FRONTLINE LTD /
Form 20-F
May 02, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from
Commission file number 001-16601

Frontline Ltd
(Exact name of Registrant as specified in its charter)

Frontline Ltd
(Translation of Registrant's name into English)

Bermuda
(Jurisdiction of incorporation or organization)
Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda

(Address of principal executive offices)

Georgina Sousa, (1) 441 295 3494, Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Ordinary Shares, $2.50 Par Value	New York Stock Exchange

Securities registered or to be registered pursuant to section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Ordinary Shares, $2.50 Par Value
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

74,825,169 Ordinary Shares, $2.50 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standings o	Other o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

INDEX TO REPORT ON FORM 20-F

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this report may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Frontline Ltd, or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This report and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. When used in this report, the words “believe,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “plan,” “potential,” “may,” “should,” “expect” and similar expressions identify forward-looking statements.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the tanker market, including changes in demand resulting from 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, political events or acts by terrorists, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

Throughout this report, the "Company," "we," "us" and "our" all refer to Frontline Ltd and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. The Company operates tankers of two sizes: very large crude carriers, or VLCCs, which are between 200,000 and 320,000 deadweight tons, or dwt, and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. We also operate oil/bulk/ore or OBO carriers which can be used to carry oil or dry cargo on any voyage. Unless otherwise indicated, all references to "USD,""US$" and "$" in this report are U.S. dollars.

A. SELECTED FINANCIAL DATA

The selected income statement data of the Company with respect to the fiscal years ended December 31, 2007, 2006 and 2005 and the selected balance sheet data of the Company with respect to the fiscal years ended December 31, 2007 and 2006 have been derived from the Company's consolidated financial statements included in Item 18 of this annual report, prepared in accordance with United States generally accepted accounting principles. The selected income statement data with respect to the fiscal years ended December 31, 2004 and 2003 and the selected balance sheet data with respect to the fiscal years ended December 31, 2005, 2004 and 2003 have been derived from consolidated financial statements of the Company not included herein. The following table should be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's consolidated financial statements and notes thereto included herein.

	Fiscal year ended December 31,				
	2007	2006	2005	2004	2003
(in thousands of $, except ordinary shares, per share data and ratios)					
Income Statement Data 1:					
Total operating revenues 2	1,299,927	1,558,369	1,495,975	1,842,923	1,159,439
Total operating expenses 2	898,904	850,623	713,919	737,389	683,515
Net operating income	519,191	803,401	858,137	1,125,108	480,984
Net income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	503,991	661,330	761,078	970,936	439,518
Net income from continuing operations before cumulative effect of change in accounting principle	564,976	502,486	592,743	905,763	439,515
Discontinued operations 3	5,442	13,514	14,096	117,619	3,612
Cumulative effect of change in accounting principle 4	—	—	—	—	(33,767)
Net income	570,418	516,000	606,839	1,023,382	409,360
Earnings from continuing operations before cumulative effect of change in accounting principle per Ordinary Share					
- basic	$ 7.55	$ 6.72	$ 7.92	$ 12.21	$ 5.87
- diluted	$ 7.55	$ 6.72	$ 7.92	$ 12.21	$ 5.86
Net income per Ordinary Share					
- basic	$ 7.62	$ 6.90	$ 8.11	$ 13.79	$ 5.47
- diluted	$ 7.62	$ 6.90	$ 8.11	$ 13.79	$ 5.45
Cash dividends declared per share	$ 8.30	$ 7.00	$ 10.10	$ 13.60	$ 4.55
Balance Sheet Data (at end of year) 1:					
Cash and cash equivalents	168,432	197,181	92,782	96,879	112,000
Newbuildings and vessel purchase options	160,298	166,851	15,927	24,231	8,370
Vessels and equipment, net	208,516	2,446,278	2,584,847	2,254,361	2,165,239
Vessels under capital lease, net	2,324,789	626,374	672,608	718,842	765,126
Investments in associated companies	5,633	17,825	15,783	28,881	179,416
Total assets	3,762,091	4,589,937	4,454,817	4,211,160	4,319,345
Short-term debt and current portion of long-term debt	96,811	281,409	228,135	137,332	174,826
Current portion of obligations under capital lease	179,604	28,857	25,142	21,498	20,138
Long-term debt	376,723	2,181,885	2,101,061	1,879,598	1,966,471
Obligations under capital lease	2,318,794	723,073	706,279	732,153	753,823
Share capital	187,063	187,063	187,063	187,063	184,120
Stockholders' equity	445,969	668,560	715,166	917,968	1,255,417

Ordinary Shares outstanding	74,825,169	74,825,169	74,825,169	74,825,169	73,647,930
Weighted average Ordinary Shares outstanding	74,825,169	74,825,169	74,825,169	74,192,939	74,901,900
Other Financial Data:					
Equity to assets ratio (percentage) 5	11.8%	14.6%	16.1%	21.8%	29.1%
Debt to equity ratio 6	6.7	4.8	4.3	3.0	2.3
Price earnings ratio 7	6.3	4.6	4.7	3.2	4.7
Time charter equivalent revenue 8	938,960	1,154,029	1,155,135	1,477,537	832,950

Notes:

1. The Company distributed the majority of its remaining shareholding in Ship Finance International Limited ("Ship Finance") in March 2007 and no longer consolidates Ship Finance as of March 31, 2007. A summary of the major changes to the financial statements is as follows;

a. Vessels leased from Ship Finance, which were previously reported as wholly owned are reported as vessels held under capital lease.

b. Capital lease obligations with Ship Finance, which were previously eliminated on consolidation are reported as liabilities with the related interest recorded in the income statement.

c. Debt incurred by Ship Finance, which was previously reported as debt of the Company is no longer reported.

d. Derivative instruments held by Ship Finance are no longer reported.

e. Minority interest expense relating to Ship Finance is no longer reported.

f. Profit share expense relating to amounts due to Ship Finance is shown in the income statement.

g. Results from Ship Finance's container ships, jack-up rigs and Panamax vessels are no longer reported in the Company's consolidated results

2. Previously we reported net operating revenues in our income statement data. Effective December 31, 2003 we reclassified voyage expenses and commission as a component of total operating expenses and now report total operating revenues and total operating expenses.

3. The Company disposed of the container vessel and rig operations of Ship Finance in the first quarter of 2007 as a result of the spin off of Ship Finance. These operations have been recorded as discontinued operations in 2007 and 2006. The results from container vessels have also been recorded in discontinued operations in 2005. These operations have been recorded as discontinued operations for all applicable years presented, which are 2007, 2006 and 2005. During the years ended December 31, 2005 and 2004 the Company disposed of portions of its dry-bulk operations, which have been recorded as discontinued operations in the years ended December 31, 2005, 2004 and 2003.

4. In 2003, the Company adopted FIN 46R "Consolidation of Variable Interest Entities" and recorded a charge of $33.7 million as a result of this change in accounting principle.

5. Equity to assets ratio is calculated as total stockholders' equity divided by total assets.

6. Debt to equity ratio is calculated as total interest bearing current and long-term liabilities, including obligations under capital leases, divided by stockholders' equity.

7. Price earnings ratio is calculated by dividing the closing year end share price by basic earnings per share.

8. A reconciliation of time charter equivalent revenues to total operating revenues as reflected in the consolidated statements of operations is as follows:

(in thousands of $)	2007	2006	2005	2004	2003
Total operating revenues	1,299,927	1,558,369	1,495,975	1,842,923	1,159,439
Less:					
Other revenue	(8,516)	(5,294)	(3,877)	(3,777)	(3,111)
Voyage expense	(352,451)	(399,046)	(336,963)	(361,609)	(323,378)
Time charter equivalent revenue	938,960	1,154,029	1,155,135	1,477,537	832,950

Our vessels are operated under time charters, bareboat charters, voyage charters, pool arrangements and contracts of affreightment, or COAs. Under a time charter, the charterer pays substantially all of the vessel voyage costs which are primarily fuel and port charges. Under a bareboat charter the charterer pays substantially all of the vessel voyage and operating costs. Under a voyage charter, the vessel owner pays such costs. Under contracts of affreightment, the owner carries an agreed upon quantity of cargo over a specified route and time period. Accordingly, charter income from a voyage charter would be greater than that from an equally profitable time charter to take account of the

owner's payment of vessel voyage costs, and charter income from a bareboat charter would be lower than that from an equally profitable time charter, to take account of the charterer's payment of vessel operating costs. In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of time charter equivalent revenue, or TCE. Total TCE is the sum of time charter, voyage charter and bareboat charter revenues, less voyage expenses. Total TCE, which is not covered by generally accepted accounting principles, or GAAP, provides more meaningful information to us than total operating revenues, the most directly comparable GAAP measure. Average daily TCEs are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. Other companies may calculate TCE using a different method.

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable

D. RISK FACTORS

We are engaged primarily in transporting crude oil and oil products. The following summarizes some of the risks that may materially affect our business, financial condition or results of operations.

Risks Related to Our Industry

The cyclical nature of the tanker industry may lead to volatile changes in charter rates and vessel values which may adversely affect our earnings

Historically, the tanker industry has been highly cyclical, with volatility in profitability and asset values resulting from changes in the supply of and demand for tanker capacity. If the tanker market is depressed in the future our earnings and available cash flow may decrease. Our ability to re-charter our vessels on the expiration or termination of their current spot and time and bareboat charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the tanker market. Fluctuations in charter rates and vessel values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products.

The factors affecting the supply and demand for oil tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. The factors that influence demand for tanker capacity include:

- demand for oil and oil products;
- global and regional economic and political conditions;
- changes in oil production and refining capacity;
- environmental and other regulatory developments;
- the distance oil and oil products are to be moved by sea; and
- changes in seaborne and other transportation patterns.

The factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- port or canal congestion
- vessel casualties;
- price of steel;
- potential conversion of vessels to alternative use;

- the number of vessels that are out of service; and
- changes in environmental and other regulations that may effectively cause reductions in the carrying capacity of vessels or early obsolescence of tonnage.

The international tanker industry has experienced historically high charter rates and vessel values in the recent past and there can be no assurance that these historically high charter rates and vessel values will be sustained

Charter rates in the tanker industry are volatile. We anticipate that future demand for our vessels, and in turn our future charter rates, will be dependent upon continued economic growth in the world's economy as well as seasonal and regional changes in demand and changes in the capacity of the world's fleet. We believe that these charter rates are the result of continued economic growth in the world economy that exceeds growth in global vessel capacity. There can be no assurance that economic growth will not stagnate or decline leading to a decrease in vessel values and charter rates. A decline in charter rates could have an adverse effect on our business, financial condition, results of operation and ability to pay dividends.

Any decrease in shipments of crude oil may adversely affect our financial performance

The demand for our oil tankers derives primarily from demand for Arabian Gulf and West African crude oil, along with crude oil from the former Soviet Union, or the FSU, which, in turn, primarily depends on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, social and other factors can significantly affect the strength of the world's industrial economies and their demand for crude oil from the mentioned geographical areas. One such factor is the price of worldwide crude oil. The world's oil markets have experienced high levels of volatility in the last 25 years. If oil prices were to rise dramatically, the economies of the world's industrial countries may experience a significant downturn.

Any decrease in shipments of crude oil from the above mentioned geographical areas would have a material adverse effect on our financial performance. Among the factors which could lead to such a decrease are:

- increased crude oil production from other areas;
- increased refining capacity in the Arabian Gulf, West Africa or the FSU;
- increased use of existing and future crude oil pipelines in the Arabian Gulf, West Africa and FSU;
- a decision by Arabian Gulf, West African and FSU oil-producing nations to increase their crude oil prices or to further decrease or limit their crude oil production;
- armed conflict in the Arabian Gulf and West Africa and political or other factors; and
- the development and the relative costs of nuclear power, natural gas, coal and other alternative sources of energy.

An increase in the supply of vessel capacity without an increase in demand for vessel capacity would likely cause charter rates and vessel values to decline, which could have a material adverse effect on our results of operations and financial condition.

The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels, conversion of vessels to other uses, such as floating production and storage facilities, and loss of tonnage as a result of casualties. Currently there is significant newbuilding activity with respect to virtually all sizes and classes of vessels. If the amount of tonnage delivered exceeds the number of vessels being scrapped, vessel capacity will increase. If the supply of vessel capacity increases and the demand for vessel capacity does not, the charter rates paid for our vessels as well as the value of our vessels could materially decline. Such a decline in charter rates and vessel values would likely have an adverse effect on our revenues and profitability.

5

Risks involved with operating ocean-going vessels could affect our business and reputation, which could have a material adverse effect on our results of operations and financial condition

The operation of an ocean-going vessel carries inherent risks. These risks include the possibility of:

- a marine disaster;
- piracy;
- environmental accidents;
- cargo and property losses or damage; and
- business interruptions caused by mechanical failure, human error, war, terrorism, piracy, political action in various countries, labor strikes, or adverse weather conditions.

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable tanker operator.

Safety, environmental and other governmental and other requirements expose us to liability, and compliance with current and future regulations could require significant additional expenditures, which could have a material adverse affect on our business and financial results

Our operations are affected by extensive and changing international, national, state and local laws, regulations, treaties, conventions and standards in force in international waters, the jurisdictions in which our tankers and other vessels operate and the country or countries in which such vessels are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast water management. These regulations include the U.S. Oil Pollution Act of 1990, or OPA, the International Convention on Civil Liability for Oil Pollution Damage of 1969, or CLC, International Convention for the Prevention of Pollution from Ships, the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Convention on Load Lines of 1966, and the U.S. Marine Transportation Security Act of 2002. In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether.

