FRONTLINE LTD /
Form 20-F/A
October 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A

(Mark One)

[_] 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, 2003

OR

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

For the transition period from

Commission file number 0-22704

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 organisation)

Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda

(Address of principal executive offices)

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.

(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.

73,647,930 Ordinary Shares, $2.50 Par Value

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 [_]

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

Item 17 [_] Item 18 [X]

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document 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 document 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. The words "believe," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this document 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, 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

or political events, 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

A. SELECTED FINANCIAL DATA

The selected income statement data of the Company with respect to the fiscal years ended December 31, 2003, 2002 and 2001 and the selected balance sheet data of the Company with respect to the fiscal years ended December 31, 2003 and 2002 have been derived from the Company's Consolidated Financial Statements included herein and should be read in conjunction with such statements and the notes thereto. The selected income statement data with respect to the fiscal years ended December 31, 2000 and 1999 and the selected balance sheet data with respect to the fiscal years ended December 31, 2001, 2000 and 1999 has been derived from consolidated financial statements of the Company not included herein. The following table should also 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			
	2003	2002	2001	2
(in thousand of $, except Ordinary Shares, per Ordinary Share data and ratios)				
Income Statement Data:				
Total operating revenues(1)	$1,173,783	$ 551,595	$716,478	$6
Total operating expenses(1)	$ 687,007	$ 454,691	$376,678	$3
Net operating income (loss)	$ 492,402	$ 95,676	$375,420	$3
Net income (loss) from continuing operations before income taxes and minority interest	$ 443,130	$ 7,150	$330,551	$3
Net income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 443,127	$ 7,172	$330,107	$3
Discontinued operations(2)	$ -	$ (1,929)	$ 21,076	$
Cumulative effect of change in accounting principle	$ (33,767)	$(14,142)	$ 31,545	$
Net (loss) income	$ 409,360	$ (8,899)	$382,728	$3
Earnings (loss) from continuing operations before cumulative effect of change in accounting principle per Ordinary Share				
- basic	$ 5.92	$ 0.09	$ 4.30	$
- diluted	$ 5.90	$ 0.09	$ 4.29	$
Earnings (loss) per Ordinary Share				
- basic	$ 5.47	$ (0.12)	$ 4.99	$
- diluted	$ 5.45	$ (0.12)	$ 4.98	$
Cash dividends paid per Ordinary Share	$ 4.55	$ 0.25	$ 1.50	$

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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

(2) During the year ended December 31, 2002 the Company sold a portion of its dry-bulk operations which have been recorded as discontinued operations in 2002, 2001 and 2000. These operations were acquired in 2000.

Balance Sheet Data (at end of year):			
Cash and cash equivalents	$ 124,189	$ 92,078	$ 178,17
Newbuildings and vessel purchase options	$ 8,370	$ 27,405	$ 102,78
Vessels and equipment, net	$ 2,165,239	$ 2,373,329	$ 2,196,95
Vessels under capital lease, net	$ 765,126	$ 264,902	$ 317,20
Investments in associated companies	$ 173,329	$ 119,329	$ 109,89
Total assets	$ 4,463,535	$ 3,034,743	$ 3,033,77
Short-term debt and current portion of long-term debt	$ 191,131	$ 167,807	$ 227,59
Current portion of obligations under capital lease	$ 20,138	$ 13,164	$ 17,12
Long-term debt	$ 2,091,286	$ 1,277,665	$ 1,164,35
Obligations under capital lease	$ 753,823	$ 259,527	$ 283,66
Share capital	$ 184,120	$ 191,166	$ 191,01
Stockholders' equity	$ 1,255,417	$ 1,226,973	$ 1,252,40
Ordinary Shares outstanding	73,647,930	76,466,566	76,407,56
Weighted average ordinary shares outstanding	74,901,900	76,456,340	76,714,00
Cash Flow Data			
Cash provided by operating activities	$ 523,280	$ 142,025	$ 477,60
Cash provided by (used in) financing activities	$ (233,303)	$ (5,230)	$ (299,163
Cash provided by (used in) investing activities	$ (269,058)	$ (222,893)	$ (103,782
Other Financial Data			
Equity to assets ratio (percentage)(3)	28.1%	40.5%	41.3
Debt to equity ratio(4)	2.4	1.4	1.
Price earnings ratio(5)	4.3	neg	2.
Net voyage revenues	$ 765,985	$ 354,212	$ 551,51

The Company's vessels are operated under time charters, bareboat charters, voyage charters pool arrangements and COAs. Under a time charter, the charterer pays substantially all of the vessel voyage costs. 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. Vessel voyage costs are primarily fuel and port charges. 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. 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 average daily time charter equivalent earnings, or TCEs. For voyage charters, this is calculated by dividing net voyage revenues by the number of days on charter. Days spent off-hire are excluded from this calculation. Net voyage revenues, a non-GAAP measure, provides more meaningful information to us than voyage revenues, the most directly comparable GAAP measure. Net voyage revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles our net voyage revenues to voyage revenues.

	2003	2002	2001	2000	1999
Voyage revenues	1,089,583	489,286	639,807	656,917	339,996
Voyage expenses and commission	(323,598)	(135,074)	(88,292)	(97,316)	(116,662)
Net voyage revenues	765,985	354,212	551,515	559,601	223,334

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(3) Equity to assets ratio is calculated as total stockholders' equity divided by total assets.

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

(5) Price earnings ratio is calculated using the closing year end share price divided by basic Earnings per Share.

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 summarises some of the risks that may materially affect our business, financial condition or results of operations. Please note, in this section, "we", "us" and "our" all refer to the Company and its subsidiaries.

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 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:

o demand for oil and oil products;
o global and regional economic conditions;
o the distance oil and oil products are to be moved by sea; and
o changes in seaborne and other transportation patterns.

