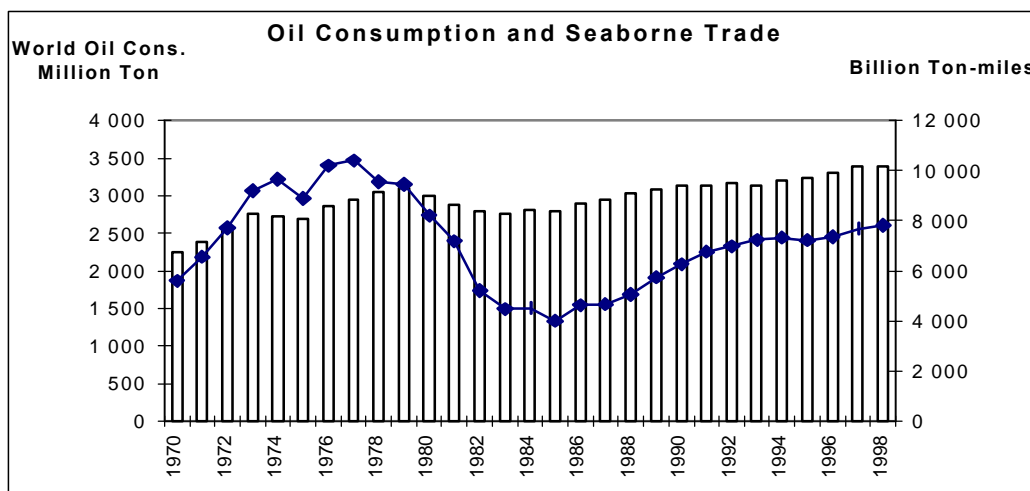
The tanker market is fragmented, with many suppliers and charterers. No single market participant, or group of participants, has a dominant or controlling position in the market. No single shipowner accounts for more than 5 per cent of the world tanker fleet. Freight rates fluctuate sharply both in the short and long term, and are difficult to predict, as they are influenced by a multitude of factors.

<sup>1</sup> Source: Fearnley Research

<sup>2</sup> Calculation based on newbuilding price of USD 70 mill., operating costs of USD 12,000 per day, 25 year lifetime, scrap value of USD 120/lwt, and WACC of 10%, which gives a break-even rate of USD 33,500 per day.

## Demand for tankers

Large and medium-size tankers are primarily used for transportation of crude oil from the largest producing regions (Arabian Gulf, West Africa, North Sea) to the consuming regions (Far East Asia, North America, Continental Europe). These trades are characterized by large volumes and relatively long transport distances, which gives large tankers economies of scale.



Tanker demand is a product of the volumes that are transported, and the distance that the oil is carried. The term normally used to illustrate tanker demand is ton-miles which takes into account both factors. Over the last years, volumes have increased while transport distances have been reduced, resulting in a relatively stable tanker demand. The volume (column on left axis) and ton-mile development (dotted line on right axis) is described in the following chart<sup>3</sup>. Each of the underlying factors are described in more detail below.

## Oil consumption

Oil is the world's most important source of energy, accounting for approximately 40 per cent of the world's total energy consumption. Hence, the consumption of oil is closely tied to global economic development. When the world economy has shown favorable growth figures, especially in emerging economies, global consumption of oil (excluding the former Soviet Union) has also increased. Countries in the Far East and South America have emerged as major oil consumers, as their own refinery capacity increases, along with the more developed economies in North America and Europe.

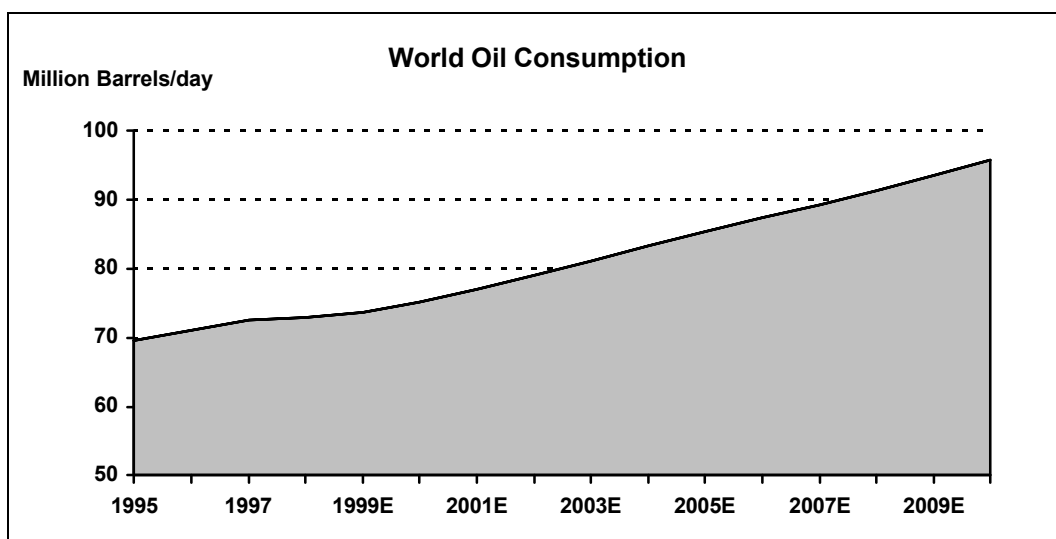
An important factor for the growth in oil demand, is the oil price, which also reflects the availability of oil. A high oil price increases the number of profitable oil reservoirs. Availability of oil continues to be high, with the global proven reserves amounting to about 41 years of production at current production rates<sup>4</sup>. Reserves are particularly high in the Arabian Gulf region, but significant proven and probable reserves also exist in several other regions. World total proven reserves is still increasing year by year.

Standard and Poor Platt's has projected a continued long-term growth in oil consumption. This is illustrated in the following chart<sup>5</sup>.

<sup>3</sup> Source: Fearnley Research

<sup>4</sup> Source: BP 1998

<sup>5</sup> Source: S&P Platt's Oil Market Outlook, Long Term Focus, April 1999 edition



### **Trade developments**

The pattern of oil shipments has undergone major changes during the last two decades. During the 1960s, the Arabian Gulf emerged as the world's largest exporting region of oil. This created long transport distances since most importing regions are located far from the Arabian Gulf. However, since the mid-1970s and the two oil crises, other regions have also developed significant oil production and export, most notably the North Sea, West Africa, Latin and South America, and South East Asia. These markets are located closer to consuming regions and hence require shorter transportation distances.

The market has gradually been divided into producers in and around the Atlantic that have increasingly replaced the Arabian Gulf as suppliers to Western markets, while Arabian Gulf shipments now mainly go eastwards.

Traditionally, VLCCs and ULCCs have mainly been used for trading out of the Arabian Gulf. During the last years, VLCCs have entered into other oil exporting markets including West Africa and the North Sea, which in the past have been served mainly by Suezmax and Aframax tonnage. Similarly, Suezmax tonnage has entered into cross North Sea, Mediterranean and Caribbean trades, which traditionally has been served by smaller tonnage (mainly Aframax).

Future trading patterns will depend on where the added production will take place to satisfy increased demand for oil. If the rapid growth in production in areas like the North Sea and Caribs cannot be maintained, then it is likely that the Arabian Gulf will capture a larger part of future oil production. This will imply an increase in transport distances and hence tanker demand.

Pipelines are an alternative and therefore a threat to crude shipments. The cost of laying ocean pipelines has fallen in recent years. Two projects, which could reduce tanker demand, are a pipeline from Azerbaijan to the Mediterranean Sea and from Sakhalin in Russia to Japan. The Company does, however, not envisage any other new developments significantly changing today's trading pattern.



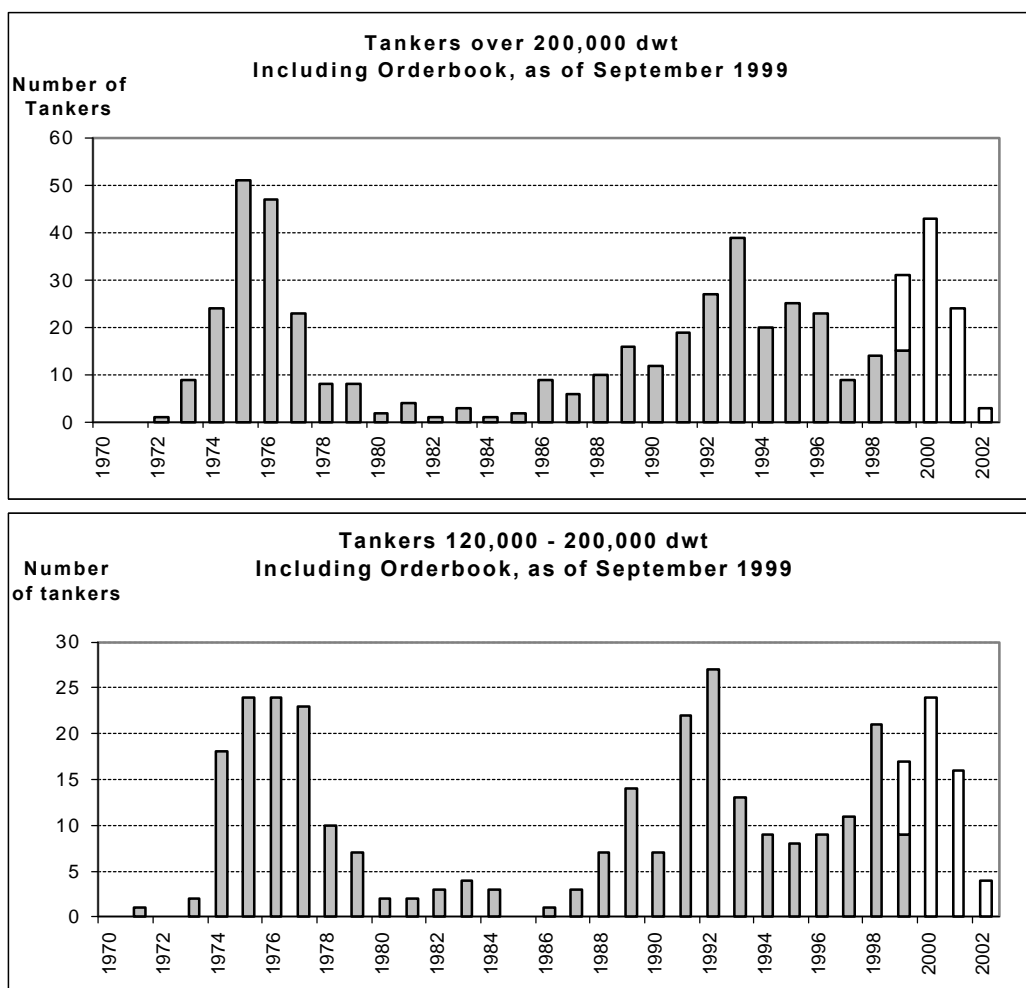
## Supply of tankers

### Current fleet and age structure

The world fleet of large and medium-size tankers (UL/VLCC s and Suezmax vessels) consists of 727 tankers sized 120,000 dwt and above, with a total capacity of about 167,3 million dwt. In addition, there are 40 OBO's in the same size category, although many of these are only certified to trade in dry bulk.

Owing to the low rates in the late 1970s and 1980s, there were built few tankers in the period from 1978 to 1985. Accordingly, the tanker fleet has a relatively unbalanced age structure with many old units and relatively many modern units, but few units aged 12-18 years. The average age of the current fleet of VLCC and Suezmax is about 13.3 years.

The age structure of the existing VLCCs and Suezmaxes fleet is illustrated in the following charts<sup>6</sup>.



<sup>6</sup> Source: Fearnley Research

### *IMO regulations and OPA 90*

The maritime industries are regulated by national law as well as by international conventions under administration of IMO, which is effectively binding on all operators within international shipping. In order to reduce the risk of oil spill from tankers, a convention has been agreed whereby all large tankers reaching the age of 25 years must be equipped (or retrofitted, if necessary) with segregated ballast tanks (SBT) or employ hydrostatically balanced loading (HBL). HBL implied a reduced cargo intake with about 5-12 per cent, whereas retrofitting of SBT implies an investment of USD 4-8 million. Several companies do not accept HBL vessels.

During 1999, about 24 VLCCs and 18 Suezmax tankers will reach the age of 25 years. In year 2000 another 51 VLCCs and 24 Suezmax tankers will reach the same age, and the corresponding figure for year 2001 is 47 and 24<sup>7</sup>. It is expected that the measures required for continuing trading will imply scrapping of some or several of these tankers. Even if no scrapping takes place, the IMO regulations will imply a reduction in cargo intake and off-hire for the old tankers. In addition, OPA 90 has an age limit for vessels trading to North America. From January 1, 2000, only tankers aged 23 or younger are accepted to their ports.

### *Scrapping*

The lifetime of a tanker depends on construction, maintenance, and market conditions. Old tankers are normally scrapped due to poor market prospects and/or when maintenance and repair costs are considered to be too high to keep the vessel trading, normally at 20-30 years of age.

A total of 18 VLCC/ULCCs and 18 Suezmaxes have been scrapped during the first 9 months of 1999 compared to only 6 and 7 respectively for the same period in 1998. The relatively high scrapping activity reflects the weak tanker market seen during the last 6 months.

At present there are about 155 VLCC/ULCCs and 92 Suezmaxes built in 1977 and earlier<sup>8</sup>, accounting for about 35 per cent of the world fleet of VLCC/ULCCs and 32 per cent of the Suezmax fleet. The Freight market development over the next years will determine when these vessels will be scrapped, but when the vessels pass 30 years, they will face extremely limited trading flexibility since most of the world's oil exporting/importing countries have ratified IMO's regulations. Utilizing the old vessels in FPSO/FSO or storage business is, however, still an option.

### *Newbuilding orders*

The current orderbook for tankers sized 120,000 dwt and above consists of 138 vessels, divided into 52 vessels of 120,000-200,000 dwt and 86 vessels above 200,000 dwt. For vessels over 200,000 dwt, the orderbook amounts to approximately 19.8 per cent of the existing fleet<sup>9</sup>. For Suezmaxes, the orderbook is 18.3 per cent of the existing fleet. The majority of these vessels will be delivered in the second half of 1999 and in year 2000. It is expected that any new large tanker orders will be for delivery in 2002.

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<sup>7</sup> Source: Fearnley Research

<sup>8</sup> Source: Fearnley Research

<sup>9</sup> Source: Fearnley Research

# Board of Directors, Management and Auditors

## **Board of Directors and Management**

Information concerning each director and executive officer of the Company is set forth below.

**John Fredriksen**, born 1944, Larnaca, Cyprus, Chairman, Chief Executive Officer, President and Director

**Tor Olav Troim**, born 1963, Oslo, Norway, Vice-President and Director

**A. Shaun Morris**, born 1960, Hamilton, Bermuda, Director

**Timothy J. Bridges**, born 1964, Hamilton, Bermuda, Director

**Tom E. Jebsen**, born 1957, Oslo, Norway, Chief Financial Officer of Frontline Management

**Kate Blankenship**, born 1965, Hamilton, Bermuda, Chief Accounting Officer and Company Secretary

Certain biographical information about each of the directors and executive officers of the Company is set forth below.

**John Fredriksen** has been the Chairman of the Board, Chief Executive Officer, President and a director of the Company since November 3, 1997. He was previously the Chairman and Chief Executive Officer of Frontline. Mr. Fredriksen has served for over six years as a director of Sea Tankers Management Co. Ltd. ("Sea Tankers"), a ship operating company and an affiliate of the Company's principal shareholder. Prior to the Conversion, Mr. Fredriksen indirectly controls Hemen and affiliated companies, which owns 26,034,188 shares and 13,054,376 warrants in the Company.

**Tor Olav Troim** has been Vice-President and a director of the Company since November 3, 1997. He previously served as Deputy Chairman of Frontline from July 4, 1997, and was a director of Frontline AB from July 1, 1996. Mr. Troim also serves as a director of Frontline AB, a wholly-owned subsidiary of the Company, and is the Chief Executive Officer of Frontline Management, which supports the Company in the implementation of decisions made by the Board of Directors. Mr. Troim also serves as a consultant to Sea Tankers. He is a director of Aktiv Inkasso ASA and Northern Offshore ASA, both Norwegian publicly listed companies. Prior to his service with Frontline, from January 1992, Mr. Troim served as Managing Director and a member of the Board of Directors of DNO AS, a Norwegian oil company. Mr. Troim owns 60,000 shares and 0 warrants in the Company.

**A. Shaun Morris** has been a non-executive director of the Company since November 3, 1997. Mr. Morris has been a Partner at Appleby, Spurling & Kempe since April 1995, after joining the firm in 1988 as an associate, where he specializes in corporate/commercial law. Mr. Morris owns 0 shares and 0 warrants in the Company.

**Timothy J. Bridges** has been a non-executive director of the Company since June 11, 1999. He has been an attorney at Appleby, Spurling & Kempe since April 1996. During the period May 1993 through March 1996, Mr. Bridges was an attorney at Wilde Sapte, a United Kingdom law firm, and for approximately four years prior thereto, he was an attorney with the United Kingdom law firm of Norton Rose. Mr. Bridges owns 0 shares and 0 warrants in the Company.