Many of these requirements are designed to reduce the risk of oil spills and other pollution, and our compliance with these requirements can be costly. These requirements can also affect the resale value or useful lives of our vessels, require a reduction in cargo-capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports.

Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, natural resource damages and third-party claims for personal injury or property damages, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our current or historic operations. We could also incur substantial penalties, fines and other civil or criminal sanctions, including in certain instances seizure or detention of our vessels, as a result of violations of or liabilities under environmental laws, regulations and other requirements.

For example, OPA affects all vessel owners shipping oil to, from or within the United States. OPA allows for potentially unlimited liability without regard to fault for owners, operators and bareboat charterers of vessels for oil pollution in United States waters. Similarly, CLC, which has been adopted by most countries outside of the United States, imposes liability for oil pollution in international waters. OPA expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability.

Maritime claimants could arrest our tankers, which could have a material adverse effect on our results of operations and financial condition

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay a significant amount of money to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our ships.

Governments could requisition our vessels during a period of war or emergency, which could have a material adverse effect on our results of operations and financial condition

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. This amount could be materially less than the charterhire that would have been payable otherwise. In addition, we would bear all risk of loss or damage to a vessel under requisition for hire. Government requisition of one or more of our vessels would negatively impact our revenues.

Risks Related to Our Business

We are highly dependent on spot voyage charters. Any decrease in spot charter rates in the future may adversely affect our earnings

A significant portion of our vessels currently operate on a spot charter basis or under contracts of affreightment under which we carry an agreed upon quantity of cargo over a specified route and time period. Although spot chartering is common in the tanker industry, the spot charter market is highly competitive and spot charter rates may fluctuate significantly based upon tanker and oil supply and demand. The successful operation of our vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. We cannot assure you that future spot charters will be available at rates sufficient to enable our vessels trading in the spot market to operate profitably. In addition, bunkering, or fuel charges, which account for a substantial portion of the operating costs, and generally reflect prevailing oil prices, are subject to sharp fluctuations.

Our revenues experience seasonal variations that may affect our income

We operate our tankers in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. Historically, oil trade and therefore charter rates increased in the winter months and eased in the summer months as demand for oil in the Northern Hemisphere rose in colder weather and fell in warmer weather. In addition, unpredictable weather patterns in the winter months tend to disrupt vessel scheduling. The tanker industry in general is less dependent on the seasonal transport of heating oil than a decade ago as new uses for oil and oil products have developed, spreading consumption more evenly over the year. Most apparent is a higher seasonal demand during the

summer months due to energy requirements for air conditioning and motor vehicles. The oil price volatility resulting from these factors has historically led to increased oil trading activities and demand for vessels. The change in demand for vessels may affect the charter rates that we receive.

As of February 29, 2008, we charter 40 vessels from Ship Finance at fixed rates on long-term charters. In addition, we charter 16 vessels under fixed rate medium term charters from third parties. We are obliged to make fixed rate charterhire payments even though our income may decrease to levels that make these charters unprofitable

Our long term time charters with Ship Finance extend for various periods depending on the age of the vessels, ranging from approximately five to 21 years subject to certain exceptions discussed below in Item 10C. The daily base charter rates, which are payable by us for very large crude carriers, or VLCCs, range from $25,575 in 2006 to $24,175 in 2011 and beyond and from $21,100 in 2006 to $19,700 from 2011 and beyond for Suezmaxes. Our third party medium-term charters extend from one to eleven years. The daily base charter rates, which are payable by us for Suezmaxes range from $15,295 to $25,948 and from $15,500 to $37,750 for VLCCs.

If our earnings from these vessels fall below these rates we will incur losses.

Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels which may adversely affect our earnings

The fair market value of vessels may increase and decrease depending on but not limited to the following factors:

- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies;
- types and sizes of vessels;
- other modes of transportation;
- cost of newbuildings;
- shipyard capacity;
- governmental or other regulations;
- age of vessels;
- prevailing level of charter rates; and
- technological advances.

If we sell a vessel at a time when ship prices have fallen, the sale may be at less than the vessel's carrying amount on our financial statements, with the result that we could incur a loss and a reduction in earnings. In addition, if we determine at any time that a vessel's future limited useful life and earnings require us to impair its value on our financial statements, that could result in a charge against our earnings and a reduction of our shareholders' equity. It is possible that the market value of our vessels will decline in the future.

An acceleration of the current prohibition to trade deadlines for our non-double hull tankers could adversely affect our operations

As at February 29, 2008 our tanker fleet includes nine non-double hull tankers. The United States, the European Union and the International Maritime Organization, or the IMO, have all imposed limits or prohibitions on the use of these types of tankers in specified markets after certain target dates, depending on certain factors such as the size of the vessel and the type of cargo. In the case of our non-double hull tankers, these phase out dates range from 2010 to 2015. In 2005, the Marine Environmental Protection Committee of the IMO has amended the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of certain categories of single hull tankers, including the types of vessels in our fleet, from 2015 to 2010 unless the relevant flag states extend the date. This change could result in a number of our vessels being unable to trade in many markets after 2010. The phase out

of single hull tankers may therefore reduce the demand for single hull tankers, and force the remaining single hull tankers into employment on less desirable trading routes and increase the number of tankers trading on those routes. As a result, single hull tankers may be chartered less frequently and at lower rates. Moreover, additional regulations may be adopted in the future that could further adversely affect the useful lives of our non-double hull tankers, as well as our ability to generate income from them.

We may be unable to successfully compete with other tanker operators for charters

The operation of tankers and transportation of crude and petroleum products and the other businesses in which we operate are extremely competitive. Through our operating subsidiaries we compete with other oil tanker owners (including major oil companies as well as independent companies), and, to a lesser extent, owners of other size vessels. The tanker market is highly fragmented. It is possible that our competitive position will erode in the future.

Our revenues may be adversely affected if we do not successfully employ our tankers

As of February 29, 2008, 31 of our vessels were contractually committed to time or bareboat charters, with the charters for five vessels expiring in 2008 and the remaining 26 vessel charters expiring between 2009 and 2013. Additionally, we have two vessels on time charters and four vessels on bareboat charters, all of which are based on spot market rates rather than fixed rate. Although these time charters generally provide reliable revenues, they also limit the portion of our fleet available for spot market voyages during an upswing in the tanker industry cycle, when spot market voyages might be more profitable. We also cannot assure you that we will be able to successfully employ our tankers in the future or renew our existing charters at rates sufficient to allow us to operate our business profitably or meet our obligations. A decline in charter or spot rates or a failure to successfully charter our tankers could have an adverse effect on our business, financial condition, results of operation and ability to pay dividends.

The spot charter market is highly competitive, and spot market voyage charter rates may fluctuate dramatically based on tanker and oil supply and demand and other factors. We cannot assure you that future spot market voyage charters will be available at rates that will allow us to operate our tankers profitably.

Delays or defaults by the shipyards in the construction of our new vessels could increase our expenses and diminish our net income and cash flows

We have entered into newbuilding contracts for the construction of a total of eight VLCC and eight Suezmax vessels with Jiangnan Shipyard (Group) Company Ltd., or Jiangnan, Jiangsu Rongsheng Heavy Industries Group Co. Ltd., or Rongsheng, and Zhoushan Jinhaiwan Shipyard Co. Ltd, or Jinhaiwan, in China. These projects are subject to the risk of delay or defaults by the shipyards caused by, among other things, unforeseen quality or engineering problems, work stoppages, weather interference, unanticipated cost increases, delays in receipt of necessary equipment, and inability to obtain the requisite permits or approvals. In accordance with industry practice, in the event the shipyards are unable or unwilling to deliver the vessels, we may not have substantial remedies. Failure to construct or deliver the ships by the shipyards or any significant delays could increase our expenses and diminish our net income and cash flows.

As we expand our fleet, we may not be able to recruit suitable employees and crew for our vessels which may limit our growth and cause our financial performance to suffer

As we expand our fleet, we will need to recruit suitable crew, shoreside, administrative and management personnel. We may not be able to continue to hire suitable employees as we expand our fleet of vessels. If we are unable to recruit suitable employees and crews, we may not be able to provide our services to customers, our growth may be limited and our financial performance may suffer.

We may not be able to renew time charters when they expire or enter into new time charters for newbuildings

There can be no assurance that any of our existing time charters will be renewed or that we will be successful in entering into new time charters on the newbuildings that will be delivered to the Company or if renewed or entered

into, that they will be at favorable rates. If, upon expiration of the existing time charters or delivery of newbuildings, we are unable to obtain time charters or voyage charters at desirable rates, the Company's profitability may be adversely affected.

Rising fuel prices may adversely affect our profits

Fuel is a significant, if not the largest, operating expense for many of our shipping operations when our vessels are not under period charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. As a result, an increase in the price of fuel may adversely affect our profitability. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

Our vessels may suffer damage and we may face unexpected drydocking costs, which could affect our cash flow and financial condition

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that our insurance does not cover. The inactivity of these vessels while they are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or we may be forced to move to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while our vessels are forced to wait for space or to relocate to drydocking facilities that are farther away from the routes on which our vessels trade would decrease our earnings.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of contents of our vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have an adverse effect on our business, financial condition, results of operations and ability to pay dividends.

Our financing obligations could affect our ability to incur additional indebtedness or engage in certain transactions

Our existing and future financing agreements impose operational and financing restrictions on us which may significantly limit or prohibit, among other things, our ability to incur additional indebtedness, create liens, sell capital shares of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, enter into time or consecutive voyage charters or pay dividends without the consent of our lenders. In addition, our lenders may accelerate the maturity of indebtedness under our financing agreements and foreclose on the collateral securing the indebtedness upon the occurrence of certain events of default, including our failure to comply with any of the covenants contained in our financing agreements, not rectified within the permitted time. For instance, declining vessel values could lead to a breach of covenants under our financing agreements. If we are unable to pledge additional collateral or obtain waivers from our lenders, our lenders could accelerate our debt and foreclose on our vessels. In addition, if the lenders accelerate the debt outstanding under one facility in default, it could result in a default on our other facilities.

10

We may not be able to finance our newbuilding program

As of December 31, 2007, we had a newbuilding program with an aggregate contract cost of approximately $984 million and had outstanding commitments of approximately $880 million with respect to our contracted newbuildings at that date. In April 2008, we entered into contracts for an additional four newbuildings with an aggregate cost of $540 million. We intend to fund approximately 80% of our newbuilding commitments with borrowings under new credit facilities, which may contain terms and covenants that restrict our financial and operating flexibility. Our liquidity position may be adversely affected if we are unable to attract financing for our newbuilding program.

We may be unable to attract and retain key management personnel in the tanker industry, which may negatively impact the effectiveness of our management and our results of operation

Our success depends to a significant extent upon the abilities and efforts of our senior executives, and particularly John Fredriksen, our Chairman and Chief Executive Officer, for the management of our activities and strategic guidance. While we believe that we have an experienced management team, the loss or unavailability of one or more of our senior executives, and particularly Mr. Fredriksen, for any extended period of time could have an adverse effect on our business and results of operations.

We may not have adequate insurance to compensate us if our vessels are damaged or lost

We procure insurance for our fleet against those risks that we believe the shipping industry commonly insures against. These insurances include hull and machinery insurance, protection and indemnity insurance, which include environmental damage and pollution insurance coverage, and war risk insurance. We can give no assurance that we are adequately insured against all risks. We may not be able to obtain adequate insurance coverage at reasonable rates for our fleet in the future. Additionally, our insurers may not pay particular claims. Our insurance policies contain deductibles for which we will be responsible, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs or lower our revenue.

Our operations outside the United States expose us to global risks that may interfere with the operation of our vessels

We are an international company and primarily conduct our operations outside of the United States. Changing economic, regulatory, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered affect us. Hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance. The terrorist attacks against targets in the United States on September 11, 2001 and the military response by the United States has increased the likelihood of acts of terrorism worldwide. Acts of terrorism, regional hostilities or other political instability, as shown by the attack on the Limburg in Yemen in October 2002, attacks on oil pipelines during and subsequent to the Iraq war in 2003 and attacks on expatriate workers in the Middle East could adversely affect the oil trade and reduce our revenue or increase our expenses.

Because we are a foreign corporation, you may not have the same rights that a shareholder in a U.S. corporation may have

We are a Bermuda corporation. Our memorandum of association and bye-laws and the Bermuda Companies Act 1981, as amended, govern our affairs. Investors may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction. Under Bermuda law a director generally owes a fiduciary duty only to the company; not

to the company's shareholder. Our shareholders may not have a direct course of action against our directors. In addition, Bermuda law does not provide a mechanism for our shareholders to bring a class action lawsuit under Bermuda law. Further, our Bye-laws provide for the indemnification of our directors or officers against any liability arising out of any act or omission except for an act or omission constituting fraud, dishonesty or illegality.

Because our offices and most of our assets are outside the United States, you may not be able to bring suit against us, or enforce a judgment obtained against us in the United States

Our executive offices, administrative activities and assets are located outside the United States. As a result, it may be more difficult for investors to effect service of process within the United States upon us, or to enforce both in the United States and outside the United States judgments against us in any action, including actions predicated upon the civil liability provisions of the federal securities laws of the United States.

We may have to pay tax on United States source income, which would reduce our earnings

Under the United States Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, may be subject to a 4% United States federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the applicable Treasury Regulations recently promulgated thereunder.