The factors that influence the supply of tanker capacity include:

o the number of newbuilding deliveries;
o the scrapping rate of older vessels;
o the number of vessels that are out of service; and

- national or international regulations that may effectively cause reductions in the carrying capacity of vessels or early obsolescence of tonnage.

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

The majority 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 minimising, to the extent possible, time spent waiting for charters and time spent travelling 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 that 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. Tanker markets are typically stronger in the winter months in the northern hemisphere due to increased oil consumption. In addition, unpredictable weather patterns in the winter months tend to disrupt vessel scheduling. 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.

We charter 46 vessels from our subsidiary Ship Finance International Limited at fixed rates on long-term charters. We are obliged to make fixed rate hire payments to Ship Finance even though our income may decrease to levels that make these charters unprofitable.

The long term time charters to us extend for various periods depending on the age of the vessels, ranging from approximately seven to 22 years. With certain exceptions, the daily base charter rates, which are payable by us are as follows:

Year	VLCC	Suezmax
2003 to 2006	$25,575	$21,100
2007 to 2010	$25,175	$20,700
2011 and beyond	$24,175	$19,700

If our earnings from use of 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 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;

- o governmental or other regulations;
- o prevailing level of charter rates; and
- o 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 the reduction of our shareholder's 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 its operations.

Our tanker fleet includes 19 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, which range from 2010 to 2015. The sinking of the single hull m.t. Prestige offshore Spain in November 2002 has led to proposals by the European Union and the IMO to accelerate the prohibition to trade of all non-double hull tankers, with certain limited exceptions. In December 2003, the Marine Environmental Protection Committee of the IMO adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of single hull tankers from 2015 to 2010 unless the relevant flag states extend the date to 2015. This proposed amendment will take effect in April 2005 unless objected to by a sufficient number of states. We do not know whether any of our vessels will be subject to this accelerated phase-out, but this change could result in a number of our vessels being unable to trade in many markets after 2010. As a result, the estimated useful lives of fourteen of the Company's wholly owned vessels and two vessels owned by associated companies were reduced in the fourth quarter of 2003. A change in accounting estimate was recognised 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. Moreover, the IMO may still adopt regulations in the future that could adversely affect the useful lives of our non-double hull tankers as well as its ability to generate income from them.

Compliance with safety, environmental and other governmental and other requirements may adversely affect our business.

The shipping industry is affected by numerous regulations in the form of international conventions, national, state and local laws and national and international regulations in force in the jurisdictions in which such tankers operate, as well as in the country or countries in which such tankers are registered. 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, 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. We believe our vessels are maintained in good condition in compliance with present regulatory and class requirements relevant to areas in which they operate, and are operated in compliance with applicable safety/environmental laws and regulations. However, regulation of vessels, particularly in the areas of safety and environmental impact may change in the future and require significant capital expenditures be incurred on our vessels to keep them in compliance.

Competition

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 and dry bulk carrier owners (including major oil companies as well as independent companies), and, to a lesser extent, owners of other size vessels. Our market share currently is insufficient to enforce any degree of pricing discipline in the markets in which we compete. It is possible that our competitive position will erode in the future.

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

Our existing 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.

An increase in interest rates could materially and adversely affect our financial performance

At December 31, 2003 we had total long-term debt outstanding of $2,282.4 million, of which $1,095.1 million is floating rate debt. The Company uses interest rate swaps to manage interest rate risk. As at December 31, 2003 the Company's interest rate swap arrangements effectively fix the Company's interest rate exposure on $140.5 million of floating rate debt. Our maximum exposure to interest rate fluctuations is $954.6 million at December 31, 2003. If interest rates rise significantly, that could materially and adversely affect our results of operations.

Fluctuations in the Yen could affect our earnings

Certain of our vessels have charters and financing arrangements that require payments of principal and interest or charter hire in Yen. As we have not hedged our Yen exposure against the Dollar, a change in the exchange rate for Yen could have an adverse impact on our financial condition and results of operations.

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, and Tor Olav Tr0im, our Vice-President, 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 or Mr. Tr0im, for any extended period of time could have an adverse effect on our business and results of operations.

Risks involved with operating ocean-going vessels could affect our business and reputation, which would adversely affect our revenues

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

- 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, labour 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.

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 includes 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.

An increase in costs could materially and adversely affect our financial performance

Our vessel operating expenses depend on a variety of factors including crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, many of which are beyond our control and affect the entire shipping industry. Some of these costs, primarily insurance and enhanced security measures implemented after September 11, 2001, are increasing. The terrorist attack of the VLCC Limburg in Yemen during October 2002 has resulted in even more emphasis on security and pressure on insurance rates. If costs continue to rise, that could materially and adversely affect our results of operations.

Maritime claimants could arrest our tankers, which could interrupt our cash flow

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 lienholder 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,

resulting in loss of earnings

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. Government requisition of one or more of our vessels would negatively impact our revenues.

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.

Terrorist attacks, such as the attacks on the United States on September 11, 2001, and other acts of violence or war may affect the financial markets and our business, results of operations and financial condition

As a result of the September 11, 2001 terrorist attacks and subsequent events, there has been considerable uncertainty in the world financial markets. The full effect of these events, as well as concerns about future terrorist attacks, on the financial markets is not yet known, but could include, among other things, increased volatility in the price of securities. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. Future terrorist attacks may also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenue, and costs.

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 of 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 officers, 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 not be exempt from U.S. taxation on our U.S. source shipping income, which would reduce our net income and cash flow by the amount of the applicable tax

Under the United States Internal Revenue Code of 1986, or the Code, a portion of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, may be subject to a 4% United States federal income tax on 50% of the gross shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the U.S., unless that corporation is entitled to a special tax exemption under the Code which applies to the international shipping income derived by some non-United States corporations. We believe that we and each of our subsidiaries qualify for this statutory tax exemption for the year ended December 31, 2003.

