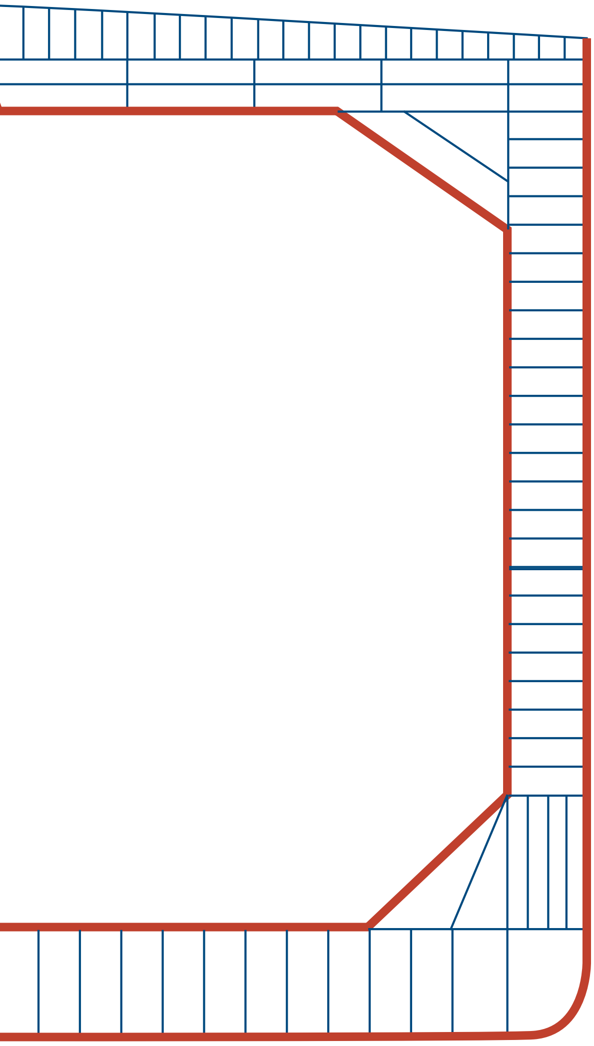


Table of Contents:

	1996	1995	1994
Statement of income (in US$ 1,000)			
Freight income on time charter basis	47,843	40,772	36,348
Operating result before depreciation	20,190	12,570	8,033
Operating result	3,908	-1,708	-4,370
Net result	1,903	-6,061	-6,072
Balance sheet (in US$ 1,000)			
Current assets	42,560	14,628	17,724
Long term assets	274,658	271,870	222,043
Total assets	317,218	286,498	239,767
Current liabilities	18,601	10,599	4,291
Long term liabilities	114,242	93,432	46,953
Shareholders' equity	184,375	182,467	188,523
Total liabilities and equity	317,218	286,498	239,767
Liquidity (in US$ 1,000)			
Cash	34,882	5,688	11,981
Cash flow from operating activities (1)	18,204	12,816	2,478
Net cash flow	29,194	-6,293	-14,566
Capital (in US$ 1,000)			
Total assets at market value (2)	321,192	280,163	269,278
Market adjusted net asset value (2)	191,401	186,108	176,764
Market adjusted net asset value/ market adjusted total capital	59.6%	66.4%	65.6%
Figures per share			
Market price on 31 December (NOK)	57	42	49
Earnings ($)	0.09	-0.30	-0.30
Cash flow from operating activities ($) (1)	0.91	0.64	0.12
Net cash flow ($) (1)	1.46	-0.31	-0.73
Market adjusted net asset value ($) (2)	9.55	9.28	8.82
Price/earnings ratio ($)	93.23	-	-
Price/net cash flow ratio ($) (1)	6.08	-	-
Average number of shares outstanding (1,000)	20,052	20,052	20,052

1) The presentation of the cash flow has been changed in 1996. The cash flow statement is now compiled on the basis of net profit, whilst it has been calculated on the basis of operating profit in preceding years. The effect of this is that financial items, which previously have been stated separately in the cash flow, now are included in the starting figure. Prior years have been adjusted to make the figures comparable.

2) These figures are calculated based on the average of three independent shipbrokers' valuations of the fleet, book value of associated companies and quotes received from various banks on the value of FX contracts and interest rate swaps as per 31 December.

Dear Shareholder,

It is a pleasure to inform you that First Olsen Tankers Ltd. (FOTL) results for 1996 improved in line with the cautious optimism expressed by your company's Management and Board of Directors last year.

The worldwide market for tankers was better in 1996 than in 1995. Freight income for FOTL on a time-charter basis in 1996 was US$47.8 million, which is a 17-percent increase compared with 1995.

While some of our revenue growth was generated by the Company's latest newbuilding, the Knock Muir, which was delivered in February, most of the increase can be attributed to the improved Suezmax market.

Continued control of operating and administrative expenses generated an operating result (before depreciation) of US$20 million in 1996, an increase of 60 percent over the preceding year's figure.

The newbuilding program initiated when FOTL was established in 1993, was completed with the delivery of the Knock Muir. The majority of the Company's fleet consists of newer vessels, which are being fully depreciated over 20 years, resulting in a net profit for the year after depreciation charges and financial items of US$1.9 million. Even though this level of earnings is still not satisfactory, it represents a considerable improvement over the US$6.1 million loss recorded in 1995.

The positive development in earnings and controlled operating expenses have improved cash flow from operations (before investing and financing). Cash flow from operating activities in 1996 was US$18.2 million, up 40 percent from 1995.

During 1996, FOTL continued to market its tankers for conversion projects that would employ them as Floating Storage and Off-loading vessels (FSOs) or as FPSOs, which are equipped with on-board production facilities.

Our motivation for finding alternatives to tanker trading for certain vessels lies in the requirements of the U.S. Oil Pollution Act (OPA-90) and the regulations of the International Maritime Organization (IMO) which, towards the end of this decade, will impose trading restrictions on tankers built in the mid-1970s. These efforts have already met with success in two offshore engagements.

The Knock Dee was hired for such a project off the coast of South Africa. A similar project was booked for the Knock Taggart, which was controlled by Corserine Shipping Ltd., for service off Nigeria. To diversify risk it was decided to swap our 50-percent ownership in the Knock Dee for a 50-percent ownership in the Knock Taggart.

I am particularly pleased to report that the high standards of operation for all FOTL vessels have been maintained, even though we have been able to reduce operating costs. Red Band, the company performing the technical management of FOTL's tankers, has implemented routines for quality assurance and quality control well ahead of IMO requirements which will come into force in 1998. Red Band is certified according to the Safety and Environment Protection (SEP) of Det norske Veritas. All vessels owned by FOTL have International Safety Management Code (ISM) certificates and shipboard SEP Management System certificates.

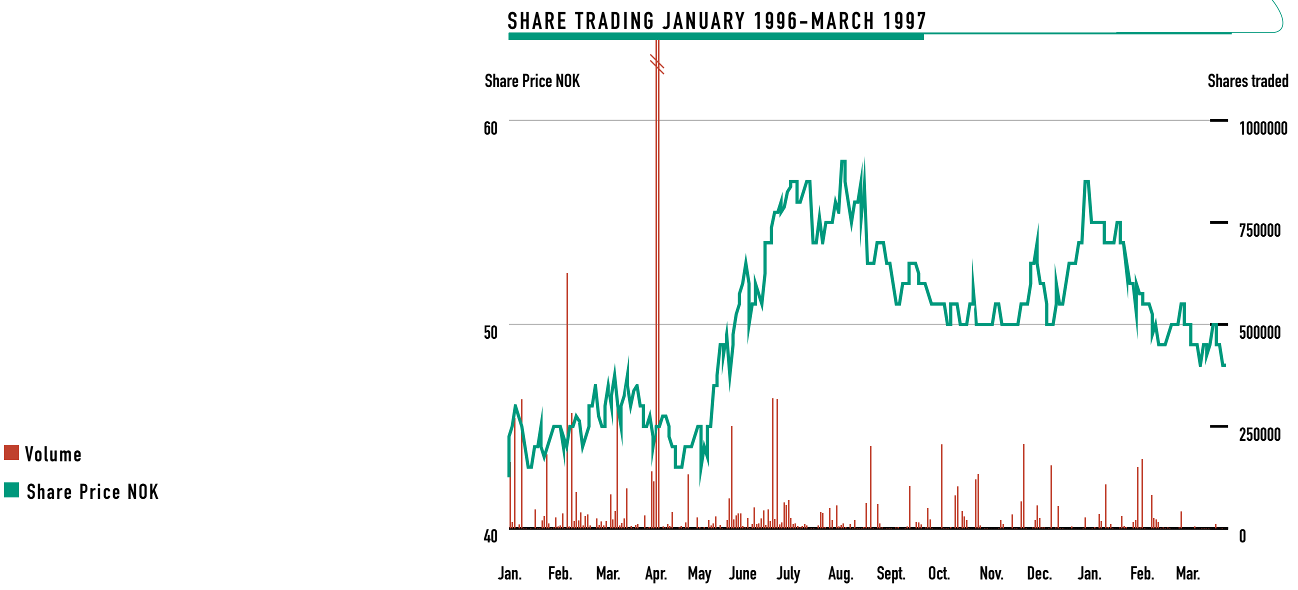
To us, quality and safety are fundamental principles for the operation of our fleet, benefitting the Company's shareholders and customers now, over the short term, and on a long-term basis.

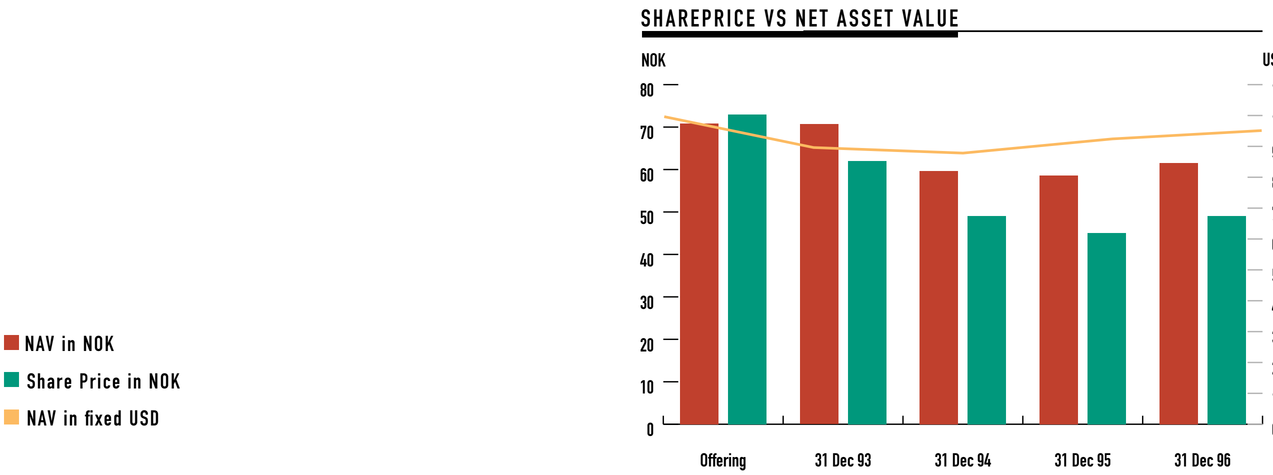
We expect a further strengthening of the tanker market during 1997. Trading patterns are changing, and there will be considerable growth in short-haul transportation of oil. We expect that increasing demand will compensate for the reduction in trading distances. Furthermore, we believe that greater emphasis on tanker quality and reducing the risks inherent in seaborne oil transportation, will gradually lead to better trading conditions for quality operators with a long-term commitment to the industry. This trend will benefit the shareholders of First Olsen Tankers Ltd.