We expect that we and each of our subsidiaries will qualify for this statutory tax exemption and we will take this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to United States federal income tax on our United States source income. Therefore, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to exemption under Section 883 of the Code for any taxable year, we, or our subsidiaries, could be subject for those years to an effective 4% United States federal income tax on the gross shipping income these companies derive during the year that are attributable to the transport or cargoes to or from the United States. The imposition of this tax would have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

Our Liberian subsidiaries may not be exempt from Liberian taxation, which would materially reduce our Liberian subsidiaries', and consequently our, net income and cash flow by the amount of the applicable tax

The Republic of Liberia enacted an income tax law generally effective as of January 1, 2001, or the New Act, which repealed, in its entirety, the prior income tax law in effect since 1977, pursuant to which our Liberian subsidiaries, as non-resident domestic corporations, were wholly exempt from Liberian tax.

In 2004, the Liberian Ministry of Finance issued regulations, or the New Regulations, pursuant to which a non-resident domestic corporation engaged in international shipping, such as our Liberian subsidiaries, will not be subject to tax under the New Act retroactive to January 1, 2001. In addition, the Liberian Ministry of Justice issued an opinion that the New Regulations were a valid exercise of the regulatory authority of the Ministry of Finance. Therefore, assuming that the New Regulations are valid, our Liberian subsidiaries will be wholly exempt from tax as under prior law.

If our Liberian subsidiaries were subject to Liberian income tax under the New Act, our Liberian subsidiaries would be subject to tax at a rate of 35% on their worldwide income. As a result, their, and subsequently our, net income and cash flow would be materially reduced by the amount of the applicable tax. In addition, we, as a shareholder of the Liberian subsidiaries, would be subject to Liberian withholding tax on dividends paid by the Liberian subsidiaries at rates ranging from 15% to 20%.

Investor confidence and the market price of our common stock may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which requires us to include in our annual report on Form 20-F our management's report on, and assessment of the effectiveness of, our internal controls over

financial reporting. In addition, our independent registered public accounting firm is required to attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, we will not be in compliance with all of the requirements imposed by Section 404. Any failure to comply with Section 404 could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common stock. We believe that future ongoing costs of complying with these requirements may be substantial.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company

We are Frontline Ltd, a Bermuda based shipping company and we were incorporated in Bermuda on June 12, 1992 (Company No. EC-17460). Our registered and principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda, and our telephone number is +1 (441) 295-6935.

We are engaged primarily in the ownership and operation of oil tankers, including oil/bulk/ore, or OBO carriers. We operate tankers of two sizes: VLCCs, which are between 200,000 and 320,000 dwt, and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. We operate through subsidiaries and partnerships located in the Bahamas, Bermuda, the Cayman Islands, the Isle of Man, Liberia, Norway, the United Kingdom and Singapore. We are also involved in the charter, purchase and sale of vessels. Since 1996, we have emerged as a leading tanker company within the VLCC and Suezmax size sectors of the market.

We have our origin in Frontline AB, which was founded in 1985, and which was listed on the Stockholm Stock Exchange from 1989 to 1997. In May 1997, Frontline AB was redomiciled from Sweden to Bermuda and its shares were listed on the Oslo Stock Exchange. The change of domicile was executed through a share for share exchange offer from the then newly formed Bermuda company, Frontline Ltd ("Old Frontline"). In September 1997, Old Frontline initiated an amalgamation with London & Overseas Freighters Limited ("LOF"), also a Bermuda company. This process was completed in May 1998. As a result of this transaction, Frontline became listed on the London Stock Exchange and on the NASDAQ National Market (in the form of American Depositary Shares, or ADSs, represented by American Depositary Receipts, or ADRs) in addition to its listing on the Oslo Stock Exchange.

The ADR program was terminated on October 5, 2001 and the ADSs were delisted from the NASDAQ National Market on August 3, 2001. The Company's Ordinary Shares began trading on the NYSE on August 6, 2001.

Vessel Acquisitions, Disposals and Other Significant Transactions

We entered into the following acquisitions and disposals in 2005, 2006 and 2007:

Newbuilding and Option Contracts

In February and March 2006, we entered into newbuilding contracts with Jiangnan to purchase four VLCCs and subsequently sold two of these newbuilding contracts in June 2006 for a net gain of $9.8 million. In June 2006, we entered into two newbuilding contracts with Jiangnan for the purchase of two VLCCs with an option to purchase two additional VLCC newbuildings. In September 2006, we exercised our option for the two VLCC newbuilding contracts and simultaneously sold these newbuilding contracts to a third party for a net gain of $6.2 million. As of December 31, 2006, we had contracts to purchase four VLCCs.

In July 2006, we entered into newbuilding contracts with Rongsheng, in China for the delivery of two Suezmaxes and simultaneously entered into options for four further similar Suezmax newbuildings. In August 2006, we entered into newbuilding contracts for four Suezmaxes at Rongsheng and sold two of these Suezmax newbuilding contracts to Ship Finance. At December 31, 2006, we had newbuilding contracts for four Suezmaxes and options for four further Suezmaxes.

In March and April 2007, we exercised our options with Rongsheng for four Suezmax newbuildings. At the end of 2007, we had newbuilding contracts for the purchase of four VLCCs and eight Suezmaxes with contracted delivery dates between the end of 2008 and 2010. In 2007, we paid $35.1 million in newbuilding installments and had future commitments of approximately $880 million as of December 31, 2007. We expect to finance approximately 80% of our future commitments with new credit facilities.

In April 2008, we entered into a contract with Jinhaiwan in China for the delivery of four VLCC newbuildings. These vessels are scheduled for delivery in the second half of 2011. We have also secured fixed price options for two similar VLCC newbuildings.

Acquisitions and Disposals

In 2005, we acquired seven VLCC tankers for an aggregate cost of $460.0 million and two containerships for an aggregate cost of $98.6 million. We sold five Suezmax tankers for total proceeds of $231.3 million. We also sold one VLCC for total proceeds of $40.5 million. We also sold our last dry bulk carrier the Cos Hero for total proceeds of $20.7 million.

In March 2006, we purchased the Aframax tanker "Gerrita" (renamed "Front Puffin") for $35.9 million. This vessel was converted to a Floating, Production, Storage and Offloading vessel, or FPSO, and was sold as part of the spin off of the Sea Production Ltd, or Sea Production.

In March 2006, we sold the VLCC Golden Stream for gross proceeds of $53.1 million.

In July 2006, we took delivery of the VLCC Front Beijing, which we subsequently sold for gross proceeds of $141.5 million. We also purchased and took delivery of the VLCC Front Shanghai for approximately $81.0 million in September 2006

Consistent with our strategy to reduce our exposure to chartering single hull vessels, we have entered into a number of transactions to reduce the number of single hull vessels in our fleet;

- In September 2006, Ship Finance announced the sale of the VLCC Front Tobago to a third party for gross proceeds of $45.0 million and Frontline received a compensation payment of $9.6 million from Ship Finance, which was eliminated on consolidation, in connection with the sale.

- In January 2007, Ship Finance sold its single hull Suezmax tanker Front Transporter to an unrelated third party for a gross sales price of $38.0 million. We received a compensation payment of $14.8 million from Ship Finance, which was eliminated on consolidation, on termination of the charter. The vessel was delivered to her new owner in March 2007.

- In March 2007, the single hull VLCC Front Vanadis was sold and delivered to an unrelated third party in May 2007. Upon delivery, our long-term charter party contract with Ship Finance was terminated early, and Frontline received a compensation payment in the amount of $13.2 million.

- In August 2007, we sold the single hull Suezmax tanker Front Horizon to a subsidiary of Farahead Holdings Limited, a company subject to significant influence or indirect control of our Chairman, John Fredriksen for net proceeds of $28.0 million resulting in a net gain of $6.2 million.

- In October 2007, we mutually agreed with Ship Finance to terminate the long-term charter party contract for the single hull VLCC Front Duchess. This termination was cancelled in March 2008.

- In December 2007, we agreed with Ship Finance to terminate the long term charter parties between the companies for the double sided, single bottom Suezmax vessels Front Birch and Front Maple. Ship Finance simultaneously sold the vessels. Delivery of the Front Birch and Front Maple took place in December 2007 and January 2008,

respectively. We received compensation payments of approximately $32.8 million for the early termination of the current charter parties, which will be recognized at the time of delivery to the new owners.

- Additionally, in March 2008, we agreed with Ship Finance to terminate the long term charter party between the companies for the single hull VLCC Front Sabang. Ship Finance simultaneously sold the vessel. We will receive a compensation payment of approximately $25 million for the early termination of the current charter party, which will be recognized at the time of delivery to the new owners, which is expected to take place in the second quarter of 2008.

Ship Finance

In June 2006, Ship Finance purchased a jack up rig for $210.0 million. In September 2006, Ship Finance purchased the Panamax vessel, Front Shadow, for $28.4 million.

Spin-Off of Ship Finance

In October 2003, we formed Ship Finance as our wholly-owned subsidiary for the purpose of acquiring certain of our shipping assets. In December 2003, Ship Finance issued $580.0 million of 8.5% Senior Notes due 2013, which we refer to as the Notes. In the first quarter of 2004, Ship Finance used the proceeds of the Notes, together with a refinancing of existing debt, to fund the acquisition from us of a fleet of 46 crude oil tankers and an option to purchase one additional tanker from a third party. We have chartered each of the vessels back from Ship Finance for most of their remaining lives through our wholly owned subsidiary Frontline Shipping Limited which we refer to as Frontline Shipping. We also entered into fixed rate management and administrative services agreements with Ship Finance to provide for the operation and maintenance of the Company's vessels and administrative support services. The charters and the management agreements were each given economic effect as of January 1, 2004.

In May 2004, we announced the distribution of 25% of Ship Finance's Ordinary Shares to our Ordinary Shareholders in a partial spin off. In June 2004, each Frontline shareholder received one share of Ship Finance for every four Frontline shares held. In June 2004, the Ship Finance common shares commenced trading on the New York Stock Exchange under the ticker symbol "SFL". Two further dividends of shares of Ship Finance were distributed in 2004. In September 2004, every Frontline shareholder received one share of Ship Finance for every 10 shares of ours that they held and in December 2004, every Frontline shareholder received two shares of Ship Finance for every 15 shares of ours that they held. At December 31, 2004, our remaining shareholding in Ship Finance was approximately 50.8%.

In January 2005 and February 2005 our board of directors, or Board, approved further spin offs of the shares of Ship Finance. In February 2005, each shareholder of Frontline received one share of Ship Finance for every four shares of ours held and in March 2005 each shareholder of Frontline received one share of Ship Finance for every ten shares of ours held. Following these transactions our shareholding in Ship Finance was approximately 16.2% at December 31, 2005.

In February 2006, our Board approved a further spin off of the shares of Ship Finance. In March 2006, each shareholder of Frontline received one share of Ship Finance for every twenty shares of ours held. Following these transactions our shareholding in Ship Finance was approximately 11.1% at December 31, 2006 and Ship Finance remained consolidated under the provisions of FASB Interpretation 46(R) "Consolidation of Variable Interest Entities".

In February 2007, our Board approved a further spin off of our remaining interest in the shares of Ship Finance and this occurred in March 2007. As a result of this spin off, we currently hold 73,383 shares in Ship Finance, which represents 0.01% of Ship Finance's total outstanding shares and as of March 31, 2007, we no longer consolidate Ship Finance and its subsidiaries in our financial statements.

Spin-Off of Golden Ocean Group Limited

In November 2004, we established Golden Ocean Group Limited, or Golden Ocean, as a wholly owned subsidiary in Bermuda for the purpose of transferring, by way of contribution, certain of our dry bulk shipping interests. Three of our subsidiaries and cash equal to the difference between $22.45 million and the historical net book value of those subsidiaries was transferred to Golden Ocean on December 1, 2004. On the same date, our Board resolved to distribute all of our shares of Golden Ocean to our shareholders in proportion to their ownership in Frontline. On

December 13, 2004 we distributed 76.0% of the shares of Golden Ocean to our shareholders in a three for one stock

dividend. Certain of our U.S. shareholders were excluded from the distribution and received a cash payment in lieu of shares equal to $0.60 per Golden Ocean share, which represents the average price per share of the Golden Ocean shares during their first five days of trading on the Oslo Stock Exchange. Golden Ocean was listed on the Oslo Stock Exchange on December 15, 2004. The Company sold 30 million Golden Ocean shares, equivalent to 13.3%, to provide funds for the cash payment and the Company retained a 10.7% interest in Golden Ocean which was subsequently sold in February 2005. The Company has not retained any significant continuing involvement in these dry bulk operations.

At the time of the spin off of Golden Ocean, we granted Golden Ocean options to acquire newbuilding contracts for two Panamax vessels. In 2005 Golden Ocean exercised these options to acquire from us the shares in two single purpose companies each owning a newbuilding contract for a Panamax vessel. These options were exercised at a total price of $16.8 million.

Establishment and Spin-Off of Sealift Ltd

In January 2007, we established a separate entity named Sealift Ltd, or Sealift, to develop our heavy lift business. Sealift completed a private placement in the amount of $180.0 million and its shares have been listed on the Norwegian over-the-counter (OTC) market since January 2007. We invested $60.0 million in the company and following the initial private placement in January and we became a 33.3% shareholder. Sealift acquired four single-hull Suezmax vessels from Frontline, which Frontline is obligated to convert to heavy lift vessels for $100.0 million each. Sealift also acquired two Suezmax vessels from Frontline for $38.0 million each and option contracts with a shipyard to convert these two additional Suezmax vessels into heavy lift vessels. The total consideration for all six vessels acquired by Sealift is $476.0 million, of which $396.0 million was received in cash and $80.0 million in an interest free note. $40.0 million of the interest free note is payable on the delivery of each of the final two converted vessels. Five of the vessels sold to Sealift were first acquired by Frontline from Ship Finance. In May 2007, Sealift received delivery of a converted heavy lift vessel and the second converted heavy lift vessel was delivered in December 2007. As of December 31, 2007, our commitment for the two remaining heavy lift conversions is $49.5 million. We expect to deliver the third converted heavylift vessel in early June 2008, which will result in us being liable for damages in the amount of approximately $0.4 million for the late delivery. If Frontline's delivery of a converted vessel to Sealift (later renamed Dockwise Ltd as described below) is delayed more than six months beyond the agreed delivery date for the vessel, Sealift has the option to cancel its purchase of the vessel. We expect that the delivery of the fourth and final vessel will take place in the middle of May 2008 in accordance with the purchase and sale agreement.