**Tom E. Jebsen** has served as Chief Financial Officer of Frontline Management since June 1997. From December 1995 until June 1997, Mr. Jebsen served as Chief Financial Officer of Tschudi & Eitzen Shipping ASA, a publicly traded Norwegian shipowning company. From 1991 to December 1995, Mr. Jebsen served as Vice President of Dyno Industrier ASA, a publicly traded Norwegian

chemicals producer. Mr. Jebsen is a director the P&I insurer Assuranceforeningen Skuld, and Hugin AS, an Internet company. Furthermore, he is a director of the Norwegian mountaineering association DNT. Mr. Jebsen owns 2,850 shares and 0 warrants in the Company.

**Kate Blankenship** is Chief Accounting Officer and Secretary of the Company. Mrs. Blankenship joined the Company in 1994. Prior to joining the Company, she was a Manager with KPMG Peat Marwick in Bermuda. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship owns 0 shares and 4,000 options in the Company.

In accordance with the Bye-laws of the Company the number of Directors shall be such number not less than two as the Company by Ordinary Resolution may from time to time determine and each Director shall hold office until the next annual general meeting following his election or until his successor is elected.

### ***Employee option plan***

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.

### ***Auditors***

PricewaterhouseCoopers ANS, Oslo, has been auditors of Frontline Ltd. and Frontline Management AS since 1997. For 1996, Frontline AB was audited by PricewaterhouseCoopers AB, Stockholm.

### ***Remuneration***

During the year ended December 31, 1998, the Company paid to its directors and officers of the Company (eight persons) aggregate cash compensation of USD 576,175 and an aggregate amount of USD 23,630 for pension and retirement benefits. The CEO of Frontline was paid USD 150,000 in 1998. For 1998, total audit remuneration for the auditors of Frontline Ltd amounted to USD 350,000.

### ***Transactions with related parties***

No significant business transactions have taken place, or are at hand, between Frontline and its directors or management other than those described elsewhere in this Prospectus. Neither have the Company given any loans to, nor provided guarantees on behalf of, any of these persons.

# Share Capital and Shareholder Matters

## **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 has decided in the near term not to pay dividends, principally due to its present commitments under the USD 650 million newbuilding programme, of which USD 102 million remains. However, Frontline believes that return on capital, over time, will be primarily realised through appreciation in the share price.

## **Reporting of financial figures and results**

Frontline emphasises that information on the Company's performance is released promptly to the shareholders and the relevant stock markets according to the prevailing rules, including rules of the Oslo Stock Exchange. 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 the Company's homepages [www.frontline.bm](http://www.frontline.bm) and [www.frontmgt.no](http://www.frontmgt.no). In addition, information is accessible at Hugin on [www.huginonline.com](http://www.huginonline.com)

## **Shares and Share Capital**

As of September 30, 1999 prior to the Private Placement and conversion of debt, Frontline had 46,106,860 shares outstanding, each with a par value of USD 2.50. All shares carry equal voting and dividend rights. Following the Private Placement of 4,715,000 shares and the conversion of a part of its loan by Metrogas into 8,230,000 shares, the share capital of Frontline has increased to USD 147,629,650, divided into 59,051,860 shares. There is no convertible debt outstanding other than the loan from Metrogas, which can only be called for conversion by the Company at its maturity and not by Metrogas. The authorised share capital amounts to USD 250,000,000, divided into 100,000,000 shares, each with a par value of USD 2.50. The Company's authorised share capital has not yet been issued to in full. The unissued shares are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose for such consideration as the Board may determine, except that they may not be issued at a discount from their par value.

In Notes to Consolidated Financial Statements for 1998, number 16 Share Capital and 17 Warrants and Share Option Plans , more information about the share capital and the right to issue shares are given.

## **Warrants**

As of September 30, 1999, there were 27,245,580 warrants outstanding exercisable into 2,724,558 shares in the Company. Of these warrants, 26,000,000 were issued in connection with the amalgamation with LOF in 1998. Each whole multiple of 10 such warrants gives the right to subscribe for one share at USD 15.91 per share. The expiry date for these warrants is May 11, 2001, and the warrants can be exercised at any time up to this date. As for the remaining 1,245,588 warrants, which were issued in connection with the reconstruction of LOF in 1988, each whole multiple of 10 such warrants gives the right to subscribe for one share at GBP 4.00 per share. The expiry date for these warrants is December 31, 2003.

## **Number of Shares outstanding assuming full exercise of all outstanding warrants**

<b>Security</b>	<b>Number</b>
Shares outstanding as of September 30, 1999	46,106,860
Shares issuable by exercise of warrants issued in connection with the LOF amalgamation in 1998	2,600,000
Shares issuable by exercise of warrants issued in connection with the refinancing of LOF in 1988	124,558
Private Placement completed as of September 30, 1999	4,715,000
Conversion of debt completed as of September 30, 1999	8,230,000
Total number of securities	61,776,418

## **Changes in Frontline s Share Capital**

<b>Year</b>	<b>Transaction</b>	<b>Total number of shares</b>	<b>Share capital, USD</b>
1997	Redomiciliation and listing at OSE	98,201,507	98,201,507
1997	Cash issue <sup>1)</sup>	108,201,507	108,201,507
1997	Cash issue <sup>2)</sup>	129,201,507	129,201,507
1997	Non-cash issue <sup>1)</sup>	132,201,507	132,201,507
1997	Cash issue <sup>3)</sup>	136,701,507	136,701,507
1997	Split 3.2635:1 <sup>4)</sup>	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
1999	Cash issue <sup>5)</sup>	50,821,860	127,054,650
1999	Conversion of debt <sup>6)</sup>	59,051,860	147,629,650

1) In connection with the acquisition of ships.

2) Equity financing of ICB shares.

3) Equity financing of LOF shares.

4) 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 USD 1 to USD 0.25.

5) Current Private Placement of USD 20 million

6) Current conversion of USD 35 million of debt

## **Shareholders as of September 30, 1999**

The shareholders as of September 30, 1999, prior to the Private Placement and the Conversion, is presented below.

<b>Shareholders</b>	<b>Shares</b>	<b>Per cent</b>
Hemen Holding Limited	24,423,256	53.0
Odin Norden	2,591,764	5.6
Odin Norge	1,716,577	3.7
Song Mist Shipping Limited (Affiliated to Hemen)	1,600,000	3.5
Hafslund Invest AS	1,100,385	2.4
Storebrand Livsforsikring AS	899,000	1.9
Christiania Markets	804,287	1.7
Gironde-A/S	500,000	1.1
Skandinaviska Enskilda Banken	448,617	1.0
Det Stavangerske Dampskibsselskab	424,850	0.9
Chase Manhattan Bank	304,400	0.7
Odin Maritim	298,000	0.6
Morgan Guaranty Trust Co. of N.Y.	287,703	0.6
DnB Real-Vekst	200,875	0.4
Citibank (Luxembourg) S.A.	200,000	0.4
DnB Real-Invest	141,528	0.3
Verdipapirfondet Avanse Shipping	140,000	0.3
Den Norske Bank ASA, Dnb Markets	136,500	0.3
Unibank A/S	132,978	0.3
Aksjespar Postbanken	130,000	0.3
Other	9,626,140	20.9
<b>Total</b>	<b>46,106,860</b>	<b>100.0</b>

### **Distribution of shares as of December 31, 1998**

Range	Shareholders		Shares	
	No.	per cent	No.	per cent
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
<b>Total</b>	<b>6,671</b>	<b>100.00</b>	<b>46,106,860</b>	<b>100.00</b>

### **Registration of the Shares**

Companies listed on the Oslo Stock Exchange are required by Norwegian law to register their shares with the VPS system. In order to achieve compatibility between the requirements of Bermuda law as to the registration and transfer of shares and the VPS system, all shares in the Company traded on the Oslo Stock Exchange are, for the purpose of Bermuda law, entered in the register of members of the Company in Bermuda in the name of Christiania Bank, which holds such shares as nominee for investors. For the purpose of the VPS system, Christiania Bank acts as the operator of the Company's VPS-subregister of shareholders, and investors are entered in the VPS system as owners of shares. Investors registered as owners of shares in the VPS system are entitled to exercise, through Christiania Bank as their nominee, all rights of ownership relating to the shares, including all voting rights. Under the VPS registration system, all shareholders who have a Norwegian address and/or have supplied the VPS with details of their Norwegian bank account will receive dividends converted to Norwegian kroner. This also applies to foreign banks who have supplied VPS with details of their LORO account with a Norwegian bank. Shareholders who have a non-Norwegian address and who have not supplied VPS with details of a Norwegian bank account will receive dividends in U.S. dollars.

The investors holding shares in the VPS-subregister may at any time demand that their holding of shares be transferred from the VPS system to the register of members of the Company in Bermuda in place of Christiania Bank. Any shareholder that is transferred to the Company's register of members in Bermuda will not be entitled to have his shares registered in the VPS. Shares not registered in the VPS system cannot be traded on the Oslo Stock Exchange.

### **Shareholders agreement**

The Board in Frontline is not aware of any shareholders agreement between shareholders in Frontline.

### **Description of the main shareholder**

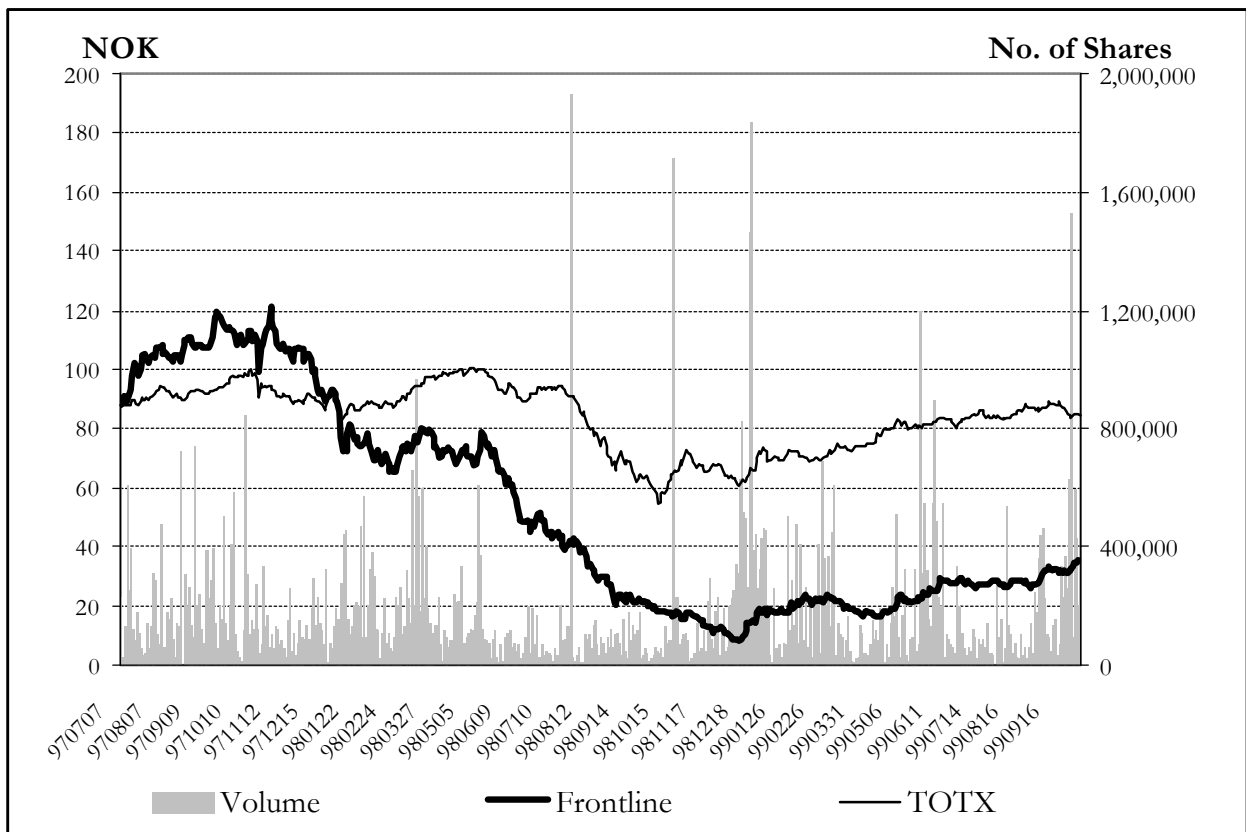
Frontline's major shareholder is Hemen, which is indirectly controlled by Frontline's Chairman, John Fredriksen, through the Cyprus based shipping company Greenwich Holdings Ltd. Hemen's current main activity is ownership of Frontline shares. As of September 30, 1999, Hemen, and affiliated parties, held approximately 56 per cent of the shares in Frontline, assuming full exercise of all outstanding warrants. Following the Private Placement and Secondary Offering on same date, Hemen will hold approximately 52 per cent of the shares in Frontline, assuming full exercise of all outstanding warrants and exercise by all the Qualified Holders of their Purchase Right.

Greenwich Holdings Ltd. was established in 1986. Since then, it built up one of the largest modern tanker fleets among the world's independent shipping companies. This tanker fleet was transferred to Frontline in 1996. In addition to its investment in tanker shipping through Frontline, the Greenwich group has holdings in modern gas vessels, offshore units, ITC and older ULCC vessels. Greenwich Holdings Ltd. has concentrated its modern tanker operations in Frontline Ltd.

### Share Price Development

When Frontline amalgamated with LOF in May 1998, 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 Annual General Meeting approved, a one-for-ten reverse stock split. The reverse stock split was effective October 26, 1998.

Frontline strives to sustain high trading volume in its securities. 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 (through an ADR-scheme). However, as 97 per cent of the outstanding shares are listed at OSE, trading volume in the other markets is rather low.





## Risk factors

### **Frontline's Operation**

Frontline owns various shipowning and operating subsidiaries. Frontline's subsidiaries own and operate vessels which may be affected by changes in government policies and other economic and political conditions. Frontline is engaged primarily in transporting crude oil and oil products and, in addition, raw materials like coal and iron ore. Frontline's VLCCs are specifically designed for the transportation of crude oil and, due to their size, are normally used only to transport crude oil from the Middle East Gulf to the Far East, Northern Europe, the Caribbean and to LOOP. The Suezmax tankers are similarly designed for world-wide trading, but the trade for these vessels is mainly in the Atlantic Basin. Historically, the tanker industry has been highly cyclical, with attendant volatility in profitability and asset values resulting from changes in the supply of and demand for tanker capacity. Frontline's OBO carriers are specifically designed to carry oil or dry cargo and may be used to transport either oil or dry cargo on any voyage. When freight rates in both markets are equivalent, OBO carriers are operated most profitably in combination trade transporting oil on one leg of a voyage. The supply of tanker and OBO capacity is influenced by the number of new vessels built, the number of older vessels scrapped, converted, laid up and lost, the efficiency of the world tanker or OBO fleet and government and industry regulation of maritime transportation practices. The demand for tanker and OBO capacity is influenced by global and regional economic conditions, increases in industrial production and demand for crude oil and petroleum products, the proportion of world oil output supplied by Middle Eastern and other producers, political changes, armed conflicts (including wars in the Middle East) and changes in seaborne and other transportation patterns. The demand for OBO capacity is in addition, influenced by increases and decreases in the production and demand for raw materials such as iron ore and coal. In particular, demand for Frontline's tankers and its services in transporting crude oil and petroleum products and dry cargoes has been dependent upon world and regional markets. Any decrease in shipments of crude oil or raw materials in world markets could have a material adverse effect on Frontline's earnings. Historically, these markets have been volatile as a result of, among other things, general economic conditions, prices, environmental concerns, weather and competition from alternative energy sources. Because many factors that influence on the supply of and demand for tankers and OBO carriers are unpredictable, the nature, timing and degree of changes in industry conditions are also unpredictable.

Four of Frontline's vessels operate under time charters. One of Frontline's Suezmax tankers is chartered to BP Oil Espana S.A. ( BP Espana ) and two of the partly owned vessels are chartered to Navion ASA ( Navion ). The charter of the Suezmax tanker LILLO to BP Espana expires November 2001. One charter of a Suezmax tanker to Navion expires in April 2000 and the other expires in 2003. Frontline's OBO carriers also operate under a contract of affreightment with a steel mill in Saudi Arabia for delivery of iron ore from Norway and Brazil. The contract with the steel mill in Saudi Arabia is for three-year periods, subject to renewal. This arrangement is suited to Frontline's OBOs and maximize their efficient usage. The arrangement have now been in effect for up to six years and secure employment for 3.75 vessels per year. Frontline also has entered into a market related time charter for two (with options for a third) of its VLCCs with BP Shipping. Furthermore, Frontline has entered into a one-year contract of affreightment with LG Caltex. The contract is estimated to employ one vessel. Frontline also owns one wood-chip carrier, which is a handy-sized dry cargo vessel adapted to carry wood-chips. There is no assurance that any of the existing time charters or contracts of affreightment will be renewed or, if renewed, will be renewed at satisfactory rates. If, upon the expiration of the existing time charters or contracts of affreightment, Frontline is unable to obtain time charters or voyage charters or contracts of affreightment at rates equivalent to

those received under the current time charters or contracts of affreightment, there may be an adverse effect on Frontline's operating results, cash flow from operations and liquidity. The availability of time charters and voyage charters and the rates available at such future dates will depend on the market conditions prevailing at such times, and it is not possible to predict at this time the effect on Frontline of any renewal or non-renewal of the time charters or contracts of affreightment.