In April 1997, your company entered into a newbuilding contract for two shallow draft Suezmax tankers, for delivery in the first half of 1999. These tankers have a new "environment-friendly" design, and also have special features that make them particularly suitable for conversion to advanced shuttle tankers. It is believed that these vessels will be a considerable asset in positioning the Company for the next decade.

Your company is stronger at the beginning of 1997 than it was at the start of 1996, and we believe that it is well positioned to benefit from an improved tanker market in 1997 and beyond.

Robert Rice, Chairman


SHARE TRADING JANUARY 1996-MARCH 1997
Share Price NOK
Shares traded
60
50
40
1000000
750000
500000
250000
0
Jan.
Feb.
Mar.
Apr.
May
June
July
Aug.
Sept.
Oct.
Nov.
Dec.
Jan.
Feb.
Mar.
Volume
Share Price NOK


SHAREPRICE VS NET ASSET VALUE
NOK
USD
80
70
60
50
40
30
20
10
0
11
10
9
8
7
6
5
4
3
2
1
0
Offering
31 Dec 93
31 Dec 94
31 Dec 95
31 Dec 96
NAV in NOK
Share Price in NOK
NAV in fixed USD

Business Strategy

The primary objective of First Olsen Tankers Ltd. is to achieve value for its shareholders through earnings from charters in the spot and term markets for oil tankers, well-managed vessel operations and timely purchases and sales of tankers. As part of this strategy, the Company will pursue projects offering alternative uses for tankers, in order to increase the value of the Company.

Another objective of the Company is to maintain adequate liquidity and a conservative debt-to-equity ratio. This policy secures our current operations as well as the Company's financial strength needed to exploit future opportunities in the shipping industry. The financing principle of the Company is that our debt-to-equity ratio should not exceed 1:1, on a market value basis. At the end of 1996 the debt-to-equity ratio was 1:1.5.

Results

The Company achieved a net profit in 1996 for the first full year since its formation in 1993. Net profit in 1996 amounted to US$1.9 million, compared with a loss of US$6.1 million in 1995. For the fourth quarter of 1996, the net profit was US$3.1 million, compared with a loss of US$2.0 million in 1995.

Time charter equivalent earnings for the First Olsen Tankers fleet increased from US$40.8 million in 1995 to US$47.8 million in 1996. During the fourth quarter, these earnings were US$11.4 million, compared with US$9.0 million in the fourth quarter of 1995.

Vessel operating expenses amounted to US$22.8 million for the full year. After administration expenses of US$1.3 million and provisions for drydocking of US$3.5 million, the operating result before depreciation was US$20.2 million, compared with US$12.6 million in 1995. The operating result before depreciation for the fourth quarter was US$5.5 million.

In October 1996, 50 percent of the shares in Knock Dee Shipping Ltd. were sold based on the net asset value of the company of approximately US$5.6 million. The book value of the shares at the time of the sale was US$2.0 million, giving a net profit on sale of the shares of US$1.0 million including reversal of accumulated losses on a consolidated basis. The Knock Davie and the Knock Buie are both expected to be sold or converted prior to their next major surveys. Therefore, no further provisions for drydockings have been made, and the drydocking reserve of US$550,000 for the Knock Davie has been reversed. Net financial costs were reduced mainly due to the reversal of a Sterling interest swap in November, which resulted in a profit of US$1.6 million. The effect of these three special items amounted to US$3.15 million in the fourth quarter.

Cash flow from operating activities for the full year was US$18.2 million (compared with US$12.8 million in 1995). The presentation of the cash flow statement has been changed in 1996. Please refer to footnote 1 in the Financial Summary.

The Company invested approximately US$3 million in Taggart Shipping Ltd. in 1996. In addition, loans totalling US$8.7 million were provided to Knock Dee Shipping Ltd. and a loan of US$3 million was provided to Taggart Shipping Ltd. In February 1997, Knock Dee Shipping Ltd. repaid US$2.7 million of the loan to the Company.

The Company's share of the net result of the two offshore related companies, Knock Dee Shipping Ltd. and Taggart Shipping Ltd., produced a loss of US$0.4 million in 1996. This weak result for 1996 is attributable to extensive conversion, upgrading and other expenses, including off-hire related to project start-ups.

Operations

The Company's latest newbuilding, a 146,286 dwt Suezmax tanker named Knock Muir, was delivered in February 1996. At year-end, the Company owned a fleet of seven Suezmax tankers. First Olsen Tankers also holds a 50-percent ownership of both Knock Dee Shipping Ltd. and Taggart Shipping Ltd., each of which owns one tanker built in the mid-1970s that has been converted for use related to offshore oil production.

The Company's tankers are marketed through the Knock Tankers Pool, one of the world's leading operators of Suezmax tankers. By participating in the Knock Tankers Pool, the Company aims to reduce overhead costs and commercial risks associated with the operation of its tankers. The fleet of the Knock Tankers Pool consisted of some ten vessels in 1996. Two tankers left the Pool to be converted for offshore-related projects and one vessel, the Knock Nevis, built in 1975 and owned by Corserine Shipping Ltd., was sold. The Knock Sheen's profitable time charter expired in November. At year-end, the Pool consisted of eight ships, all of which operated in the spot market. Despite the latest improvement in Suezmax tanker rates, it is the policy of the Pool to trade its vessels in the spot market or on short-term time charters under current market conditions. However, the Pool may seek long-term charters in the future.

The Company owns 50 percent of Knock Tankers Ltd., the Pool manager. Knock Tankers Ltd. also markets three other tankers, acting as agents for other owners.

Throughout the year, time charter equivalent rates for Suezmax tankers in the spot market varied between US$12,000 and US$20,000 per day for tankers built in the mid-1970s, and between US$15,000 and US$23,000 per day for newer vessels. For the FOTL fleet, time charter equivalent for vessels in the

Knock Tankers Pool averaged US$17,940 per operating day in 1996. Earnings per day for the newer vessels amounted to US$20,450, whereas earnings per day for the tankers built in the mid-1970s were US$13,650 (compared with US$17,300 and US$13,100 per day, respectively, in 1995).

During the first quarter of 1996, the Knock Muir was off-hire for 28 days immediately after delivery for the completion of deck coating. The Knock Dun was off-hire for 67 days in connection with work under guarantee on ballast tank coatings. The shipbuilding yard covered these costs, compensating FOTL for the off-hire at a total of US$1.4 million.

The Knock Allan drydocked in July as a commencement of the vessel's first special survey, which was completed in January 1997. This drydocking cost US$1.9 million, and the vessel was off-hire for 28 days. The Knock Buie was off-hire for 36 days in November and December for work related to the intermediate survey which cost US$1.5 million. These costs were charged against drydocking provisions. According to plans, the Knock Stocks will dock during 1997, as a commencement of the vessel's special survey, which is due in January 1998.

On 8 May 1996, FOTL purchased 50 percent of the shares in Taggart Shipping Ltd. when the Knock Taggart left the Pool to proceed to a shipyard conversion to a Floating Storage and Offloading (FSO) vessel. The conversion was completed in September. In October, the vessel commenced its five-year time charter off Nigeria to ABACAN Resources Corp. and Amni International Petroleum Development Co. Ltd. In addition, Taggart Shipping Ltd. provided a US$3.5 million loan to partially finance a pipeline at the oil field. This loan is scheduled to be repaid during 1997.

Knock Dee Shipping Ltd., which owns the Knock Dee, has signed a 4-year contract with the South African oil company SOEKOR E and P (Pty) Limited. The Knock Dee will be used for service off the coast of South Africa. The vessel left the Knock Tankers Pool in mid-October following the Company's sale of 50 percent of the shares in Knock Dee Shipping Ltd. The vessel then proceeded to Singapore for conversions and upgrades required for her new employment as a shuttle tanker. The work was completed in late December. The vessel made one spot voyage before the contract with SOEKOR commenced in March 1997.

The technical management of the Company's fleet is performed by Red Band AS of Oslo, Norway. During the period that Red Band has been entrusted with this task, the company has shown a total commitment to quality and safety. It has taken time and effort, but we are proud to have achieved very high operating standards combined with reduced off-hire time. During this process, operating expenses have not increased. Encouraged by what we have achieved working with Red Band so far, we will continue our efforts to improve standards and control costs.

Because the Company's policy is to maintain safety standards that are second to none, it is a challenge to achieve reasonable operating costs. However, we know that time and money invested in quality assurance and quality control result in improved operating results and reduced unscheduled off-hire for our vessels. Daily ship operating costs in 1996 were lower than corresponding ship operating costs in 1995. These averaged US$8,900 for the vessels built in the mid-1970s and US$7,500 for the newer vessels.

The implementation of the newly revised International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), which came into force on 1 February 1997, is expected to result in increased crewing costs as a result of changes in on-board routines. Hopefully, these will be offset by lower insurance expenses resulting from an improved insurance market and the Company's solid record over the past years. The new International Ship Management (ISM) Code will come into force in July 1998. Red Band is already in compliance with the Code through its DnV (Det norske Veritas) Safety and Environmental Protection (SEP) classification. We are confident that time and money invested in safety, training and management will result in even better levels of fleet operations without negative cost implications.

Liquidity and Financing

Available liquidity at year-end 1996 was US$42.6 million in bank deposits and short-term receivables and US$21.0 million in undrawn credit facilities.

In June 1996, a loan of GB£35 million was drawn in connection with the Knock Muir. This loan was made available by the U.K. Ship Mortgage Finance Company (SMFC) as an eight-year 7.5% fixed interest loan. The Knock Dun is financed with a similar loan. At year-end, GB£16.8 million (equivalent to US$28.4 million) was pledged as security for these loans. In February 1997, this deposit was released, and the instalments due on the Dun loan during the next three years, totalling GB£12 million, were prepaid. Management plans to make a similar prepayment for the loan related to the Knock Muir. Parts of these two loans have been swapped from fixed to floating interest rates.

The Company's interest expenses increased US$1.2 million to US$7.9 million in 1996 as a result of this increase in borrowing. This increase was offset by the reversal of the interest swap related to the Knock Dun financing. Therefore, net financial expenses were reduced from US$3.8 million in 1995 to US$3.1 million in 1996.

The Market

Sales of tankers for demolition during 1996 was 6.6 million dwt compared with 10.9 million dwt in 1995. Most of this decline was attributable to reduced scrapping of VLCCs, whereas scrapping of small- and medium-sized tankers was maintained at 1995 levels. Total scrapping in 1996 was insufficient to compensate for the 11.5 million dwt of new tankers delivered in 1996; therefore the world's tanker fleet increased by 1 percent during the year.

World seaborne crude transportation in 1996, as measured in tonnes, is estimated to be about 3 percent greater than in 1995. This increase matches the growth in world oil consumption. Despite this increase, only marginally greater seaborne transport of oil as measured in tonne miles was recorded. This apparently contradictory situation is explained by increased oil production near consuming areas in the western hemisphere and increased Middle East OPEC exports to the Far East, which represent short hauls compared to the Arabian Gulf-West route. In general, however, tanker freight rates were higher in 1996 than in 1995.