However, due to the absence of final Treasury regulations or other definitive authority concerning some aspects of this tax exemption under the relevant provisions of the Code and to the factual nature of the issues involved, 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 this statutory tax exemption 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 portion of the income we or our subsidiaries derive during the year from United States sources. The imposition of this taxation could have an adverse effect on our net income and cash flow.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company

We are Frontline Ltd., a Bermuda based shipping company that is engaged primarily in the ownership and operation of oil tankers. 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: 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. In addition, we have three dry bulk carriers. We operate through subsidiaries and partnerships located in Bermuda, Isle of Man, Liberia, Norway, Panama, Singapore, Sweden, Cayman Islands, the United States and the Bahamas. 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 Frontline Ltd., or Old Frontline, in Bermuda. Old Frontline was incorporated under the laws of Bermuda on April 29, 1997 for the purpose of succeeding to the business of Frontline AB and, commencing in June 1997, the shares in Frontline AB were exchanged for shares in Old Frontline. The ordinary shares of Old Frontline were thereafter listed on the Oslo Stock Exchange and delisted from the Stockholm Stock Exchange.

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. In the business combination, which left LOF as the surviving company, Old Frontline's shareholders exchanged Old Frontline shares for LOF shares and LOF was subsequently renamed Frontline Ltd. As a result of this transaction, Frontline became listed on the London Stock Exchange and 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.

In July 2001 the Company gave notice of termination of the ADR program to the Bank of New York as Depositary. 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. With this listing, Frontline became one of the few companies to list its shares directly on three international securities exchanges.

In December 2003, our subsidiary Ship Finance International Limited issued $580 million of 8.5% Senior Notes due 2013. In the first quarter of 2004, Ship Finance has used the proceeds of the Notes issue, together with a refinancing of existing debt, to fund the acquisition from us of a fleet of 47 crude oil tankers (including one purchase option for a VLCC) and we have chartered each of the ships back for most of their remaining lives. We also entered into fixed rate management and administrative services agreements with Ship Finance to provide for the operation and maintenance of these vessels and administrative support services. The charters and the management agreements were each given economic effect as of January 1, 2004. These transactions are discussed further below in "Spin-Off of Ship Finance International Limited and Future Strategy".

Ship Finance International Limited's shares are listed on the New York Stock Exchange as of June 17, 2004 under ticker symbol "SFL".

B. BUSINESS OVERVIEW

We are a world leader in the international seaborne transportation of crude oil. Our tanker fleet, which is one of the largest and most modern in the world, consists of 25 wholly owned, and 2 part-owned VLCCs and 28 wholly owned, Suezmax tankers, of which 8 are Suezmax OBOs. In addition, we have three wholly owned dry bulk carriers, being two Capesize and one Handymax size carriers. We also charter in thirteen modern VLCCs and three modern Suezmax tankers. At June 15, 2004 we also have a purchase option to acquire a further VLCC.

In 2003, we took delivery of one wholly-owned double-hulled VLCC newbuilding which was subsequently sold prior to the end of 2003 and we sold two 2001 built Suezmax tankers. In addition, in 2003 we sold and leased back two 2000 built VLCCs and two 2001 built Suezmax tankers. In 2003 we disposed of our 50 per cent interests in two VLCCs and increased our investment in five VLCCs from 33.33 per cent to 50.1 per cent. In 2003 we also acquired the remaining 50 per cent of a VLCC from a joint venture partner thereby obtaining 100 per cent ownership.

In December 2003, we agreed with our joint venture partner, Overseas Shipholding, Group, Inc ("OSG"), to swap interests in six joint venture companies, which each own a VLCC. In February 2004, these agreements resulted in us exchanging our interest in the vessels Dundee, Sakura I and Tanabe for OSG's

interest in the vessels Edinburgh, Ariake and Hakata, thereby increasing our interests in these vessels to 100% each.

In May, 2004 we exercised our option to acquire all of the shares of Independent Tankers Corporation ("ITC") from Hemen Holding Ltd, a related party. ITC operates a fleet of six VLCCs and four Suezmax tankers which are all on long-term charters to BP and Chevron.

As of June 15, 2004 the fleet that we operate has a total tonnage of approximately 17.1 million dwt, and our tanker vessels have an average age of 7.8 years compared with an estimated industry average of over 8.6 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 products and, in addition, raw materials like coal and iron ore. 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. 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. 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. Our fleet of modern single hull VLCCs may discharge crude oil at LOOP until the year 2015, and our modern single hull Suezmax tankers may call at U.S. ports until the year 2010 under the phase-in schedule for double hull tankers presently prescribed under

OPA.

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.

2003 was a good year for the tanker market as freight rates increased dramatically compared to 2002, mainly due to limited fleet growth and strong growth in the demand for oil, and implicitly for oil tankers.

According to the International Energy Agency, world oil demand grew by 1.7 million barrels per day (mb/d) compared to 2002 with total world demand rising to 78.7 mb/d. The main driver of this growth was strong economic growth in China resulting in record import levels.

The world supply of oil increased by 2.8 mb/d compared with 2002 to a total of 79.4 mb/d in 2003. Repercussions of the oil workers' strike in Venezuela led to low inventories in the United States and the necessary oil to replenish them came to a large extent from the Middle East. At the moment Venezuela is still producing some 0.5 mb/d less than before the strike. This resulted in strong demand for VLCCs, and a very healthy market for most of the year. In addition, strong growth in the demand for oil in China gave the market additional strength. The war in Iraq reduced output from that country to 0.3-0.4 mb/d. However, during the fall season output continued to climb and averaged about 2.0 mb/d in the 4th quarter of 2003.