### ***Dependence on Spot Oil Voyage Charters***

Following the acquisition of ICB, approximately 90 per cent of Frontline's vessels by tonnage were operating on a spot charter basis or under contracts of affreightment. If time charters are not available at satisfactory rates when vessels are acquired or when the time charters for Frontline's existing vessels expire, the proportion of its vessels on spot charter may increase. Although spot chartering is not unusual in the tanker industry, the spot charter market is highly competitive and spot charter rates are subject to significant fluctuations based upon tanker and oil supply and demand. Successful operation of a vessel in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time waiting for charters, and ballast legs or the time spent traveling unladen to pick up cargo. There is no assurance that future spot charters will be available at rates that will be sufficient to enable Frontline's vessels trading in the spot charter market to be operated profitably. In addition, bunkering (fuel oil) charges, which account for a substantial portion of the operating costs of VLCCs (and smaller tankers) and generally reflect prevailing oil prices, are subject to sharp fluctuations. Some of Frontline's OBO carriers currently transport dry cargo during the ballast leg of their voyage. Frontline intends to continue to employ such OBO carriers in this manner where economically expedient.

### ***Restrictions in debt agreements***

Frontline's existing financing agreements impose operational and financing restrictions on Frontline which affect, and in many respects significantly limit or prohibit, among other things, the ability of Frontline and its subsidiaries to incur additional indebtedness, create liens, sell capital shares of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, enter into time or consecutive voyage charters or pay dividends without the consent of its lenders. Frontline's financing arrangements also contain maintenance covenants with respect to the market value of Frontline vessels and other collateral relative to indebtedness. The financial institutions may accelerate the maturity of indebtedness under such financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence of certain events of default, including the failure of Frontline to comply with any of these covenants. Under any of these circumstances, there is no assurance that Frontline will have sufficient funds or other resources to satisfy all of its obligations. Frontline currently believes that it is in compliance with all such covenants.

### ***Purchase and Operation of Tanker Vessels***

Frontline intends to continue to purchase second hand modern VLCCs and Suezmax tankers in pursuit of its strategy to be one of the world's leading international seaborne transporters of crude oil. The supply of such vessels is limited and their prices fluctuate with demand. There is no assurance that any such vessels will meet Frontline's quality requirements or are available at prices Frontline considers reasonable. In addition, sellers of second hand VLCC and Suezmax vessels typically provide very limited warranties with respect to the conditions of the vessels in comparison to warranties available for a newbuilding. While Frontline intends to inspect carefully any second hand vessels prior to purchase, any such inspection would normally not provide Frontline with as

much knowledge as to the condition of the vessels as Frontline would possess if the vessel had been built for it and operated by it during the life of the vessel.

### ***Newbuildings***

Frontline currently has on order two Suezmax tankers for delivery in 2000. Frontline's business strategy with respect to these orders is based primarily on its expectations that on the delivery dates for such tankers the demand for Frontline's newbuildings will have increased at a greater rate than the supply of Suezmax tankers. There can be no assurance that Suezmax supply will decrease or that demand will increase. The Suezmax tankers are constructed with double hulls to Frontline's specifications by Hyundai Heavy Industries Co. Ltd. at its shipyard in South Korea. In the case of a newbuilding, Frontline is required to make progress payments during the construction of the vessel, but Frontline will not derive any revenue from the vessel until after its delivery.

### ***Market Value of Vessels***

The market value of tankers can be expected to fluctuate, depending upon general economics and market conditions affecting the tanker industry and competition from other shipping companies, types and sizes of vessels, and other methods of transportation. Recent market conditions in the tanker industry have affected the market values of Frontline's vessels negatively. There can be no assurance that the market value of Frontline's vessels will not decline in the future.

### ***Competition***

The operation of tanker vessels and transportation of crude and petroleum products and the other businesses in which Frontline operates are highly competitive. Through its operating subsidiaries, Frontline competes with other VLCC, Suezmax and OBO owners (including major oil companies as well as independent companies), and, to a lesser extent, owners of other size vessels. Frontline's market share currently is insufficient to enforce any degree of pricing discipline in the market in which Frontline competes. There can be no assurance that Frontline's competitive position will not erode in the future.

### ***Environmental and Other Regulation***

Many of Frontline's operating subsidiaries are subject to regulation and supervision in the various states and other jurisdictions in which they trade, operate and conduct business. Amendments to such regulations, from time to time, may adversely affect the business of Frontline's operating subsidiaries in such jurisdictions. The operations of Frontline are affected by changing environmental protection laws and other regulations, compliance with which may entail significant expenses, including expenses for ship modifications and changes in operational procedures. The United States and certain other jurisdictions have adopted or proposed new regulatory requirements that could have a material effect on Frontline. In particular, OPA 90 provides for virtually unlimited liability for owners, operators and charters for oil pollution accidents in the United States. The U.S. Coast Guard has adopted regulations under OPA 90 which require owners and operators of vessels operating in U.S. waters to meet financial responsibility requirements. In addition, OPA 90 provides for a phase-in of the exclusive use of double hull tankers at ports in the United States. All of Frontline's OBO carriers are double hull and double bottom and currently comply with OPA 90's double hull construction requirements. Further, all Suezmaxes and VLCCs built from 1995 and on are double hull. OPA 90's double hull requirements will affect the use of Frontline's VLCCs and Suezmax tankers beginning in the year 2010.

The IMO has adopted new regulations designed to reduce oil pollution in international waters. In complying with OPA 90 and the IMO regulation, Frontline and other tanker owners generally have been forced to incur additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage as required by OPA 90. Certain U.S. states, the EC and certain other countries also are considering stricter technical and operational requirements for tankers. Additional laws and regulations may be adopted which could limit the ability of Frontline to do business or increase its cost of doing business and which may have a material adverse effect on the operations of Frontline. Frontline maintains insurance coverage of USD 700 million per vessel per occurrence and USD 750 million per vessel per occurrence in California for liability for pollution, spillage or leakage of oil or oil products for each of its vessels and evidence of insurance in compliance with the financial requirements under OPA 90.

### ***Risk of Loss and Insurance***

The operation of any ocean-going vessel has an inherent risk of catastrophic marine disaster, mechanical failure, collision and property loss to the vessel. The operation of Frontline's vessels also may be affected by spills and other environmental mishaps, cargo loss or damage, business interruption due to political action in various countries, labour strikes and adverse weather conditions, which could result in loss of revenues or increased costs. Frontline currently maintains insurance against certain of these risks. However, there is no assurance that such insurance will continue to be available at rates deemed reasonable by the Company or will be sufficient to cover any losses incurred by Frontline or the cost of any claims asserted against Frontline or will cover the loss of revenue resulting from a vessel being removed from operations. In the event that claims were asserted against Frontline, its vessels could be subjected to attachment or other judicial process.

### ***Reliance on Senior Management***

Frontline relies on the services of John Fredriksen, its Chairman and Chief Executive Officer, and on Frontline Management AS, a wholly-owned subsidiary of Frontline ( Frontline Management ) for the day-to-day arrangement of the operations of Frontline and its subsidiaries pursuant to the terms of a management agreement between Frontline and Frontline Management. If alternate management services had to be arranged, such event could have a short-term adverse effect on Frontline's business and prospects.

### ***Dividends***

Frontline has not paid a dividend since its incorporation. Due to the highly cyclical nature of the crude oil and oil products tanker industry, there is no assurance that there will be sufficient or available funds for payment of dividends.

### ***Possible Volatility of Market Price***

The market price of Frontline's shares could be affected by, among other things, fluctuations in the prices of oil and oil products and in the charter rates for, or resale values of, vessels. Historically, the crude oil and oil products tanker markets and the markets for the oil products that such vessels carry have been highly volatile and subject to significant changes.

## Regulation

The business of the Company and the operation of its vessels are materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country of their registration. Because such conventions, laws and regulations are often revised, the Company cannot predict the ultimate cost of complying with such requirements or the impact of such requirements on the resale price or useful life of its vessels. The Company is required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to its operations. Subject to the discussion below and to the fact that the kind of permits, licenses and certificates required for the operation of the vessels owned by the Company will depend upon a number of factors, the Company believes that it has been and will be able to obtain all permits, licenses and certificates material to the conduct of its operations.

The Company believes that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will impose greater inspection and safety requirements on all vessels in the tanker market and will accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand in the seaborne refined petroleum products transportation industry for vessels that are able to conform to the stricter environmental standards currently being imposed throughout the world. All of the Company's vessels built since 1990 and all of the vessels the Company has on order comply with the requirements of OPA 90 for trading in the United States and with the rules and regulations of the International Maritime Organization ("IMO"). In addition, the Company maintains operating standards for all of its vessels that emphasize operational safety, quality maintenance, continuous training of its crews and officers and compliance with United States and international regulations.

On March 6, 1992, the IMO adopted regulations which set forth new and upgraded requirements for pollution prevention for tankers. These regulations apply to owners and operators of vessels, regardless under whose flag a vessel is registered and provide, in part, that (i) tankers between 25 and 30 years old must be of double hull construction or of a mid-deck design with double side construction, unless they have wing tanks or double bottom spaces not used for the carriage of oil which cover at least 30 per cent of the length of the cargo tank section of the hull or are capable of hydrostatically balanced loading which ensures at least the same level of protection against oil spills in the event of collision or stranding, (ii) tankers 30 years or older must be of double hull construction or mid-deck design with double side construction, and (iii) all tankers will be subject to enhanced inspections. Some classification societies, the certificates of which evidence compliance with the IMO regulations, may implement these enhanced inspection requirements prior to the effective date of such regulations. Also, under the IMO regulations, a tanker must be of double hull construction or a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution in the event that such tanker (i) is the subject of a contract for a major conversion or original construction on or after July 6, 1993, (ii) commences a major conversion or has its keel laid on or after January 6, 1994, or (iii) completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

In addition, many countries have adopted the International Convention on Civil Liability for Oil Pollution Damage 1969 ("CLC"), as amended by a 1976 protocol, a 1984 protocol and a 1992 protocol. Under the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Liability is currently limited to certain U.S. dollar amounts based on the size of the vessel. The limit of liability is tied to a unit of account which varies according to a basket of currencies. At

December 31, 1998, that limit was approximately USD 82.7 million if the country in which the damage results is a party to the 1992 protocol, which raised the maximum limit to that level. The right to limit liability is forfeited where the spill is caused by the owner's actual fault or privity and, under the 1992 protocol, where the spill is caused by the owner's intentional or reckless conduct. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern and liability is imposed either on the basis of fault or in a manner similar to the CLC.

All of the Company's vessels delivered during 1998 and 1999 and the newbuildings on order are of double hull construction and will comply with the IMO regulations upon their effective date. The Company cannot at the present time evaluate the likelihood of whether compliance with the new regulations regarding inspections of all vessels will adversely affect the Company's operations, or the magnitude of any such adverse effect, due to uncertainty in the interpretation of the IMO regulations.

OPA 90 established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA 90 affects all owners and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the United States territorial sea and the two hundred nautical mile exclusive economic zone of the United States.

Under OPA 90, vessel owners, operators and demise charterers are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party (subject to certain statutory qualifications the effects of which have not been determined by any judicial interpretation), an act of God or an act of war) for all oil spill containment and clean-up costs and other damages arising from oil spills pertaining to their vessels. These other damages are defined broadly to include (i) natural resources damage and the costs of assessment thereof, (ii) real and personal property damages, (iii) net loss of taxes, royalties, rents, fees and other lost revenues, (iv) lost profits or impairment of earning capacity due to property or natural resources damage, (v) net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and (vi) loss of subsistence use of natural resources. OPA 90 limits the liability of responsible parties to the greater of USD 1,200 per gross tonne or USD 10 million per tanker (subject to possible adjustment for inflation). These limits of strict liability would not apply if the incident were proximately caused by violation of applicable United States federal safety, construction or operating regulations or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. The Company currently insures and, provided such insurance remains available at a commercially reasonable cost, plans to insure each of its vessels with pollution, spillage and leakage liability insurance in the amount of USD 700 million per vessel per occurrence and USD 750 million per vessel per occurrence in California. This is the amount currently available to the Company in the insurance market on commercially reasonable terms. The liability resulting from a catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on the Company. Additionally, under OPA 90, the liability of responsible parties, United States or foreign, with regard to oil pollution damage in the United States is not preempted by any international convention.

Under OPA 90, with certain limited exceptions, all newly built or converted tankers operating in United States waters must be built with double hulls conforming to particular specifications. Existing vessels which do not comply with the double hull requirement must be phased out over a 20-year period (1995-2015) based on size, age and place of off-loading, unless retrofitted with double hulls.

Notwithstanding the phase out period, OPA 90 currently permits existing single hull tankers to operate until the year 2015 if (i) their operations within United States waters are limited to discharging at LOOP or off-loading by means of lightering activities within authorized lightering zones more than 60 miles off-shore and (ii) they are otherwise in compliance with applicable laws and regulations.

OPA 90 expands the pre-existing financial responsibility requirements for vessels operating in United States waters and requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of insurance or of qualification as a self-insurer or other evidence of financial responsibility sufficient to meet their potential strict liability limit under OPA 90. The U.S. Coast Guard has adopted regulations which require evidence of financial responsibility equal to the strict liability limit demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA 90, an owner or operator of more than one tanker is required only to demonstrate evidence of financial responsibility for the tanker having the greatest maximum strict liability limit under OPA 90.

The U.S. Coast Guard's regulations concerning certificates of financial responsibility provide, in accordance with OPA 90, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility; and, in the event that such insurer or guarantor is sued directly, it is prohibited from asserting any defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. The Company currently maintains evidence of financial responsibility through Shoreline Mutual (Bermuda) Ltd. and The Shipowners Insurance and Guaranty Company Ltd. (SIGCO), commercial providers of such evidence.

Owners or operators of tankers operating in United States waters must file vessel response plans with the U.S. Coast Guard and their tankers must operate in compliance with their U.S. Coast Guard approved plans. Such response plans must, among other things, (i) identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case" discharge, (ii) describe crew training and drills, and (iii) identify a qualified individual with full authority to implement removal actions.

OPA 90 specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and many states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. The Company intends to comply with all applicable state regulations in ports where the Company's vessels call.

The European Community ("EC") is considering legislation that will affect the operation of oil tankers. It is impossible to predict what legislation, if any, may be promulgated by the EC or any other country or authority.

The operation of the Company's vessels is also affected by the International Ship Management Code ("ISM Code"), which as of July 1, 1998, requires shipowners and bareboat charterers to develop an extensive "Safety Management System," which includes policy statements, manuals, standard procedures and lines of communication. Noncompliance with the ISM Code may subject the shipowner or bareboat charterer to increased liability and may lead to decreases in available

insurance coverage for affected vessels, denial of permission to enter ports or detention by port authorities. Although compliance with the ISM Code is the responsibility of a bareboat charterer where its vessels are subject to such charters, the Company may become primarily responsible for compliance with the ISM Code if a bareboat charterer were to default in its obligations under its charters. All of the Company's vessels and their operators have received ISM certification.



# Taxation

## **Tax position of the Company**

### *Bermuda*

The Company will not be subject to Bermuda income tax, profit tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax. The Company has received a 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. Income tax, profit tax, withholding tax, capital gains tax and capital transfer tax will not apply to shareholders of the Company, other than shareholders resident in Bermuda.

As a company exempted from tax in Bermuda, Frontline is liable to pay an annual fee based on the Company's assessable capital. The fee will amount to a maximum of USD 25,000.

### *Norway*

The wholly owned Norwegian subsidiary Frontline Management AS is subject to Norwegian income tax on its world-wide income. The relationship between Frontline Ltd. and Frontline Management AS will be governed by separate agreements on a commercial basis, and set on an arm's length principle.

### *Sweden*

The wholly owned subsidiary Frontline AB and ICB is subject to Swedish income tax on their world wide income.

## **Taxation of Norwegian Shareholders**

Each individual shareholder is recommended to obtain advice on his/her tax position. The summary below is meant to give general comments only, but must be carefully examined in each individual case.

### *Dividends*

Dividends distributed from a foreign company to Norwegian shareholders are taxable as ordinary income at a flat rate of 28 per cent. Possible withholding tax paid by the shareholders in the foreign country is deductible. At present, there are no withholding taxes payable in Bermuda on any dividend distributions.

### *Gains and losses*

For shareholders residing in Norway, any sale of Shares in the company might result in either a taxable capital gain or a deductible capital loss. This applies irrespective of the length of time the Shares are held. These gains/losses are then taken into account when assessing income for income tax purposes. The tax rate for such income is currently 28 per cent. The adjustment of cost price regulations (RISK) does not apply to Shares in foreign companies.