The reduced importance of the Arabian Gulf-West trade for VLCCs led to a continued increase of VLCC trading in the West African market throughout the year. On the other hand, the influx of VLCCs in the North Sea market was reduced. Despite this, Suezmax tanker rates remained relatively stable and at higher levels than in 1995. Throughout most of the year, rates for newer Suezmax tankers trading to the United States were in the World Scale (WS) 90s range. Bunker prices were high throughout the year, varying between US$80 and US$140 per tonne. Hence, the positive development for tanker rates in terms of WS was not fully reflected in the time charter equivalent rates.

Market Value of Vessels

The accompanying table shows the year-end valuations for the seven tankers in the First Olsen fleet. The valuations, which are based on the most recent sales of comparable vessels, represent the average obtained from three independent shipbrokers' analyses: Fearnleys, Clarkson and R.S. Platou. The book values are gross figures that have not been adjusted to reflect drydocking provisions, which total US$3.8 million.

Market Adjusted Net Asset Value per Share

Based on the valuations of the fleet and the book value of offshore related projects as of 31 December 1996, the market-adjusted net asset value of the Company was US$191.5 million, or US$9.55 (NOK 61) per share, an increase from US$9.28 at year-end 1995.

The share price at the Oslo Stock Exchange at year-end was NOK 57. On 15 April 1997 the share price was NOK 47.

Shareholder Structure

According to the bye-laws of FOTL, the total shareholding in any jurisdiction must be less than 50 percent. During the third and fourth quarters of 1996, some Norwegian share purchases had to be refused because they would have exceeded this limit. The buyers were instructed to resell the shares out of Norway. At year-end, the percentage of FOTL shares held by Norwegian shareholders was in conflict with the Company's bye-laws. This was remedied during the first quarter of 1997. The system of the Norwegian Registry of Securities (Verdipapirsentralen) does not address the special situation that First Olsen Tankers Ltd.

The year-end valuations of the tanker fleet were as follows (in US$ millions):

Vessel	Est. market values Dec. '96	Est. market values Dec. '95	Book values Dec. '96
Knock Allan	41.5	41.3	36.6
Knock Buie	7.5	7.0	5.8
Knock Davie	7.3	6.7	5.1
Knock Dun	47.2	52.3	53.1
Knock Muir	50.7	55.3	61.0
Knock Sheen	36.7	35.3	30.1
Knock Stocks	43.2	43.2	38.2
Total	234.1	241.1	229.9

Valuations for the newer double hull vessels are below book values. These valuations in particular have been affected by a weakened newbuilding market. However, as ship values fluctuate with the market sentiment, it has been decided by the Board of Directors not to make any extraordinary depreciation for any of the vessels in the fleet. Valuations for the fleet in total are higher than the book values.

and other similarly structured companies experience. This particular problem and the limitation imposed on share purchases by Norwegians are believed to have had a significant negative effect on share pricing during the second half of 1996 and so far in 1997.

Outlook for 1997

In December 1996, the tanker market was relatively weak compared to earlier in the year. This fact, combined with high bunker prices, resulted in low earnings in January 1997. The World Scale flat rates were increased between six and eight percent as of 1 January 1997 as a result of higher bunker prices in 1996. A significant reduction in bunker prices during the subsequent months resulted in increased time charter equivalent earnings in February and March.

The changing trade patterns for world crude oil have resulted in changed trading routes for tankers, resulting in a more complex market. Crude oil and product stocks in consuming areas remain at low levels. These factors make the market very sensitive to short-term changes in demand, and the changes in refinery runs resulting from maintenance and seasonal variations in consumption will probably continue to influence tanker rates.

At year end, the order book for tanker newbuildings for the next two years was relatively low. World oil consumption is expected to continue growing, yet a major part of the oil will be produced close to the markets where it will be consumed. Short-haul crude transport, therefore, is expected to increase. Long-haul crude transport is not expected to be reduced substantially in 1997, therefore, we expect a gradual improvement of the tanker market over the coming years.

The trend of increased production from offshore oil fields closer to consuming areas is expected to continue in the foreseeable future. The Company aims at benefiting from, rather than being threatened by, this development. We are pursuing opportunities for use of our tankers as shuttle tankers and floating production and storage units. These marketing efforts have till now been particularly focused on projects that involve alternative uses for FOTL tankers built in the mid-1970s. These vessels are expected to have reduced commercial value for spot trading after 1998 because of new regulations coming into force.

The increased offshore oil production has spurred demand for shuttle tankers, with various degrees of sophistication. This segment of the tanker market may offer an opportunity to cater to the oil industry with a more long term industrial approach than the present deep sea tanker market offers. As new offshore production technologies open up more marginal subsea fields to offshore production, interesting opportunities are expected to arise for converting some of our existing vessels as well as new acquisitions for this purpose. Advancing the Company in such a direction hopefully will generate long-term contract opportunities and a secure cash flow. Further, directing the Company towards a more industrial approach is hoped to create increased values for the shareholders.

On 10 April 1997, FOTL signed contracts with the Hyundai shipyard in Korea for two shallow draft 154,000 dwt Suezmax tankers. These tankers have a new environment-friendly design with twin engine, twin screws and two high lift rudders fitted for improved maneuverability and redundancy in steering and propulsion. Furthermore, these vessels will be fitted with one bow thruster and be prepared for fitting additional bow thrusters plus stern thrusters. These features together with other fitted and prepared features will also make these Suezmax tankers particularly suitable for conversion to advanced shuttle tankers. The contract price for each vessel is about $64 million. Delivery is scheduled to take place during the first half of 1999. The Company has the option to order one or two more vessels (together or separately).

Auditors

The annual general meeting appointed KPMG, Oslo, as auditors of the Company.

Dividends

The Board of Directors does not recommend payment of dividends for 1996.

Directors

The Company had the following Directors throughout 1996

	Date appointed
Johan Fr. Biermann	30 Sept. 1993
Charles T. M. Collis	14 Sept. 1993
Nicholas B. Dill	14 Sept. 1993
Walter C. Mink, Jr.	30 Sept. 1993
John L. Newbold	8 Dec. 1993
Fred. Olsen	14 Sept. 1993
Robert Rice (Chairman)	30 Sept. 1993
Jon Edvard Sundnes	30 Sept. 1993

Mr. Johan Fr. Biermann resigned as Director on 17 February 1997. The Board would like to take this opportunity to express its thanks and appreciation to Mr. Biermann for his valuable contributions to the formation and development of the Company.

By order of the Board,
16 April 1997

T. W. Tucker Hall, Secretary

KPMG

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Foretaksregisteret
NO 935 174 627

To the members of First Olsen Tankers Ltd.

Independent auditor's report 1996

We have audited the accompanying consolidated balance sheets of First Olsen Tankers Ltd. as of 31 December 1996 and 1995 and the related statements of income, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 1996 and 1995 and of the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

Oslo, 16 April 1997
KPMG as

Morten Rieker

Arve Gevoll

Year ended 31 December (in US$ 1,000)	Note	1996	1995
Freight income on time charter basis		47,843	40,772
Vessel operating expenses	2	-22,833	-22,966
Amounts provided for drydocking	11	-3,515	-4,037
Administration expenses	3	-1,305	-1,199
Operating result before depreciation		**20,190**	**12,570**
Depreciation	7	-16,282	-14,278
Operating result		**3,908**	**-1,708**
Loss on sale of vessel		-	-562
Sale of shares in Knock Dee Shipping Ltd.	12	1,049	-
Operating result before financial items		**4.957**	**-2,270**
Interest income	10	5,841	3,347
Interest expenses		-7,913	-6,748
Other net financial income (costs)		-717	-551
Share of result in associated companies	4, 8	-403	167
Foreign exchange adjustments		138	-6
Net Profit (Loss)		**1,903**	**-6,061**

As of 31 December (in US$ 1,000)	Note	1996	1995
Cash	9	34,882	5,688
Working capital held with technical and pool managers	5	4,752	5,978
Other current assets		2,926	2,962
Total Current Assets		**42,560**	**14,628**
Pledged deposit	9	28,442	26,051
Shares in associated companies	6	4,520	199
Receivables from associated companies		11,670	-
Vessels and equipment	7, 9	230,026	245,620
Total Long Term Assets		**274,658**	**271,870**
Total Assets		**317,218**	**286,498**
Loans and borrowings	9	15,280	8,238
Payables		3,321	2,361
Total Current Liabilities		**18,601**	**10,599**
Provisions for drydocking	11	3,782	6,444
Advance on interest swaps	10	559	1,992
Long term debt	9	109,901	84,996
Total Long Term Liabilities		**114,242**	**93,432**
Total Liabilites		**132,843**	**104,031**
Net Assets		**184,375**	**182,467**
Share capital	13	20,052	20,052
Share premium		174,497	174,497
Accumulated loss		-12,082	-6,026
Exchange adjustments on consolidation		5	5
Profit and loss account		1,903	-6,061
Shareholders' Equity		**184,375**	**182,467**

Robert Rice

Robert Rice

J. Newbold

John L. Newbold

	1996	1995
Cashflow from operating activities		
Net profit	1,903	-6,061
Exchange rate adjustment	5	-
Depreciation charge	16,282	14,278
Share of results in associated companies	385	140
Loss (gain) on sale of vessel	-	562
Loss (gain) on sale of shares in Knock Dee Shipping Ltd.	-1,049	-
Net increase (decrease) in drydock provisions	-42	838
Change in working capital *	720	3,059
Net cashflow from operating activities	**18,204**	**12,816**
Cashflow from investing activities		
Sale of vessel	-	3,200
Sale of shares Knock Dee Shipping Ltd.	2,758	-
Investments in vessels/newbuildings	-5,938	-44,630
Purchase of other fixed assets	-1,983	-40
Increase in long term pledged deposits	-2,391	-26,051
Investments in joint ventures and associated companies	-2,970	-
Net cashflow from investing activities	**-10,524**	**-67,521**
Cashflow from financing activities		
Increase in debt	56,555	56,959
Repayment of debt	-24,608	-8,963
Increase (reduction) in capitalised advance/deferred income on swaps	-1,433	416
Increase in loans to associated companies	-9,000	-
Net cashflow from financing activities	**21,514**	**48,412**
Net increase (decrease) in cash and cash equivalents	**29,194**	**-6,293**
Cash and cash equivalents at beginning of year	**5,688**	**11,981**
Cash and cash equivalents at end of year	**34,882**	**5,688**

** Working capital = Other current assets - other current liabilities*

The following accounting policies have been applied consistently to items considered materially relevant to the financial statements.

(a) Basis of preparation:

The Company is an exempt company registered in Bermuda. The financial statements have been drawn up in United States dollars under the historical cost accounting rules and in accordance with International Accounting Standards (IAS).

(b) Basis of consolidation:

Consolidated financial statements are prepared using the purchase method of accounting and incorporating the results of subsidiary undertakings from the effective date of acquisition until the effective date of disposal. Consolidated figures include the results of associated undertakings accounted for using the equity method, whereby such interests are stated at the Company's share of net asset value on acquisition and adjusted subsequently for retained profits and losses of associated undertakings as stated in the latest available audited financial statements.

(c) Freight income on time charter basis:

Freight income on time charter basis represents freight and demurrage income earned by the vessels after deduction of voyage expenses (commissions, port expenses, and bunker oil) and applicable pool adjustements. Net income on uncompleted parts of voyages on 31 December is deferred to the following year.

