

## **FRONTLINE LTD.**

### **FOURTH QUARTER AND FINANCIAL YEAR 2002 RESULTS**

Frontline Ltd. reports earnings before interest, tax, depreciation, and amortisation including earnings from associated companies (EBITDA) of \$105.3 million and net income of \$67.1 million for the fourth quarter of 2002. Earnings per share for the quarter were \$0.88.

The average daily time charter equivalents (“TCEs”) earned by the Company’s VLCCs, Suezmax tankers, and Suezmax OBO carriers were \$30,900, \$25,300 and \$24,200, respectively, compared with \$16,900, \$14,300 and \$13,400, respectively in the immediately preceding quarter.

Net interest expense for the quarter was \$12.2 million compared to \$18.1 million in the same period in 2001. This decrease reflects the reduction in interest rates in the period. At December 31, 2002 approximately 74 per cent of the Company’s total debt is floating. Other financial items for the quarter were positive \$14.5 million. This includes a positive \$13.6 million for the market value adjustment on the Company’s Equity Swap Line based on the revaluation of 2,695,000 shares to the market price of \$8.85 at quarter end from \$3.82 per share at September 30, 2002. The strengthening of the Yen against the US Dollar in the fourth quarter of 2002 resulted in an unrealised foreign currency exchange loss of \$4.3 million due to the revaluation of Yen debt in certain subsidiaries and a loss of \$2.0 million included within the share of results from associated companies.

For the year ended December 31, 2002, the Company had EBITDA of \$226.9 million and a net loss of \$6.9 million. Loss per share for the 2002 year was \$0.09. This compares to EBITDA, net income and earnings per share of \$528.8 million, \$382.7 million and \$4.99, respectively for 2001. The TCEs earned by the Company’s VLCCs, Suezmax tankers, and Suezmax OBO carriers for year 2002 were \$22,500, \$18,400 and \$17,700, respectively, compared with \$40,800, \$30,700 and \$28,900, respectively in 2001. The net loss for 2002 is after a charge of \$14.1 million relating to the adoption of Financial Accounting Standard 142 “Goodwill and Other Intangible Assets”. The Company adopted FAS 142 effective January 1, 2002 and recognised an impairment loss on goodwill that is shown separately in the consolidated statement of operations as a cumulative effect of change in accounting principle. Net income for 2002 before the cumulative effect of change in accounting principle was \$7.2 million and earnings per share were \$0.09.

Net interest expense for 2002 was \$59.8 million (2001 - \$78.8 million). This decrease reflects the benefit of lower interest rates on outstanding debt. Other financial items for 2002 were a charge of \$6.6 million (2001 – charge of \$5.7 million). In 2002 other financial items includes a charge of \$4.0 million relating to the market value adjustment on the Company’s Equity Swap Line and a \$3.0 million charge relating to the market value adjustments for interest rate swaps. The strengthening of the Yen against the US Dollar from 131.14 at December 31, 2001 to 118.54 at December 31, 2002 resulted in an unrealised exchange loss of \$12.3 million in 2002. In addition, there is an unrealised

exchange loss of \$5.8 million included within the share of results from associated companies. At December 31, 2002, the Company has Yen debt (including our share of associated companies) of Yen 20.3 billion, compared with Yen 23.7 billion and Yen 35.5 billion at September 30, 2002 and December 31, 2001, respectively.

## **THE MARKET**

The tanker market showed a strong recovery in the fourth quarter mainly caused by increased OPEC production starting in August / September. Combined with a high stabilized export from Iraq this improved the utilisation of the tanker fleet and pushed VLCC rates from \$10 – 15,000 per day in August to \$25 – 30,000 per day in late October. Suezmax rates followed a similar trend.

On November 13, 2002, the single hull tanker MT Prestige started to break up off the coast of Spain. The vessel, which carried 77,000 tons of fuel oil later sank and created an environmental disaster. The accident put pressure on European politicians to tighten the legislation for tankers, and also had immediate effects on the chartering policies of several of the major oil companies. As a result of the accident, the market tightened further up to a VLCC level of around \$40,000 per day.

The oil strike in Venezuela, which started December 2 created large logistical inefficiencies in the fleet and freight rates improved further. The need to replace the Venezuelan exports to the US with alternative crude with longer transportation distance, helped further.

The market situation during most of 2002 led to an early demise of many elderly tankers, and total removal from the fleet through scrapping or conversion came to 38 VLCCs and 17 Suezmaxes. New building deliveries in the year were 37 VLCCs and 23 Suezmaxes.