In May 2007, Sealift completed a reorganization with the Dockwise group of companies. As part of the transaction, Sealift completed a private placement of 39.8 million shares of which we purchased five million shares. Sealift also issued 94.1 million shares to the former Dockwise Ltd, or Dockwise, shareholders. Sealift was renamed Dockwise Ltd in July 2007. In October 2007, we sold our entire shareholding of 34,976,500 shares in Dockwise.

Establishment and Spin-Off of Sea Production Ltd

In February 2007, the Company's wholly owned subsidiary, Frontline Floating Production Ltd ("FFP"), sold its assets to Sea Production. The assets of FFP included a 70% investment in Puffin Ltd, the entity who ultimately owns the vessel Front Puffin. Sea Production was incorporated in January 2007 as a wholly owned subsidiary of the Company. Also in February 2007, Sea Production raised $180.0 million in equity in a private placement. The shares have been listed on the Norwegian OTC market. We held 28.33% of the shares in Sea Production following the private placement. In June 2007, we sold our entire holding in Sea Production in line with our strategy to remain a pure crude oil transportation company and our previously announced strategy to either sell or spin off the Sea Production shares.

Acquisition and spin-off of Independent Tankers Corporation

On July 1, 2003, we purchased a call option for $10.0 million to acquire all of the shares of Independent Tankers Corporation, or ITC from Hemen Holdings Ltd., or Hemen for a total consideration of $4.0 million plus 4% interest per year. Hemen is indirectly controlled by our Chairman, John Fredriksen. On May 27, 2004, we exercised this purchase option and acquired all of the shares of ITC. ITC operates a total of six VLCCs and four Suezmax tankers, which are on long-term charters to subsidiaries of BP Plc and Chevron Corporation, or Chevron. In 2006, the Front Voyager was redelivered from Chevron and is on bareboat charter to Frontline. The initial fixed terms of the charters

range from eight to 10 years. After the initial fixed term the charterers have options to extend the charters of the vessels for further periods of between eight to twelve years. ITC is financed by Term and Serial Notes. These notes mature between 2006 and 2021 and are secured by ITC's vessels and long-term charters. Interest is payable on the Notes at fixed rates which range between 6.5% and 8.52%.

In January 2008, we established Independent Tankers Corporation Limited ("ITCL"), a Bermuda corporation and our wholly owned subsidiary for the purpose of holding, by way of contribution, our interests in ITC. On February 20, 2008, our Board declared the distribution of a special dividend of 20% of the capital stock of ITCL to our shareholders. On February 28, 2008, we distributed to our shareholders one share of ITCL for every five shares of Frontline. Certain of our U.S. shareholders were excluded from the distribution and received a cash payment in lieu of shares equal to $0.34 per Frontline share. ITCL listed its shares on the Oslo OTC Market on March 7, 2008.

B. BUSINESS OVERVIEW

As of February 29, 2008, we operate a tanker fleet consisting of 76 vessels, which is one of the largest in the world. The fleet consists of 42 VLCCs which are either owned or chartered in, 20 Suezmax tankers which are either owned or chartered in, eight Suezmax OBOs which are chartered in, and five VLCCs and one Aframax tanker under our commercial management. We also had four VLCC newbuildings and eight Suezmax newbuildings on order as of February 29, 2008.

As of February 29, 2008, the fleet that we operate has a total tonnage of approximately 18.6 million dwt, including the 1.6 million dwt under commercial management. Our tanker vessels have an average age of approximately 10.9 years compared with an estimated industry average of approximately 9.5 years. We believe that our vessels comply with the most stringent of generally applicable environmental regulations for tankers.

We own various vessel owning and operating subsidiaries. Our operations take place substantially outside of the United States. Our subsidiaries, therefore, own and operate vessels which may be affected by changes in foreign governments and other economic and political conditions. We are engaged primarily in transporting crude oil and, in addition, raw materials like coal and iron ore and our vessels operate in the spot and time charter markets. As of January 2008, we charter in six double hull Suezmaxes from Nordic American Tanker Shipping Limited on a floating time charter rate, which is based on the average earnings of those vessels and eight of our Suezmax tankers. Our VLCCs are specifically designed for the transportation of crude oil and, due to their size, are primarily used to transport crude oil from the Middle East Gulf to the Far East, Northern Europe, the Caribbean and the Louisiana Offshore Oil Port, or LOOP. Our Suezmax tankers are similarly designed for worldwide trading, but the trade for these vessels is mainly in the Atlantic Basin and Middle East to South East Asia.

Historically, the tanker industry has been highly cyclical, with attendant volatility in profitability and asset values resulting from changes in the supply of and demand for tanker capacity. Our OBO carriers are specifically designed to carry oil or dry cargo and may be used to transport either oil or dry cargo on any voyage. When freight rates in both the oil and dry cargo markets are equivalent OBO carriers are operated most profitably transporting oil on one leg of the voyage and dry cargo on the other leg of a voyage. Currently, our eight Suezmax OBOs are configured to carry dry bulk cargo and are fixed on long-term charters.

The supply of tanker and OBO capacity is influenced by the number of new vessels built, the number of older vessels scrapped, converted, laid up and lost, the efficiency of the world tanker or OBO fleet and government and industry regulation of maritime transportation practices. The demand for tanker and OBO capacity is influenced by global and regional economic conditions, increases and decreases in industrial production and demand for crude oil and petroleum products, the proportion of world oil output supplied by Middle Eastern and other producers, political changes and armed conflicts (including wars in the Middle East) and changes in seaborne and other transportation

patterns. The demand for OBO capacity is, in addition, influenced by increases and decreases in the production and demand for raw materials such as iron ore and coal. In particular, demand for our tankers and our services in transporting crude oil and petroleum products and dry cargoes has been dependent upon world and regional markets. Any decrease in shipments of crude oil or raw materials in world markets could have a material adverse effect on our earnings. Historically, these markets have been volatile as a result of, among other things, general economic conditions, prices, environmental concerns, weather and competition from alternative energy sources. Because many factors influencing the supply of and demand for tankers and OBO carriers are unpredictable, the nature, timing and degree of changes in industry conditions are also unpredictable.

We are committed to providing quality transportation services to all of our customers and to developing and maintaining long-term relationships with the major charterers of tankers. Increasing global environmental concerns have created a demand in the petroleum products/crude oil seaborne transportation industry for vessels that are able to conform to the stringent environmental standards currently being imposed throughout the world.

The tanker industry is highly cyclical, experiencing volatility in profitability, vessel values and freight rates. Freight rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation. Refer to Item 5 “Operating and Financial Review and Prospects” for a discussion of the tanker market in 2007 and 2008.

Similar to structures commonly used by other shipping companies, our vessels are all owned by, or chartered to, separate subsidiaries or associated companies. Frontline Management AS, and Frontline Management (Bermuda) Limited which we refer to as Frontline Management, both wholly-owned subsidiaries, support us in the implementation of our decisions. Frontline Management is responsible for the commercial management of our shipowning subsidiaries, including chartering and insurance. Each of our vessels is registered under the Bahamas, French, Liberian, Panamanian, Cypriot, Singaporean, Norwegian, Isle of Man, Marshall Islands, Hong Kong or Maltese flag.

Frontline has a strategy of extensive outsourcing. Ship management, crewing and accounting services are provided by a number of independent and competing suppliers. Our vessels are managed by independent ship management companies. Pursuant to management agreements, each of the independent ship management companies provides operations, ship maintenance, crewing, technical support, shipyard supervision and related services to Frontline. A central part of our strategy is to benchmark operational performance and cost level amongst our ship managers. Independent ship managers provide crewing for our vessels. Currently, our vessels are crewed with Russian, Ukrainian, Croatian, Romanian, Indian and Filipino officers and crews, or combinations of these nationalities. Accounting services for each of our shipowning subsidiaries are also provided by the ship managers.

Strategy

Our strategy is to maintain our position as a world leading operator and charterer of modern, high quality oil tankers with flexibility to adjust our exposure to the tanker market depending on existing factors such as charter rates, newbuilding costs, vessel resale and scrap values and vessel operating expenses resulting from, among other things, changes in the supply of and demand for tanker capacity. Our principal focus is the transportation of crude oil and oil product cargoes for major integrated oil companies and other customers employing a fleet of VLCCs, Suezmaxes and OBOs. We may adjust our exposure through time charters, bareboat charters, sale and leasebacks, straight sales and purchases of vessels, newbuilding contracts and acquisitions.

Spot market vessels, after delivering their cargo, typically operate in ballast until they are re-chartered. We seek to minimize the time element associated with these ballast legs by efficiently chartering OBO carriers and tankers that we operate. Our strategies to minimize time spent on ballast legs include allocating cargoes among our vessels to minimize the total time spent on ballast legs across our fleet. We believe that the size of our fleet is important in negotiating terms with our major clients and charterers. We believe that our large, high-quality VLCC and Suezmax fleet enhances our ability to obtain competitive terms from suppliers and shipbuilders and to produce cost savings in chartering and operations.

Our business strategy is primarily based upon the following principles:

- emphasizing operational safety and quality maintenance for all of our vessels;
- complying with all current and proposed environmental regulations;

- outsourcing technical operations and crewing;
- continuing to achieve competitive operational costs;
- operating a modern and homogeneous fleet of tankers;
- achieving high utilization of our vessels;

- achieving competitive financing arrangements;
- achieving a satisfactory mix of term charters, contracts of affreightment and spot voyages; and
- developing and maintaining relationships with major oil companies and industrial charterers.

We currently have newbuilding contracts for eight VLCCs and eight Suezmaxes, which we believe are favorably priced relative to current newbuilding prices. We also have fixed price purchase options for two additional VLCC newbuildings. We order new tonnage to renew our fleet consistent with our opportunistic investment approach. Our order book reaffirms our position as a leading operator of modern, quality Suezmax and VLCC tonnage.

We continue to evaluate opportunities in the time charter market. On the basis of the strength of the drybulk market in 2007, all of our eight OBO carriers have been fixed on medium to long term charters at an average daily rate of approximately $39,700 in 2007 and approximately $44,000 in 2008. As of February 29, 2008 approximately 57% of our remaining operating days for our total fleet for 2008 were on fixed time charter and bareboat charter.

We expect to reduce our exposure to single hull tonnage by investigating opportunities to terminate long-term charters involving single hull vessels.

Although there has been a trend towards consolidation over the past 15 years, the tanker market remains highly fragmented. We estimate, based on available industry data that we currently own or operate approximately 9.9% of the world VLCC fleet and 7.9% of the world Suezmax tanker fleet. We intend to use our strong operational cash flow together with our available financing to continue the consolidation of the tanker market. We always look opportunistically for attractive investments and acquisitions and will finance such investments through a combination of debt and equity. Our role in the consolidation of the tanker market may include the acquisition of new vessels and second-hand vessels and we may also engage in business acquisitions and strategic transactions such as marketing joint ventures. In the ordinary course of our business, we engage in the evaluation of potential candidates for acquisitions and strategic transactions.

In February 2008, we invested $20.0 million in exchange for a 15.8% interest in NAVIG8 LIMITED (“Navig8”), a company that controls approximately 30 tankers, including newbuildings on order. Navig8 actively trades a time-charter fleet, owns and invests in tonnage, commercially and technically manages vessels for third parties and trades in the freight-derivatives market. Although this investment is purely financial, it gives us a foothold in the Clean Petroleum Product market.

In March 2008, we spun off 20% of ITCL to our shareholders. ITCL's business is mainly concentrated around the ownership and operation of tankers on long-term bareboat contracts to major oil companies, with such contracts including certain cancellation options. All vessels are financed through bonds and some of the vessels are also subject to financial lease arrangements. ITCL purchases all necessary management related services from Frontline. The Company intends to cause ITCL to take steps to enhance shareholder value and liquidity and has listed ITCL shares on the Oslo OTC Market. We will consider making further distributions of ITCL shares.

In March 2008, we announced that the Company and companies indirectly controlled by Mr. John Fredriksen, our Chairman and principal shareholder, together held an aggregate of 1,628,300 shares in Overseas Shipholding Group, Inc. (“OSG”), or 5.2% of the total outstanding shares of OSG. In addition to this holding, we have entered into a forward contract for an additional 1,366,600 shares in OSG, or an additional 4.4% of the total outstanding shares of OSG. If we should decide to take delivery of the shares under the forward contract, the Company and the group companies will control 9.6% of the total outstanding shares of OSG. We are making this investment together with our largest shareholder to mitigate the potential reduction of our short and medium-term dividend capacity. This investment reflects the fact that only approximately 41% of OSG's total fleet, in terms of number of vessels, is exposed to the

market for crude oil transportation, which is our core market.

Our goal is to generate competitive returns for our shareholders with quarterly dividend payments. Our dividend payments are based on present earnings, market prospects, current capital expenditure programs as well as investment opportunities.