The size of the world tanker fleet increased by 2.5% in 2003. The VLCC segment of the market was unchanged, but Suezmax and smaller tankers increased by 4.5%. A total of 19.9 million deadweight tons (mill dwt) of tankers were scrapped in 2003, including 27 VLCC's and 13 Suezmaxes. A total of 49.3 mill dwt , including 51 VLCC's and 55 Suezmaxes, were added to orderbooks in the same period.

The total orderbook for tankers stood at 75.3 mill dwt at the end of 2003. This represents 24.6% of the current tanker fleet, compared to about 19% at the same time in 2002.

The outlook for the tanker market for the remainder of 2004 is positive since it seems that continued growth in oil consumption will ensure a positive demand for tankers. The freight forward market for the second half of 2004, as of June 15, 2004, stands at $75,000 per day for VLCC tankers.

The Company's three remaining dry bulk vessels are fixed on medium to long-term bareboat or time charters, which expire in 2005 and 2014.

Our business strategy is primarily based upon the following principles:

- emphasising operational safety and quality maintenance for all of our vessels;
- complying with all current and proposed environmental regulations;
- outsourcing technical operations and crewing;
- controlling operational costs of vessels;
- operating one of the most modern and homogeneous fleets of tankers in the world;
- achieving high utilisation of our vessels;
- achieving competitive financing arrangements; and
- developing and maintaining relationships with major oil companies and industrial charterers.

After having delivered their cargo, spot market vessels typically operate in ballast, meaning that they are not carrying cargo until they are rechartered. It is the time element associated with these ballast legs that we seek to minimise

by efficiently chartering our OBO carriers and tankers. We seek to maximise earnings in employing vessels in the spot market, under time charters or under Contracts of Affreightment, or COAs.

In December 1999, the Company joined with five other shipowners to form Tankers International LLC, or Tankers to pool the commercial operation of the participating companies' modern VLCC fleets. Revenues allocated to each shipowner who participates in Tankers are calculated on the basis of the pool's total earnings and the tonnage committed into Tankers by the shipowner. In July 2002 we withdrew from Tankers and the commercial operations of our other VLCCs has been brought back under our direct management.

Since 1998 Frontline and OMI Corporation, a major international shipping company, have combined Suezmax tanker fleets for commercial purposes and created Alliance Chartering LLC, or Alliance. Alliance currently markets 44 Suezmax tankers, the majority of which are employed in the Atlantic Basin. Alliance's control of this large modern fleet of Suezmaxes has enabled it to strengthen relationships with a number of customers. These arrangements may allow Alliance the opportunity to increase its Suezmax fleet utilisation through backhauls when cargo is available (that is, transporting cargo on the return trip when a ship would normally be empty) which would improve vessel earnings. Alliance mainly employs vessels in the spot market, although it also from time to time enters into COAs and time charters. Revenues allocated to each shipowner who participates in Alliance are based on the actual earnings from the vessels contributed to Alliance by the shipowner.

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, or Frontline Management, and Frontline Management (Bermuda) Limited, both wholly-owned subsidiaries of the Company, 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 vessel owned by the Company is registered under the Bahamas, French, Hong Kong, Liberian, Philippines, Singaporean, Norwegian, Isle of Man or Panamanian 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, Ukranian, Croatian, Baltic, Indian and Filipino officers and crews, or combinations of these nationalities.
- Accounting services for each of our shipowning subsidiaries are provided by the ship managers.

Spin-Off of Ship Finance International Limited and Future Strategy

Ship Finance International Limited ("Ship Finance"), initially a wholly-owned subsidiary of the Company, was incorporated in Bermuda in October 2003 for the purpose of acquiring certain of our shipping assets. In December 2003, Ship Finance issued $580 million of 8.5% Senior Notes due 2013. In the first quarter of 2004, Ship Finance has used the proceeds of the Notes issue, together with a refinancing of existing debt, to fund the acquisition from us of a fleet of 47 crude oil tankers (including one purchase option for a VLCC) and we have chartered each of the ships back for most of their remaining lives. 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.

The long term time charters to us extend for various periods depending on the age of the vessels, ranging from approximately seven to 22 years. Nine of the vessels that Ship Finance acquired are on existing long term time charters and three vessels are on existing long term bareboat charters. Ship Finance has agreed with us that it will treat all of these vessels as being under time charters to us, on the same terms and effective on the same date as the other 34 vessels for all economic purposes. With certain exceptions, the daily base charter rates, which are payable to us monthly in advance for a maximum of 360 days per year (361 days per leap year), are as follows:

Year	VLCC	Suezmax
2003 to 2006	$25,575	$21,100
2007 to 2010	$25,175	$20,700
2011 and beyond	$24,175	$19,700

Under the terms of a charter ancillary agreement, beginning with the 11-month period from February 1, 2004 and for each calendar year after that, we have agreed to pay Ship Finance a profit sharing payment equal to 20% of the charter revenues for the applicable period, calculated on a TCE basis, realised by us from use of our fleet in excess of average rates of $25,575 per day for each VLCC and $21,100 per day for each Suezmax tanker.

On May 28, 2004, we announced the distribution of 25% of Ship Finance's common shares to our common shareholders in a partial spin off. On June 16, 2004, each Frontline shareholder of record on June 7, 2004, received one share in Ship Finance for every four Frontline shares held. The record date for the distribution was June 7, 2004, and the distribution date was June 16, 2004. On June 17, 2004, the Ship Finance common shares commenced trading on the New York Stock Exchange under the ticker symbol "SFL".

Following the spin off of 25% of Ship Finance, our operations will be comprised of four main components as follows:

- Our charter and management agreements with Ship Finance including a $250 million cash deposit we are required to reserve to secure the charters.
- The ownership of 75 per cent of Ship Finance.
- The ownership of ITC.
- The ownership of our remaining vessels which include our three dry bulk carriers, nine VLCCs and three Suezmaxes chartered in under long-term leases, two joint venture owned VLCCs and one wholly-owned non-recourse financed VLCC.