### *CFC legislation (NOKUS)*

If Norwegian tax resident shareholders directly or indirectly at the beginning and at the end of each fiscal year own or control 50 per cent or more of the issued share capital of Frontline Ltd., such shareholders will be taxed in Norway on their deemed pro rata share of the Company's profit. Frontline will also be considered a NOKUS company if Norwegian shareholders own or control more than 60 per cent of the shares at the end of the year. Any loss may, according to certain rules, be deducted from profits from the Company over the next ten years. Such a change in the basis of

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<sup>1</sup> Controlled Foreign Company

Norwegian taxation of shareholders resident in Norway will not affect the Norwegian tax position of the Company or shareholders not resident in Norway.

# Interim Report for the period January-June, 1999

## **Second Quarter and Six Month Results**

Frontline reports a net loss of USD 3.6 million for the second quarter of 1999, compared with net income of USD 14.7 million for the second quarter of 1998. This result reflects the weakness in the tanker market, particularly the VLCC sector, offset by a dividend of USD 9.0 million received in respect of the Company's investment in ICB Shipping. In the second quarter of 1998, the reported results included the consolidation of Independent Tankers Corporation ("ITC"). As previously reported, ITC was subsequently sold to a related party and consequently not included in the consolidated results for any period of 1998. The financial information as at, and for the quarter ended June 30, 1998, included herein, has been restated to exclude ITC.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) for the quarter, including earnings from associated companies were USD 17.2 million, compared with USD 33.6 million for the comparable period. The reduction reflects the sharp decline in timecharter equivalent earnings ("TCEs") earned which offset the effect of the increase in Frontline's fleet. The average daily TCEs earned by the VLCCs, Suezmax tankers, and Suezmax OBO carriers were USD 17,800, USD 17,000 and USD 16,800, respectively, compared with USD 37,200, USD 26,200 and USD 24,000 in the second quarter of 1998. Total days offhire in the 1999 quarter were 18 for the VLCCs and 56 for the Suezmax fleet, of which 24 days were for scheduled dry-docking. Of the remaining offhire, 14 days is the deductible period in connection with damage to the propeller of one of the Company's VLCCs. Total operating costs and depreciation have increased due to the expansion of the fleet, while administration costs have decreased as the benefits of the restructuring of the Company's operations are being realised.

If the majority holding position in ICB had been accounted for on an equity basis in Frontline's accounts, it would have increased EBITDA by approximately USD 6.9 million.

Net other expenses for the quarter, including the dividend from ICB, were USD 6.7 million (1998 - USD 7.2 million). In addition to an increase in the average debt resulting from the fleet expansion and further investment in ICB, the Company incurred non-recurring charges in respect of restructuring of its debt arrangements as discussed below.

Earnings per share for the quarter were USD (0.08), (1998 - USD 0.32). The weighted average number of shares outstanding for the quarter and at June 30, 1999 was 46,106,860 (as at June 30, 1998 and for the quarter then ended - 46,106,860). Cashflow per share for the quarter was USD 0.23, compared with USD 0.57 for the same quarter in 1998.

For the first six months of 1999, the Company incurred a net loss of USD 3.4 million (1998 - net income of USD 23.9 million) and EBITDA of USD 46.3 million (1998 - USD 67.6 million). The average daily TCEs earned by the VLCCs, Suezmax tankers, and Suezmax OBO carriers were USD 22,600, USD 18,700 and USD 18,700, respectively, compared with USD 33,300, USD 25,800 and USD 25,700 in the first half of 1998.

Net other expenses for the six months were USD 21.8 million (1998 - USD 20.4 million). As for the quarter, this principally reflects an increase in the average debt resulting from the fleet expansion, offset by the ICB dividend.

Earnings per share for the six months were USD (0.07), (1998 - USD 0.52) and cashflow per share was USD 0.53, compared with USD 1.02 for the first six months of 1998.

### ***The Market***

The strong compliance to the 1.7 million barrels per day cut in production, introduced by OPEC in the beginning of the year, lead to a reduced demand in the freight market. Combined with annual overhauls at refineries and a negative and nervous psychology in the market, this substantially reduced the earnings, particularly in the VLCC market. The increase in the oil price pushed bunker prices from USD 55/60 per ton in the first quarter to as high as USD 105/110 per ton. These negative factors, combined with an oversupply of available tonnage, depressed the VLCC market with market rates for modern VLCC tonnage falling to USD 10,000 - USD 12,000 per day in April and May. For old turbine tonnage the earnings went as low as USD 2,000 - USD 3,000 per day, which is approximately USD 10,000 under operating cost for that type of tonnage. The VLCC market recovered somewhat in June before rates again tumbled in the third quarter. A total of 15 VLCCs were delivered in the first half of 1999, while 15 have been sold for scrap. Frontline's chartering arrangement with BP contributed positively to the earnings in the first half of 1999.

The Suezmax market was also hit hard by the adverse market conditions and showed a strong negative development in the second quarter. Continued competition from VLCCs, especially in the West African market, further contributed to this development. A total of 8 Suezmaxes were delivered and 6 were scrapped in the first half of 1999.

There are indications that the declining ship values and newbuilding prices, which prevailed in the latter half of 1998, and continued into the first quarter of 1999, have stabilised. Increased buying interest, especially for second-hand tonnage, is starting to give support to the market. For the first time, after seven quarters in a row with falling values, some brokers assessments include a value appreciation of tanker tonnage. The strengthening of the Japanese Yen and the major restructuring taking place in the Korean Shipyard industry give further room for a positive development in values.

### ***Corporate and Other Matters***

In the first half of 1999, the Company has taken steps to improve its liquidity position and to address certain covenant breaches that existed at the end of 1998. In June, the Company's largest bank syndicate, led by Skandinaviska Enskilda Banken ("SEB"), agreed to change the loan profile on the facility provided to the Company. The agreed reduction in quarterly instalments will boost the Company's liquidity by USD 37.8 million during the remaining period of the loan to November 2003, equivalent to USD 8.4 million per annum. In addition, the Company signed a loan agreement for refinancing the Suezmax vessel "Lillo". The loan was drawn down 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 USD 9.2 million.

The Company initiated, in the first half of this year, discussions with its lending banks with the purpose of lowering the covenant requirements in the loan agreements at least until January 1, 2001. The changes were requested with the intention of increasing the flexibility of the Company's financing arrangements in the event of a prolonged negative market scenario. Included in the request for changes was a proposal to subordinate a USD 89.0 million loan (the "Subordinated Loan") given by Metrogas Holdings ("Metrogas"), a company related to Frontline's Chairman, to loans given by the Company's lending banks. In addition, the proposal included reclassifying the Subordinated Loan as equity for the purpose of calculating the Company's equity ratio.

In July 1999, the discussions with Metrogas and the Company's lending banks have been concluded 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. The Subordinated Loan is a three-year loan. In the case Frontline does not comply with certain covenants when the Subordinated Loan expires, then Frontline has the right to convert, and Metrogas is forced to accept, a conversion of the Subordinated Loan to equity at the then prevailing market prices. It is important to advise that Metrogas, in the meantime, does not have a conversion right under the existing arrangement. In order to strengthen the liquidity position further, Metrogas has agreed to an accumulation of the interest in the loan period instead of an annual interest payment.

In July 1999, Frontline took delivery of the fourth VLCC C-Class newbuilding, the "Front Commander", financed by traditional bank financing. The fifth and last VLCC, "Front Crown", will be delivered from the yard within the next two weeks. The ship is financed through the same arrangement as "Front Commander".

Frontline has filed its Annual Form 20-F with the SEC, including therein its audited consolidated financial statements for the year ended December 31, 1998.

The Board of Frontline is continuing to actively address the ownership deadlock situation with respect to ICB Shipping AB and remains cautiously optimistic that a solution will be reached in the near future. At June 30, 1999, Frontline owned approximately 68 per cent of the outstanding shares of ICB, representing 44 per cent of the voting power. The market prices for ICB shares used in Frontline's balance sheet as of June 30, was SEK 140 per A share and SEK 64 per B share. ICB has estimated the NAV of the company to be approximately SEK 72 per share. A possible solution to the ICB situation would significantly impact Frontline's results and balance sheet for 1999.

## **Outlook**

The current status of the oil market, with high spot prices and negative forward prices, puts pressure on the oil companies and refineries to reduce the oil in storage. The existing drawdown of storage, estimated to be approximately 1 million barrels per day ("mbpd"), is negatively influencing the demand side in the tanker market. A solid improvement in rates is not likely to occur until OPEC decides to change their production strategy, and thereby open up for more Arabian Gulf ("AG") production. Such a decision could be taken in OPEC's forthcoming September meeting and would significantly influence the short-term outlook in the market as well as the current negatively influenced psychology. The Board anticipates that material tonnage will be tied up as storage prior to

the millennium change. This could, together with increased storage on land, and the positive growth signals from the Asian economies, positively influence the market balance for the rest of the year.

The high bunker prices, combined with the weak freight market, generate substantial operating losses for owners of old turbine tonnage. It is highly likely that, in the current market situation, we will see increased scrapping for the rest of the year.

IEA recently released new numbers for expected oil consumption for the year 2000. The number shows an increased demand of approximately 2.3 mbpd. With the main part of this increased production having to come from AG, the Board is moderately optimistic about the medium term outlook (2000 - 2001) for the tanker market.

Frontline will, in the coming period, concentrate on strengthening Alliance Chartering's market position in the Suezmax market. Such a concentration could include acquisition of new tonnage as well as co-ordination with other owners.

The recent improvement in the Capesize bulk market combined with the weak tanker market has created an opportunity for trading the Company's 8 OBOs partly in the dry bulk market. The chartering department is currently considering such opportunities.

The Board is closely monitoring the Company's cashflow and is evaluating different ways to strengthen the Company's balance sheet and liquidity position if the market remains weak. The flattening to positive development in second-hand prices, and the new arrangement with the Company's banks, reduce the negative consequences of the weak spot market.

The shareholders should anticipate an operating result for the third quarter in line with, or somewhat weaker than, the second quarter. Based on the factors described above, the Board expects that the market will again show a positive development from the fourth quarter.

August 23, 1999

The Board of Directors

Frontline Ltd.

Hamilton, Bermuda

**Frontline Group Second Quarter Report (Unaudited)**

**Income statement (in thousands of USD )**

1998 Apr-Jun	1999 Apr-Jun		1999 Jan-Jun	1998 Jan-Jun	1998 Jan-Dec (audited)
67,778	54,009	Freight revenues	123,381	138,138	270,405
(15,337)	(15,477)	Voyage expenses	(32,122)	(33,001)	(66,545)
<b>52,441</b>	<b>38,532</b>	<b>Net operating revenues</b>	<b>91,259</b>	<b>105,137</b>	<b>203,860</b>
222	-	Gain (loss) from sale of vessels	207	222	(1,514)
13,765	15,023	Ship operating expenses	30,298	28,103	55,586
3,401	5,386	Charterhire expenses	12,679	7,168	14,889
2,672	1,774	Administrative expenses	3,536	4,323	7,757
<b>32,825</b>	<b>16,349</b>	<b>Operating profit before depreciation</b>	<b>44,953</b>	<b>65,765</b>	<b>124,114</b>
11,640	14,033	Depreciation	27,882	23,304	51,659
<b>21,185</b>	<b>2,316</b>	<b>Operating profit after depreciation</b>	<b>17,071</b>	<b>42,461</b>	<b>72,455</b>
610	454	Interest income	1,018	1,628	2,998
(12,946)	(15,373)	Interest expense	(30,476)	(27,559)	(59,320)
5,324	9,000	Dividends	9,000	5,324	5,324
737	818	Results from associated companies	1,300	1,793	2,807
(187)	(809)	Other financial items	(1,357)	204	2,765
<b>14,723</b>	<b>(3,594)</b>	<b>Income (loss) before taxes</b>	<b>(3,444)</b>	<b>23,851</b>	<b>27,029</b>
-	-	Taxes	-	-	30
<b>14,723</b>	<b>(3,594)</b>	<b>Net income (loss) after tax</b>	<b>(3,444)</b>	<b>23,851</b>	<b>26,999</b>
<b>0.32</b>	<b>(0.08)</b>	<b>Earnings per Share (USD )</b>	<b>(0.07)</b>	<b>0.52</b>	<b>0.59</b>

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

37,200	17,800	VLCC	22,600	33,300	31,800
26,200	17,000	Suezmax	18,700	25,800	22,400
24,000	16,800	Suezmax OBO	18,700	25,700	21,800

\*Basis = Calendar days minus off-hire. Figures after deduction of broker commission

**Balance Sheet (in thousands of USD)**

	1999 Jun 30	1998 Jun 30	1998 Dec 31 (audited)
<b>ASSETS</b>			
<i>Short term</i>			
Cash and bank deposits	61,554	105,420	75,950
Other current assets	28,795	34,831	30,439
<i>Long term</i>			
Newbuildings	60,401	132,908	75,681
Vessel and equipment, net	1,134,311	999,611	1,078,956
Marketable securities	148,162	135,201	110,157
Associated companies	2,163	2,778	3,837
Deferred charges and other assets	4,486	3,053	4,501
<b>Total assets</b>	<b>1,439,872</b>	<b>1,413,802</b>	<b>1,379,521</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<i>Short term</i>			
Short term interest bearing debt	164,825	156,915	170,551
Other current liabilities	29,140	36,068	27,952
<i>Long term</i>			
Long term interest bearing debt	762,043	716,478	712,470
Other long term liabilities	14,656	13,844	10,867
Stockholders' equity	469,208	490,497	457,681
<b>Total liabilities and stockholders' equity</b>	<b>1,439,872</b>	<b>1,413,802</b>	<b>1,379,521</b>



# Consolidated Financial Statements (year ended 1998)

## *Income Statements for the years ended December 31, 1998, 1997 and 1996*

<u>(in thousands of USD, except per share data)</u>	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
<b>Net operating income before depreciation</b>		<b>124,114</b>	<b>112,197</b>	<b>38,879</b>
Depreciation		51,659	56,721	33,752
<b>Net operating income after depreciation</b>		<b>72,455</b>	<b>55,476</b>	<b>5,127</b>
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)
<b>Net income (loss) before income taxes</b>		<b>27,029</b>	<b>17,438</b>	<b>(13,966)</b>
Income taxes	5	30	43	15
<b>Net income (loss)</b>		<b>26,999</b>	<b>17,395</b>	<b>(13,981)</b>
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

(in thousands of USD)	Notes	1998	1997
<b>ASSETS</b>			
<b>Current Assets</b>			
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
<b>Total current assets</b>		<b>106,389</b>	<b>120,637</b>
<b>Newbuildings</b>		<b>75,681</b>	<b>48,474</b>
<b>Vessels and equipment, net</b>	11	<b>1,078,956</b>	<b>970,590</b>
<b>Marketable securities</b>	8	<b>110,157</b>	<b>187,066</b>
<b>Investment in associated companies</b>	12	<b>3,837</b>	<b>3,754</b>
<b>Deferred charges</b>	13	<b>4,501</b>	<b>2,603</b>
<b>Total assets</b>		<b>1,379,521</b>	<b>1,333,124</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>198,503</b>	<b>282,829</b>
<b>Long-term liabilities</b>			
Long-term debt	15	712,470	526,078
Provisions for drydocking		9,615	3,785
Other long-term liabilities		1,252	1,148
<b>Total liabilities</b>		<b>921,840</b>	<b>813,840</b>
<b>Commitments and Contingencies</b>			
<b>Stockholders equity</b>			
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)
<b>Total stockholders equity</b>		<b>457,681</b>	<b>519,284</b>
<b>Total liabilities and stockholders equity</b>		<b>1,379,521</b>	<b>1,333,124</b>

See accompanying Notes to Consolidated Financial Statements

**Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996**

<u>(in thousands of USD)</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	26,999	17,395	(13,981)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation	51,659	56,721	33,752
Amortisation 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
<b>Changes in operating assets and liabilities:</b>			
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	-
<b>Net cash provided by operating activities</b>	<b>74,916</b>	<b>67,449</b>	<b>11,483</b>
<b>INVESTING ACTIVITIES</b>			
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
<b>Net cash (used in) provided by investing activities</b>	<b>(149,279)</b>	<b>(283,299)</b>	<b>45,365</b>
<b>FINANCING ACTIVITIES</b>			
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	-
<b>Net cash provided by (used in) financing activities</b>	<b>61,527</b>	<b>244,717</b>	<b>(66,997)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(12,836)</b>	<b>28,867</b>	<b>(10,149)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>86,870</b>	<b>58,003</b>	<b>68,152</b>
<b>Cash and cash equivalents at end of year</b>	<b>74,034</b>	<b>86,870</b>	<b>58,003</b>
<b>Supplemental disclosure of cash flow information:</b>			
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**

<b>(in thousands of USD, except number of shares)</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>NUMBER OF SHARES OUTSTANDING</b>			
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
<b>Balance at end of year</b>	<b>46,106,860</b>	<b>46,105,860</b>	<b>32,161,955</b>
<b>SHARE CAPITAL</b>			
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
<b>Balance at end of year</b>	<b>115,267</b>	<b>115,265</b>	<b>80,405</b>
<b>ADDITIONAL PAID IN CAPITAL</b>			
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)	-
<b>Balance at end of year</b>	<b>435,932</b>	<b>435,932</b>	<b>275,331</b>
<b>WARRANTS AND OPTIONS</b>			
Balance at beginning of year	9,333	-	-
Options and warrants assumed on Amalgamation	-	1,647	-
Warrants issued on Amalgamation	-	7,686	-
<b>Balance at end of year</b>	<b>9,333</b>	<b>9,333</b>	<b>-</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Balance at beginning of year	(30,581)	24	-
Other comprehensive income	(88,604)	(30,605)	24
<b>Balance at end of year</b>	<b>(119,185)</b>	<b>(30,581)</b>	<b>24</b>
<b>RETAINED EARNINGS (ACCUMULATED DEFICIT)</b>			
Balance at beginning of year	(10,665)	(28,060)	(14,079)
Net income	26,999	17,395	(13,981)
<b>Balance at end of year</b>	<b>16,334</b>	<b>(10,665)</b>	<b>(28,060)</b>
<b>Total Stockholders Equity</b>	<b>457,681</b>	<b>519,284</b>	<b>327,700</b>
<b>COMPREHENSIVE INCOME</b>			
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
<b>Comprehensive income</b>	<b>(61,605)</b>	<b>(13,210)</b>	<b>(13,957)</b>

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 USD 1.591 per ordinary share (or USD 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 USD 423 million, financed primarily by a USD 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 USD 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.