Seasonality

Historically, oil trade and therefore charter rates increased in the winter months and eased in the summer months as demand for oil in the Northern Hemisphere rose in colder weather and fell in warmer weather. The tanker industry in general is less dependent on the seasonal transport of heating oil than a decade ago as new uses for oil and oil products have developed, spreading consumption more evenly over the year. Most apparent is a higher seasonal demand during the summer months due to energy requirements for air conditioning and motor vehicles.

Customers

Our customers include major oil companies, petroleum products traders, government agencies and various other entities. During the year ended December 31, 2007, one customer (2006: one customer) accounted for more than 10% of our consolidated operating revenues.

Competition

The market for international seaborne crude oil transportation services is highly fragmented and competitive. Seaborne crude oil transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent ship-owner fleets. In addition, several owners and operators pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned and operated fleets. Many major oil companies and other oil trading companies, the primary charterers of the vessels owned or controlled by us, also operate their own vessels and use such vessels not only to transport their own crude oil but also to transport crude oil for third party charterers in direct competition with independent owners and operators in the tanker charter market. Competition for charters is intense and is based upon price, location, size, age, condition and acceptability of the vessel and its manager. Competition is also affected by the availability of other size vessels to compete in the trades in which the Company engages. Charters are to a large extent brokered through international independent brokerage houses that specialize in finding the optimal ship for any particular cargo based on the aforementioned criteria. Brokers may be appointed by the cargo shipper or the ship owner.

Environmental Regulation and Other Regulations

Government regulations and laws significantly affect the ownership and operation of our tankers. We are subject to various international conventions, laws and regulations in force in the countries in which our vessels may operate or are registered.

Our tankers are subject to both scheduled and unscheduled inspections by a variety of government, quasi-governmental and private organizations each of which may have unique requirements. These organizations include the local port authorities, national authorities, harbor masters or equivalent, classification societies, flag state and charterers, particularly terminal operators and oil companies. Some of these entities require us to obtain permits, licenses and certificates for the operation of our tankers. Our failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all tankers and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels

emphasizing operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. We believe that the operation of our vessels will be in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the

impact of these requirements on the resale value or useful lives of our tankers. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization

The International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of pollution by ships), has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, which has been updated through various amendments, or the MARPOL Convention. The MARPOL Convention implements environmental standards including oil leakage or spilling, garbage management, as well as the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. These regulations, which have been implemented in many jurisdictions in which our vessels operate, provide, in part, that:

- 25-year old tankers must be of double hull construction or of a mid-deck design with double-sided construction, unless:

(1) they have wing tanks or double-bottom spaces not used for the carriage of oil which cover at least 30% of the length of the cargo tank section of the hull or bottom; or

(2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);

- 30-year old tankers must be of double hull construction or mid-deck design with double-sided construction; and

- all tankers will be subject to enhanced inspections.

Also, under IMO regulations, a tanker must be of double hull construction or a mid-deck design with double-sided construction or be of another approved design ensuring the same level of protection against oil pollution if the tanker:

- is the subject of a contract for a major conversion or original construction on or after July 6, 1993;

- commences a major conversion or has its keel laid on or after January 6, 1994; or

- completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

Our vessels are also subject to regulatory requirements, including the phase-out of single hull tankers, imposed by the IMO. Effective September 2002, the IMO accelerated its existing timetable for the phase-out of single hull oil tankers. At that time, these regulations required the phase-out of most single hull oil tankers by 2015 or earlier, depending on the age of the tanker and whether it has segregated ballast tanks.

Under the regulations, the flag state may allow for some newer single hull ships registered in its country that conform to certain technical specifications to continue operating until the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull tankers that are allowed to operate until their 25th anniversary to ports or offshore terminals. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our tankers operate.

As a result of the oil spill in November 2002 relating to the loss of the MT Prestige, which was owned by a company not affiliated with us, in December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC,

adopted an amendment to the MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G accelerating the phase-out of single hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation,

single hull oil tankers were required to be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

Category of Oil Tankers	Date or Year for Phase Out
Category 1 oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	April 5, 2005 for ships delivered on April 5, 1982 or earlier; or 2005 for ships delivered after April 5, 1982
Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements and Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.	April 5, 2005 for ships delivered on April 5, 1977 or earlier 2005 for ships delivered after April 5, 1977 but before January 1, 1978 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

Under the revised regulations, a flag state may permit continued operation of certain Category 2 or 3 tankers beyond their phase date in accordance with the above schedule. Under regulation 13G, the flag state may allow for some newer single hull oil tankers registered in its country that conform to certain technical specifications to continue operating until the earlier of the anniversary of the date of delivery of the vessel in 2015 or the 25th anniversary of their delivery. Under regulations 13G and 13H, as described below, certain Category 2 and 3 tankers fitted only with double bottoms or double sides may be allowed by the flag state to continue operations until their 25th anniversary of delivery. Any port state, however, may deny entry of those single hull oil tankers that are allowed to operate under any of the flag state exemptions.

The following table summarizes the impact of such regulations on the Company's single hull (SH) and double sided (DS) tankers:

Vessel Name	Vessel type	Vessel Category	Year Built	IMO phase out	Flag state Exemption
Front Voyager	Suezmax	SH	1992	2010	2015
Edinburgh(*)	VLCC	DS	1993	2018	n/a
Front Ace(*)	VLCC	SH	1993	2010	2015
Front Duchess(*)	VLCC	SH	1993	2010	2015
Front Duke(*)	VLCC	SH	1992	2010	2015
Front Highness(*)	VLCC	SH	1991	2010	2015
Front Lady(*)	VLCC	SH	1991	2010	2015
Front Lord(*)	VLCC	SH	1991	2010	2015
Front Sabang(*)	VLCC	SH	1990	2010	2015

(*) Vessel chartered in from Ship Finance and not consolidated after March 31, 2007. In March 2008, Ship Finance sold the Front Sabang and simultaneously terminated its related long-term charter party contract with us. Ship Finance expects to deliver the Front Sabang to its buyers in the second quarter of 2008.

The MEPC, in October 2004, adopted a unified interpretation to regulation 13G that clarified the date of delivery for tankers that have been converted. Under the interpretation, where an oil tanker has undergone a major conversion

that has resulted in the replacement of the fore-body, including the entire cargo carrying section, the major conversion completion date of the oil tanker shall be deemed to be the date of delivery of the ship, provided that:

- the oil tanker conversion was completed before July 6, 1996;
- the conversion included the replacement of the entire cargo section and fore-body and the tanker complies with all the relevant provisions of MARPOL Convention applicable at the date of completion of the major conversion; and
- the original delivery date of the oil tanker will apply when considering the 15 years of age threshold relating to the first technical specifications survey to be completed in accordance with MARPOL Convention.

In December 2003, the MEPC adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil, or HGO, which includes most of the grades of marine fuel. The new regulation bans the carriage of HGO in single hull oil tankers of 5,000 dwt and above after April 5, 2005, and in single hull oil tankers of 600 dwt and above but less than 5,000 dwt, no later than the anniversary of their delivery in 2008.

Under regulation 13H, HGO means any of the following:

- crude oils having a density at 15ºC higher than 900 kg/m3;
- fuel oils having either a density at 15ºC higher than 900 kg/m3 or a kinematic viscosity at 50ºC higher than 180 mm2/s; or
- bitumen, tar and their emulsions.

Under the regulation 13H, the flag state may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15ºC higher than 900 kg/m3 but lower than 945 kg/m3, that conform to certain technical specifications and, in the opinion of the such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state may also allow continued operation of a single hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of the such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

The flag state may also exempt an oil tanker of 600 dwt and above carrying HGO as cargo if the ship is either engaged in voyages exclusively within an area under the its jurisdiction, or is engaged in voyages exclusively within an area under the jurisdiction of another party, provided the party within whose jurisdiction the ship will be operating agrees. The same applies to vessels operating as floating storage units of HGO.

Any port state, however, can deny entry of single hull tankers carrying HGO which have been allowed to continue operation under the exemptions mentioned above, into the ports or offshore terminals under its jurisdiction, or deny ship-to-ship transfer of HGO in areas under its jurisdiction except when this is necessary for the purpose of securing the safety of a ship or saving life at sea.

Revised Annex I to the MARPOL Convention entered into force in January 2007. Revised Annex I incorporates various amendments adopted since the MARPOL Convention entered into force in 1983, including the amendments to regulation 13G (regulation 20 in the revised Annex) and regulation 13H (regulation 21 in the revised Annex). Revised Annex I also impose construction requirements for oil tankers delivered on or after January 1, 2010. A further

amendment to revised Annex I includes an amendment to the definition of heavy grade oil that will broaden the scope of regulation 21. On August 1, 2007, regulation 12A (an amendment to Annex I) came into force requiring oil fuel tanks to be located inside the double hull in all ships with an aggregate oil fuel capacity of 600 cubic meters

and above, which are delivered on or after August 1, 2010 including ships for which the building contract is entered into on or after August 1, 2007, or in the absence of a contract, which keel is laid on or after February 1, 2008.

Air Emissions

On August 1, 2007, regulation 12A (an amendment to Annex I) came into force requiring oil fuel tanks to be located inside the double hull in all ships with an aggregate oil fuel capacity of 600 m3 and above, which are delivered on or after August 1, 2010 including ships for which the building contract is entered into on or after August 1, 2007, or in the absence of a contract, which keel is laid on or after February 1, 2008.

In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI was ratified in May 2004, and became effective May 19, 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We believe that all our vessels are currently compliant in all material respects with these regulations. Additional or new conventions, laws and regulations may be adopted that could adversely affect our business, cash flows, results of operations and financial condition.

In February 2007, the United States proposed a series of amendments to Annex VI regarding particulate matter, NOx and SOx emission standards. The proposed emission program would reduce air pollution from ships by establishing a new tier of performance-based standards for diesel engines on all vessels and stringent emission requirements for ships that operate in coastal areas with air-quality problems. On June 28, 2007, the World Shipping Council announced its support for these amendments. If these amendments are implemented, we may incur costs to comply with the proposed standards.

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as “greenhouse gases,” may be contributing to warming of the Earth’s atmosphere. According to the IMO’s study of greenhouse gases emissions from the global shipping fleet, greenhouse emissions from ships are predicted to rise by 38% to 72% due to increased bunker consumption by 2020 if corrective measures are not implemented. Any passage of climate control legislation or other regulatory initiatives by the IMO or individual countries where we operate that restrict emissions of greenhouse gases could require us to make significant financial expenditures we cannot predict with certainty at this time.

Safety Requirements

The IMO has also adopted the International Convention for the Safety of Life at Sea, or SOLAS Convention, and the International Convention on Load Lines, 1966, or LL Convention, which impose a variety of standards to regulate design and operational features of ships. SOLAS Convention and LL Convention standards are revised periodically. We believe that all our vessels are in substantial compliance with SOLAS Convention and LL Convention standards.

Under Chapter IX of SOLAS, the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO, also affect our operations. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We intend to rely upon the safety management system that the appointed ship managers have developed.

The ISM Code requires that vessel ship manager or operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with the ISM code requirements for a safety management system. No vessel can obtain a safety management certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. The appointed ship managers have obtained documents of compliance for their offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance ("DOC") and ship management certificate ("SMC") are renewed every five years but DOC is subject to audit verification annually and the SMC every 2.5 years.

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, as the case may be.

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. Additional or new conventions, laws and regulations may be adopted which could limit our ability to do business and which could have a material adverse effect on our business and results of operations.

Ballast Water Requirements

The IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping.

The flag state, as defined by the United Nations Convention on Law of the Sea, has overall responsibility for the implementation and enforcement of international maritime regulations for all ships granted the right to fly its flag. The "Shipping Industry Guidelines on Flag State Performance" evaluates flag states based on factors such as sufficiency of infrastructure, ratification of international maritime treaties, implementation and enforcement of international maritime regulations, supervision of surveys, casualty investigations and participation at IMO meetings. Our vessels are flagged in the Marshall Islands, Liberia, Isle of Man, Singapore and the Bahamas, which all generally receive a good assessment in the shipping industry.

Oil Pollution Liability

Although the United States is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC. Under this convention and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability will be limited to approximately 4.51 million SDR plus 631 SDR for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability will be limited to 89.77 million SDR. The exchange rate between SDRs and U.S. dollars was 0.613863 SDR per U.S. dollar on March 20, 2008. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on March 13, 2007. The right to limit liability is forfeited under the International Convention on Civil Liability for Oil Pollution Damage where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the International Convention on Civil Liability for Oil Pollution Damage has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover the

liability under the plan adopted by the IMO.

United States

In 1990, the United States Congress enacted OPA to establish an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all owners and operators whose vessels trade with

the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability for cleanup and natural resource damage from the release of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers are responsible parties who are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from oil spills from their vessels. These other damages are defined broadly to include:

- natural resource damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, profits or earnings capacity; and
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and loss of subsistence use of natural resources.

OPA previously limited the liability of responsible parties to the greater of $1,200 per gross ton or $10.0 million per tanker that is over 3,000 gross tons (subject to possible adjustment for inflation). Amendments to OPA signed into law in July 2006 increased these limits on the liability of responsible parties to the greater of $1,900 per gross ton or $16.0 million per double hull tanker that is over 3,000 gross tons. The act specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of $300 per gross ton or $5.0 million.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels call.

OPA requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the act. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility in the amount of $1,500 per gross ton for tankers, coupling the former OPA limitation on liability of $1,200 per gross ton with the CERCLA liability limit of $300 per gross ton. The U.S. Coast Guard has indicated that it expects to adopt regulations requiring evidence of financial responsibility in amounts that reflect the higher limits of liability imposed by the July 2006 amendments to OPA, as described above. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one tanker is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum strict liability under OPA and CERCLA. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast

Guard for each of our vessels required to have one.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of $1.0 billion. A catastrophic spill could exceed the insurance coverage available, which could have a material adverse effect on our business.