(d) Foreign currencies:

Assets and liabilities recorded in foreign currencies are translated at the rates of exchange in effect on the balance sheet date or at rates specified in related forward exchange contracts. Transactions in foreign currencies are converted into United States dollars at the rate of exchange in effect on the date of the transaction or at a rate specified in related forward currency contracts. In accordance with International Accounting Standard No. 21, both realised and unrealised exchange gains and losses arising from the translation of current and long-term assets and liabilities are recorded in the profit and loss account.

(e) Depreciation:

Depreciation is charged so as to write down the cost less estimated residual value of each vessel, over its anticipated estimated useful economic life with regard to current market conditions. The Directors have assessed the current fleet and depreciation is provided on a straight-line basis as follows:

Vessels built in 1974 and 1975 are being written down to their estimated scrap value over a period of 25 years from delivery from the shipyard, or to the last date the vessel may economically trade, whichever is the shorter.

Vessels built in 1989 or later are being written down in full over a period of 20 years from the date of delivery from the shipyard.

The vessels owned by associated companies may, however, have depreciation schedules that deviate from these principles.

(f) Interest:

Interest is charged to the profit and loss account on an accruals basis.

(g) Fixed assets:

Fixed asset cost represents the cost of acquisition, plus amounts which, in the opinion of the Directors, represent the required drydocking and special survey accruals at the date of purchase.

(h) Inventory:

Inventory is valued at the lower of cost and net realisable value.

(i) Provisions for drydocking:

Expenses anticipated to be incurred from drydocking and periodical surveys are prospectively provided for on a straight-line basis over the period up to the next survey. When a vessel is purchased, an adjustment is made to the fixed asset cost of the vessel, and a provision is created reflecting the provision which would have been made under the above policy if the vessel had been owned since its last major survey. Costs in excess of the amounts provided are charged in the period in which they occur.

1. Directors, Officers and Employees

Mr. Sundnes has entered into a service agreement as Managing Director of the Company. This agreement is terminable on three months' notice. None of the other Directors has a service agreement, but Directors' fees of US$40,000 per annum are payable to the Chairman of the Board and US$30,000 per annum to the other continuing Directors.

Directors and Officers numbered eight during the period and remuneration amounted to US$250,000.

Mr. Fred. Olsen is the Chairman of Ganger Rolf ASA and Bonheur ASA each of which owns 3,531,000 shares in the Company. In addition, Ganger Rolf ASA and Bonheur ASA have a minority interest in Mannoch Ltd., Cayman Islands, which owns 2,000,000 shares in the Company. Mr. Fred. Olsen also has interests in other companies that own 10,500 shares in the Company.

First Olsen Tankers Ltd. AS in Oslo has three employees. The Company has established a pension plan for its employees.

2. Operating Expenses (in US$1,000)

	1996	1995
Vessel operating expenses	17,918	17,457
Insurance	2,847	3,808
Start-up expenses	566	96
Management fees	1,502	1,605
Total	**22,833**	**22,966**

3. Other Administration Expenses (in US$1,000):

	1996	1995
Legal fees	18	209
Auditing fees	53	95
Directors	250	250
Other	984	645
Total	**1,305**	**1,199**

4. Share of Profits before Tax from Associated Undertakings

This represents the Group's 50-percent share of profits before tax earned by its associated companies as follows (in US$1,000):

	Country	Ownership	Activity	Share of profit
Knock Tankers Ltd.	Bermuda	50%	Pool manager	11
Knock Dee Shipping Ltd.	Bermuda	50%	Shipping/offshore	- 573
Taggart Shipping Ltd.	Bermuda	50%	Shipping/offshore	177
Sum				**-385**
Adjustment				-18
Total				**- 403**

5. Working Capital held with Knock Tankers Ltd. and Red Band AS (in US$1,000):

	1996	1995
Cash	3,083	2,723
Receivables	5,889	6,786
Inventory	2,375	2,037
Payables	- 6,595	- 5,568
Total	**4,752**	**5,978**

6. Investments (in US$1,000):

The subsidiaries and associated undertakings are:

	Country	Ownership	Activity	Book value
Allan Shipping Company Ltd.	Bermuda	100%	Shipping	10,012
Buie Shipping Ltd.	Bermuda	100%	Shipping	4,012
Davie Shipping Ltd.	Bermuda	100%	Shipping	4,012
Dun Shipping Ltd.	Isle of Man	100%	Shipping	10,012
Knock 1736 Ltd.	Isle of Man	100%	Shipping	12
Star International Shipping Ltd.	Liberia	100%	Shipping	16,271
Stocks Shipping Ltd.	Bermuda	100%	Shipping	10,012
First Olsen Tankers Ltd. AS	Norway	100%	Accounting/ management	74
Book value of subsidiaries eliminated in consolidation				**54,417**
Knock Tankers Ltd.	Bermuda	50%	Pool manager	199
Knock Dee Shipping Ltd.	Bermuda	50%	Shipping/offshore	1,736
Taggart Shipping Ltd.	Bermuda	50%	Shipping/offshore	2,970
Share of associated companies' profit				- 385
Book value of associated undertakings per 31 December 1996				**4,520**

7. Fixed Assets (in US$1,000):

Cost	Oil Tankers	Newbuilding	Other	Total Cost
As of 1 January 1996	214,169	57,842	102	272,113
Additions during the period	63,780	-57,842		5,938
Knock Dee Shipping Ltd.*	-8,651			-8,651
Accumulated as of 31 December 1996	**269,298**	**0**	**102**	**269,400**
Depreciation				
Accumulated as of 1 January 1996	26,463		30	26,493
Provided during 1996	16,266		16	16,282
Knock Dee Shipping Ltd.*	- 3,401			-3,401
Accumulated as of 31 December 1996	**39,328**		**46**	**39,374**
Net book value as of 31 December 1996	**229,970**	**0**	**56**	**230,026**

** Effect of change in accounting methods from consolidation method to equity method after sale of shares in Knock Dee Shipping Ltd.*

8. Taxation

As of 31 December 1996, no Bermuda income, corporation or profit tax, withholding tax or capital gains tax, capital transfer tax, estate duty, or inheritance tax is payable by the Company.

The Company has obtained from the Ministry of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an undertaking that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income; or computed on any capital assets, gain, or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28 March 2016, be applicable to the Company or to any of its operations; or to the shares, debentures, or other obligations of the Company except insofar as such tax applies to persons ordinarily resident in Bermuda and holding such shares, debentures, or other obligations of the Company or any land leased or let to the Company.

The Company may be subject to a 50-percent share of any tax charge of Knock Tankers Ltd. and 100 percent of any tax charge of its Norwegian subsidiary, First Olsen Tankers Ltd. AS.

The Company has, through its subsidiaries, been assessed for U.S. transportation tax for the year 1995. The Company has received advice that the levying of these taxes is incorrect for a company of this nature given the nationality of the company and its shareholders. The Company has objected accordingly, and it is at present not envisaged that the claim from the U.S. tax authorities will materialize. Hence, no provisions have been made in the account statement, and most of these claims have already been withdrawn. As of 15 April 1997, the tax claims totalled approximately US$80,000 including surcharges.

9. Loans and Borrowings

Fixed assets with a book value of US$30,116,000 and undertakings regarding earnings and insurance have been used as security for a bank loan totalling US$14,100,000. This loan is repayable in full in 1999. The interest rate is linked to LIBOR.

Fixed assets with book values of US$-74,764,000 have been used as security for a bank loan facility totalling US$40,000,000. Final maturity is in the year 2001, and the interest rate is linked to LIBOR. As of 31 December 1996, US$19,000,000 of this facility was drawn down.

As of 31 December 1996, fixed assets with book value of US$53,143,000 have been used as security for a loan totalling GB£26,000,000 regarding the Knock Dun. In addition, the loan was backed by a pledged deposit totalling GB£16,800,000. The loan is provided by the U.K. Ship Mortgage Finance Company plc. and carries a fixed interest of 7.5% per year. Final maturity for the loan is in the year 2003. Part of the pledged deposit was utilized in February 1997 to prepay GB£12,000,000 of the Knock Dun loan, the equivalent of the next six instalments from April 1997 to October 1999, in direct order of maturity.

Finally, fixed assets with book value of US$60,990,000 and the pledged deposit relating to Knock Dun have been used as security for a loan totalling GB£32,941,177 regarding the Knock Muir. The Company has also provided a deposit of GB£16,390,000 as additional security. This deposit may be released against a guarantee commission, and is therefore booked as cash. The loan, provided by the U.K. Ship Mortgage Finance Company plc., carries a fixed interest of 7.5% p.a. of which GB£17,500,000 was swapped (for details, please see note 10). Final maturity for the loan is in the year 2004. Management is currently negotiating a prepayment arrangement similar to the one carried out on the Knock Dun loan.

10. Advance on Swaps

The interest rate swap on the remaining GB£26 million loan facility regarding the Knock Dun was reversed from six-month Sterling LIBOR back to a fixed interest rate loan of 7.5% per year. The Company received a total of US$202,000 in connection with this reversal. In addition, the remaining balance of US$1,668,000 (or GB£1,026,272) previously received on the interest rate swap, was recorded as income in 1996.

Fifty percent of the GB£35 million loan drawn in June 1996 regarding the Knock Muir was swapped from 7.5% per year fixed interest to six-month Sterling LIBOR. The advance of GB£590,000 (equivalent to US$940,755) was capitalised and will be booked as income over the lifetime of the swap, which is 8.5 years. At year-end 1996, approximately US$203,000 had been booked as income in consideration of this swap.

11. Drydocking Provisions (in US$1,000):

	1996	1995
Accumulated as of 1 January	6,444	8,325
Charged to profit and loss account	3,515	4,037
Utilized during the period	- 3,557	-3,199
Reversal on sale of vessel	- 2,620*	-2,719
As of 31 December	**3,782**	**6,444**

** 1996 figure is due to change in accounting method from consolidation method to equity method after sale of shares in Knock Dee Shipping Ltd.*

12. Sale of Shares in Knock Dee Shipping Ltd.

Fifty percent of the shares in Knock Dee Shipping Ltd. were sold in October 1996, which resulted in a net gain for FOTL of US$1,049,000. The net cash proceeds from the sale were US$2,758,000.

The Company's share of losses in Knock Dee Shipping Ltd. after the sale has been included in the result of associated companies and booked as such in the profit and loss account.

13. Share Capital

Authorised share capital is 25,000,000 ordinary shares at US$1 par value. The Company has issued 20,052,000 shares. As of 31 December 1996, the total number of FOTL Shareholders was 758. The major Shareholders were:

	Percent held
Bonheur ASA	17.61
Ganger Rolf ASA	17.61
Mannoch Ltd.	9.97
Merrill Lynch Clients Account	5.70
UBSAA - Phildrew Nominee	5.24
Chase Manhattan Bank Clients Account	5.20
Merrill Lynch Clients Account	3.03
ANZ Grindlays Bank	2.98
Clydesdale Bank PLC	2.57
Fidelity Capital	2.49

All shares are registered in the Norwegian Register of Securities (VPS).

14. Potential Conflicts of Interest and Related-Party Transactions

Mr. Nicholas B. Dill and Mr. Charles T. M. Collis, both Directors of the Company, are partners in the law firm Conyers Dill & Pearman, Bermuda, which is the Company's Bermudan legal advisers and, through an affiliated entity, the provider of secretarial and administrative services to the Company.