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 USD 3.6 million and basic and diluted earnings per share by USD 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 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 amortisation approximates the effective interest method in the Company's statement of operations. Amortisation 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.

### *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 USD 187,000 (1997 - USD 580,000, 1996 - USD 370,000).

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

## 5. TAXATION

### *Bermuda*

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

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Current tax	30	43	15
Deferred tax	-	-	-
	<b>30</b>	<b>43</b>	<b>15</b>

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

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

As of December 31, 1998 and 1997, the Company had USD 15,431,000 and USD 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 USD 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 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:

(in thousands of USD )	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:

(in thousands)	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	-
	<b>46,137</b>	<b>36,273</b>	<b>15,274</b>

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

Total rental expense for operating leases was USD 15,403,000, USD 26,323,000 and USD 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:

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

The cost and accumulated depreciation of the vessels leased to a third party at December 31, 1998 were approximately USD 54.3 million and USD 18.7 million, respectively, and at December 31, 1997 were approximately USD 103.0 million and USD 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 USD 3,000, gross unrealized gain USD 162,000), all equity securities are ICB Shipping AB A-and B-shares. The shares in Stockholms Fondsbørs were sold during 1998.

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

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

## **9 TRADE ACCOUNTS RECEIVABLE**

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

## 10 OTHER RECEIVABLES

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

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

## 11 VESSELS AND EQUIPMENT

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

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

## 12 INVESTMENT IN ASSOCIATED COMPANIES

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

	<b>Per centage</b>
K/S Rasmussen Teamship A/S II	40 per cent
K/S Rasmussen Teamship A/S III	35 per cent

## 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:

<u>(in thousands of USD )</u>	<u>1998</u>	<u>1997</u>
Debt arrangement fees	7,781	2,862
Accumulated amortisation	(3,280)	(259)
	<b>4,501</b>	<b>2,603</b>

## 14 ACCRUED EXPENSES

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1997</b>
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
	<b>18,414</b>	<b>23,282</b>

## 15 DEBT

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1997</b>
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	-
	<b>859,491</b>	<b>755,170</b>
Convertible debenture loan and credit facilities	23,530	17,980
<b>Total debt</b>	<b>883,021</b>	<b>773,150</b>
Less: short-term and current portion of long-term debt	(170,551)	(247,072)
	<b>712,470</b>	<b>526,078</b>

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 USD 89.0 million provided to the Company. This loan has since been converted to a separate long-term financing facility as described below.

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 USD 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 USD 24 million for the repurchase of Debentures and recorded a loss of approximately USD 0.7 million. Frontline acquired further Debentures with face value SEK 666,048 in 1998 and recorded a gain (loss) of USD 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:

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

## **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:

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1997</b>
100,000,000 ordinary shares of USD 2.50 each		
(1997 220,000,000 ordinary shares of USD 1.00 each)	250,000	220,000

Issued and fully paid share capital:

<b>(in thousands of USD , except share numbers)</b>	<b>1998</b>	<b>1997</b>
46,106,860 ordinary shares of USD 2.50 each (1997 46,105,860)	115,267	115,265

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 USD 0.25 par value each to one share of USD 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 USD 250,000,000, divided into 100,000,000 ordinary shares of USD 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 USD 41.7 million, which was USD 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 USD 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 USD 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 USD 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 USD 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.

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 USD 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 GBP 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 USD 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	-
<b>Warrants outstanding at December 31, 1998</b>	<b>2,724,558</b>

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.

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

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

<b>(in thousands, except per share data)</b>	<b>Shares</b>	<b>Weighted average exercise price</b>
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
<b>Options outstanding at December 31, 1998</b>	<b>14</b>	<b>£ 9.11</b>

**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 USD 11.73 and USD 15.00.

The options outstanding under the U.K. Plan at December 31, 1997 have exercise prices between GBP 7.28 and GBP 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 counter-parties 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.

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:

<b>Principal (in thousands of USD )</b>	<b>Inception Date</b>	<b>Maturity Date</b>	<b>Fixed Interest Rate</b>
10,000	May 1996	May 2000	5.56 per cent
50,000	February 1998	February 2003	5.685 per cent
25,000	August 1998	August 2003	5.755 per cent
25,000	August 1998	August 2003	5.756 per cent
50,000	February 1998	February 2003	5.775 per cent
50,000	March 1998	February 2003	5.885 per cent
20,000	May 1998	May 2000	5.90 per cent
111,384 reducing quarterly to 91,392	February 1997	February 1999	5.99 per cent
56,259 reducing quarterly to 34,051	May 1997	May 2001	6.84 per cent
43,580 reducing quarterly to 15,248	May 1992	November 1999	6.93 per cent

As at December 31, 1998, the notional principal amounts subject to such swap agreements was USD 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:

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1998</b>	<b>1997</b>	<b>1997</b>
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Non-Derivatives:</b>				
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
<b>Derivatives:</b>				
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.

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 USD 9.5 million. The Company's investment in ITC was subsequently sold to Hemen for USD 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 USD 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 USD 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 USD 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 USD 550,803.

## **20 ACQUISITIONS**

Effective November 1, 1997, Frontline acquired 79.74 per cent of the outstanding Ordinary shares of LOF for approximately USD 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.

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:

<b>(in thousands of USD , except per share data)</b>	<b>1997</b>	<b>1996</b>
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**

<b>(in thousands of USD )</b>	<b>1998</b>	<b>1997</b>
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 USD 0.7 million and USD 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:

<u>(in thousands of USD)</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
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	-

## 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 USD 47.5 million and is secured by a first preferred ship mortgage. At the same time, the Company signed (i) a loan agreement for USD 14.5 million, such loan being secured by a second priority ship mortgage and (ii) a further loan agreement for USD 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 USD 40.0 million and is secured by a first preferred ship mortgage. At the same time the Company signed (i) a loan agreement for USD 14.5 million, such loan being secured by a second priority ship mortgage and (ii) a further loan agreement for USD 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 USD 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 USD 8.4 million from USD 10.5 million with a resultant increase in the final installment due on November 28, 2003 from USD 136.5 million to USD 174.3 million.



This reduction in quarterly installments will boost the Company's liquidity by USD 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 USD 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 USD 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 USD 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 U.S. Coast Guard for tonnage transporting oil products in the U.S. economic zone (due to OPA90), to confirm the owner's financial responsibility up to a specified amount for pollution caused in U.S. 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 per month or other relevant measurement unit(See Worldscale).

**IMO** International Maritime Organization (London) - UN's maritime authority.

**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 U.S. oil pollution Act of 1990. Federal law imposing regulations on shipowners trading in U.S. 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 ship-owner/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 USD per ton oil for a number of standard routes. The rates listed in the table – so-called flat rates termed WS100 – are revised annually.

# **Bye-Laws**

**BYE-LAWS  
OF  
FRONTLINE LTD.**

(formerly London & Overseas Freighters Limited)

Adopted May 11, 1998

## INTERPRETATION

1. In these Bye-Laws unless the context otherwise requires-

- "Associate" means:
  - (a) in respect of an individual, such individual's spouse, former spouse, sibling, aunt, uncle, nephew, niece or lineal ancestor or descendant, including any step-child and adopted child and their issue and step parents and adoptive parents and their issue or lineal ancestors;
  - (b) in respect of an individual, such individual's partner and such partner's relatives (within the categories set out in (a) above);
  - (c) in respect of an individual or body corporate, an employer or employee (including, in relation to a body corporate, any of its directors or officers);
  - (d) in respect of a body corporate, any person who controls such body corporate, and any other body corporate if the same person has control of both or if a person has control of one and persons who are his Associates, or such person and persons who are his Associates, have control of the other, or if a group of two or more persons has control of each body corporate, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person of whom he is an Associate. For the purposes of this paragraph, a person has control of a body corporate if either (i) the directors of the body corporate or of any other body corporate which has control of it (or any of them) are accustomed to acting in accordance with his instructions or (ii) he is entitled to exercise, or control the exercise of, one-third or more of the votes attaching to all of the issued shares of the body corporate or of another body corporate which has control of it (provided that where two or more persons acting in concert satisfy either of the above conditions, they are each to be taken as having control of the body corporate);
- "Bermuda" means the Islands of Bermuda;
- "Board" means the Board of Directors of the Company or the Directors present at a meeting of Directors at which there is a quorum;
- "Business Day" means a day on which banks are open for the transaction of general banking business in each of Oslo, Norway, London, UK, New York, USA and Hamilton, Bermuda;
- "Company" means the company incorporated in Bermuda under the name of Frontline Ltd. on the 29th day of April, 1997;

- "Companies Acts" means every Bermuda statute from time to time in force concerning companies insofar as the same applies to the Company;
- "employees share scheme" means a scheme for encouraging or facilitating the holding of shares or debentures in the Company by or for the benefit of: -
  - (a) the bona fide employees or former employees of the Company or any subsidiary of the Company; or
  - (b) the wives, husbands, widows, widowers or children or step-children under the age of 18 of such employees or former employees;
- "Extraordinary Resolution" means a resolution passed by a majority of not less than two-thirds of the votes cast at a general meeting of the Company;
- "Listing Exchange" means any stock exchange or quotation system upon which any of the shares of the Company are listed from time to time;
- "London Stock Exchange" means London Stock Exchange Limited;
- "Nasdaq Stock Market" means an electronic inter-dealer quotation system operated by The Nasdaq Stock Market, Inc., a subsidiary of the National Association of Securities Dealers, Inc.;
- "Ordinary Resolution" means a resolution passed by a simple majority of votes cast at a general meeting of the Company;
- "Oslo Stock Exchange" means the Oslo Stock Exchange;
- "paid up" means paid up or credited as paid up;
- "Register" means the Register of Shareholders of the Company and includes any branch Register;
- "Registered Office" means the registered office for the time being of the Company;
- "Registrar" means Christiania Bank og Kreditkasse ASA, Verdipapirservice, or such other person or body corporate who may from time to time be appointed by the Board in place of Christiania Bank og Kreditkasse ASA, Verdipapirservice, as Registrar of the Company under these Bye-laws;
- "Registration Office" means the place where the Board may from time to time determine to keep a branch Register of Shareholders and where (except in cases where the Board otherwise directs) the transfer and documents of title are to be lodged for registration;
- "Seal" means the common seal of the Company and includes any duplicate thereof;

- "Secretary" includes a temporary or assistant Secretary and any person appointed by the Board to perform any of the duties of the Secretary;
- "Shareholder" means a shareholder of the Company;
- "these Bye-Laws" means these Bye-Laws in their present form or as from time to time amended;
- "VPS" means the Verdipapirsentralen, the computerized central share registry maintained in Oslo, Norway, for bodies corporate whose shares are listed for trading on the Oslo Stock Exchange, and includes any successor registry;
- for the purpose of these Bye-Laws a body corporate shall be deemed to be present in person if its representative duly authorized pursuant to the Companies Acts is present;
- words importing the singular number also include the plural number and vice versa;
- words importing the masculine gender also include the feminine and neuter genders respectively;
- words importing persons also include companies and associations or bodies of persons, whether corporate or unincorporated;
- references to writing shall include typewriting, printing, lithography, facsimile, photography and other modes of reproducing or reproducing words in a legible and non-transitory form;
- unless otherwise defined herein, any words or expressions defined in the Companies Acts in force at the date when these Bye-Laws or any part thereof are adopted shall bear the same meaning in these Bye-Laws or such part (as the case may be);
- headings in these Bye-Laws are inserted for convenience of reference only and shall not affect the construction thereof.

### **REGISTERED OFFICE**

2. The Registered Office shall be at such place in Bermuda as the Board shall from time to time appoint.

### **SHARE RIGHTS**

3. Subject to the Companies Acts and any special rights conferred on the holders of any other share of class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may by Ordinary Resolution determine.

4. Subject to the Companies Acts, any preference shares may, with the sanction of an Ordinary Resolution, be issued on terms:
  - (a) that they are to be redeemed on the happening of a specified event or on a given date; and/or
  - (b) that they are liable to be redeemed at the option of the Company; and/or
  - (c) if authorized by the Memorandum/Incorporating Act of the Company, that they are liable to be redeemed at the option of the holder.

The terms and manner of redemption shall be either as the Company may in general meeting determine or, in the event that the Company in general meeting may have so authorized, as the Board of Directors or any committee thereof may by resolution determine before the issuance of such shares.

### **MODIFICATION OF RIGHTS**

5. Subject to the Companies Acts, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than seventy-five percent in nominal value of the issued shares of that class or with the sanction of a resolution passed by a majority of seventy-five percent of the votes cast at a separate general meeting of the holders of such shares voting in person or by proxy. To any such separate general meeting, all the provisions of these Bye-Laws as to general meetings of the Company shall mutatis mutandis apply, but so that:
  - (a) the necessary quorum at any such meeting shall be two or more persons (or in the event that there is only one holder of the shares of the relevant class, one person) holding or representing by proxy in the aggregate at least one third in nominal value of the shares of the relevant class;
  - (b) every holder of shares of the relevant class present in person or by proxy shall be entitled on a poll to one vote for every such share held by him; and
  - (c) any holder of shares of the relevant class present in person or by proxy may demand a poll.
6. The rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking *pari passu* therewith.

### **SHARES**

7. Subject to the provisions of these Bye-Laws, the unissued shares of the Company (whether forming part of the original capital or any increased capital) shall be at the disposal of the



Board, which may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as the Board may determine.

8. The Board may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by law.
9. Except as ordered by a court of competent jurisdiction, as required by law or as otherwise provided in these Bye-Laws, no person shall be recognized by the Company as holding any share upon trust and the Company shall not be bound by or required in any way to recognize (even when having notice thereon) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or any other right in respect of any share except an absolute right to the entirety thereof in the registered holder.
10. No shares shall be issued until they are fully paid except as may be prescribed by an Ordinary Resolution.

### **CERTIFICATES**

11. The preparation, issue and delivery of certificates shall be governed by the Companies Acts. A person whose name is entered in the Register as the holder of any shares shall be entitled to receive within two months of a demand for same a certificate for such shares under the Seal of the Company as prima facie evidence of title of such person to such shares. In the case of a share held jointly by several persons, delivery of a certificate for such share to one of several joint holders shall be sufficient delivery to all.
12. If a share certificate is defaced, lost or destroyed it may be replaced without fee but on such terms (if any) as to evidence, indemnity and payment of the costs and out of pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of defacement, on delivery of the old certificate to the Company.
13. All certificates for share or loan capital or other securities of the Company (other than letters of allotment, scrip certificates and other like documents) shall, except to the extent that the terms and conditions for the time being relating thereto otherwise provide, be issued under the Seal. The Board may by resolution determine, either generally or in any particular case, that any signatures on any such certificates need not be autographic but may be affixed to such certificates by mechanical means or may be printed thereon or that such certificates need not be signed by any persons.

### **LIEN**

14. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys, whether presently payable or not, called or payable, at a date fixed by or in accordance with the terms of issue of such share in respect of such share, and the Company shall also have a first and paramount lien on every share (other than a fully paid share) standing registered in the name of a Shareholder, whether singly or jointly with any other person, for all the debts and liabilities of such Shareholder or his estate to the Company, whether the same shall have been incurred before or after notice to the Company

of any interest of any person other than such Shareholder, and whether the time for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Shareholder or his estate and any other person, whether a Shareholder or not. The Company's lien on a share shall extend to all dividends payable thereon. The Board may at any time, either generally or in any particular case, waive any lien that has arisen or declare any share to be wholly or in part exempt from the provisions of this Bye-Law.

15. The Company may sell, in such manner as the Board may think fit, any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of fourteen days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of the intention to sell in default of such payment has been served on the holder for the time being of the share.
16. The net proceeds of sale by the Company of any shares on which it has a lien shall be applied in or towards payment or discharge of the debt or liability in respect of which the lien exists so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the holder of the share immediately before such sale. For giving effect to any such sale the Board may authorize some person to transfer the share sold to the purchaser thereof. The purchaser shall be registered as the holder of the share and he shall not be bound to see to the application of the purchase money nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the sale.