Under OPA, with certain limited exceptions, all newly-built or converted vessels operating in U.S. waters must be built with double hulls, and existing vessels that do not comply with the double hull requirement will be prohibited from trading in U.S. waters over a 20-year period (1995-2015) based on size, age and place of discharge, unless retrofitted with double hulls. Notwithstanding the prohibition to trade schedule, the act currently permits existing single hull and double-sided tankers to operate until the year 2015 if their operations within U.S. waters are limited to discharging at the Louisiana Offshore Oil Port or off-loading by lightering within authorized lightering zones more than 60 miles off-shore. Lightering is the process by which vessels at sea off-load their cargo to smaller vessels for ultimate delivery to the discharge port.

Owners or operators of tankers operating in the waters of the United States must file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge;
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

We have obtained vessel response plans approved by the U.S. Coast Guard for our vessels operating in the waters of the United States. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

In addition, the Clean Water Act prohibits the discharge of oil or hazardous substances in navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA, discussed above. The Environmental Protection Agency, or EPA, has exempted the discharge of ballast water and other substances incidental to the normal operation of vessels in ports from Clean Water Act permitting requirements. However, on March 31, 2005, a U.S. District Court ruled that the EPA exceeded its authority in creating an exemption for ballast water. On September 18, 2006, the court issued an order invalidating the exemption in EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing EPA to develop a system for regulating all discharges from vessels by that date. EPA filed a notice of appeal of this decision and, if EPA's appeals are unsuccessful and the exemption is repealed, we may be subject to Clean Water Act permit requirements that could include ballast water treatment obligations that could increase the cost of operating in the United States. For example, this could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering waters. On June 21, 2007, the EPA provided notice of its intention to develop a permit program for discharge of ballast water incidental to the normal operations of vessels and solicited comments.

In addition, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires EPA, to promulgate standards applicable to emissions of volatile organic compounds and other air

contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As

indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase our costs, based on the regulations that have been proposed to date, we believe that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. The United States Coast Guard adopted regulations under NISA in July 2004 that impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the United States Coast Guard. (However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil). Mid-ocean ballast exchange is the primary method for compliance with the United States Coast Guard regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the United States, and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and the Hudson River), provided that they comply with recordkeeping requirements and document the reasons they could not follow the required ballast water management requirements. The United States Coast Guard is developing a proposal to establish ballast water discharge standards, which could set maximum acceptable discharge limits for various invasive species, and/or lead to requirements for active treatment of ballast water.

Our operations occasionally generate and require the transportation, treatment and disposal of both hazardous and non-hazardous solid wastes that are subject to the requirements of the U.S. Resource Conservation and Recovery Act, or RCRA, or comparable state, local or foreign requirements. In addition, from time to time we arrange for the disposal of hazardous waste or hazardous substances at offsite disposal facilities. If such materials are improperly disposed of by third parties, we may still be held liable for clean up costs under applicable laws.

Other Regulations

European Union

In July 2003, in response to the MT Prestige oil spill in November 2002, the European Union adopted legislation that prohibits all single hull tankers from entering into its ports or offshore terminals by 2010. The European Union has also banned all single hull tankers carrying heavy grades of oil from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction. The European Union has also adopted legislation that would: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The sinking of the MT Prestige and resulting oil spill in November 2002 has led to the adoption of other environmental regulations by certain European Union nations, which could adversely affect the remaining useful lives of all of our vessels and our ability to generate income from them. It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

In 2005, the European Union adopted a directive on ship-source pollution, imposing criminal sanctions for intentional, reckless or negligent pollution discharges by ships. The directive could result in criminal liability for pollution from

vessels in waters of European countries that adopt implementing legislation. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facility Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;

- on-board installation of ship security alert systems, which do not sound on the vessel but only alerts the authorities on shore;

- the development of vessel security plans;

- ship identification number to be permanently marked on a vessel's hull;

- a continuous synopsis record kept onboard showing a vessel's history including, name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and

- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by MTSA, SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

Inspection by Classification Societies

Classification societies certify that the vessel is "in-class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

- Intermediate Surveys. Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.

- Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a ship owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five year cycle. At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Our vessels, which are less than 15 years old are drydocked every 60 months, while vessels which are more than 15 years old are drydocked every 30-36 months for inspection of the underwater parts and for repairs related to the inspection. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in-class" by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being "in-class" by a recognized classification society.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

Risk of loss and insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism and other circumstances or events. In addition, the transportation of crude oil is subject to the risk of spills, and business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. OPA has made liability insurance

more expensive for ship owners and operators imposing potentially unlimited liability upon owners, operators and bareboat charterers for oil pollution incidents in the territorial waters of the United States. We believe that our current insurance coverage is adequate to protect us against the principal accident-related risks that we face in the conduct of our business.

Our protection and indemnity insurance, or P&I insurance, covers third-party liabilities and other related expenses from, among other things, injury or death of crew, passengers and other third parties, claims arising from collisions, damage to cargo and other third-party property and pollution arising from oil or other substances. Our current P&I insurance coverage for pollution is the maximum commercially available amount of $1.05 billion per tanker per incident and is provided by mutual protection and indemnity associations. Each of the vessels currently in our fleet is entered in a protection and indemnity association which is a member of the International Group of Protection and Indemnity Mutual Assurance Associations. The 13 protection and indemnity associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each protection and indemnity association has capped its exposure to this pooling agreement at $4.3 billion. As a member of protection and indemnity associations, which are, in turn, members of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of protection and indemnity associations comprising the International Group.

Our hull and machinery insurance covers actual or constructive total loss from covered risks of collision, fire, heavy weather, grounding and engine failure or damages from same. Our war risk insurance covers risks of confiscation, seizure, capture, vandalism, sabotage and other war-related risks. Our loss-of-hire insurance covers loss of revenue for not less than 90 days resulting from an accident covered by the terms of our hull and machinery insurance for each of our vessels, with a 20 day deductible.

C. ORGANIZATIONAL STRUCTURE

See Exhibit 8.1 for a list of our significant subsidiaries.

D. PROPERTY, PLANT AND EQUIPMENT

The Company's Vessels

The following table sets forth the fleet that we operate as of February 29, 2008 (including contracted newbuildings not yet delivered):

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
Tonnage Owned Directly					
VLCCs					
Antares Voyager	1998	310,000	Double-hull	BA	Bareboat charter
Phoenix Voyager	1999	308,500	Double-hull	BA	Bareboat charter
Hull 2396 (Newbuilding)	2009	297,000	Double-hull	n/a	n/a
Hull 2397 (Newbuilding)	2009	297,000	Double-hull	n/a	n/a
Hull 2419 (Newbuilding)	2010	297,000	Double-hull	n/a	n/a
Hull 2420 (Newbuilding)	2010	297,000	Double-hull	n/a	n/a
Front Shanghai	2006	298,500	Double-hull	HK	Spot market
Suezmax Tankers					

Hull 1017 (Newbuilding)	2008	156,000	Double-hull	n/a	n/a
Hull 1018 (Newbuilding)	2009	156,000	Double-hull	n/a	n/a
Hull 1019 (Newbuilding)	2008	156,000	Double-hull	n/a	n/a
Hull 1026 (Newbuilding)	2009	156,000	Double-hull	n/a	n/a
Hull 1056 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Hull 1057 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Hull 1060 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
Tonnage Owned Directly					
Hull 1061 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Front Voyager	1992	155,000	Single-hull	BA	Spot market
Cygnus Voyager	1993	157,000	Double-hull	BA	Bareboat charter
Altair Voyager	1993	136,000	Double-hull	BA	Bareboat charter
Sirius Voyager	1994	156,000	Double-hull	BA	Bareboat charter
Tonnage chartered in from Ship Finance					
VLCCs					
Front Sabang (*)	1990	286,000	Single-hull	SG	Time charter
Front Highness	1991	284,000	Single-hull	SG	Time charter
Front Lady	1991	284,000	Single-hull	SG	Time charter
Front Lord	1991	284,000	Single-hull	SG	Time charter
Front Duke	1992	284,000	Single-hull	SG	Time charter
Front Duchess	1993	284,000	Single-hull	SG	Spot market
Edinburgh	1993	302,000	Double-side	LIB	Time charter
Front Ace	1993	276,000	Single-hull	LIB	Time charter
Front Vanguard	1998	300,000	Double-hull	MI	Spot market
Front Century	1998	311,000	Double-hull	MI	Time charter
Front Champion	1998	311,000	Double-hull	BA	Spot market
Front Vista	1998	300,000	Double-hull	MI	Spot market
Front Comanche	1999	300,000	Double-hull	FRA	Time charter
Golden Victory	1999	300,000	Double-hull	MI	Time charter
Front Circassia	1999	306,000	Double-hull	MI	Spot market
Front Opalia	1999	302,000	Double-hull	MI	Spot market
Ocana (Ex Front Commerce)	1999	300,000	Double-hull	IoM	Bareboat charter
Front Scilla	2000	303,000	Double-hull	MI	Spot market
Oliva (Ex Ariake)	2001	299,000	Double-hull	IoM	Bareboat charter
Front Serenade	2002	299,000	Double-hull	LIB	Time charter
Otina (Ex Hakata)	2002	298,000	Double-hull	IoM	Bareboat charter
Ondina (Ex Front Stratus)	2002	299,000	Double-hull	IoM	Bareboat charter
Front Falcon	2002	309,000	Double-hull	BA	Spot market
Front Page	2002	299,000	Double-hull	LIB	Time charter
Front Energy	2004	305,000	Double-hull	CYP	Spot market
Front Force	2004	305,000	Double-hull	CYP	Spot market

Suezmax OBO Carriers					
Front Breaker	1991	169,000	Double-hull	MI	Time charter
Front Climber	1991	169,000	Double-hull	SG	Time charter
Front Driver	1991	169,000	Double-hull	MI	Time charter
Front Guider	1991	169,000	Double-hull	SG	Time charter
Front Leader	1991	169,000	Double-hull	SG	Time charter
Front Rider	1992	169,000	Double-hull	SG	Time charter
Front Striver	1992	169,000	Double-hull	SG	Time charter
Front Viewer	1992	169,000	Double-hull	SG	Time charter
Suezmax Tankers					
Front Pride	1993	150,000	Double-hull	NIS	Spot market
Front Glory	1995	150,000	Double-hull	NIS	Spot market
Front Splendour	1995	150,000	Double-hull	NIS	Spot market

Suezmax Tankers					
Front Ardenne	1997	150,000	Double-hull	NIS	Spot market
Front Brabant	1998	150,000	Double-hull	NIS	Spot market
Mindanao	1998	150,000	Double-hull	SG	Spot market

Tonnage chartered in from Third Parties

VLCCs					
Front Chief	1999	311,000	Double-hull	BA	Spot market
Front Commander	1999	311,000	Double-hull	BA	Spot market
Front Crown	1999	311,000	Double-hull	BA	Spot market
British Pioneer	1999	307,000	Double-hull	IoM	Bareboat charter
British Pride	2000	307,000	Double-hull	IoM	Bareboat charter
British Progress	2000	307,000	Double-hull	IoM	Bareboat charter
British Purpose	2000	307,000	Double-hull	IoM	Bareboat charter
Front Tina	2000	299,000	Double-hull	LIB	Spot market
Front Commodore	2000	299,000	Double-hull	LIB	Time charter
Front Eagle	2002	309,000	Double-hull	BA	Spot market
Cosglory Lake	2003	299,145	Double-hull	PAN	Spot market
Hampstead	1996	298,000	Double-hull	IoM	Time charter
Kensington	1995	298,000	Double-hull	IoM	Time charter
Suezmax Tankers					
Front Warrior	1998	153,000	Double-hull	BA	Spot market
Front Melody	2001	150,000	Double-hull	LIB	Spot market
Front Symphony	2001	150,000	Double-hull	LIB	Time charter
Marble	1992	150,000	Single-hull	MI	Spot market
Nordic Apollo (**)	2003	149,997	Double-hull	MI	Spot market
Nordic Discovery (**)	1998	149,999	Double-hull	NIS	Spot market
Nordic Fighter (**)	1998	149,999	Double-hull	NIS	Spot market
Nordic Hawk (**)	1997	151,475	Double-hull	BA	Spot market
Nordic Hunter (**)	1997	151,400	Double-hull	BA	Spot market
Nordic Saturn (**)	1998	157,332	Double-hull	MI	Spot market
Tonnage under Commercial Management					
VLCC					
Mayfair	1995	298,405	Double-hull	MI	Time charter
Camden	1995	298,306	Double-hull	MI	Time charter
Songa Chelsea	1995	298,432	Double-hull	MI	Spot market
Bunga Kasturi Dua	2005	300,542	Double-hull	MAL	Spot market
Universal Queen	2005	309,373	Double-hull	PAN	Spot market

Aframax					
Sea Leopard	1990	94,993	Double-hull	MI	Time charter

(*) In March 2008, we agreed with Ship Finance to terminate the long term charter party between the companies for Front Sabang and Ship Finance and simultaneously sold the vessel with expected delivery to the buyers in the second quarter of 2008.

(**) Vessel is chartered in on a floating time charter.

Our chartered in fleet is contracted to us under leasing arrangements with fixed terms of between eight and twenty four years. Lessors have options to extend nine of these leases by up to an additional five years from expiry of the initial fixed term. We have fixed purchase price options to buy nine of these vessels at certain future dates and the lessors have fixed options to sell nine of these vessels to us at the end of the lease period. Four of the lease agreements may not be terminated by us without the agreement of the end-user of the vessel.