Mr. John L. Newbold, a Director of the Company, is a Divisional Executive, Global Shipping Division, with Citibank N.A., a provider of finance and banking services to the Company.

Mr. Johan Fred. Biermann, a Director of the Company, is a shipbroker and is providing services to the principal shareholders. Mr. Biermann is also an alternate member of the Boards of Ganger Rolf ASA and Bonheur ASA. Mr. Biermann resigned as a Director of the Company on 17 February 1997.

As of 31 December 1996, Ganger Rolf ASA and Bonheur ASA, of which Mr. Fred. Olsen is Chairman, and companies related to Fred. Olsen & Co., collectively called "the Principal Shareholders," have interests that may create potential conflicts of interest between them and First Olsen Tankers Ltd. as listed below:

a) Other Shipping Interests

The Principal Shareholders have interests in two Suezmax tankers (MT Knock Clune and MT Knock An) and one VLCC tanker (TT Knock More). The Directors believe that First Olsen Tankers Ltd. is adequately protected against conflicts of interest, which these interests pose, for the following reasons: All Suezmax tankers in which the Group and the Principal Shareholders have interests will be operated through the Pool. The Company, however, has consented to this principle not being applied to the Knock An, as this vessel is constructed as a designated shuttle tanker. The vessel is currently employed on a short-term time charter to Statoil, with KTL acting as broker only.

By an agreement dated 22 October 1993, the Principal Shareholders and Fred. Olsen & Co. have undertaken with the Company and its Lead Managers to the flotation not to offer competing Suezmax tankers for sale during periods when the Group is a seller, nor to purchase Suezmax tankers. These undertakings cease to apply if the Company and the Lead Managers consent to any sale or purchase, in the event that the Directors of the Company resolve not to acquire any further Suezmax tankers, or in the event that the Principal Shareholders and connected parties cease to own in excess of 25 percent of the Company's share capital, or on 1 January 2000, if not otherwise terminated by then.

b) Ownership of the Harland & Wolff Shipyard

The Company has taken possession of two newbuildings, the Knock Dun and Knock Muir, delivered from Harland & Wolff shipyard. This could give rise to conflicts of interest, as the Principal Shareholders have significant ownership interests in Harland & Wolff Holdings plc., the holding company of the shipyard.

At the time of the flotation, the Directors took advise from shipbrokers on the current market value of newbuilding contracts for similar tankers and were satisfied that the prices were competitive.

c) Knock Tankers and the Pool

First Olsen Tankers Ltd. owns 50 percent of Knock Tankers Ltd., a company that operates the tanker Pool. The remaining shares are owned by Corserine Shipping Ltd., a company connected to Ganger Rolf ASA and Bonheur ASA.

The bye-laws of Knock Tankers Ltd. provide for effective deadlock of the company in such a way that neither shareholder can control the Board or pass a Resolution of Shareholders without the approval of the other. The Directors believe that this arrangement adequately protects First Olsen Tankers Ltd. against the Principal Shareholders seeking to exercise control of Knock Tankers Ltd. First Olsen Tankers Ltd. has a majority of votes on the Pool Participants' Committee. The Directors believe that this protects First Olsen Tankers Ltd. against unfavorable changes in the existing Pool arrangements and against the admission of more tankers into the Pool on terms that are not satisfactory to FOTL.

d) Associated Companies

The Company sold 50 percent of the shares in Knock Dee Shipping Ltd. to, and purchased 50 percent of the shares in Taggart Shipping Ltd from, companies related to the Principal Shareholders in 1996. The pricing of these shares was established using the latest available brokers' estimates for the valuation of the ships.

The bye-laws of Knock Dee Shipping Ltd. and Taggart Shipping Ltd. provide for effective deadlock of the company ensuring that neither shareholder can control the Board or pass a Resolution of Shareholders without the approval of the other. The Directors believe that this arrangement adequately protects First Olsen Tankers Ltd. against the Principal Shareholders seeking to exercise control of Knock Dee Shipping Ltd. and Taggart Shipping Ltd.

e) Other

The Company is buying marketing, advisory and management services from companies related to the Principal Shareholders. These services include legal and financial advisory services, marketing and management services related to offshore projects. By these arrangements, the Company is able to cover a wide span of activities that normally would require a much larger staff. The Management and the Board of Directors are careful to ensure that these services are purchased at a fair price.

The Board of Directors

The Board of Directors and management of First Olsen Tankers Ltd. will have full power to make commercial decisions independently from other companies related to the Principal Shareholders. The Board of Directors is elected at the Shareholders' meeting, and all Shareholders have the right to vote.

Major Shareholdings in the Company

The Principal Shareholders hold a total of 9,062,000 shares, which represents 45.2 percent of the issued share capital of the Company. Pursuant to the Principal Shareholders' Subscription Agreement dated 22 October 1993, the Principal Shareholders have agreed not to sell or otherwise dispose of any shares in First Olsen Tankers Ltd. before 1 January 1997 without the prior consent of the Company and the Lead Managers, save that Mannoch Ltd. may transfer shares to its Shareholders.

15. Future Commitments

The Company has entered into a forward exchange agreement under which a total of GB£55,228,799 were purchased at an average GB£/US$ exchange rate of 1.4170. The profile of this agreement was initially based on the scheduled delivery of the Knock Muir ultimo 1995 and was intended to cover progress payments to the shipyard during the building period, in addition to the repayment of a Sterling SMFC-backed financing. The SMFC loan provided 80 percent of the cost of the MT Knock Muir at a fixed interest rate of 7.5% per year and is repayable in 17 semi-annual instalments commencing in June 1996. This has the effect of hedging the cost of the vessel, together with the interest repayments, at an average GB£/US$ exchange rate of 1.4170.

In 1996, FOTL Bermuda issued certain performance guarantees in favour of Knock Dee Shipping Ltd. related to the contract with SOEKOR E and P (Pty) Limited. Similar guarantees will also be formalised in relation to Taggart Shipping Ltd.'s employment as a FSO off Nigeria. In the opinion of the Board and Management, these guarantees do not involve a risk for the Company that is materially different from the risks related to normal tanker operation.

In April 1997 subsidiaries of FOTL signed contracts with the Hyundai shipyard in Korea for two shallow draft 154,000 dwt Suezmax tankers with scheduled delivery during the first half of 1999. The contract price for each vessel is about $64 million, with option to order one or two more vessels (together or separately). ■



Crude oil tanker demand

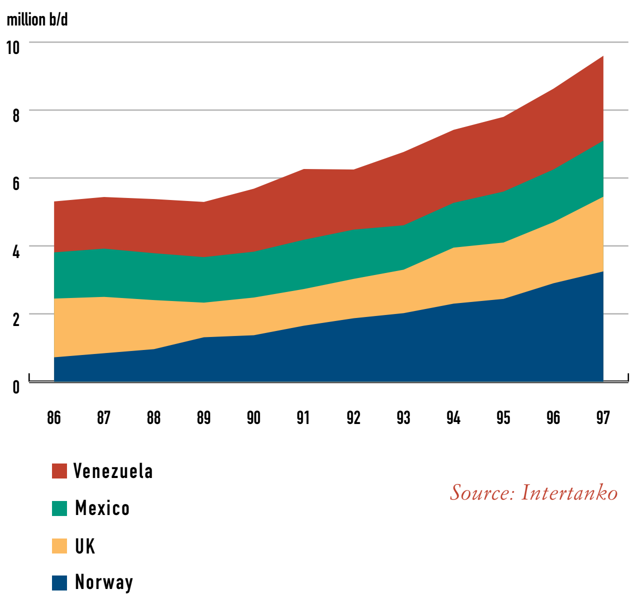
Preliminary estimates for 1996 show that annual global oil consumption increased by 1.6 million barrels per day (bpd), to a total of 71.7 million bpd. This 2% increase is a continuation of the trend that started in 1994, and is estimated to have resulted in an increase in world seaborne transport volume of approximately 3%.

An increase in 1996 Latin American oil production of about 600,000 bpd replaced some of the U.S. import that previously had been covered by crude oil from the United Kingdom and, to a certain extent the Middle East. Therefore, the 500,000-bpd increase in U.S. oil consumption probably did not have any positive impact on tanker demand. Additionally, more of the European consumption was covered by North Sea oil production, which increased to 5.9 million bpd. This 300,000-bpd increase fell short of 1996 expectations of about 700,000 bpd. OPEC production in 1996 increased by 800,000 bpd to a total of 25.9 million bpd. Most of this growth, however, took place outside the Middle East. Middle East OPEC oil production grew by a mere 100,000 bpd to 19.1 million bpd. An increasing share of this oil was exported to the Far East to cover the 900,000-bpd growth in consumption in that region. Therefore, OPEC oil producers in the Middle East were able to replace the market share they lost in the United States and Europe. This development, where a great deal of oil was produced in areas closer to consuming areas, resulted in only marginal growth in seaborne oil transport measured in tonne miles, despite the growth in transport volume.

Oil companies and traders continued to reduce crude oil and product stocks in consuming areas. This made the oil market more volatile. Fluctuations spurred by climatic conditions, refinery maintenance and political uncertainty had an increasing impact on the oil market.

The sanctions imposed on Iraq were partially lifted at the end of the year, and the country was allowed to re-enter the oil market with an export quota of about 700,000 bpd. The potential re-entry of Iraq had caused substantial disruptions in the oil market. However, it seems that this oil volume was absorbed in the market without causing significant adverse effects for other oil producers.


SHORT HAUL CRUDE EXPORTS



Source: Intertanko

Crude oil tanker supply

Scrapping of crude oil tankers in 1996 was 6.6 million dwt compared to 10.9 million dwt in 1995. This reduction in scrapping was expected to a certain extent because of the general rate improvement for tankers.

The reduction in scrapping primarily came as a result of less scrapping of VLCCs, whereas scrapping of medium-sized tankers was maintained at 1995 rate. As the number of newbuildings delivered in 1996 was moderate (11.5 million dwt), the world tanker fleet increased by a mere 3 million dwt (to a total of 264.5 million dwt) following two years of decline.

The present imbalance in the tanker market can largely be explained by the excessive ordering of tankers in the mid-1970s, as much of this fleet is still in operation. The uneven age distribution for tankers is particularly evident for Suezmax tankers and VLCCs. Approximately half of the Suezmax and VLCC fleet presently is at least 18 years old. Furthermore, about 50 percent of the world tanker fleet is within the VLCC segment.

The weak dry-bulk market during 1996 had a negative impact on the tanker market, as some of the world's combined fleet of 19.6 million dwt shifted from dry-bulk to crude oil trading during the year. In 1995, the combined fleet was estimated to be trading 71 percent in the dry-bulk market. This figure was reduced to 51 percent in 1996, resulting in an increase in the trading tanker fleet of approximately 4 million dwt.