Second-hand values and new building prices showed a positive trend in the fourth quarter. Order activity picked up. Order books currently stand at 76 VLCCs and 63 Suezmaxes for delivery into mid 2006.

## **CORPORATE AND OTHER MATTERS**

Frontline has, a result of the withdrawal from Tankers International and the new chartering agreement with BP, strengthened its chartering operations. The Board is pleased to see that the agreement with BP is now fully operational and works to both parties mutual benefit.

The Board is also pleased to observe that the withdrawal from Tankers International has been completed satisfactorily and for the fourth quarter has lead to relative improvement in charter revenue and reduced costs.

In the fourth quarter of 2002, the Company took delivery of two wholly-owned VLCC newbuildings, with delivery of these vessels financed through traditional bank financing. The Company has one remaining newbuilding VLCC on order for delivery in 2003, and as at December 31, 2002, the remaining equity investment was estimated to be \$12

million. Committed financing for the mentioned newbuilding has been secured. Except for this, the Company has no other material capital commitments.

In the fourth quarter of 2002, the Company sold and leased back one of its VLCCs, Front Eagle, thereby generating net cash of approximately \$27.4 million. The leaseback of the vessel is being accounted for as a capital lease and a loss of \$2.1 million was recognised immediately on the sale of the vessel.

The Capesize vessel Channel Poterne was sold during the quarter at a small profit.

In the fourth quarter of 2002, the Company restructured and refinanced Golden Stream. As a result of the refinancing, \$45.8 million was reclassified from short-term to long-term interest bearing debt. The ship is currently placed in a non-recourse subsidiary where Frontline has guaranteed and partly provided the first \$28 million of the debt, while the remaining debt is provided by the vessel's financiers on a stand alone basis.

The Company's largest financing facility, which at year-end had \$194.4 million outstanding, has been extended for two years until November 2005.

At December 31, 2002, and for the quarter then ended, 76,466,566 ordinary shares were outstanding. At December 31, 2002, the Bank of Nova Scotia Group had acquired 2,695,000 Frontline shares pursuant to the existing Equity Swap Line facility that is in place until February 2004. The average cost on the swap line's shares is \$8.71 per share. The Company therefore has an option to pay a total of \$23.5 million in cash in order to repay the swap line and thereby effectively eliminate the shares, or continue with the existing swap line until it expires in February 2004.

On February 24, 2003, the Board declared a dividend of \$0.15 per share. The record date for the dividend is March 10, 2003, ex dividend date is March 6, 2003 and the dividend will be paid on or about March 24, 2003.

As of February 22, 2003, Frontline has cash break even rates for Suezmaxes and VLCCs respectively of \$13,700 and \$20,900 per day. In order to give a 15 % cash yield on the current market capitalisation, the Company will need to generate on average an additional \$4,900 per day per vessel. This should be seen up against the average rates during the last thirteen years, which have been \$21,200 and \$28,900 per day for Suezmaxes and VLCCs respectively.

The Company has used the current strong market to fix three of its VLCCs and two Suezmaxes on longer-term employment either physically or through financial derivatives. The one-year time charter rates for VLCCs and Suezmaxes are \$40,000 and \$30,000 per day respectively.

## **OUTLOOK**

The 2003 year has started with very strong VLCC and Suezmax markets. The volatility in the market has been high with sharp spikes reaching \$100,000 and lows around \$35,000 per day for VLCCs. Suezmaxes have shown a more steady level around \$40,000 per day.

The charterers have used a strategy where they have concentrated their fixing activities to certain periods of the months. This leads to other periods with low activity. The low activity periods normally trigger a nervousness among owners that spurs volatility and leads to reduced rates.

It is interesting to note that the major part of the increase in AG spot export until the last two weeks actually has been trading east instead of going west. This signals a strong Asian demand mainly driven by China, Korea and India, and also tells us that the effect of the Venezuelan strike on the chartering market has not been as high as one might anticipate.

It is likely that a full recovery of the Venezuelan export, combined with any interruption in the export from Iraq, could put downwards pressure on rates.

There are however several factors which are likely to reverse this trend:

- Low world-wide oil inventories.
- A potential Iraqi war will create large fleet inefficiencies including substantial fleet capacity in storage.
- A reverse of the current backwardation in the oil market would stimulate higher inventories.
- The Prestige effects. The introduction of new EU legislation on tankers and the consequent pressure put on the US and Japan to implement similar regulations to avoid them becoming dumping grounds for trading old tankers.
- Continued strong Asian demand combined with possible improved economical outlook in the rest of the world.
- A tight energy situation world wide created by such factors as nuclear reactor shutdown in Asia, low water magazines for hydropower generation and low natural gas production in the US.