Key to Flags:

BA – Bahamas, IoM – Isle of Man, LIB - Liberia, MAL – Malta, NIS - Norwegian International Ship Register, PAN – Panama, SG - Singapore, FRA – France, MI – Marshall Islands, CYP – Cyprus, HK – Hong Kong.

Other than our interests in the vessels described above, we do not own any material physical properties. We lease office space in Hamilton, Bermuda from an unaffiliated third party. Frontline Management AS leases office space, at market rates, in Oslo, Norway from Bryggegata AS, a company indirectly affiliated with Hemen, our principal shareholder.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with Item 3 “Selected Financial Data”, Item 4 “Information on the Company” and our audited Consolidated Financial Statements and Notes thereto included herein.

Our principal focus and expertise is the transportation of crude oil and oil product cargoes for major integrated oil companies and other customers. As of December 31, 2007, our tanker fleet consisted of 29 VLCCs, four VLCC newbuilding contracts and 24 Suezmax tankers, of which eight are Suezmax OBOs and eight Suezmax newbuilding contracts. We also charter in thirteen modern VLCCs from third parties. A full fleet list is provided in Item 4.D. “Information on the Company” showing the vessels that we currently own and charter in.

Fleet Changes

Refer to Item 4 for discussion on acquisitions and disposals of vessels. A summary of our fleet changes for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
VLCCs			
At start of period	41	43	38
Acquisitions	2	2	5
Dispositions	1	4	—
At end of period	42	41	43
VLCCs owned by equity investees			
At start of period	—	—	1

Acquisitions	—	—	—
Dispositions	—	—	1
At end of period	—	—	—

	2007	2006	2005
Suezmax			
At start of period	23	23	28
Acquisitions	—	—	—
Dispositions	7	—	5
At end of period	16	23	23
Suezmax OBOs			
At start and end of period	8	8	8
Aframax			
At start of period	1	—	—
Acquisitions	—	1	—
Dispositions	1	—	—
At end of period	—	1	—
Drybulk			
At start of period	—	—	1
Dispositions	—	—	1
At end of period	—	—	—
Total fleet			
At start of period	73	74	76
Acquisitions	2	3	5
Dispositions	9	4	7
At end of period	66	73	74

Summary of Fleet Employment

As discussed below, our vessels are operated under time charters, bareboat charters, voyage charters, pool arrangements and COAs.

	As of December 31,					
	2007		2006		2005	
	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet
VLCCs						
Spot or pool	17	40%	18	44%	29	67%
Time charter	15	36%	13	32%	9	21%
Bareboat charter	10	24%	10	24%	5	12%
Total	42	100%	41	100%	43	100%
Suezmax						
Spot or pool	12	75%	16	70%	22	96%
Time charter	1	6%	3	13%	1	4%
Bareboat charter	3	19%	3	13%	—	—

Under Conversion	—	—	1	4%	—	—
Total	16	100%	23	100%	23	100%
Aframax						
Under Conversion	—	—	1	100%	—	—
Total	—	—	1	100%	—	—

	As of December 31,					
	2007		2006		2005	
	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet
Suezmax OBOs						
Time charter	8	100%	8	100%	8	100%
Total	8	100%	8	100%	8	100%
Total fleet						
Spot or pool	29	44%	34	47%	51	69%
Time charter	24	36%	24	32%	18	24%
Bareboat charter	13	20%	13	18%	5	7%
Under Conversion	—	—	2	3%	—	—
Total	66	100%	73	100%	74	100%

Market Overview and Trend Information

In the beginning of 2007, the daily TCE was approximately $47,000 for VLCCs and approximately $70,700 for the Suezmaxes. The VLCC segment strengthened in the first quarter of 2007 from weakness at the end of 2006, while the Suezmax segment was weak in the first quarter of 2007. A strike at Lavera, France, in late March, delayed a large number of Suezmaxes from discharging their respective cargoes, which caused Suezmax earnings to spike. VLCC earnings increased but not to the same extent as the Suezmaxes. Ultimately, the earnings for both VLCCs and Suezmaxes gradually declined throughout the second and third quarters of 2007. The primary reasons for the decline can be attributed to reduced global oil production in the summer months, the price structure on oil turning from contango to backwardation, which initiated a significant draw on crude stocks worldwide. Volatility, the trademark of these tanker segments, disappeared until the sharp increase in VLCC rates in mid-November.

This sharp increase in VLCC rates was created in part by the discounting of crude prices by Saudi Aramco in late November to mainly U.S. refiners. This resulted in the increased demand for VLCCs between the last week in November and the third week in December, and had the effect of upsetting the balance of supply and demand in owners' favor, which resulted in increased rates which shipowners successfully exploited. Additionally, the market was not hurt by the December oil spill caused by a Chinese owned single hull vessel off the coast of South Korea. Another important factor which contributed to the increase in rates was the joint decision by several major owners to reduce laden and ballast speeds in order to save bunkers and reduce costs. In a low demand market when bunkers cost as much as an additional $50,000 per day, the reduction of speed from 15 to 12 knots saved an estimated $20,000 per day and reduced the overall 'market capacity' by approximately 10%.

The increased number of VLCCs marked for conversions also contributed to the increase in rates. At the end of 2007, it is estimated that somewhere between 10 and 15 units had been removed from the market, reducing single hull availability in locations such as the Arabian Gulf.

Vessels have, in connection with the increased rates and volatility towards the end of the year been fixed on more speculative short-term time charters than we have seen in the past. According to Clarksons, the average TCE for the year was approximately $57,000 per day for a double hulled VLCC and approximately $44,800 per day for a double hulled Suezmax.

The current trend is for oil majors to avoid employing single hull tonnage when transporting persistent oils because non-single hull vessels are less likely to be inspected. Oil traders with crude or fuel oil cargoes often require double hull tonnage in order to have full flexibility regarding cargo delivery. Thus, single hull ships are no longer able to trade to their full capacity compared to the double hull vessels. This implies a further gap in the already existing 'two tier market' between the double and the single hull vessels.

Bunker prices followed the price fluctuations in the oil market closely in 2007 with Fujairah's lowest bunker quote for the year set early January at $256 per metric ton and the highest set early November at $513 per metric ton. The average bunker price in 2007 was estimated to be approximately $374 per metric ton.

It was reported by the International Energy Agency, or IEA, in March 2008 that average OPEC Oil production, including Iraq but not Angola, was approximately 29.1 million barrels per day during 2007, a 0.7 million barrel per day decrease from 2006. Saudi Arabia and Venezuela contributed the most to the reduced crude oil productions by approximately 0.65 million barrels per day while Iran and Iraq offset this to a certain degree with increased production by approximately 0.26 million barrels per day. The balance stems from minor changes in all remaining OPEC countries. On December 1, 2007, the Republic of Ecuador became the thirteenth member of OPEC and thereby rejoined the Organization after an absence of a decade and a half. The inclusion of the Republic of Ecuador could strengthen the capability of OPEC in fulfilling its objectives and help to further stabilize the market.

OPEC-12 and Iraq are expected to reach a production capacity of 35.8 million barrels per day in 2008 according to IEA. Production could accelerate in 2008 as capacity at the start of the year was at 32 million barrels per day. The growth is expected to be heavily skewed towards Saudi Arabia, Nigeria and UAE together accounting for approximately 75% of the net increase.

The IEA further estimates that the average world oil demand was 85.8 million barrels per day in 2007, a 1.1% increase from 2006. For 2008 a 2.0% or 1.7 million barrels per day growth is forecasted in world oil demand with China, Latin America and the Middle East as the main drivers.

The International Monetary Fund, or IMF, expect global growth to moderate to 4.1% in 2008, 0.8 % lower than in 2007 according to their February 2008 update. In the United States, growth is expected to come down to 1.5% this year, from 2.2% in 2007. Growth is also expected to ease in Europe, Japan and in emerging markets and developing countries. China's growth is projected to remain rapid in 2008, albeit a little below the torrid pace in 2007 of 11.4%.

The total Suezmax fleet increased by 2.4% in 2007 to 348 vessels according to Fearnleys' Fleet Update from December 31, 2007. The report furthermore states that a total of 25 new vessels were delivered to owners during 2007 while 37 new orders were made. The total order book amounted to 134 vessels at the end of the year which represented approximately 38% of the existing fleet. Half the order book is set to be delivered in 2009.

The total VLCC fleet increased by 1.9% in 2007 to 489 vessels with a total of 28 new vessels delivered to owners during 2007 with 28 new orders made. The total order book amounted to 176 vessels at the end of the year, which represented approximately 36% of the existing fleet.

Industry sources expect 40 VLCCs and 19 Suezmaxes to be delivered from shipyards during 2008.

We believe it is likely that more tankers will be either converted or scrapped compared to recent years. Frontline estimates that approximately 40 VLCCs will be converted for non-trading purposes in 2008, approximately 90% to VLOC and the balance to FSO/FPSO. It is also likely that parts of the order book will be delayed as a function of the uncertainty of the delivery schedule for several yards due to financing issues. It is expected that these elements together will cushion the fleet growth.

Accounting Changes

In December 2003 we implemented the provisions of FIN 46. The effect of our implementation of FIN 46 was to require consolidation of certain entities in which we held interests but which had not previously been

consolidated. This resulted in us recording a cumulative effect of a change in accounting principle of $33.7 million effective December 31, 2003.

With effect from December 2003, the IMO implemented new regulations that result in the accelerated phase-out of single hull vessels. As a result of this, we have re-evaluated the estimated useful life of our single hull vessels and determined this to be either 25 years or the vessel's anniversary date in 2015 whichever comes first. As a result, the estimated useful lives of fourteen of our wholly owned vessels and two vessels owned by associated companies were

reduced in the fourth quarter of 2003. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in depreciation expense and consequently decreasing net income by $1.3 million and basic and diluted earnings per share by $0.02, for 2003.

Following the dividend of most of our remaining interest in Ship Finance on March 22, 2007, we re-evaluated the basis of our consolidation of Ship Finance under FIN 46(R) and determined that consolidation of Ship Finance and its subsidiaries was no longer appropriate and that the vessels chartered in from Ship Finance should be accounted for as assets held under capital leases. A summary of the major changes to the financial statements is as follows;

- Vessels leased from Ship Finance, which were previously reported as wholly owned are reported as vessels held under capital lease.

- Capital lease obligations with Ship Finance, which were previously eliminated on consolidation are reported as liabilities with the related interest recorded in the income statement.

- Debt incurred by Ship Finance, which was previously reported as debt of the Company is no longer reported.

- Derivative instruments held by Ship Finance are no longer reported.

- Minority interest expense relating to Ship Finance is no longer reported.

- Profit share expense relating to amounts due to Ship Finance is shown in the income statement.

- Results from Ship Finance’s container ships, jack-up rigs and Panamax vessels are no longer reported in the Company’s consolidated results

Discontinued Operations

In November 2004, we established Golden Ocean as a wholly owned subsidiary in Bermuda for the purpose of transferring, by way of contribution, certain dry bulk shipping interests. We will not have any significant continuing involvement in these dry bulk operations and as a result, the financial results from our dry bulk operations transferred to Golden Ocean have been reported under “discontinued operations” for 2004 and 2003. We have accounted for the spin off of Golden Ocean at fair value and have recorded a gain of $99.5 million in the year ended December 31, 2004.

In 2005, we disposed of our last remaining dry bulk carrier which has been accounted for as discontinued operations as we do not plan on having any continued involvement in dry bulk operations. Discontinued operations also includes a portion of the gain on sale of shares of Golden Ocean in February 2005 representing the difference between the cost of the shares sold and the fair value of the shares at the date of the spin off of Golden Ocean.

As a result of the spin off of Ship Finance in March 2007, we disposed of the container vessel and rig operations of Ship Finance. These operations have been recorded as discontinued operations in 2007 and 2006. The results of the container vessels have also been recorded as discontinued operations in 2005.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period.

Management believes that the following accounting policies are the most critical in fully understanding and evaluating our reported financial results as they require a higher degree of judgment in their application resulting

from the need to make estimates about the effect of matters that are inherently uncertain. See Note 2 to our audited Consolidated Financial Statements included herein for details of all of our material accounting policies.

Revenue Recognition

Revenues are generated from freight billings, time charter and bareboat charter hires. Time charter and bareboat charter revenues are recorded over the term of the charter as service is provided. Under a voyage charter the revenues and associated voyage costs are recognized rateably over the estimated duration of the voyage, which is measured from completion of discharge to completion of discharge. Voyage revenues and expenses are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. The impact of recognizing voyage expenses ratably over the length of each voyage is not materially different on a quarterly and annual basis from a method of recognizing such costs as incurred. Probable losses on voyages are provided for in full at the time such losses can be estimated. Amounts receivable or payable arising from profit sharing arrangements are accrued based on the estimated results of the voyage recorded as at the reporting date. Profit share income represents vessel earnings earned by the Company's customers in excess of market rates. Profit share expense represents amounts due to Ship Finance based on 20% of the excess of vessel revenues earned by the Company over the base hire paid to Ship Finance for chartering in the vessels.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Formulae used to allocate net pool revenues vary among different pools but generally allocate revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. The same revenue and expenses principles stated above are applied in determining the pool's net pool revenues. Certain pools are responsible for paying voyage expenses and distribute net pool revenues to the participants. We account for the net pool revenues allocated by these pools as "pool revenues" which are included in voyage revenues in our statements of operations. Certain pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. We account for gross pool revenues allocated by these pools as "pool revenues" which are included in voyage revenues in our statements of operations.