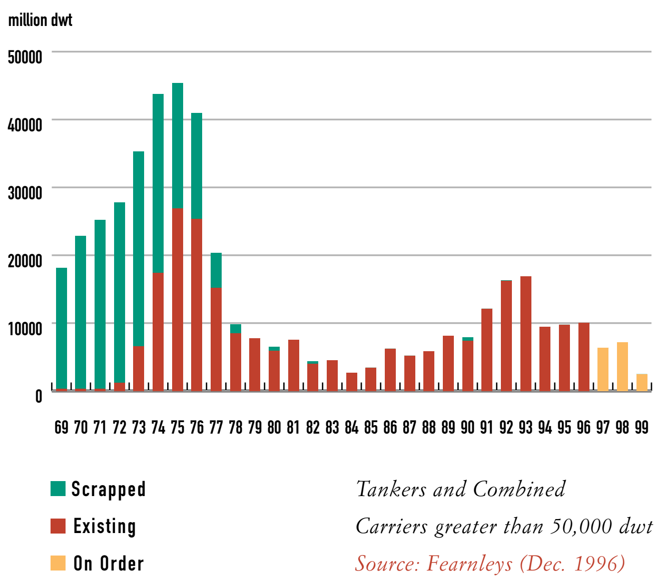
Ordering of tankers increased by 4.6 million dwt to 11.1 million dwt in 1996. The order book for tankers at year end 1996 was 18.6 million dwt, equivalent to 7 percent of today's tanker fleet. 7.7 million dwt is scheduled for delivery in 1997, which is the lowest order backlog since 1989. Thus, the supply of crude oil tankers will most likely remain stable or even be reduced in the next two or three years.

The shipyard situation

The OECD Shipbuilding Committee's July 1994 understanding to abolish shipbuilding subsidies and introduce antidumping regulations failed final approval. This came as a disappointment to the world's shipbuilding industry and shipowners, since such subsidies may provoke contracting that will add to an existing imbalance in some shipping markets.

At year-end 1995, industry-wide concern was expressed that the weak bulk market, combined with an already substantial newbuilding program for container ships, would put shipbuilding prices under considerable pressure. However, despite a substantial weakening in the dry-bulk market, ordering of bulk carriers continued at a steady pace in 1996 at 14.3 million dwt, compared with 18.2 million dwt in 1995. This activity, together with continued interest in

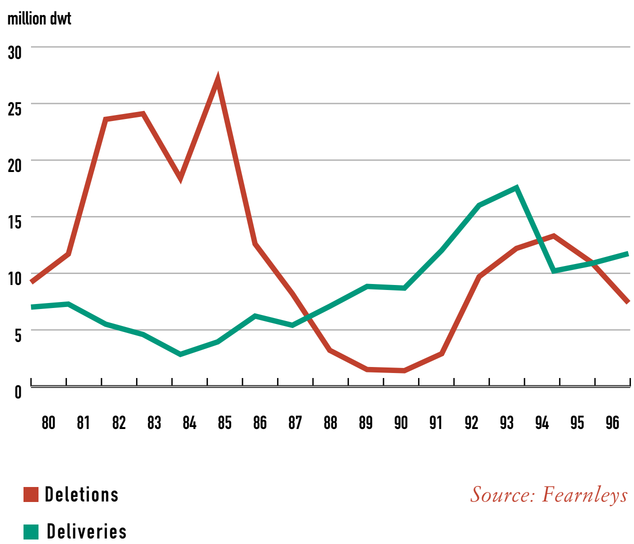
AGE DISTRIBUTION OF WORLD TANKER FLEET



Tankers and Combined Carriers greater than 50,000 dwt

Source: Fearnleys (Dec. 1996)

ANNUAL DELIVERIES AND DELETIONS OF TANKERS TONNAGE



Source: Fearnleys

large container ships, tied up a great deal of the total world shipbuilding capacity for 1997 and 1998. Therefore, the concern that reduced newbuilding activity in other markets would put newbuilding prices for tankers under pressure was not as considerable as had been feared. Newbuilding prices for tankers were only slightly reduced in 1996. However, this trend, combined with a strengthening of secondhand values, spurred interest in newbuildings. The present excess shipbuilding capacity is still considered to represent a genuine threat to all shipping markets.

The Tanker Market in 1996

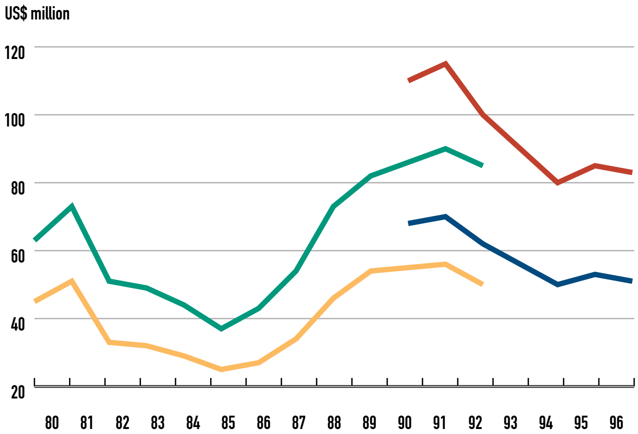
The crude oil tanker market improved significantly for all size segments in 1996, as it did in 1995. The improvement took place despite what seems to be an unchanged tonne miles market balance. However, seasonal maintenance of refineries in various locations combined with low stocks led to fluctuations in demand for transportation throughout the year, and healthy rates were achieved over shorter time periods.

Suezmax tanker rates were about World Scale (WS) 90 for modern ships during 1996, although these rates rose above WS 100 in some instances. Regrettably, much of the improvement in tanker rates in terms of WS was absorbed by increasing bunker prices. These prices varied between US$80 per tonne in January and US$140 per tonne at its peak in the fourth quarter of 1996. Throughout the year, time charter equivalent rates in the spot market varied between US$12,000 and US$20,000 per day for Suezmax tankers built in the mid-1970s and between US$15,000 and US$25,000 per day for newer vessels. These rates varied between US$6,000 and US$22,000 per day for 2-million barrel turbine tankers built in the mid-1970s and between US$14,000 and US$42,000 per day for newer vessels.

The importance of other markets such as West Africa and the North Sea, has increased for VLCCs as a consequence of their reduced use in the traditional Arabian Gulf-West run. This limited rate improvements for Aframaxes and Suezmax tankers. In the West African market, the number of VLCC spot fixtures increased by 20 percent to above 200. Nevertheless, the use of Suezmax tankers in West Africa showed an increase of 2%, and this market is still the most important for such tankers both in terms of tonnes and tonne miles. In 1996, the North Sea recaptured some of its position as an important loading area for Suezmax tankers, whereas VLCC spot fixtures were reduced. The United States is still the most important destination for Suezmax tankers, whereas the Far East now is the most important destination for VLCCs.

As some charterers and authorities continued to focus on the age of chartered tonnage, rate differences between tonnage built in the mid-1970s and newer tonnage became more evident in 1996. A spread varying between 5 and 15 WS points was noted both in the VLCC and the Suezmax tanker segments.

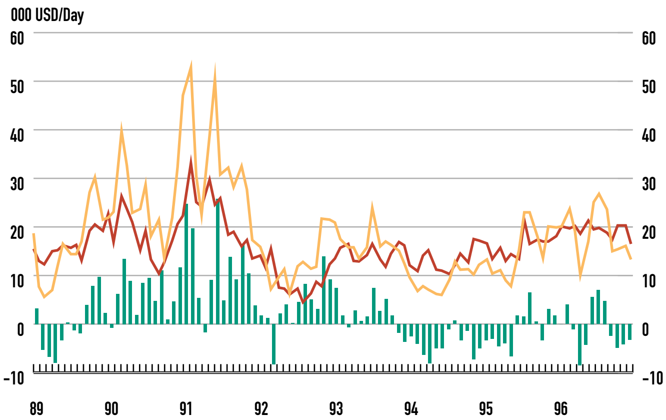
BUILDING PRICES FOR TANKERS



VLCC Double Hull 280,000 dwt Motor Tanker
VLCC Single Hull 250,000 dwt Motor Tanker
Suezmax Double Hull 150,000 dwt Motor Tanker
Suezmax Single Hull 130,000 dwt Motor Tanker

Source: Fearnleys

VLCC AND SUEZMAX RATES



VLCC (turbine)
Suezmax

Source: Fearnleys

Bars showing the difference between VLCC and Suezmax rates.

Ship Values

The values of modern single-hull tankers increased during the first half of 1996, whereas values of newer double-hull tankers came under pressure from the relatively weak newbuilding market. During the second half of the year, the values of modern single-hull, secondhand tankers also came under pressure. Nevertheless, the estimated value of a Suezmax tanker built in 1989/90 increased from about US$35.5 million in December 1995 to US$39 million in December 1996 (source: Fearnleys). However, sale and purchase activity throughout the year was affected by the reduced spread between newbuilding prices and secondhand prices. Therefore, much of the focus of buyers shifted to newbuildings, and the number of secondhand transactions was limited.

It is difficult to establish a trend describing the values of tankers built in the mid-1970s, as there are substantial differences in the quality of these vintages because of variable maintenance over a number of years. The general valuations of brokers of a reasonably well-maintained Suezmax tanker built in 1975 was reduced by US$1 million to about US$6 million over the year. Some vessels were sold at values substantially above this level for conversion to Floating Production and Storage vessels, whereas others, even though they were sold for further trading, only achieved prices close to scrap level, or about US$4 million.

Prospects for 1997 and beyond

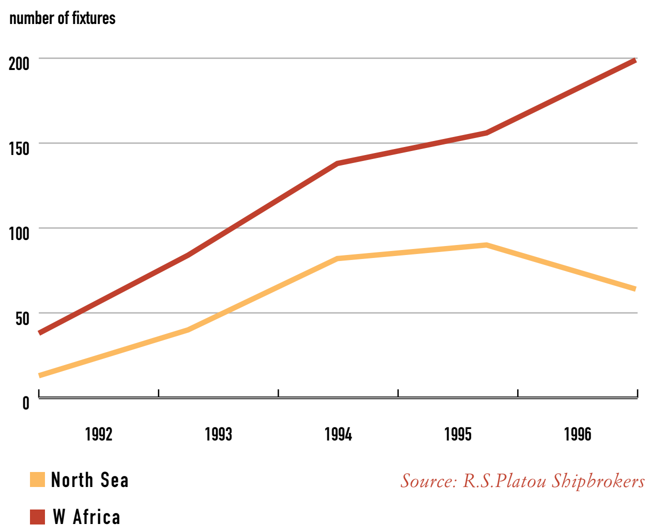
World oil consumption is growing at a steady pace. Unfortunately, as a result of the shift in trading patterns for crude oil, which came somewhat as a shock to the industry in 1994, this growth is not producing a corresponding increase in demand for tankers, measured in tonne miles, as was the case during the previous 10 years. On the other hand, this changing trading pattern and greater variation in crude oil grades within each production area resulted in the tanker market becoming more complex with more routes, more waiting days and more time in port. Furthermore, additional players have entered the charter scene. These factors have positively affected tanker demand and the tanker market.

The market has improved, although the market balance has not changed significantly over the last two years. This may be explained by more complex trading patterns and by segmentation regarding the quality of tankers. This development, together with increased focus on quality of operations and new, more stringent regulations, hopefully will create new opportunities and shift the tanker industry's focus toward a more industrial approach.

The trend of increasing short-haul crude exports is expected to continue over the next few years, as North Sea and Latin American oil production is expected to increase. U.S. and European imports are forecasted to increase about 200,000 to 300,000 bpd. This growth will most likely be covered by short-haul crude imports that also are expected to replace some of the existing European import from the Middle East. Even though Asian growth is considered to be slower and more fragile, it is forecasted to continue in 1997. This economic growth is expected to be a driving force with respect to crude oil demand, and crude oil imports are forecasted to increase with about 600,000 bpd in 1997.