The strengthening of other shipping markets like dry-bulk and containers has during the last months improved the yards' order backlogs. Combined with a weak dollar this is likely to lead to continued strengthening in the newbuilding prices as well as second-hand prices.

The Board will, in view of the Company's strong growth during the last few years and the overall modernness of Frontline's fleet, have a cautious attitude to new investments. The Company will however still seek to take an active role in pushing further consolidation of the tanker market through structural changes.

The Board has during the last half year focused on building balance sheet strength to reduce the Company's financial risk in the future. The Board is satisfied with the development of the Company's break even rate. The Company's cash position will

increase significantly in the first quarter based on the receipts of freight revenues from the fourth quarter 2002 as well as the earnings from the first quarter of 2003. This will substantially strengthen the Company going forward, and give a necessary buffer to meet the volatility in the tanker market. Due to the size of the existing cash flow and the limited committed capital expenditure, is it likely that a significant part of the current cash flow can be returned to the shareholders in the form of cash dividends without stretching the financial risk.

Frontline has at the time of writing covered 73 per cent of its VLCC capacity in the first quarter at average rates of \$56,000 per day and 60 per cent of its Suezmax capacity at \$39,000 per day. Current rates are around \$65,000 for VLCCs and \$50,000 for Suezmaxes.

Based on achieved rates and the outlook for the remainder of the quarter the Board assumes that the Company is likely to make a profit in excess of \$150 million for the first quarter.

Even if it is likely that there will be substantial volatility in the market, the Board is optimistic for the year 2003 overall.

## **FORWARD LOOKING STATEMENTS**

This press release contains forward looking statements. These statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including Frontline Management's examination of historical operating trends. Although Frontline believes that these assumptions were reasonable when made, because assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond its control, Frontline cannot give assurance that it will achieve or accomplish these expectations, beliefs or intentions.

Important factors that, in the Company's view, could cause actual results to differ materially from those discussed in this press release include the strength of world economies and currencies, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the tanker market, as a result of changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the United States Securities and Exchange Commission.

February 24, 2003  
The Board of Directors  
Frontline Ltd.  
Hamilton, Bermuda

## FRONTLINE GROUP FOURTH QUARTER REPORT (UNAUDITED)

2001 Oct-Dec	2002 Oct-Dec	INCOME STATEMENT <i>(in thousands of \$)</i>	2002 Jan-Dec	2001 Jan-Dec <i>(audited)</i>
109,593	159,350	<b>Net operating revenues</b>	429,025	647,345
781	(1,465)	Gain (loss) from sale of assets	(4,337)	35,620
31,841	27,214	Ship operating expenses	113,596	121,452
10,343	21,365	Charterhire expenses	60,634	41,858
5,053	3,162	Administrative expenses	12,895	13,176
<b>63,137</b>	<b>106,144</b>	<b>Operating income before depreciation and amortisation</b>	<b>237,563</b>	<b>506,479</b>
32,461	36,212	Depreciation and amortisation	139,855	121,725
<b>30,676</b>	<b>69,932</b>	<b>Operating income after depreciation and amortisation</b>	<b>97,708</b>	<b>384,754</b>
2,838	5,240	Interest income	13,052	12,953
(20,919)	(17,455)	Interest expense	(72,898)	(91,800)
6,363	(873)	Share of results from associated companies	(10,711)	22,317
5,911	14,523	Other financial items	(6,649)	(5,709)
18,989	(4,320)	Foreign currency exchange gain (loss)	(13,313)	28,318
<b>43,861</b>	<b>67,047</b>	<b>Income (loss) before taxes and minority interest</b>	<b>7,189</b>	<b>350,833</b>
188	(24)	Taxes	(22)	444
-	-	Cumulative effect of change in accounting principle	(14,142)	32,339
<b>43,687</b>	<b>67,071</b>	<b>Net income (loss)</b>	<b>(6,931)</b>	<b>382,728</b>
		<b>Earnings (loss) Per Share Amounts (\$)</b>		
<b>\$0.57</b>	<b>\$0.88</b>	EPS before cumulative effect of change in accounting principle	<b>\$0.09</b>	<b>\$4.57</b>
-	-	Cumulative effect of change in accounting principle	<b>\$(0.18)</b>	<b>\$0.42</b>
<b>\$0.57</b>	<b>\$0.88</b>	EPS	<b>\$(0.09)</b>	<b>\$4.99</b>
		<b>Income on timecharter basis (\$ per day per ship)*</b>		
19,900	30,900	VLCC	22,500	40,800
20,600	25,300	Suezmax	18,400	30,700
20,300	24,200	Suezmax OBO	17,700	28,900