It is the Frontline Board's intention that during 2004, Frontline shall divest all its shares in Ship Finance either through a straight sale, a corporate transaction or through further distributions to Frontline's shareholders.

Our strategy is to become, over time, a world leading chartering company with flexibility to adjust our exposure to the tanker market depending on cyclical conditions. In addition, we will, when financing arrangements permit, consider divesting the "non Ship Finance" vessels. This may be done through sale and leaseback or straight sales of the vessels.

Following the spin off of Ship Finance we will be more financially exposed to the chartering market. This is likely to increase our activity in the chartering

market with respect to both short and long-term charters of vessels in and out. Our purpose will be to manage risk through a portfolio of charters. Consolidation of the tanker market will remain an important objective for the Company.

Importance of Fleet Size

We believe that fleet size in the industrial shipping sector is important in negotiating terms with major clients and charterers. We believe that a large, high-quality VLCC and Suezmax fleet will enhance our ability to obtain competitive terms from suppliers and shipbuilders and to produce cost savings in chartering and operations.

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.

Customers

Our customers include major oil companies, petroleum products traders, government agencies and various other entities. During each of the years ended December 31, 2003, 2002 and 2001, no single customer accounted for 10 per cent or more of our consolidated freight 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 shipowner 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 the Company, 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.

Risk of Loss and Insurance

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

Frontline Management is responsible for arranging for the insurance of our vessels in line with standard industry practice. In accordance with that practice, we maintain marine hull and machinery and war risks insurance, which includes the risk of actual or constructive total loss, and protection and indemnity insurance with mutual assurance associations. From time to time we

carry insurance covering the loss of hire resulting from marine casualties in respect of some of our vessels. Currently, the amount of coverage for liability for pollution, spillage and leakage available to us on commercially reasonable terms through protection and indemnity associations and providers of excess coverage is $1 billion per vessel per occurrence. Protection and indemnity associations are mutual marine indemnity associations formed by shipowners to provide protection from large financial loss to one member by contribution towards that loss by all members.

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

Inspection by a Classification Society

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

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

Environmental and Other Regulations

International conventions and national, state and local laws and regulations of the jurisdictions where our tankers operate or are registered significantly affect the ownership and operation of our tankers. We believe we are currently in substantial compliance with applicable environmental and regulatory laws regarding the ownership and operation of our tankers. However, because existing laws may change or new laws may be implemented, we cannot predict the ultimate cost of complying with all applicable requirements or the impact they will have on the resale value or useful lives of our tankers. Future, non-compliance could require us to incur substantial costs or to temporarily suspend operation of our tankers.

We believe the heightened environmental and quality concerns of insurance underwriters, regulators and charterers are leading to greater inspection and safety requirements on all vessels and creating an increasing demand for modern vessels that are able to conform to the stricter environmental standards. We maintain high operating standards for our vessels that emphasizes operational safety, quality maintenance, continuous training of our crews and officers and compliance with United States and international regulations. Our vessels are subject to both scheduled and unscheduled inspections by a variety of governmental and private entities, each of which may have unique requirements. These entities include the local port authorities such as the U.S. Coast Guard, harbour master or equivalent, classification societies, flag state administration or country of registry, and charterers, particularly terminal operators and major oil companies which conduct frequent vessel inspections. Each of these entities may have unique requirements that we must comply with.

Environmental Regulation--IMO

The United Nation's International Maritime Organization, or IMO, has adopted regulations that set forth pollution prevention requirements for tankers. These regulations, which have been implemented in many jurisdictions in which our tankers 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, which means that they are loaded in such a way that if the hull is breached, 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.

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.

The IMO recently adopted regulations that require the phase-out of most single hull tankers by 2015 or earlier, depending on the age of the vessel and whether or not it complies with requirements for protectively located segregated ballast tanks. Under these new regulations, which became effective in September 2002, the maximum permissible age for tankers after 2007 will be 25 years. The new regulations also provide for increased inspection and verification requirements. However, as a result of the oil spill in November 2002 relating to the loss of the m.t. Prestige, which was owned by a company not affiliated with us, in December 2003 the Marine Environmental Protection Committee of the IMO adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of single hull tankers from 2015 to 2010 unless the relevant flag states extend the date to 2015. This proposed amendment will come into effect in April 2005 unless objected to by a sufficient number of member states. We do not know whether any of our vessels will be subject to this accelerated phase-out, but this could result in a number of our vessels being unable to trade in many markets after 2010. Moreover, the IMO may still adopt regulations in the future that could adversely affect the remaining useful lives of our single hull tankers as well as our ability to generate income from them. Our tanker fleet includes 19 non-double hull tankers.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. 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 is expected to be ratified during 2004, and will become effective 12 months after ratification. Annex VI, when it becomes effective, will set limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibit 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 are formulating a plan to comply with the Annex VI regulations once they come into effect. Compliance with these regulations could require the installation of expensive emission control systems and could have an adverse financial impact on the operation of our vessels. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

The IMO's International Safety Management Code, or ISM Code, also affects our operations. The ISM Code requires the party with operational control of a vessel to develop a 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 will rely upon the safety management system that we and our third party technical managers have developed.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with ISM Code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a Document of Compliance, issued by each flag state, under the ISM Code. All of our vessels and their operators have received ISM certification. We are required to renew these documents of compliance and safety management certificates annually.

Non-compliance with the ISM Code and other IMO regulations may subject the vessel owner or a bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in a tankers denial of access to, or detention in, some ports. Both 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 continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on the operation of oil tankers.

Environmental Regulation--OPA/CERCLA

The U.S. Oil Pollution Act of 1990, or OPA, established 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 U.S. or its territories or possessions, or whose vessels operate in the waters of the U.S., which include the U.S. territorial waters and the two hundred nautical mile exclusive economic zone of the U.S. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which also impacts our operations, applies to the discharge of hazardous substances (other than oil) whether on land or at sea.