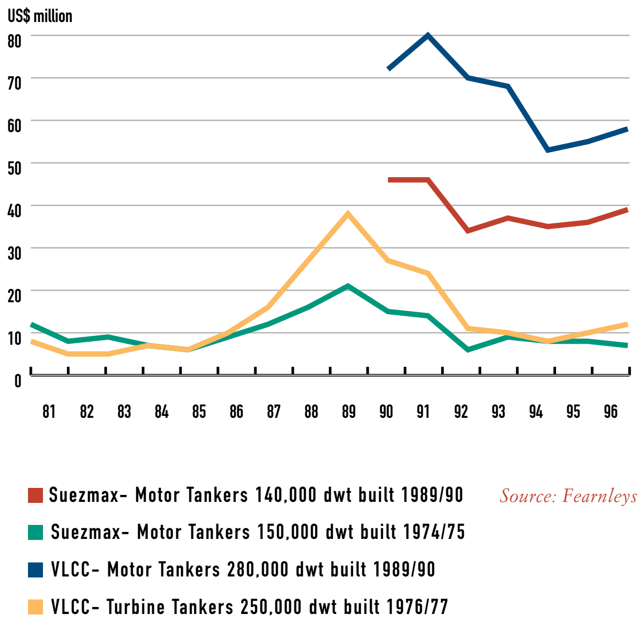
During a restructuring of the tanker market, the growth in tonne-miles may be zero or negative. Even in a balanced supply situation, oil of various qualities will still cross the seas. Knowing that the order book for tankers is low for the next two years, the positive

SPOT VLCC LOADINGS IN THE NORTH SEA AND WEST AFRICA



Source: R.S.Platou Shipbrokers

SECOND-HAND VALUES



Source: Fearnleys

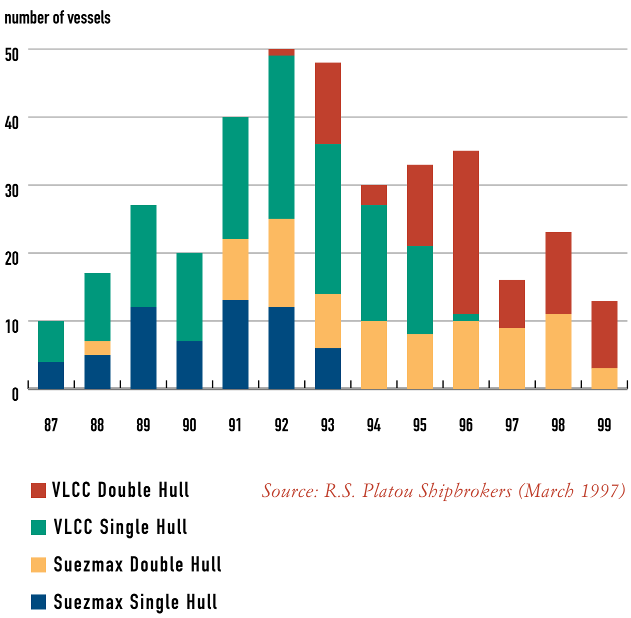
tendency seen over the last two years is still expected to continue. Growing oil transport will increase short and medium hauls with changing trading patterns. This was once particularly beneficial to medium-sized ships. However, because of the changing trading patterns of the VLCCs, this has to be shared among all segments.

The cost of transportation will continue to be very important to oil companies. Shipping and trading departments are now under the same roof in most oil companies seeking to establish margins by cutting costs. Refinery margins have been reduced, therefore transportation costs are ever more important. Increased offshore oil production close to consuming areas not only represents a threat to positive developments in the tanker market, but also creates new opportunities as tankers are deployed for shuttling. Furthermore, quality tonnage may be tied up for conversion purposes. In a well-balanced market, a series of such factors may have significant influence. The tanker market most likely will continue to improve in 1997, even if we expect greater fluctuations than before.

The predicted increase in world oil consumption will have a positive effect on tanker demand, even if more oil will be transported over short hauls. The increasing complexity of trading patterns with crude oils of various grades crossing paths on all oceans, will also be positive. The Iraqi oil export which started at the end of 1996 with 500,000 to 600,000 bpd, was absorbed in the market without significant disruption. However, growth in oil production is forecasted to exceed growth in demand in 1997. This may increase the volatility of the oil market and, in turn, create new trading patterns. As a result we also may experience increasing floating storage of oil in producing areas in the short term. New regulations hopefully will create a better market for industrial players who focus on safety and quality in their operations than for opportunistic players. This may spur a restructuring of the tanker industry. We are more likely to see a gradual improvement of the tanker market with the present scenario, rather than the "boom and bust" scenario predicted in the late 1980s.

Jon Edvard Sundnes

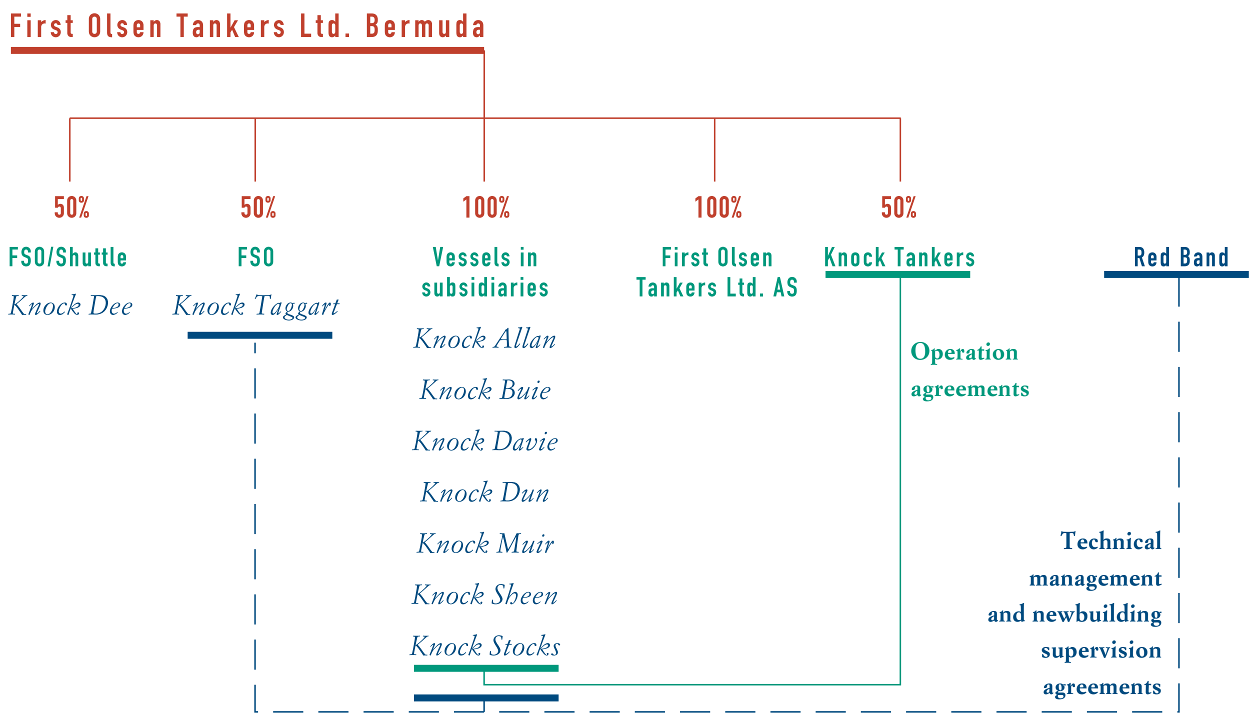
VLCC AND SUEZMAX TANKERS DELIVERIES AND ORDERS



Source: R.S. Platou Shipbrokers (March 1997)

First Olsen Tankers Ltd. was incorporated with limited liability in Bermuda in 1993. Subsidiaries of the Company own a fleet of seven Suezmax tankers.
These subsidiaries have entered into Suezmax Tanker Agreements with Knock Tankers Ltd., Bermuda, for the commercial operation of their tankers, and Ship Management Agreements with Red Band AS , Oslo. Knock Tankers Ltd. markets the tankers in the Knock Tankers Pool. The tankers are registered in Liberia, with the exception of MT Knock Davie, which is registered in Panama.
The Company also owns 50% in two companies involved in floating storage operations and 50% in Knock Tankers Ltd, the Pool manager.

A subsidiary, FOTL AS, incorporated with offices in Oslo, is responsible for accounting and investor relations on behalf of the Company. The shares of the Company trade under a full listing on the Oslo Stock Exchange, and also trade in the over-the-counter market (SEAQ International) in London.



The Knock Tankers Pool

All Suezmax tankers in the FOTL fleet are operated by the Knock Tankers Pool, which is operated by Knock Tankers Ltd., one of the world's largest operators of Suezmax tankers. All the vessels in the pool are currently trading in the spot market. Knock Tankers Ltd. handles voyage operations and accounting on behalf of the owners. The day-to-day operations of the Pool are carried out at the Oslo office of Knock Tankers Ltd. by an operating staff of six.

Major decisions concerning the Pool are made by a committee known as the Participants' Committee, which consists of representatives of each participating owner. Each tanker carries one vote in the committee. The committee provides guidance to the Pool manager regarding chartering policy, approves accounts and budgets, decides on the acceptance of new participants and the earning points and approves longer-term charter commitments.

Earnings for the tankers in the Knock Tankers Pool are distributed according to pool points and days in operation. The Points of each tanker are based on factors affecting the relative trading values of the tankers in the Pool. The aim is to make a fair and equitable assessment of each tanker, taking into account the size, age, speed, special equipment, technical condition, capacity and other factors that influence its contribution to revenues. Each tanker's earning points are revised semi-annually in advance of trading.

Knock Tankers Ltd. is owned equally by subsidiaries of Corserine Shipping Ltd. and First Olsen Tankers Ltd. Knock Tankers Ltd. also provides commercial oil tanker and dry cargo operation services to third parties, including marketing of one VLCC, the Knock More, one shuttle tanker, the Knock An, and spot and time chartering of specialized smaller dry cargo ships.

The Knock Tankers Pool – Fleet List, 1 April 1997

Vessel	dwt	Year built/Where built	Owning Company	Next Class Renewal Date	Pool Points
MT Knock Allan	145,242	1992 Northern Ireland	Allan Shipping Co. Ltd. *(FOTL subsidiary)*	Jan. 2002	140
MT Knock Buie	141,330	1975 Japan	Buie Shipping Ltd. *(FOTL subsidiary)*	Oct. 1999	100
MT Knock Clune	147,048	1993 Northern Ireland	Davieship Inc./Davieship II Inc.	June 1998	140
MT Knock Davie	140,905	1975 Sweden	Davie Shipping Ltd. *(FOTL subsidiary)*	Oct. 2000	100
MT Knock Dun	147,048	1994 Northern Ireland	Dun Shipping Ltd. *(FOTL subsidiary)*	Oct. 1999	140
MT Knock Muir	146,286	1996 Northern Ireland	Knock 1736 Ltd. *(FOTL subsidiary)*	Feb. 2001	140
MT Knock Sheen	152,485	1989 Korea	Star International Shipping Ltd. *(FOTL subsidiary)*	Apr. 1999	140
MT Knock Stocks	145,242	1993 Northern Ireland	Stocks Shipping Ltd. *(FOTL subsidiary)*	Jan. 1998	140

Red Band as

Dear FOTL Shareholders,

Red Band AS is proud to have been entrusted with the technical management of the fleet of First Olsen Tankers Ltd. Our response to this challenge has been to continue to be a front-runner in ship management throughout 1996, actively expanding our strategies to meet the needs of shipping customers in the fields of safety at sea and quality assurance.