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

BALANCE SHEET <i>(in thousands of \$)</i>	2002 Dec 31	2001 Dec 31 <i>(audited)</i>
<b>ASSETS</b>		
<i>Short term</i>		
Cash and cash equivalents	100,298	189,277
Other current assets	133,066	88,641
<i>Long term</i>		
Newbuildings and vessel purchase options	27,405	102,781
Vessels and equipment, net	2,373,239	2,196,959
Vessels under capital lease, net	264,902	317,208
Investment in associated companies	119,329	109,898
Goodwill	-	14,049
Deferred charges and other long-term assets	17,708	14,961
<b>Total assets</b>	<b>3,035,947</b>	<b>3,033,774</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>Short term</i>		
Short-term interest bearing debt	167,807	227,597
Current portion of obligations under capital lease	13,164	17,127
Other current liabilities	61,408	70,332
<i>Long term</i>		
Long-term interest bearing debt	1,277,665	1,164,354
Obligations under capital lease	259,527	283,663
Other long term liabilities	28,199	11,478
Minority interest	-	6,822
Stockholders' equity	1,228,177	1,252,401
<b>Total liabilities and stockholders' equity</b>	<b>3,035,947</b>	<b>3,033,774</b>

2001 Oct-Dec	2002 Oct-Dec	STATEMENT OF CASHFLOWS <i>(in thousands of \$)</i>	2002 Jan-Dec	2001 Jan-Dec
		<b>OPERATING ACTIVITIES</b>		
43,687	67,071	Net income (loss)	(6,931)	382,728
		Adjustments to reconcile net income to net cash provided by operating activities		
32,829	36,944	Depreciation and amortisation	142,149	123,958
(16,398)	2,782	Unrealised foreign currency exchange (gain) loss	14,176	(29,148)
(781)	1,466	Gain or loss on sale of assets	4,337	(35,620)
(6,364)	873	Share in results from associated companies	10,711	(22,321)
(6,233)	(3,189)	Adjustment of financial derivatives to market value	7,495	5,404
-	-	Change in accounting principle	14,142	(32,339)
19,700	(47,384)	Change in operating assets and liabilities	(34,816)	84,945
<b>66,440</b>	<b>58,563</b>	<b>Net cash provided by operating activities</b>	<b>151,263</b>	<b>477,607</b>
		<b>INVESTING ACTIVITIES</b>		
(60,332)	(179,088)	Additions to newbuildings, vessels and equipment	(376,844)	(386,130)
(6,829)	(9,943)	Advances to associated companies, net	(20,010)	(57,689)
(83)	-	Acquisition of businesses (net of cash acquired)	-	(64,656)
-	-	Purchase of minority interest	(6,822)	-
227,377	103,661	Proceeds from sale of assets	177,902	403,214
<b>160,133</b>	<b>(85,370)</b>	<b>Net cash provided by (used in) investing activities</b>	<b>(225,774)</b>	<b>(105,261)</b>
		<b>FINANCING ACTIVITIES</b>		
28,802	143,922	Proceeds from long-term debt, net of fees paid	370,880	323,431
(173,522)	(143,881)	Repayments of long-term debt	(341,784)	(460,725)
(2,287)	42,223	Repayment of capital leases	(24,671)	(10,337)
(7,640)	-	Dividends paid	(19,116)	(115,206)
-	-	Repurchase/Issue of shares, net	223	(36,326)
<b>(154,647)</b>	<b>42,264</b>	<b>Net cash used in financing activities</b>	<b>(14,468)</b>	<b>(299,163)</b>
<b>71,926</b>	<b>15,457</b>	<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(88,979)</b>	<b>73,183</b>
<b>117,351</b>	<b>84,841</b>	<b>Cash and cash equivalents at start of period</b>	<b>189,277</b>	<b>116,094</b>
<b>189,277</b>	<b>100,298</b>	<b>Cash and cash equivalents at end of period</b>	<b>100,298</b>	<b>189,277</b>