Vessels and equipment

The cost of the vessels less estimated residual value is depreciated on a straight-line basis over the vessels' estimated remaining economic useful lives. The estimated economic useful life of the Company's double hull vessels is 25 years and for single hull vessels is either 25 years or the vessel's anniversary date in 2015, whichever comes first. Other equipment is depreciated over its estimated remaining useful life, which approximates five years.

Vessels and equipment under capital lease

The Company charters in certain vessels under agreements that are classified as capital leases. Depreciation of vessels under capital lease is included within depreciation and amortisation expense in the consolidated statement of operations. Vessels under capital lease are depreciated on a straight-line basis over the vessels' remaining economic useful lives or on a straight-line basis over the term of the lease. The method applied is determined by the criteria by which the lease has been assessed to be a capital lease.

Variable Interest Entities

A variable interest entity is a legal entity that lacks either (a) equity interest holders as a group that lack the characteristics of a controlling financial interest, including: decision making ability and an interest in the entity's residual risks and rewards or (b) the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support. FIN 46 requires a variable interest entity to be consolidated if any of its interest holders are entitled to a majority of the entity's residual return or are exposed to a majority of its expected losses.

In applying the provisions of Interpretation 46, we must make assumptions in respect of, but not limited to, the sufficiency of the equity investment in the underlying entity. These assumptions include assumptions about the future revenues, operating costs and estimated economic useful lives of assets of the underlying entity.

We initially applied the provisions of Interpretation 46 to all special purpose entities and other entities created after January 31, 2003 on December 31, 2003. We initially applied its provisions to entities that are not considered to be special purpose entities that were created before January 31, 2003 as of March 31, 2004. The impact on the results of operations and financial position of the Company is explained above in “Accounting Changes”.

Leases

Leases are classified as either capital leases or operating leases based on an assessment of the terms of the lease. Classification of leases involves the use of estimates or assumptions about fair values of leased vessels, expected future values of vessels and, if lessor’s rates of return are not known, lessee’s cost of capital. We generally base our estimates of fair value on the average of three independent broker valuations of a vessel. Our estimates of expected future values of vessels are based on current fair values amortized in accordance with our standard depreciation policy for owned vessels. Lessee’s cost of capital is estimated using an average which includes estimated return on equity and estimated incremental borrowing cost. The classification of leases in our accounts as either capital leases or operating leases is sensitive to changes in these underlying estimates and assumptions.

Factors Affecting our Results

The principal factors which affect our results of operations and financial position include:

- the earnings of our vessels in the charter market;
- gains from the sale of assets;
- vessel operating expenses;
- profit share expense;
- administrative expenses;
- depreciation;
- interest expense;

We have derived our earnings from bareboat charters, time charters, voyage charters, pool arrangements and contracts of affreightment.

As of December 31, 2007 2006 and 2005, 28, 34 and 51, respectively, of our vessels operated in the voyage charter market. The tanker industry has historically been highly cyclical, experiencing volatility in profitability, vessel values and freight rates. In particular, freight and charter rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation services.

Gains from the sale of assets relates to gains from the sale of vessels and marketable securities and payments received on the termination of leases.

Operating costs are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance.

Profit share expense relates to the vessels amounts due to Ship Finance based on 20% of the excess of vessel revenues earned by the Company over the base hire paid to Ship Finance for chartering in the vessels.

Administrative expenses are composed of general corporate overhead expenses, including personnel costs, property costs, legal and professional fees and other general administrative expenses. Personnel costs include, among other things, salaries, pension costs, fringe benefits, travel costs and health insurance.

Depreciation, or the periodic cost charged to our income for the reduction in usefulness and long-term value of our vessels, is also related to the number of vessels we own or lease. We depreciate the cost of vessels we own, less their estimated residual value, over their estimated useful life on a straight-line basis. We depreciate the cost of vessels held under capital lease over the term of the lease. No charge is made for depreciation of vessels under construction until they are delivered.

Interest expense relates to vessel specific debt facilities, corporate debt and capital leases. Interest expense depends on our overall borrowing levels and may significantly increase when we acquire vessels or on the delivery of newbuildings. Interest incurred during the construction of a newbuilding is capitalized in the cost of the newbuilding. Interest expense may also change with prevailing interest rates, although the effect of these changes may be reduced by interest rate swaps or other derivative instruments.

Inflation

Although inflation has had a moderate impact on our vessel operating expenses and corporate overheads, management does not consider inflation to be a significant risk to direct costs in the current and foreseeable economic environment other than potentially in relation to insurance costs and crew costs. It is anticipated that insurance costs, which have risen considerably over the last three years, may well continue to rise over the next few years. Oil transportation is a specialized area and the number of vessels is increasing. There will therefore be an increased demand for qualified crew and this has and will continue to put inflationary pressure on crew costs. However, in a shipping downturn, costs subject to inflation can usually be controlled because shipping companies typically monitor costs to preserve liquidity and encourage suppliers and service providers to lower rates and prices in the event of a downturn.

Year ended December 31, 2007 compared with the year ended December 31, 2006

Total operating revenues and voyage expenses and commission

	Year ended December 31,		Change	
(in thousands of $)	2007	2006	$	%
Voyage charter revenues	801,546	1,114,531	(312,985)	(28)
Time charter revenues	432,813	352,575	80,238	23
Bareboat charter revenues	57,052	85,969	(28,917)	(34)
Other income	8,516	5,294	3,222	61
Total operating revenues	1,299,927	1,558,369	(258,442)	(17)

Our vessels are operated under time charters, bareboat charters, voyage charters, pool arrangements and contracts of affreightment, or COAs. Under a time charter, the charterer pays substantially all of the vessel voyage costs which are primarily fuel and port charges. Under a bareboat charter the charterer pays substantially all of the vessel voyage and operating costs. Under a voyage charter, the vessel owner pays such costs. Under contracts of affreightment, the owner carries an agreed upon quantity of cargo over a specified route and time period. Accordingly, charter income

from a voyage charter would be greater than that from an equally profitable time charter to take account of the owner's payment of vessel voyage costs, and charter income from a bareboat charter would be lower than that from an equally profitable time charter, to take account of the charterer's payment of vessel operating costs.

Total operating revenues decreased in 2007 primarily because of a decrease in voyage charter revenues. Voyage charter revenues decreased primarily due to the following reasons:

- A reduction in trading days due to the sale of three vessels in 2006 and three vessels in 2007, which resulted in a decrease of $68.4 million in 2007.

- Switching the employment of four VLCCs from the spot voyage market to time charters in the second quarter of 2006 resulted in a decrease of $49.2 million in 2007.

- The Aframax Front Puffin stopped trading at the end of 2006 when conversion into an FPSO commenced. Front Puffin spot voyage revenue in 2006 was $2.8 million.

    - The sale of a single hull Suezmax in March 2007 and the delivery of three single hull Suezmaxes to shipyards for conversion to heavy lift vessels during 2007. The single hull Suezmax Front Sunda was delivered for conversion in 2006. These transactions resulted in a decrease in spot voyage revenues of $33.0 million.

- During 2007, seven vessels (three Suezmax double hulls, one Suezmax single hull and three VLCC double hulls) changed employment from spot voyage to time charter resulting in a decrease in voyage charter revenues of $71.2 million.

- TCE rates decreased in 2007 compared to 2006 contributing to a general decrease in voyage charter revenues. The TCE earned in 2007 for our double hull Suezmaxes was approximately $41,100 compared to $49,900 in 2006 and single hull Suezmax average daily rate earned in 2007 was $22,900 compared to $29,100 in 2006. The average daily rate earned for our double hull VLCCs in 2007 was $48,200 compared to $67,600 in 2006 and the single hull VLCC average daily rate earned in 2007 was $37,600 compared to $54,100 in 2006. The rates earned highlight a continuing differential in market rates for single and double hull vessels.

Time charter revenues have increased primarily due to the following reasons:

- Our OBO's were fixed on new time charters with higher prevailing rates resulting in an increase in revenues of $25.0 million.

- During 2007, we chartered in two VLCCs and subsequently chartered these vessels out on time charters which contributed to an increase in revenues of $17.6 million.

- Two VLCCs which were previously employed on bareboat charters and four VLCCs which were previously employed on spot voyages began time charters during the first six months of 2006 resulting in an increase in time charter revenues of $20.4 million. The earnings on these time charters are based on the vessels' actual earnings by the charterer.

- During the year, seven vessels changed employment from spot voyage to time charter resulting in an increase in time charter revenues of $25.2 million.

Bareboat charter revenues have decreased primarily due to the change in employment of four vessels during 2006 to voyage and time charter. We also sold a vessel in 2006 that was previously employed on a bareboat charter.

Voyage charter revenues include pool revenues. Certain pools are responsible for paying voyage expenses and distribute net pool revenues to the participants while other pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. Our pool earnings in 2007 allocated on a gross basis were $34.4 million (2006: 131.1 million).

In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of time charter equivalent revenue, or TCE. Total TCE is the sum of time charter, voyage charter and bareboat charter revenues, less voyage expenses. Total TCE, which is not covered by generally accepted accounting principles, or GAAP, provides more meaningful information to us than total operating revenues, the most directly comparable GAAP measure. Average daily TCEs are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. Other companies may calculate TCE using a different method. A summary of average time charter equivalent earnings per day for our fleet is as follows:

(in $ per day)	2007	2006	2005	2004	2003
VLCC	45,700	56,800	57,400	78,000	42,300
Suezmax	33,000	37,800	40,300	57,900	33,900
Suezmax OBO	39,700	31,700	34,900	27,900	31,900

Gain on sale of assets

	Year ended December 31,		Change	
(in thousands of $)	2007	2006	$	%
Gain on sale of assets	118,168	95,655	22,513	24

The gain on sale of assets in 2007 comprises gains of $21.3 million and $6.2 million from the sale of the single hull vessels Front Transporter and Front Horizon, respectively, a gain $60.7 million from the delivery of two converted heavylift vessels and gains of $13.3 million and $16.6 million resulting from the termination of the long-term charter party agreements for Front Vanadis and Front Birch, respectively.

The gain on sale of assets in 2006 includes gains of $11.0 million, $58.9 million and $14.3 million relating to the sales of Golden Stream, Front Beijing and Front Tobago, respectively. In addition, the Company sold two newbuilding contracts for a profit of $9.8 million

Ship operating expenses

	Year ended December 31,		Change	
(in thousands of $)	2007	2006	$	%
Suezmax OBO	24,064	32,111	(8,047)	(25)
Suezmax	52,642	63,068	(10,426)	(17)
VLCC	119,552	97,274	22,278	23
Aframax	-	2,182	(2,182)	(100)
	196,258	194,635	1,623	1

Ship operating expenses are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance.

OBO operating costs have decreased primarily as a result of drydocking related costs. In 2007, one OBO was drydocked compared with six OBOs in 2006 resulting in an overall decrease in drydocking, repairs and maintenance and spares of $8.2 million.

Suezmax operating costs have decreased primarily as a result of the following:

- In 2007, five Suezmaxes (two single hull and three double hull) were drydocked compared with seven Suezmaxes (five single hulls and two double hulls) in 2006 which resulted in a decrease of $7.5 million in drydock related expenses.

- We sold a single hull Suezmax in March 2007 and delivered three single hull Suezmaxes to shipyards for conversion to heavy lift vessels during 2007. All of these vessels reported a full year's operating expenses in 2006 which resulted in a decrease of $4.0 million in 2007. The single hull Suezmax Front Sunda was delivered for conversion in 2006 resulting in a decrease in operating costs of $2.1 million in 2007.

VLCC operating costs have increased primarily as a result of the following:

- In 2007, nine VLCCs were drydocked (six double hulls and three single hulls) compared to six in 2006 (three double hulls and three single hulls). Operating costs for the vessels drydocked in 2007 increased by $22.7 million of which, $15.1 million relates to single hull vessels and $7.6 million relates to double hull vessels. This increase is partially offset by a decrease in operating costs of $9.5 million for vessels drydocked in 2006.

- In early 2006, four vessels that were on bareboat charters were redelivered and subsequently chartered out on time charters which contributed to an increase in operating expenses of $3.3 million in 2007.

- One VLCC was delivered in the third quarter of 2006 resulting in an increase in costs of $1.5 million in 2007.

- We sold three VLCCs during 2006 which has resulted in a decrease in operating costs of $5.3 million. We sold another VLCC in June 2007 which has resulted in only six months of operating costs being reported in 2007 compared to a full year in 2006 which contributed to a $1.3 million decrease in operating costs

In 2006, we purchased an Aframax vessel, Front Puffin, which commenced conversion to an FPSO vessel in the fourth quarter of 2006. We subsequently sold our FPSO activities in 2007 and therefore no longer report any associated operating costs.

Profit share expense

	Year ended December 31,		Change	
(in thousands of $)	2007	2006	$	%
Profit share expense	37,279	—	37,279	—

Profit share expense relates to the vessels leased from Ship Finance and is calculated as 20% of TCE in excess of daily base charter hire. Profit share expense of $37.3 million recorded in the income statement excludes $15.2 million relating to the first quarter, which was eliminated on consolidation of Ship Finance. The full amount of profit share expense in 2006 of $78.9 million was eliminated on consolidation. The decrease compared in 2007 compared with 2006 was due to the lower TCE rates as described above.

Charterhire expenses

	Year ended December 31,		Change	
(in thousands of $)	2007	2006	$	%
Charterhire expenses	56,868	24,923	31,945	128

Number of vessels chartered in and accounted for as operating leases:	2007	2006

VLCC	3	1
Suezmax	6	1