Under OPA, vessel owners, operators and bareboat or "demise" charterers are "responsible parties" who are liable regardless of fault, individually and as a group, for all containment costs, clean-up costs and for other damages arising from oil spills from their vessels. These other damages may include natural resources damages and related assessment costs, real and personal property damages, loss of subsistence use of natural resources, the loss of taxes, rents, royalties, profits and earnings capacity resulting from an oil spill and the cost of public services necessitated by an oil spill. OPA limits a responsible party's liability to the greater of $1,200 per gross ton or $10 million per vessel over 3,000 gross tons, subject to adjustment for inflation. OPA 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 that 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 liability regime similar to OPA and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of $300 per gross ton or $5 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 wilful misconduct. These limits do not apply if the responsible party fails or refuses to report the incident or to co-operate 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 will 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 aggregate potential strict liability under OPA and CERCLA. 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 OPA limitation on liability of $1,200 per gross ton with the CERCLA liability limit of $300 per gross ton. 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 must 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 liability under OPA/CERCLA. We have provided requisite guarantees and have received certificates of financial responsibility from the U.S. Coast Guard for each of our tankers required to have one.

Under OPA, with limited exceptions, all newly built or converted tankers operating in U.S. waters must be built with double-hulls. Existing vessels that do not comply with the double-hull requirement must be phased out over a 20-year period beginning in 1995 based on size, age and place of discharge, unless retrofitted with double-hulls. Notwithstanding the phase-out period, OPA currently permits existing single-hull 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 unloading with the aid of another vessel, a process referred to as "lightering," within authorized lightering zones more than 60 miles off-shore.

OPA also amended the Federal Water Pollution Control Act to require 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.

Vessel response plans for our tankers operating in the waters of the United States have been approved by the U.S. Coast Guard. 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. We are responsible for ensuring our vessels comply with any additional regulations.

Environmental Regulation--Other

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 and the Convention for the Establishment of an International Fund for Oil Pollution of 1971. Under these conventions, and depending on whether the country in which the damage results is a party to the 1992 Protocol to the International Convention on Civil Liability for Oil Pollution Damage, 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. Under an amendment that became effective 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 $6.7 million plus $938 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability will be limited to approximately $133.4 million. The current maximum amount is approximately $81.2 million. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on January 2, 2004. 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 governs, 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 covers the liability under the plan adopted by the IMO.

In July 2003, in response to the m.t. 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 is considering 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 Commission 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 m.t. Prestige and resulting oil spill in November 2002 has lead to the adoption of other environmental regulations by certain European Union nations, which could adversely affect the remaining useful lives of all of our tankers and our ability to generate income from them. For example, Italy announced a ban of single-hull crude oil tankers over 5,000 dwt from most Italian ports, effective April 2001. Spain has announced a similar prohibition. 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 addition, most U.S. states that border a navigable waterway have enacted laws that impose strict liability for clean-up costs and damages resulting from a discharge of oil or a release of a hazardous substance. As permitted by OPA, these state laws may provide for unlimited liability for oil spills occurring within their boundaries.

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 Maritime Transportation Security Act of 2002 (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 the International Convention for the Safety of Life at Sea (SOLAS) created a new chapter of the convention dealing specifically with maritime security. The new chapter is scheduled to go into effect in July 2004 and will impose various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security (ISPS) Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. tankers from MTSA vessel security measures provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate (ISSC) that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. The Manager will implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and ensure that our tankers attain compliance with all applicable security requirements within the prescribed time periods. We do not believe these additional requirements will have a material financial impact on our operations.

C. ORGANIZATIONAL STRUCTURE

Our vessels are all owned by, or chartered to, separate subsidiaries, associated companies or joint ventures. The following table sets out the details of our significant subsidiaries and equity interests as of June 21, 2004:

Name	Vessel/Activity	Country of Incorporation	Ownership Percentage
CalPetro Tankers (Bahamas I) Ltd	Cygnus Voyager	Bahamas	100%
CalPetro Tankers (Bahamas II) Ltd	Altair Voyager	Bahamas	100%
CalPetro Tankers (Bahamas III) Ltd	Virgo Voyager	Bahamas	100%
Granite Shipping Co. Ltd.	Front Granite	Bahamas	100%
Frontline Management (Bermuda) Ltd	Management company	Bermuda	100%
ICB Shipping (Bermuda) Limited	Management company	Bermuda	100%
Mosvold Shipping Limited	Holding company	Bermuda	100%
Ship Finance International Limited	Holding company	Bermuda	75%
Buckingham Shipping Plc	British Pioneer	Isle of Man	100%
Caernarfon Shipping Plc	British Progress	Isle of Man	100%
CalPetro Tankers (IOM) Ltd	Sirius Voyager	Isle of Man	100%
Golden Current Limited	Opalia	Isle of Man	100%
Golden State Petro (IOM 1-A) PLC	Antares Voyager	Isle of Man	100%
Golden State Petro (IOM 1-B) PLC	Phoenix Voyager	Isle of Man	100%