### **CALLS ON SHARES**

17. The Board may from time to time make calls upon the Shareholders in respect of any moneys unpaid on their shares (whether on account of the par value of the shares or by way of premium) and not by the terms of issue thereof made payable at a date fixed by or in accordance with such terms of issue, and each Shareholder shall (subject to the Company serving upon him at least seven days notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be revoked or postponed as the Board may determine.
18. A call may be made payable by installments and shall be deemed to have been made at the time when the resolution of the Board authorizing the call was passed.
19. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.
20. If a sum called in respect of the share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for the payment thereof to the time of actual payment at such rate as the Board may determine, but the Board shall be at liberty to waive payment of such interest wholly or in part.
21. Any sum which, by the terms of issue of a share, becomes payable on allotment or at any date fixed by or in accordance with such terms of issue, whether on account of the nominal

amount of the share or by way of premium, shall for all the purposes of these Bye-Laws be deemed to be a call duly made, notified and payable on the date on which, by the terms of issue, the same becomes payable and, in case of non-payment, all the relevant provisions of these Bye-Laws as to payment of interest, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

22. The Board may on the issue of shares differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

### **FORFEITURE OF SHARES**

23. If a Shareholder fails to pay any call or installment of a call on the day appointed for payment thereof, the Board may at any time thereafter during such time as any part of such call or installment remains unpaid serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued.
24. The notice shall name a further day (not being less than fourteen days from the date of the notice) on or before which, and the place where, the payment required by the notice is to be made and shall state that, in the event of non-payment on or before the day and at the place appointed, the shares in respect of which such call is made or installment is payable will be liable to be forfeited. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, reference in these Bye-Laws to forfeiture shall include surrender.
25. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.
26. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share; but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice as aforesaid.
27. A forfeited share shall be deemed to be the property of the Company and may be sold, re-offered or otherwise disposed of either to the person who was, before forfeiture, the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Board shall think fit, and, at any time before a sale, re-allotment or disposition, the forfeiture may be canceled on such terms as the Board may think fit.
28. A person whose shares have been forfeited shall thereupon cease to be a Shareholder in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares with interest thereon at such rate as the Board may determine from the date of forfeiture until payment, and the Company may enforce payment without being under any obligation to make any allowance for the value of the shares forfeited.

29. An affidavit in writing that the deponent is a Director or the Secretary and that a share has been duly forfeited on the date stated in the affidavit shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration (if any) given for the share on the sale, re-allotment or disposition thereof and the Board may authorize some person to transfer the share to the person to whom the same is sold, re-allotted or disposed of, and he shall thereupon be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings relating to the forfeiture, sale, re-allotment or disposal of the share.

### **REGISTER OF SHAREHOLDERS**

30. The Secretary shall establish and maintain the Register of Shareholders at the Registered Office in the manner prescribed by the Companies Acts. Unless the Board otherwise determines, the Register of Shareholders shall be open to inspection in the manner prescribed by the Companies Acts between 10:00 a.m. and 12:00 noon on every working day. Unless the Board so determines, no Shareholder or intending Shareholder shall be entitled to have entered in the Register any indication of any trust or any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share and if any such entry exists or is permitted by the Board it shall not be deemed to abrogate any of the provisions of Bye-Law 9.
31. Subject to the Companies Act, the Company may keep a branch Register of Shareholders in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such Register and maintaining a Registration Office in connection therewith.

### **REGISTER OF DIRECTORS AND OFFICERS**

32. The Secretary shall establish and maintain a register of the Directors and Officers of the Company as required by the Companies Acts. The register of Directors and Officers shall be open to inspection in the manner prescribed by the Companies Acts between 10:00 a.m. and 12:00 noon on every working day.

### **TRANSFER OF SHARES**

33. Subject to the Companies Acts and to such of the restrictions contained in these Bye-Laws as may be applicable and to the provisions of any applicable United States securities laws including without limitation the United States Securities Act, 1933, as amended, and the rules promulgated thereunder, any Shareholder may transfer all or any of his shares by an instrument of transfer in the usual common form or in any other form which the Board may approve.
34. The instrument of transfer of a share shall be signed by or on behalf of the transferor and, where any share is not fully-paid, the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect

thereof. Should the Company be permitted to do so under the laws of Bermuda, the Board may, either generally or in any particular case, upon request by the transferor or the transferee, accept mechanically or electronically (including a transfer by a London Stock Exchange nominee to whom no certificate was issued) executed transfer and may also make such regulations with respect to transfer in addition to the provisions of these Bye-Laws as it considers appropriate. The Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully-paid share.

- The Board shall decline to register the transfer of any share, and shall direct the Registrar to decline (and the Registrar shall decline) to register the transfer of any interest in any share held through the VPS, to a person where the Board is of the opinion that such transfer might breach any law or requirement of any authority or any Listing Exchange until it has received such evidence as it may require to satisfy itself that no such breach would occur.
- The Board may decline to register the transfer of any share, and may direct the Registrar to decline (and the Registrar shall decline if so requested) to register the transfer of any interest in any share held through the VPS, if the registration of such transfer would be likely, in the opinion of the Board, to result in fifty percent or more of the aggregate issued share capital of the Company or shares of the Company to which are attached fifty percent or more of the votes attached to all outstanding shares of the Company being held or owned directly or indirectly, (including, without limitation, through the VPS) by a person or persons resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time), provided that this provision shall not apply to the registration of shares in the name of the Registrar as nominee of persons whose interests in such shares are reflected in the VPS, but shall apply, *mutatis mutandis*, to interests in shares of the Company held by persons through the VPS.
- For the purposes of this Bye-Law, each Shareholder (other than the Registrar in respect of those shares registered in its name in the Register as nominee of persons whose interests in such shares are reflected in the VPS) shall be deemed to be resident for tax purposes in the jurisdiction specified in the address shown in the Register for such Shareholder, and each person whose interests in shares are reflected in the VPS shall be deemed to be resident for tax purposes in the jurisdiction specified in the address shown in the VPS for such person. If such Shareholder or person is not resident for tax purpose in such jurisdiction or if there is a subsequent change in his residence for tax purposes, such Shareholder shall notify the Company immediately of his residence for tax purposes.
- Where any Shareholder or person whose interests in shares are reflected in the VPS fails to notify the Company in accordance with the foregoing, the Board and the Registrar may suspend *sine die* such Shareholder's or person's entitlement to vote or otherwise exercise any rights attaching to the shares or interests therein and to receive payments of income or capital which become due or payable in respect of such shares or interests and the Company shall have no liability to such Shareholder or person arising out of the late payment or non-payment of such sums and the Company may retain such sums for its own use and benefit. In addition to the foregoing the Board and the Registrar may dispose of the shares in the Company or

interests herein of such Shareholder or person at the best price reasonably obtainable in all the circumstances. Where a notice informing such Shareholder or person of the proposed disposal of his shares or interests therein has been served, his shares or interest therein may not be transferred otherwise than in accordance with this Bye-Law 34 and any other purported transfer of such shares or interests therein shall not be registered in the books of the Company or the VPS and shall be null and void.

- The provision of these Bye-Laws relating to the protection of purchaser of shares sold under lien or upon forfeiture shall apply mutatis mutandis to a disposal of shares or interests therein by the Company or the Registrar in accordance with this Bye-Law.
- Without limiting the generality of the foregoing, the Board may also decline to register any transfer unless:-
  - (i) the instrument of transfer is duly stamped and lodged with the Company accompanied by the certificate for the shares to which it relates if any and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
  - (ii) the instrument of transfer is in respect of only one class of share; and
  - (iii) where applicable, the permission of the Bermuda Monetary Authority with respect thereto has been obtained.
- Subject to any directions of the Board from time to time in force the Secretary may exercise the powers and discretion of the Board under this Bye-Law and Bye-Laws 33 and 35.
- If fifty percent or more of the aggregate issued share capital of the Company or shares to which are attached fifty percent or more of the votes attached to all outstanding shares of the Company are found to be held or owned directly or indirectly (including, without limitation, through the VPS) by a person or persons resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time), other than the Registrar in respect of those shares registered in its name in the Register as nominee of persons whose interests in such shares are reflected in the VPS, the Board shall make an announcement to such effect through the Oslo Stock Exchange, and the Board and the Registrar shall thereafter be entitled and required to dispose of such number of shares of the Company or interests therein held or owned by such persons as will result in the percentage of the aggregate issued share capital of the Company held or owned as aforesaid being less than fifty percent, and, for these purposes, the Board and the Registrar shall in such case dispose of shares or interests therein owned by persons resident for tax purposes in the relevant jurisdiction in question on the basis that the shares or interests therein most recently acquired shall be the first to be disposed of (i.e. on the basis of last acquired first sold) save where there is a breach of the obligation to notify tax residency pursuant to the foregoing, in which event the shares or interests therein of the person in breach thereof shall be sold first. Shareholders shall not be

entitled to raise any objection to the disposal of their shares, but the provisions of these Bye-Laws relating to the protection of purchasers of shares sold under lien or upon forfeiture shall apply mutatis mutandis to any disposal of shares or interests therein made in accordance with this Bye-Law.

35. If the Board declines to register a transfer it shall, within sixty days after the date on which the instrument of transfer was lodged, send to the transferee notice of such refusal.
36. No fee shall be charged by the Company for registering any transfer, probate, letters of administration, certificate of death or marriage, power of attorney, distringas or stop notice, order of court or other instrument relating to or affecting the title to any share, or otherwise making an entry in the Register relating to any share.

### **TRANSMISSION OF SHARES**

37. In the case of the death of a Shareholder, the survivor or survivors, where the deceased was a joint holder, and the estate representative, where he was sole holder, shall be the only person recognized by the Company as having any title to his shares; but nothing herein contained shall release the estate of a deceased holder (whether sole or joint) from any liability in respect of any share held by him solely or jointly with other persons. For the purpose of this Bye-Law, estate representative means the person to whom probate or letters of administration has or have been granted in Bermuda or, failing any such person, such other person as the Board may in its absolute discretion determine to be the person recognized by the Company for the purpose of this Bye-Law.
38. Any person becoming entitled to a share in consequence of the death of a Shareholder or otherwise by operation of applicable law may, subject as hereafter provided and upon such evidence being produced as may from time to time be required by the Board as to his entitlement, either be registered himself as the holder of the share or elect to have some person nominated by him registered as the transferee thereof. If the person so becoming entitled elects to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he shall elect to have another person registered, he shall signify his election by signing an instrument of transfer of such share in favor of that other person. All the limitations, restrictions and provisions of these Bye-Laws relating to the right to transfer and the registration of transfer of shares shall be applicable to any such notice or instrument of transfer as aforesaid as if the death of the Shareholder or other event giving rise to the transmission had not occurred and the notice or instrument of transfer was an instrument of transfer shared by such Shareholder.
39. A person becoming entitled to a share in consequence of the death of a Shareholder or otherwise by operation of applicable law shall (upon such evidence being produced as may from time to time be required by the Board as to his entitlement) be entitled to receive and may give a discharge for any dividends or other moneys payable in respect of the share, but he shall not be entitled in respect of the share to receive notices of or to attend or vote at general meetings of the Company or, save as aforesaid, to exercise in respect of the share any of the rights or privileges of a Shareholder until he shall have become registered as the holder thereof. The Board may at any time give notice requiring such person to elect either to be registered himself or to transfer the share and if the notice is not complied with within sixty days the Board may thereafter withhold payment of all dividends and other moneys

payable in respect of the shares until the requirements of the notice have been complied with.

40. Subject to any directions of the Board from time to time in force, the Secretary may exercise the powers and discretions of the Board under Bye-Laws 37, 38 and 39.

### **DISCLOSURE OF MATERIAL INTERESTS**

41. a) Any person (other than the Registrar in respect of those shares registered in its name in the Register as the nominee of persons whose interests in such shares are reflected in the VPS) who acquires or disposes of an interest in shares to the effect that the requirements of the Oslo Stock Exchange in effect from time to time concerning the duty to flag changes in a person's interest in shares require such changes to be notified shall notify the Registrar immediately of such acquisition or disposal and the resulting interest of that person in shares.
- b) For the purposes of this Bye-Law, a person shall be deemed to have an interest in shares:
- (i) owned by such person's spouse, minor child or cohabitant;
  - (ii) owned by any body corporate in which such person owns shares representing the majority of the votes attaching to all of the issued and outstanding shares of such body corporate or over which he has as owner of shares in such body corporate or by virtue of an agreement a determining influence and a substantial participation (as those terms are interpreted by the Norwegian courts from time to time) in the results of such body corporate's operations;
  - (iii) owned by any person with whom such person acts in concert (as such term is interpreted from time to time by the Oslo Stock Exchange), by virtue of any agreement or otherwise;
  - (iv) registered in the name of the Registrar in the Register as nominee of such person or of any person referred to in clause (i), (ii), or (iii) in relation to such person;
  - (v) which are issuable on the exercise of any options, convertible bonds, subscription rights or any other rights to acquire shares in which such person has an interest;
  - (vi) subject to a lien or other security interest in favor of such person;
  - (vii) which are issuable on the exercise of purchase rights, preemption rights, or other rights related thereto in which such person has an interest and which are activated by the acquisition, disposal or conversion of shares;
  - (viii) subject of any other agreed restriction on a Shareholder's right to dispose of same or to exercise such Shareholder's rights as a Shareholder, in favor of



such person, except agreements to separate the dividend right from the ownership right of a share;

- (ix) in connection with the acquisition of which there was given guarantee of their purchase price by such person or such person otherwise undertook a risk with respect to the value thereof and which guarantee or risk remains outstanding.
- (c) The Registrar shall promptly report any such notification of interest to the Oslo Stock Exchange and the Company.
- (d) If a person fails to give notification of a change in his interest in shares in accordance with this Bye-Law 41 and the Board believes that such person has acquired or disposed of an interest in shares in circumstances in which he would be subject to the notification requirements of this Bye-Law 41, the Board shall require the Registrar to serve upon that person a notice:
  - (i) requiring him to comply with the notification requirements in relation to the change in his interest in shares; and
  - (ii) informing him that, pending compliance with the notification requirements, the registered holder or holders of the shares in which that person is interested shall not be entitled to vote or otherwise exercise any rights attaching to the shares to which the notice relates nor shall such registered holder or holders be entitled to receive payments of income or capital which become due or payable in respect of such shares. The registered holder's or holders' entitlement to such payments shall be suspended pending compliance with the notification requirements without any liability of the Company to such holder or holders arising for late payment or nonpayment and the Company may retain such sums for its own use and benefit during such period of suspension.
- (e) The provisions of these Bye-Laws relating to the protection of purchasers of shares sold under a lien or upon forfeiture shall apply mutatis mutandis to disposals under this Bye-Law 41.

### **INCREASE OF CAPITAL**

- 42. The Company may from time to time increase its capital by such sum to be divided into shares of such par value as the Company by Ordinary Resolution shall prescribe.
- 43. The Company may, by the Ordinary Resolution increasing the capital, direct that the new shares or any of them shall be offered in the first instance either at par or at a premium or (subject to the provisions of the Companies Act) at a discount to all the holders for the time being of shares of any class or classes in proportion to the number of such shares held by them respectively or make any other provision as to the issue of the new shares.
- 44. The new shares shall be subject to all the provisions of these Bye-Laws with reference to lien, the payment of calls, forfeiture, transfer, transmission and otherwise.

## ALTERATION OF CAPITAL

45. The Company may from time to time by Ordinary Resolution:
- (a) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
  - (b) consolidate and divide all or any of its share capital into shares of larger par value than its existing shares;
  - (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by its memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;
  - (d) make provision for the issue and allotment of shares which do not carry any voting rights;
  - (e) cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled;
  - (f) change the currency denomination of its share capital.

Where any difficulty arises in regard to any division, consolidation, or sub-division under this Bye-Law, the Board may settle the same as it thinks expedient and, in particular, may arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale in due proportion amongst the Shareholders who would have been entitled to the fractions, and, for this purpose, the Board may authorize some person to transfer the shares representing fractions to the purchaser thereof, who shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

46. Subject to the provisions of the Companies Act and to any confirmation or consent required by law or these Bye-Laws, the Company may by Ordinary Resolution from time to time convert any preference shares into redeemable preference shares.
47. The Company may from time to time purchase its own shares on such terms and in such manner as may be authorized by the Board of Directors, subject to the rules, if applicable, of the London Stock Exchange, the Nasdaq Stock Market and the Oslo Stock Exchange. In the event the Company conducts a tender offer for its shares, any such offer which is made through the facilities of the Oslo Stock Exchange shall be expressed as being conditional upon no Shareholders or persons resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time) owning or controlling fifty percent or more of the issued share capital or the votes attaching to the issued and outstanding share capital of the Company following such purchase.

Any share so purchased shall be treated as cancelled, and the amount of the Company's issued share capital shall be diminished by the nominal value of the shares purchased, but such purchase shall not be taken as reducing the amount of the Company's authorized share capital.

### **REDUCTION OF CAPITAL**

48. Subject to the Companies Acts, its memorandum and any confirmation or consent required by law or these Bye-Laws, the Company may from time to time by Ordinary Resolution authorize the reduction of its issued share capital or any capital redemption reserve fund or any share premium or contributed surplus account in any manner.
49. In relation to any such reduction the Company may by Ordinary Resolution determine the terms upon which such reduction is to be effected, including, in the case of a reduction of part only of a class of shares, those shares to be affected.