Red Band is responsible for the technical management of a total of 14 vessels, 13 of which are crude oil tankers. We have already implemented systems that meet the stricter certification requirements set forth in the recently revised STCW code (International Convention on Standards of Training, Certification and Watchkeeping for Seafarers). These systems include familiarization training in personal safety routines and performance in emergency situations. Such training must be completed before the seafarer is assigned to shipboard duties on vessels.

Red Band's approach is to give quality assurance the highest possible priority. We accomplish this through allocating responsibilities to senior executives and developing efficient frames of reference for critical analysis of organizational responses and individual's actions. Responsibilities include evaluating standards, requirements and needs, and drafting policies and documentation.

The fleet that Red Band manages complies fully with the Safety and Environmental Protection (SEP) maritime standards developed by DnV, Det norske Veritas classification society. The Red Band fleet and its organization became fully SEP certified as early as in 1994. The SEP certification supplied Red Band with a "toolbox" of techniques to help design, enhance and run our own safety management system. SEP fully meets the International Safety Management (ISM) Code which will be made mandatory for tanker vessels in July 1998.

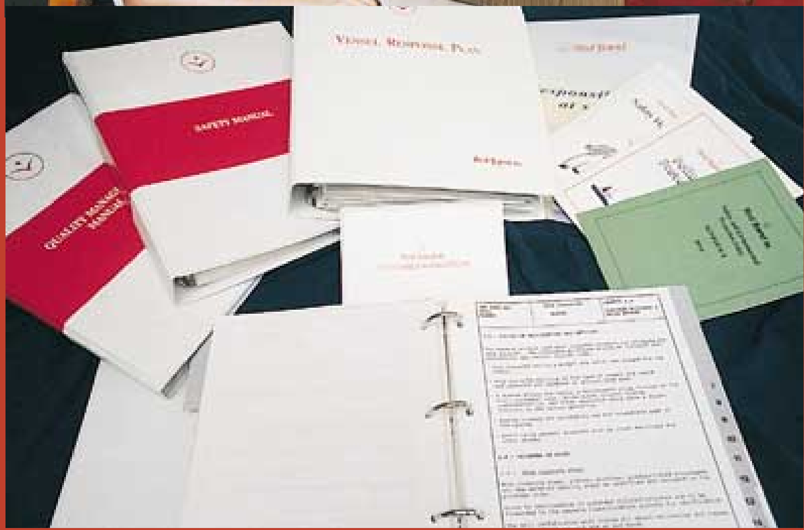
During 1996, Red Band expanded its traditional business area of vessel management services, such as operations, personnel and purchasing, to include commercially marketed consulting, research and development activities. Cost control and a pro-active approach to ship management are areas of specialised focus.

Red Band has implemented Computer-Based Training (CBT) systems on board all of its new ships. The training system's content is designed to meet the recruitment and training policies of the company. Red Band senior and junior officers like the interactive training principles used in CBT, and they find that the computer-based programs have paved the way for better preparation of weekly work plans and shipboard training.

In closing, we are pleased to report that First Olsen Tankers Ltd. vessels and all other ships under the technical management of Red Band have maintained their excellent record for operational and environmental safety throughout 1996.

Henning Poulsson

Henning Poulsson, Managing Director
Red Band AS


Vessel Response Plan
SAFETY MANUAL

Aframax Tanker	Tanker between 80,000 and 100,000 dwt.
Bareboat charter	Contract for hire of a ship for a certain period of time during which the charterer hiring the ship is responsible for operating costs, as well as voyage costs of the ship.
Barrel	Trading unit for oil products. One barrel equals approximately 159 liters, or 55 gallons.
Bunker	Fuel oil used for propulsion, heating of cargo, electricity production, etc., on board a ship.
Charter	To hire or hire out a tanker.
Charterer	The person or company hiring a tanker.
Combined carrier	Vessel able to carry both wet and dry bulk cargoes.
Draught	How deep the keel lies below the water's surface.
Dwt	Tonnes deadweight: a measure for the carrying capacity of a tanker, including cargo, bunkers, stores, and fresh water, when loading to the permitted load marks. The capacity is measured in metric tonnes. The deadweight is the difference between extreme displacement at any draught and the lightship displacement.
Lightering	Ship-to-ship transfer of cargo.
LOOP	Louisiana Offshore Oil Port, a deep-water oil discharge terminal in the Gulf of Mexico.
Mbd	Million barrels per day.
IMO	International Maritime Organisation, UN body working for safety at sea.
OBO; O/O	Oil Bulk Ore carrier - Ore/Oil carrier (see Combined carrier).
Operating cost	The costs of technical operation of ships, crewing, repair, maintenance, and insurance, but excluding capital costs.
Segregated ballast (SBT)	Tanks specifically dedicated to take in and discharge water for ballast purposes without pollution by oil or cargo residues.
Sister ship/tanker	Another ship built according to the same plans and specifications.
Spot charter	The chartering of a tanker for a single voyage.
Suezmax tanker	Tanker able to transit fully laden through the Suez Canal. Often defined between 120,000 and 175,000 dwt with about one million barrels carrying capacity.
Time charter - T/C	The chartering of a ship for a defined period of time.
Time charter equivalent	The earnings for a ship calculated on a time charter basis, i.e. net of voyage earnings costs.
VLCC/VLOO	Very Large Crude Carrier /Very Large Ore Oiler Tanker /Combined Carrier with a carrying capacity greater than 200,000 dwt.
Voyage costs	Costs related to actual voyage of the ship such as fuel costs, port charges, and pilotage.

Appendix 5 *Geographical Division of Shareholdings as o 31 Dec.*

BELGIUM	2.31%	LUXEMBOURG	1.84%
BERMUDA	9.98%	NORWAY	50.09%
CANADA	2.49%	PORTUGAL	0.12%
DENMARK	0.24%	SWEDEN	2.10%
GREAT BRITAIN	26.59%	SWITZERLAND	2.06%
IRELAND	0.27%	UNITED STATES	1.80%
LIBERIA	0.02%		

According to the bye-laws of FOTL, the maximum permitted shareholding in any jurisdiction must be less than 50 percent. In 1996, some purchases of Company shares by Norwegian investors were in conflict with this provision, and the investors were therefore requested to resell these shares. At year-end, however, the transcript from the Norwegian Registry of Shares (VPS) showed that 50.09 percent of the shares were registered as owned by Norwegian investors. The situation had been remedied by March 1997, and the number of shares held by Norwegian investors is presently below the required 50 percent level.

Appendix 6 *Directory*

Ship Operators:

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Fax: +47 22 33 84 31

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Fax: +1 441 292 8787

Registered Office and Company Secretary:

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Hamilton HMDX
Bermuda

Tel: +1 441 295 1422

Fax: +1 441 292 4720

Commercial Managers:

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Fax: +47 22 42 24 41

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Auditors:

KPMG a.s.

Brynsveien 12
P.O. BOX 150 Bryn
N-0611 Oslo
Norway

Tel: +47 22 07 22 07

Fax: +47 22 72 42 82



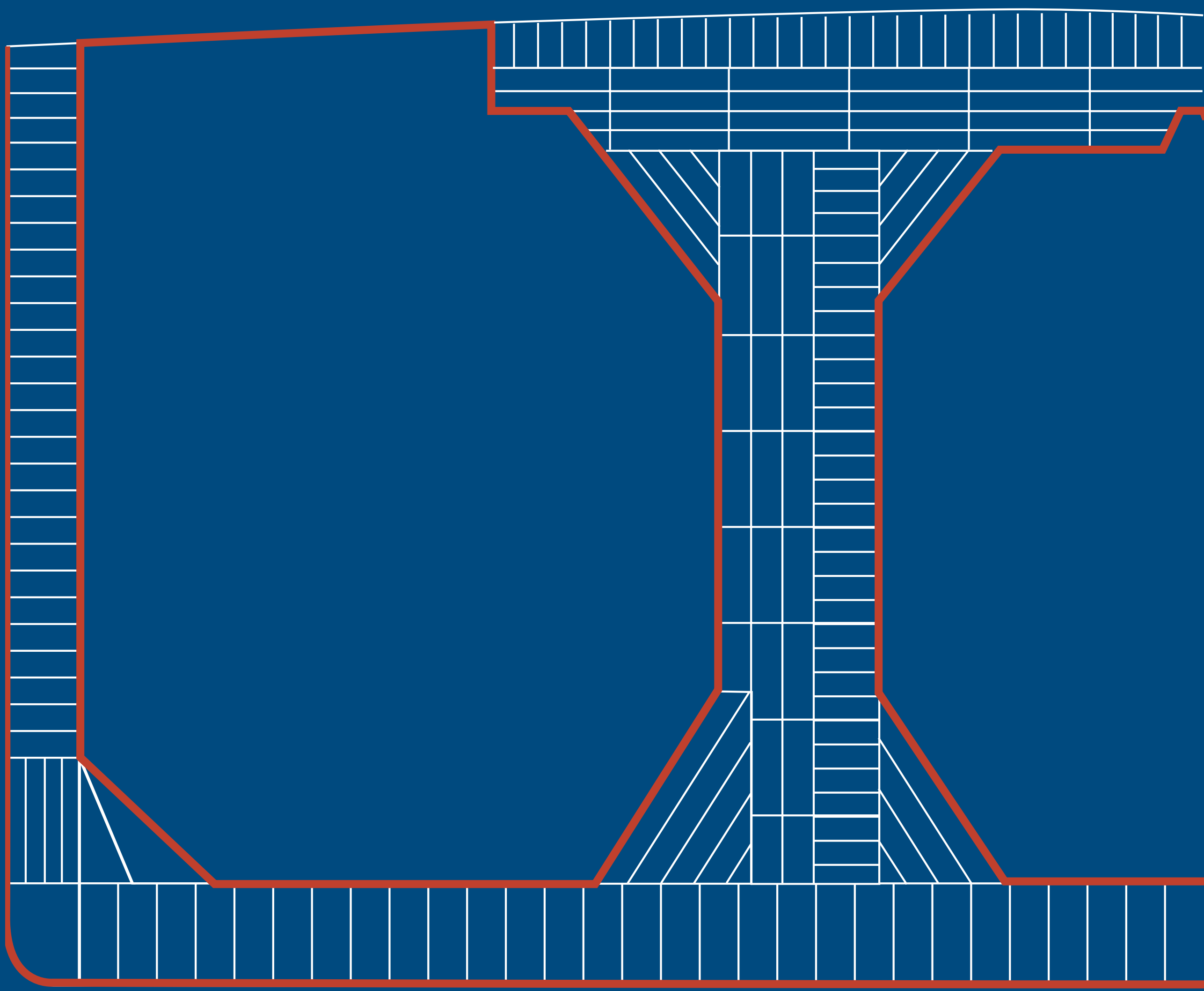
–Think safety

–Safety for all onboard

–Safety for vessel and surroundings

–Clean air

–Clean sea



Cover Pictures: The Knock Dee during Conversion to a combined Storage and Shuttle tanker in Singapore, December 1996.

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First Olsen Tankers