### **GENERAL MEETINGS**

50. The Board shall convene and the Company shall hold general meetings as Annual General Meetings in accordance with the requirements of the Companies Acts at such times and places subject to the limitation set out below as the Board shall appoint. The Board may whenever it thinks fit, and shall when required by the Companies Acts, convene general meetings other than Annual General Meetings which shall be called Special General Meetings. Any such Annual or Special General Meeting shall be held at any place other than Norway.

### **NOTICE OF GENERAL MEETINGS**

51. An Annual General Meeting shall be called by not less than seven days notice in writing and a Special General Meeting shall be called by not less than seven days notice in writing. The notice period shall be exclusive of the day on which the notice is served or deemed to be served and of the day on which the meeting to which it relates is to be held and shall specify the place, day and time of the meeting, and in the case of a Special General Meeting, the general nature of the business to be considered. Notice of every general meeting shall be given in any manner permitted by Bye-Laws 127 and 128 to all Shareholders. Notwithstanding that a meeting of the Company is called by shorter notice than that specified in this Bye-Law, it shall be deemed to have been duly called if it is so agreed:
  - (a) in the case of a meeting called as an Annual General Meeting by all the Shareholders entitled to attend and vote thereat;
  - (b) in the case of any other meeting by a majority in number of the Shareholders having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five percent in nominal value of the shares giving that right;

provided that notwithstanding any provision of these Bye-Laws, no Shareholder shall be entitled to attend any general meeting unless notice in writing of the intention to attend and

vote in person or by proxy signed by or on behalf of the Shareholder (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) addressed to the Secretary is deposited (by post, courier, facsimile transmission or other electronic means) at the Registered Office at least 48 hours before the time appointed for holding the general meeting or adjournment thereof.

52. The accidental omission to give notice of a meeting or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send such instrument of proxy to or the non-receipt of notice of a meeting or such instrument of proxy by any person entitled to receive such notice shall not invalidate the proceedings at that meeting.
53. The Board may convene a Special General Meeting whenever it thinks fit. A Special General Meeting shall also be convened by the Board on the written requisition of Shareholders holding at the date of the deposit of the requisition not less than one tenth in nominal value of the paid-up capital of the Company which as at the date of the deposit carries the right to vote at a general meeting of the Company. The requisition must state the purposes of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more of the requisitionists.

#### **PROCEEDINGS AT GENERAL MEETING**

54. No business shall be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting. Save as otherwise provided by these Bye-Laws, the quorum at any general meeting shall be constituted by one or more shareholders, either present in person or represented by proxy, holding in the aggregate shares carrying 33 1/3% of the voting rights entitled to be exercised at such meeting.
55. If within five minutes (or such longer time as the chairman of the meeting may determine to wait) after the time appointed for the meeting, a quorum is not present, the meeting, if convened on the requisition of Shareholders, shall be dissolved. In any other case, it shall stand adjourned to such other day and such other time and place as the chairman of the meeting may determine and at such adjourned meeting two Shareholders or, in the event that there is only one Shareholder, one Shareholder, present in person or by proxy (whatever the number of shares held by them) shall be a quorum. The Company shall give not less than five days notice of any meeting adjourned through want of a quorum and such notice shall state that two Shareholders or, in the event that there is only one Shareholder, one Shareholder, present in person or by proxy (whatever the number of shares held by them) shall be a quorum.
56. A meeting of the Shareholders or any class thereof may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously and participation in such meeting shall constitute presence in person at such meeting.
57. Each Director and the Company's auditor and Secretary shall be entitled to attend and speak at any general meeting of the Company.

58. The Chairman (if any) of the Board or, in his absence, the President shall preside as chairman at every general meeting. If there is no such Chairman or President, or if at any meeting neither the Chairman nor the President is present within five minutes after the time appointed for holding the meeting, or if neither of them is willing to act as chairman, the Directors present shall choose one of their number to act or if one Director only is present he shall preside as chairman if willing to act. If no Director is present or if each of the Directors present declines to take the chair, the persons present and entitled to vote on a poll shall elect one of their number to be chairman.
59. The chairman of the meeting may, with the consent of those present at any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.
60. Save as expressly provided by these Bye-Laws, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

## VOTING

61. Save where a greater majority is required by the Companies Acts or these Bye-Laws, any question proposed for consideration at any general meeting shall be decided on by Ordinary Resolution.
62. The Board may, with the sanction of an Ordinary Resolution, amalgamate the Company with another company (whether or not the Company is the surviving company and whether or not such an amalgamation involves a change in the jurisdiction of the Company).
63. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:
  - (a) the chairman of the meeting; or
  - (b) at least three shareholders present in person or represented by proxy; or
  - (c) any shareholder or shareholders present in person or represented by proxy and holding between them not less than one tenth of the total voting rights of all the shareholders having the right to vote at such meeting; or
  - (d) a shareholder or shareholders present in person or represented by proxy holding shares conferring the right to vote at such meeting, being shares on which an aggregate sum has been paid up equal to at least one-tenth of the total sum paid up on all such shares conferring such right.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has, on a show of hands, been carried or carried unanimously or

by a particular majority or not carried by a particular majority or lost shall be final and conclusive, and an entry to that effect in the Minute Book of the Company shall be conclusive evidence of the fact without proof of the number of votes recorded for or against such resolution.

64. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner and either forthwith or at such time (being not later than three months after the date of the demand) and place as the chairman shall direct. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll.
65. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded and it may be withdrawn at any time before the close of the meeting or the taking of the poll whichever is the earlier.
66. On a poll, votes may be cast either personally or by proxy.
67. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.
68. If a poll is duly demanded, the result of the poll shall be deemed to be the resolution of the meeting at which the poll is demanded.
69. In the case of any equality of votes at a general meeting, whether on a show of hands or on a poll, the chairman of such meeting shall not be entitled to a second or casting vote.
70. Subject to the provisions of these Bye-Laws and to any special rights or restrictions as to voting for the time being attached to any shares, every Shareholder who is present in person or by proxy or proxies shall have one vote for every share of which he is the holder.
71. In the case of joint holders of a share, the vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.
72. A Shareholder who is a patient for any purpose of any statute or applicable law relating to mental health or in respect of whom an order has been made by any Court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such Court and such receiver, committee, curator bonis or other person may vote by proxy, and may otherwise act and be treated as such Shareholder for the purpose of general meetings.
73. No Shareholder shall, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
74. If (i) any objection shall be raised to the qualification of any voter or (ii) any votes have been counted which ought not to have been counted or which might have been rejected or (iii)

any votes are not counted which ought to have been counted, the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

## **PROXIES AND CORPORATE REPRESENTATIVES**

75. A Shareholder may appoint one or more proxies to attend at a general meeting of the Company and to vote on his behalf and proxies appointed by a single Shareholder need not all exercise their vote in the same manner. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorized by him in writing or, if the appointor is a body corporate, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
76. Any Shareholder may appoint a standing proxy or (if a body corporate) representative by depositing at the Registered Office a proxy or (if a body corporate) an authorization and such proxy or authorization shall be valid for all general meetings and adjournments thereof until notice of revocation is received at the Registered Office. Where a standing proxy or authorization exists, its operation shall be deemed to have been suspended at any general meeting or adjournment thereof at which the Shareholder is present or in respect of which the Shareholder has specially appointed a proxy or representative. The Board may from time to time require such evidence as it shall deem necessary as to the due execution and continuing validity of any such standing proxy or authorization and the operation of any such standing proxy or authorization shall be deemed to be suspended until such time as the Board determines that it has received the requested evidence or other evidence satisfactory to it.
77. Subject to Bye-Law 76, the instrument appointing a proxy together with such other evidence as to its due execution as the Board may from time to time require, shall be delivered at the Registered Office, at the place of the meeting, or at such place as may be specified in the notice convening the meeting or in any notice of any adjournment, or, in either case, in any document sent therewith, prior to the holding of the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequent to the date of a meeting or adjourned meeting, before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.
78. Instruments of proxy shall be in any common form or in such other form as the Board may approve and the Board may, if it thinks fit, send out with the notice of any meeting forms of instruments of proxy for use at that meeting. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall unless the contrary is stated therein be valid as well for any adjournment of the meeting as for the meeting to which it relates.

79. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Registered Office, the place of the meeting or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other documents sent therewith before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.
80. Subject to the Companies Acts, the Board may at its discretion waive any of the provisions of these Bye-Laws related to proxies or authorizations and, in particular, may accept such verbal or other assurances as it thinks fit as to the right of any person to attend and vote on behalf of any Shareholder at general meetings.

### **TRANSACTIONS WITH PRINCIPAL SHAREHOLDERS**

81. (a) Subject to paragraph (e) below, where any transaction with a Principal Shareholder is proposed, a circular must be sent to each Shareholder.
- (b) For the purposes of this Bye-Law:
- (i) "transaction with a Principal Shareholder" means a transaction (other than a transaction of a revenue nature in the ordinary course of business) between the Company, or any of its subsidiaries, and a Principal Shareholder or an Associate of a Principal Shareholder; and
- (ii) "Principal Shareholder" means any person (excluding the Registrar in respect of those shares registered in its name on the Register as nominee of persons whose interests in such shares are reflected in the VPS and any bare trustee) who is, or was within the twelve months preceding the date of the transaction, entitled to exercise, or to control the exercise of, whether directly or indirectly (including through interests in shares registered in the name of the Registrar on the Register as nominee of such person whose interests in such shares are reflected in the VPS), twenty percent or more of the votes attaching to all of the issued shares.
- (c) Any circular sent to Shareholders in accordance with paragraph (a) above shall provide sufficient information to enable each Shareholder to evaluate the effects of the transaction on the Company or the relevant subsidiary.
- (d) The provisions of paragraph (a) of this Bye-Law shall apply mutatis mutandis to any variation or novation of an existing agreement between the Company (or any of its subsidiaries) and a Principal Shareholder (or Associate of a Principal Shareholder) whether or not at the time that the original agreement was entered into the latter party was a Principal Shareholder (or Associate of a Principal Shareholder).
- (e) Notwithstanding the foregoing, the provisions of this Bye-Law shall not apply to any of the following transactions:



- (i) an issue of new shares for cash by the Company (or any of its subsidiaries); or
- (ii) the issue of shares of the Company (or of any of its subsidiaries) pursuant to an employee share scheme of the Company (or such subsidiary); or
- (iii) an underwriting of all or part of an issue of shares by the Company (or any of its subsidiaries) where the consideration paid by the Company (or such subsidiary) in respect of such underwriting is no more than the usual commercial underwriting consideration and is determined on the same basis as the consideration to be paid to the other underwriters (if any); or
- (iv) a transaction that is not material. For the purposes of this Bye-Law a transaction shall be material where the market value of the assets which are the subject of the transaction (ignoring for these purposes any related indebtedness) is greater than or equal to five percent of the net assets of the Company as set out in the latest audited accounts of the Company then available (or, if there are none, in the latest consolidated balance sheet reported on by the auditors of the Company) or, if less, U.S.\$20,000,000; or
- (v) a transaction in which a Principal Shareholder participates solely by virtue of his shareholding in, or interests in shares of, the Company and on a pro-rata basis with the other holders of shares or interests in shares of the relevant class of the Company, including, without limitation, the declaration of a dividend by the Company or other distribution of assets of the Company.

## **APPOINTMENT AND REMOVAL OF DIRECTORS**

- 82. The number of Directors shall be such number not less than two as the Company by Ordinary Resolution may from time to time determine and each Director shall hold office until the next annual general meeting following his election or until his successor is elected.
- 83. The Company shall at the Annual General Meeting and may in a general meeting by Ordinary Resolution determine the minimum and the maximum number of Directors and may by Ordinary Resolution determine that one or more vacancies in the Board shall be deemed casual vacancies for the purposes of these Bye-Laws. Without prejudice to the power of the Company in any general meeting in pursuance of any of the provisions of these Bye-Laws to appoint any person to be a Director, the Board, so long as a quorum of Directors remains in office, shall have power at any time and from time to time to appoint any individual to be a Director so as to fill a casual vacancy.
- 84. The Company may in a Special General Meeting called for that purpose remove a Director provided notice of any such meeting shall be served upon the Director concerned not less than fourteen days before the meeting and he shall be entitled to be heard at that meeting. Any vacancy created by the removal of a Director at a Special General Meeting may be filled at the Meeting by the election of another person as Director in his place or, in the absence of any such election, by the Board.

## **RESIGNATION AND DISQUALIFICATION OF DIRECTORS**

85. The office of a Director shall be vacated upon the happening of any of the following events:
- (a) if he resigns his office by notice in writing delivered to the Registered Office or tendered at a meeting of the Board;
  - (b) if he becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health and the Board resolves that he shall be removed from office;
  - (c) if he becomes bankrupt or compounds with his creditors;
  - (d) if he is prohibited by law from being a Director; or
  - (e) if he ceases to be a Director by virtue of the Companies Acts or is removed from office pursuant to these Bye-Laws.

## **ALTERNATE DIRECTORS**

86. (a) The Company may by Ordinary Resolution elect a person or persons qualified to be Directors to act as Directors in the alternative to any of the Directors of the Company or may authorize the Board to appoint such Alternate Directors and a Director may appoint and remove his own Alternate Director. Any appointment or removal of an Alternate Director by a Director shall be effected by depositing a notice of appointment or removal with the Secretary at the Registered Office, signed by such Director, and such appointment or removal shall become effective on the date of receipt by the Secretary. Any Alternate Director may be removed by Ordinary Resolution of the Company and, if appointed by the Board, may be removed by the Board. Subject as aforesaid, the office of Alternate Director shall continue until the next annual election of Directors or, if earlier, the date on which the relevant Director ceases to be a Director. An Alternate Director may also be a Director in his own right and may act as alternate to more than one Director.
- (b) A Director may at any time, by notice in writing signed by him delivered to the Registered Office of the Company or at a meeting of the Board, appoint any person (including another Director) to act as Alternate Director in his place during his absence and may in like manner at any time determine such appointment. If such person is not another Director such appointment unless previously approved by the Board shall have effect only upon and subject to being so approved. The appointment of an Alternate Director shall determine on the happening of any event which, were he a Director, would cause him to vacate such office or if his appointor ceases to be a Director.

## **DIRECTORS' FEES AND ADDITIONAL REMUNERATION AND EXPENSES**

87. The amount, if any, of Directors' fees shall from time to time be determined by the Company by Ordinary Resolution and in the absence of a determination to the contrary in general meeting, such fees shall be deemed to accrue from day to day. Each Director may be paid his reasonable traveling, hotel and incidental expenses properly incurred in attending and returning from meetings of the Board or committees constituted pursuant to these Bye-Laws or general meetings and shall be paid all expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a Director. Any Director who, by request, goes or resides abroad for any purposes of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine, and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Bye-Law.

### **DIRECTORS' INTERESTS**

88. (a) A Director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine, and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Bye-Law.
- (b) A Director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (c) Subject to the provisions of the Companies Acts, a Director may notwithstanding his office be a party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is otherwise interested and may be a director or other officer of, employed by, a party to any transaction or arrangement with, or otherwise interested in any body corporate promoted by the Company or in which the Company is interested. The Board may also cause the voting power conferred by the shares in any other body corporate held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other body corporate, or voting or providing for the payment of remuneration to the directors or officers of such other body corporate.
- (d) So long as, where it is necessary, he declares the nature of his interest at the first opportunity at a meeting of the Board or by writing to the Directors as required by the Companies Acts, a Director shall not by reason of his office be accountable to the Company for any benefit which he derives from any office or employment to which these Bye-Laws allow him to be appointed or from any transaction or arrangement in which these Bye-Laws allow him to be interested, and no such transaction or arrangement shall be liable to be avoided on the ground of any interest or benefit.

- (e) Subject to the Companies Acts and any further disclosure required thereby, a general notice to the Directors by a Director or officer declaring that he is a director or officer or has an interest in a person and is to be regarded as interested in any transaction or arrangement made with that person, shall be a sufficient declaration of interest in relation to any transaction or arrangement so made.

## **POWERS AND DUTIES OF THE BOARD**

89. Subject to the provisions of the Companies Acts and these Bye-Laws and to any directions given by the Company in general meeting, the Board shall manage the business of the Company and may pay all expenses incurred in promoting and incorporating the Company and may exercise all the powers of the Company. No alteration of these Bye-Laws and no such direction shall invalidate any prior act of the Board which would have been valid if that alteration had not been made or that direction had not been given. The powers given by this Bye-Law shall not be limited by any special power given to the Board by these Bye-Laws and a meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.
90. The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking property and assets (present and future) and uncalled capital of the Company and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any other persons.
91. All checks, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for money paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine.
92. The Board on behalf of the Company may provide benefits, whether by the payment of gratuities or pensions or otherwise, for any person including any Director or former Director who has held any executive office or employment with the Company or with any body corporate which is or has been a subsidiary or affiliate of the Company or a predecessor in the business of the Company or of any such subsidiary or affiliate, and to any member of his family or any person who is or was dependent on him, and may contribute to any fund and pay premiums for the purchase or provision of any such gratuity, pension or other benefit, or for the insurance of any such person in connection with the provision of pensions. The Board may also establish and maintain any employees' share scheme, share option or share incentive scheme approved by Ordinary Resolution whereby selected employees of the Company or of any company which is a subsidiary of the Company are given the opportunity of acquiring shares in the capital of the Company on the terms and subject to the conditions set out in such scheme and establish and (if any such scheme so provides) contribute to any scheme for the purchase by or transfer, allotment or issue to trustees of shares in the Company to be held for the benefit of employees (including Directors and officers) of the Company and subject to the Companies Act lend money to such trustees or employees to enable the purchase of such shares.
93. The Board may from time to time appoint one or more of its body to be a managing director, joint managing director or an assistant managing director or to hold any other

employment or executive office with the Company for such period and upon such terms as the Board may determine and may revoke or terminate any such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director for any breach of any contract of service between him and the Company which may be involved in such revocation or termination. Any person so appointed shall receive such remuneration (if any, whether by way of salary, commission, participation in profits or otherwise) as the Board may determine, and either in addition to or in lieu of his remuneration as a Director.

### **DELEGATION OF THE BOARD'S POWERS**

94. The Board may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such power, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Bye-Laws) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney and of such attorney as the Board may think fit, and may also authorize any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. The Board may revoke or vary any such delegation of power, but no person dealing in good faith with such delegate without notice of such revocation or variation shall be affected by such revocation or variation.
95. The Board may entrust to and confer upon any Director or officer or, without prejudice to the provisions of Bye-Law 97, other individual any of the powers exercisable by it upon such terms and conditions with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of its own powers, and may from time to time revoke or vary all or any of such powers but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.
96. The Board may delegate any of its powers, authorities or discretions to committees, consisting of such person or persons (whether a member or members of its body or not) as it thinks fit. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed upon it by the Board. The Board may revoke or vary any such delegation of its powers, authorities and discretions, but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.

### **PROCEEDINGS OF THE BOARD**

97. The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit, provided that Board meetings are to be held outside Norway and the United Kingdom. Questions arising at any meeting shall be determined by a majority of votes cast. In the case of an equality of votes the motion shall be deemed to have been lost. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a Board meeting.

98. Notice of a Board meeting shall be deemed to be duly given to a Director if it is given to him personally or by word of mouth or sent to him by post, cable, telex, telecopier or other mode of representing or reproducing words in a legible and non-transitory form at his last known address or any other address given by him to the Company for this purpose. A Director may waive notice of any meeting either prospectively or retrospectively.
99. (a) The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be individuals constituting a majority of the Board, provided that a quorum shall not be present unless a majority of the Directors present are not resident in Norway. Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of the Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.
- (b) Subject to the provisions of Bye-Law 89, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or proposed contract, transaction or arrangement with the Company and has complied with the provisions of the Companies Acts and these Bye-Laws with regard to disclosure of his interest shall be entitled to vote in respect of any contract, transaction or arrangement in which he is so interested and if he shall do so his vote shall be counted, and he shall be taken into account in ascertaining whether a quorum is present.
100. So long as a quorum of Directors remains in office, the continuing Directors may act notwithstanding any vacancy in the Board but, if no such quorum remains, the continuing Directors or a sole continuing Director may act only for the purpose of calling a general meeting.
101. The Chairman (if any) of the Board or, in his absence, the President shall preside as chairman at every meeting of the Board. If there is no such Chairman or President, or if at any meeting neither the Chairman nor the President is present within five minutes after the time appointed for holding the meeting, or if neither of them is willing to act as chairman, the Directors present may choose one of their number to be chairman of the meeting.
102. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Bye-Laws for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board.
103. A resolution in writing signed by all the Directors for the time being entitled to receive notice of a meeting of the Board or by all the members of a committee for the time being shall be as valid and effectual as a resolution passed at a meeting of the Board or, as the case may be, of such committee duly called and constituted. Such resolution may be contained in one document or in several documents in the like form each signed by one or more of the Directors or members of the committee concerned.
104. A meeting of the Board or a committee appointed by the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously and participation in such a meeting shall constitute presence in person at

such meeting. A meeting of the Board or committee appointed by the Board held in the foregoing manner shall be deemed to take place at the place where the largest group of participating Directors or committee members has assembled or, if no such group exists, at the place where the chairman of the meeting participates. The Board or relevant committee shall use its best endeavours to ensure that any such meeting is not deemed to have been held in Norway or the United Kingdom, and the fact that one or more Directors may be present at such teleconference by virtue of his being physically in Norway or the United Kingdom shall not deem such meeting to have taken place in Norway or the United Kingdom.

105. All acts done by the Board or by any committee or by any person acting as a Director or member of a committee or any person duly authorized by the Board or any committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated their office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director, member of such committee or person so authorized.

### **OFFICERS**

106. The officers of the Company shall include a President and a Vice-President who shall be Directors and shall be elected by the Board as soon as possible after the statutory meeting and each annual general meeting. In addition, the Board may appoint one of the Directors to be Chairman of the Board and any person whether or not he is a Director to hold such other office (including any additional Vice-Presidencies) as the Board may from time to time determine. Any person elected or appointed pursuant to this Bye-Law shall hold office for such period and upon such terms as the Board may determine and the Board may revoke or terminate any such election or appointment. Any such revocation or termination shall be without prejudice to any claim for damages that such officer may have against the Company or the Company may have against such officer for any breach of any contract of service between him and the Company which may be involved in such revocation or termination. Save as provided in the Companies Acts or these Bye-Laws, the powers and duties of the officers of the Company shall be such (if any) as are determined from time to time by the Board.

### **MINUTES**

107. The Directors shall cause minutes to be made and books kept for the purpose of recording:
- (a) all appointments of officers made by the Directors;
  - (b) the names of the Directors and other persons (if any) present at each meeting of Directors and of any committee;
  - (c) all proceedings at meetings of the Company, of the holders of any class of shares in the Company, and of committees; and
  - (d) all proceedings of managers (if any).

## **SECRETARY**

108. The Secretary shall be appointed by the Board at such remuneration (if any) and upon such terms as it may think fit and any Secretary so appointed may be removed by the Board.

The duties of the Secretary shall be those prescribed by the Companies Acts together with such other duties as shall from time to time be prescribed by the Board.

109. A provision of the Companies Acts or these Bye-Laws requiring or authorizing a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as, or in the place of, the Secretary.

## **THE SEAL**

110. (a) The Seal shall consist of a circular metal device with the name of the Company around the outer margin thereof and the country and year of incorporation across the center thereof. Should the Seal not have been received by the Registered Office in such form at the date of adoption of these Bye-Laws then, pending such receipt, any document requiring to be sealed with the Seal shall be sealed by affixing a red wafer seal to the document with the name of the Company and the country and year of incorporation typewritten across the center thereof.
- (b) The Board shall provide for the custody of every Seal. A Seal shall only be used by authority of the Board or of a committee of the Board authorized by the Board in their behalf. Subject to these Bye-Laws, any instrument to which a Seal is affixed shall be signed by a Director and by the Secretary or by a second Director; provided that the Secretary or a Director may affix a Seal over his signature only to authenticate copies of these Bye-Laws, the minutes of any meeting or any other documents requiring authentication.

## **DIVIDENDS AND OTHER PAYMENTS**

111. The Board may from time to time declare cash dividends or distributions out of contributed surplus to be paid to the Shareholders according to their rights and interests including interim dividends as appear to the Board to be justified by the position of the Company. The Board may also pay any fixed cash dividend which is payable on any shares of the Company half yearly or on such other dates, whenever the position of the Company in the opinion of the Board, justifies such payment.
112. Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide:
- (a) all dividends or distributions out of contributed surplus may be declared and paid according to the amounts paid up on the shares in respect of which the dividend or distribution is paid and an amount paid up on a share in advance of calls may be treated for the purpose of this Bye-Law as paid-up on the share;



- (b) dividends or distributions out of contributed surplus may be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend or distribution is paid.
113. The Board may deduct from any dividend, distribution or other moneys payable to a Shareholder by the Company on or in respect of any share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in respect of shares of the Company.
114. No dividend, distribution or other moneys payable by the Company on or in respect of any share shall bear interest against the Company unless otherwise provided by the rights attached to such share.
115. Any dividend distribution, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the mail addressed to the holder at his address in the Register or, in the case of joint holders, addressed to the holder whose name stands first in the Register in respect of the shares at his registered address as appearing in the Register or addressed to such person at such address as the holder or joint holders may in writing direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first in the Register in respect of such shares, and shall be sent at his or their risk, and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends, distributions or other moneys payable or property distributable in respect of the shares held by such joint holders.
116. Any dividend or distribution out of contributed surplus unclaimed for a period of six years from the date of declaration of such dividend or distribution shall be forfeited and shall revert to the Company, and the payment by the Board of any unclaimed dividend, distribution, interest or other sum payable on or in respect of the share into a separate account shall not constitute the Company a trustee in respect thereof.
117. The Board may direct payment or satisfaction of any dividend or distribution out of contributed surplus wholly or in part by the distribution of specific assets and, in particular, of paid up shares or debentures of any other body corporate, and where any difficulty arises in regard to such distribution or dividend the Board may settle it as it thinks expedient and, in particular, may authorize any person to sell and transfer any fractions or may ignore fractions altogether and may fix the value for distribution or dividend purposes of any such specific assets and may determine that cash payments shall be made to any Shareholders upon the basis of the value so fixed in order to secure equality of distribution and may vest any such specific assets in trustees as may seem expedient to the Board.

## **RESERVES**

118. The Board may, before recommending or declaring any dividend or distribution out of contributed surplus, set aside such sums as it thinks proper as reserves which shall, at the discretion of the Board, be applicable for any purpose of the Company and pending such application may, also at such discretion, either be employed in the business of the Company

or be invested in such investments as the Board may from time to time think fit. The Board may also without placing the same to reserve carry forward any sums which it may think it prudent not to distribute.

### **CAPITALIZATION OF PROFITS**

119. The Company may, upon the recommendation of the Board, at any time and from time to time resolve by Ordinary Resolution to the effect that it is desirable to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund which is available for distribution or to the credit of any share premium account or any capital redemption reserve fund and accordingly that such amount be set free for distribution amongst the Shareholders or any class of Shareholders who would be entitled thereto if distributed by way of dividend and in the same proportions, provided that the same be not paid in cash but be applied either in or towards paying up amounts for the time being unpaid on any shares in the Company held by such Shareholders respectively or in payment up in full of unissued shares, debentures or other obligations of the Company, to be allotted, distributed and credited as fully paid among such Shareholders, or partly in one way or partly in the other, and the Board shall give effect to such resolution, provided that for the purpose of this Bye-Law, a share premium account and a capital redemption reserve fund may be applied only in paying up of unissued shares to be issued to such Shareholders credited as fully paid and provided further that any sum standing to the credit of a share premium account may only be applied in crediting as fully paid shares of the same class as that from which the relevant share premium was derived.
120. Where any difficulty arises in regard to any distribution under the last preceding Bye-Law, the Board may settle the same as it thinks expedient and, in particular, may authorize any person to sell and transfer any fractions, may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so, or may ignore fractions altogether, and may determine that cash payments should be made to any Shareholders in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Shareholders.

### **RECORD DATES**

121. Notwithstanding any other provision of these Bye-Laws the Directors may fix any date as the record date for:
- (a) determining the Members entitled to receive any dividend or other distribution and such record date may be on, or not more than 30 days before or after, any date on which such dividend or distribution is declared;
  - (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

## **ACCOUNTING RECORDS**

122. The Board shall cause to be kept accounting records sufficient to give a fair presentation in all material respects of the state of the Company's affairs and to show and explain its transactions in accordance with the Companies Acts.
123. The records of account shall be kept at the Registered Office or at such other place or places as the Board thinks fit and shall at all times be open to inspection by the Directors; PROVIDED that if the records of account are kept at some place outside Bermuda, there shall be kept at an office of the Company in Bermuda such records as will enable the Director to ascertain with reasonable accuracy the financial position of the Company at the end of each three-month period. No Shareholder (other than an officer of the Company) shall have any right to inspect any accounting record or book or document of the Company except as required by any Listing Exchange, by law, by regulations or as authorized by the Board or by Ordinary Resolution.
124. A copy of every balance sheet and statement of income and expenditure, including every document required by law to be annexed thereto, which is to be laid before the Company in general meeting, together with a copy of the auditor's report, shall be sent to each person entitled thereto in accordance with the requirements of the Companies Acts.

## **AUDIT**

125. Save and to the extent that an audit is waived in the manner permitted by the Companies Acts, auditors shall be appointed and their duties regulated in accordance with the Companies Acts, any other applicable law and such requirements not inconsistent with the Companies Acts as the Board may from time to time determine, save that the fees of the auditor shall be determined by Ordinary Resolution.

## **SERVICE OF NOTICES AND OTHER DOCUMENTS**

126. Any notice or other document (including a share certificate) shall be in writing (except where otherwise expressly stated) and may be served on or delivered to any Shareholder by the Company either personally or by sending it through the mail (by airmail where applicable) in a prepaid letter addressed to such Shareholder at his address as appearing in the Register or by delivering it to or leaving it at such registered address. In the case of joint holders of a share, service or delivery of any notice or other document on or to one of the joint holders shall for all purposes be deemed as sufficient service on or delivery to all the joint holders. Any notice or other document if sent by mail shall be deemed to have been served or delivered two Business Days after it was put in the mail; and, in proving such service or delivery, it shall be sufficient to prove that the notice or document was properly addressed, stamped and put in the mail.
127. Any notice of a general meeting of the Company shall be deemed to be duly given to a Shareholder if it is sent to him by cable, telex, telecopier or other mode of representing or reproducing words in a legible and non-transitory form at his address as appearing in the

Register or any other address given by him to the Company for this purpose. Any such notice shall be deemed to have been served two Business Days after its dispatch.

128. Any notice or other document delivered, sent or given to a Shareholder in any manner permitted by these Bye-Laws shall, notwithstanding that such Shareholder is then dead or bankrupt or that any other event has occurred, and whether or not the Company has received notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Shareholder as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed as sufficient service or delivery of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

### **WINDING UP**

129. If the Company shall be wound up, the liquidator may, with the sanction of an Extraordinary Resolution and any other sanction required by the Companies Acts, divide among the Shareholders in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purposes set such values as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trust for the benefit of the contributors as the liquidator, with the like sanction, shall think fit, but so that no Shareholder shall be compelled to accept any shares or other assets upon which there is any liability.

### **INDEMNITY**

130. Subject to the proviso below every person who is or was a Director, officer of the Company or member of a committee constituted under Bye-Law 96 (the "Company Indemnitee") or who is or was a director or officer of any of the Company's subsidiaries ("Subsidiary Indemnitee") shall be indemnified out of the funds of the Company against all civil liabilities, loss, damage or expense (including but not limited to liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable) incurred or suffered by him as such Director, officer of the Company or committee member, or as a director or officer of any of the Company's subsidiaries and the indemnity contained in this Bye-Law shall extend to any person acting as a Director, officer of the Company or committee member, or as a director or officer of any of the Company's subsidiaries in the reasonable belief that he has been so appointed or elected notwithstanding any defect in such appointment or election PROVIDED ALWAYS that the indemnity contained in this Bye-Law shall not extend to any matter which would render it void pursuant to the Companies Acts.
131. Every Company Indemnitee or Subsidiary Indemnitee shall be indemnified out of the funds of the Company against all liabilities incurred by him as such Company Indemnitee or Subsidiary Indemnitee in defending any proceedings, whether civil or criminal, in which judgment is given in his favor, or in which he is acquitted, or in connection with any

application under the Companies Acts in which relief from liability is granted to him by the court.

132. To the extent that any Company Indemnitee or Subsidiary Indemnitee is entitled to claim an indemnity pursuant to these Bye-Laws in respect of amounts paid or discharged by him, the relevant indemnity shall take effect as an obligation of the Company to reimburse the person making such payment or effecting such discharge. The expenses incurred by the Company Indemnitee or Subsidiary Indemnitee pursuant to Bye-Laws 130 and 131 in any threatened or pending legal suits or proceedings shall be paid by the Company in advance upon the written request of the Company Indemnitee or Subsidiary Indemnitee upon proper documentation of such costs having been incurred. The same indemnity applies to expenses incurred in any proceedings where such Company Indemnitee or Subsidiary Indemnitee is a party or threatened to be made a party to any legal suits or proceedings by or in the rights of the Company or any of the Company's subsidiaries to procure a judgment in its favor by reason of the fact that the Company Indemnitee or Subsidiary Indemnitee is or was such Company Indemnitee or Subsidiary Indemnitee. Provided, however, that the Company Indemnitee or Subsidiary Indemnitee shall undertake to repay such amount to the extent that it is ultimately determined that the Company Indemnitee or Subsidiary Indemnitee is not entitled to indemnification.
133. Subject to the Companies Acts, the Company may purchase and maintain for any Company Indemnitee or Subsidiary Indemnitee, insurance against any liability arising in connection with his office with the Company or any of the Company's subsidiaries.

#### **ALTERATION OF BYE-LAWS**

134. These Bye-Laws may be amended from time to time in the manner provided for in the Companies Acts, provided that any such amendment shall only become operative to the extent that it has been confirmed by Ordinary Resolution.