Holyrood Shipping Plc	British Pride	Isle of Man	100%
Oscilla Shipping Ltd	Option to acquire VLCC	Isle of Man	100%
Sandringham Shipping Plc	British Purpose	Isle of Man	100%
Ariake Transport Corporation	Ariake	Liberia	100%
Bonfield Shipping Ltd.	Front Driver	Liberia	100%
Edinburgh Navigation SA	Edinburgh	Liberia	100%
Fourways Marine Limited	Front Spirit	Liberia	100%
Front Ardenne Inc.	Front Ardenne	Liberia	100%
Front Brabant Inc.	Front Brabant	Liberia	100%
Front Eagle Corporation	Front Eagle	Liberia	100%
Front Falcon Inc	Front Falcon	Liberia	100%
Front Glory Shipping Inc.	Front Glory	Liberia	100%
Front Pride Shipping Inc.	Front Pride	Liberia	100%
Front Saga Inc	Front Page	Liberia	100%
Front Serenade Inc.	Front Serenade	Liberia	100%
Front Splendour Shipping Inc.	Front Splendour	Liberia	100%
Front Stratus Inc.	Front Stratus	Liberia	100%
Front Tobago Inc.	Front Tobago	Liberia	40%
Golden Aquarian Corporation	Cos Hero	Liberia	100%
Golden Bayshore Shipping Corporation	Navix Astral	Liberia	100%
Golden Channel Corporation	Front Commodore	Liberia	100%
Golden Estuary Corporation	Front Comanche	Liberia	100%
Golden Fjord Corporation	Ocana (ex Front Commerce)	Liberia	100%
Golden Fountain Corporation	Golden Fountain	Liberia	50%
Golden Hilton Shipping Corporation	Channel Navigator	Liberia	100%
Golden President Shipping Corporation	Channel Alliance	Liberia	100%
Golden Seaway Corporation	New Vanguard	Liberia	100%
Golden Sound Corporation	New Vista	Liberia	100%
Golden Strait Corporation	Golden Victory	Liberia	100%
Golden Stream Corporation	Golden Stream	Liberia	100%
Golden Tide Corporation	Omalia (ex New Circassia)	Liberia	100%
Hitachi Hull # 4983 Corporation	Otina (ex Hakata)	Liberia	100%
Katong Investments Ltd.	Front Breaker	Liberia	100%
Kea Navigation Ltd	Front Melody	Liberia	100%
Langkawi Shipping Ltd.	Front Birch	Liberia	100%
Millcroft Maritime SA	Front Champion	Liberia	100%
Otina Inc.	Front Tina	Liberia	100%
Optimal Shipping SA	Front Symphony	Liberia	100%
Pablo Navigation SA	Front Chief	Liberia	100%
Patrio Shipping Ltd.	Front Hunter	Liberia	100%
Rakis Maritime SA	Front Fighter	Liberia	100%
Ryan Shipping Corporation	Front Warrior	Liberia	100%
Saffron Rose Shipping Limited	Front Crown	Liberia	100%
Sea Ace Corporation	Front Ace	Liberia	100%
Sibu Shipping Ltd.	Front Maple	Liberia	100%
South West Tankers Inc	Front Sunda	Liberia	100%
Tidebrook Maritime Corporation	Front Commander	Liberia	100%
Ultimate Shipping Ltd.	Front Century	Liberia	100%
West Tankers Inc.	Front Comor	Liberia	100%
Frontline Management AS	Management company	Norway	100%
Puerto Reinosa Shipping Co SA	Front Lillo	Panama	100%
Aspinall Pte Ltd.	Front Viewer	Singapore	100%
Blizana Pte Ltd.	Front Rider	Singapore	100%
Bolzano Pte Ltd.	Mindanao	Singapore	100%
Cirebon Shipping Pte Ltd.	Front Vanadis	Singapore	100%
Fox Maritime Pte Ltd.	Front Sabang	Singapore	100%
Front Dua Pte Ltd.	Front Duchess	Singapore	100%
Front Empat Pte Ltd.	Front Highness	Singapore	100%

Front Enam Pte Ltd.	Front Lord	Singapore	100%
Front Lapan Pte Ltd.	Front Climber	Singapore	100%
Front Lima Pte Ltd.	Front Lady	Singapore	100%
Front Tiga Pte Ltd.	Front Duke	Singapore	100%
Front Tujuh Pte Ltd.	Front Emperor	Singapore	100%
Front Sembilan Pte Ltd.	Front Leader	Singapore	100%
Rettie Pte Ltd.	Front Striver	Singapore	100%
Transcorp Pte Ltd.	Front Guider	Singapore	100%

D. PROPERTY, PLANT AND EQUIPMENT

The Company's Vessels

We operate a substantially modern fleet of tankers and the following table sets forth the fleet that we operate:

TANKER FLEET
Owned Tonnage

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
VLCCs					
Front Sabang	1990	286,000	Single-hull	SG	Spot market
Front Vanadis	1990	286,000	Single-hull	SG	Spot market
Front Highness	1991	284,000	Single-hull	SG	Spot market
Front Lady	1991	284,000	Single-hull	SG	Spot market
Front Lord	1991	284,000	Single-hull	SG	Spot market
Front Duke	1992	284,000	Single-hull	SG	Spot market
Front Duchess	1993	284,000	Single-hull	SG	Spot market
Front Tobago (40%)	1993	261,000	Single-hull	LIB	Tankers Pool
Front Edinburgh	1993	302,000	Double-side	LIB	Spot market
Front Ace	1993	275,000	Single-hull	LIB	Spot market
Golden Fountain (50%)	1995	302,000	Single-hull	PAN	Spot market
Golden Stream	1995	276,000	Single-hull	PAN	Spot market
Navix Astral	1996	276,000	Single-hull	PAN	Bareboat charter
New Vanguard	1998	300,000	Double-hull	HK	Bareboat charter
New Vista	1998	300,000	Double-hull	HK	Bareboat charter
Antares Voyager	1998	308,500	Double-hull	BA	Bareboat charter
Phoenix Voyager	1999	308,500	Double-hull	BA	Bareboat charter
Omalia (ex New Circassia)	1999	306,000	Double-hull	IoM	Bareboat charter
Opalia	1999	302,000	Double-hull	IoM	Bareboat charter
Front Comanche	1999	300,000	Double-hull	FRA	Time charter
Ocana (ex Front Commerce)	1999	300,000	Double-hull	IoM	Bareboat charter
Ariake	2001	299,000	Double-hull	BA	Spot market
Front Serenade	2002	299,000	Double-hull	LIB	Spot market
Otina (ex Hakata)	2002	296,000	Double-hull	IoM	Bareboat charter
Front Stratus	2002	299,000	Double-hull	LIB	Spot market
Front Falcon	2002	308,000	Double-hull	BA	Spot market
Front Page	2002	299,000	Double-hull	LIB	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	NIS	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
Suezmaxes					
Front Lillo	1991	147,000	Single-hull	MI	Spot market
Front Birch	1991	152,000	Double-side	MI	Spot market
Front Maple	1991	152,000	Double-side	MI	Spot market
Front Granite	1991	142,000	Single-hull	NIS	Spot market
Front Emperor	1992	147,000	Single-hull	SG	Spot market
Front Sunda	1992	142,000	Single-hull	NIS	Spot market
Virgo Voyager	1992	150,000	Single-hull	BA	Bareboat charter
Cygnus Voyager	1993	150,000	Double-hull	BA	Bareboat charter
Altair Voyager	1993	130,000	Double-hull	BA	Bareboat charter
Front Spirit	1993	147,000	Single-hull	MI	Spot market
Front Comor	1993	142,000	Single-hull	NIS	Spot market
Front Pride	1993	150,000	Double-hull	NIS	Spot market
Sirius Voyager	1994	150,000	Double-hull	BA	Bareboat charter
Front Glory	1995	150,000	Double-hull	NIS	Spot market
Front Splendour	1995	150,000	Double-hull	NIS	Spot market
Front Ardenne	1997	153,000	Double-hull	NIS	Spot market
Front Brabant	1998	153,000	Double-hull	NIS	Spot market
Mindanao	1998	158,000	Double-hull	SG	Spot market
Front Fighter	1998	153,000	Double-hull	NIS	Spot market
Front Hunter	1998	153,000	Double-hull	NIS	Spot market

Chartered In Tonnage

Vessel	Built	Approximate Dwt	Construction	Flag	Type of Employment
VLCCs					
Front Century	1998	311,000	Double-hull	BA	Spot market
Front Champion	1998	311,000	Double-hull	BA	Spot market
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
Golden Victory	1999	305,000	Double-hull	PAN	Spot market
British Pioneer	1999	307,000	Double-hull	IoM	Bareboat charter
Front Tina	2000	298,000	Double-hull	LIB	Spot market
Front Commodore	2000	299,000	Double-hull	LIB	Time 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 Eagle	2002	309,000	Double-hull	BA	Spot market
Suezmax					
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	Spot market

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 require us

to extend 12 of these leases by up to an additional 5 years from expiry of the fixed term. We have fixed price purchase options to buy 12 of these vessels at certain future dates and the lessors have fixed price options to put 12 of these vessels to us at the end of the lease period. The remaining four lease agreements are not cancellable by us without agreement of end-user of the vessel.

DRY BULK FLEET

Owned Tonnage

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
Capesize					
Channel Alliance	1996	172,000	Single-hull	PHI	Time Charter
Channel Navigator	1997	172,000	Single-hull	PHI	Time Charter
Handymax					
Cos Hero	1999	46,000	Single-hull	PAN	Bareboat Charter

Key to Flags:
BA - Bahamas, HK - Hong Kong, IoM - Isle of Man, LIB - Liberia, NIS - Norwegian International Ship Register, PAN - Panama, PHI - Philippines, SG - Singapore, FRA - France, MI - Marshall Islands.

Other than its 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 leases office space, at market rates, in Oslo, Norway from Sea Shipping AS, a company indirectly affiliated with Hemen Holding Ltd, or Hemen, our principal shareholder.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with Item 3 "Selected Financial Data" and the Company's audited Consolidated Financial Statements and Notes thereto included herein.

The Company's principal focus and expertise is the transportation of crude oil and oil products cargoes for major integrated oil companies and other customers. The Company's tanker fleet, which is one of the largest and most modern in the world, consists of 25 wholly owned VLCCs, two part owned VLCCs, one option to acquire a VLCC and 28 wholly owned Suezmax tankers, of which 8 are Suezmax OBOs. In addition, the Company owns three dry bulk carriers. The Company also charters in 13 modern VLCCs and 3 modern Suezmax tankers on long-term charters. The Company also has a purchase option to acquire a further VLCC tanker. A full fleet list is provided in Item 4 "Information on the Company"

Fleet Changes

In 2001, the Company took delivery of two wholly-owned newbuilding double-hull Suezmax tankers for total delivered cost of $108.2 million, and joint ventures in which the Company had a 33.3 % interest took delivery of three newbuilding double-hull VLCCs for total delivered cost of $240.7 million. The Company also acquired four double-hull VLCCs through the exercise of purchase options for total delivered cost of $293.1 million. In addition the Company acquired two mid 1970s built VLCCs for $21.4 million that were subsequently sold for proceeds of $21.2 million and three contracts for newbuilding double-hull VLCCs to be

delivered in 2002 and 2003 for $53.0 million

In 2001, the Company also sold two 1993-built VLCCs for proceeds of $104.0 million realising gains of $14.8 million and a 2000 built Suezmax tanker for proceeds of $64.0 million realising a gain of $19.4 million

In 2002, the Company took delivery of five wholly-owned newbuilding double-hull VLCCs for total delivered cost of $383.7 million and joint ventures in which the Company had a 33.3 % interest took delivery of two newbuilding double-hulled VLCCs for total delivered cost of $161.8 million. In addition, the Company sold five dry bulk carriers for total proceeds of $93.4 million, realising a net loss of $3.1 million.

In 2003, the Company acquired two Suezmax tankers for $6.7 million which were previously 40% and 35% owned, These vessels were subsequently sold for proceeds of $8.1 million realising gains of $1.2 million. A further two Suezmax tankers were sold in 2003 for proceeds of $100.3 million realising gains of $7.1 million. The Company also took delivery of a newbuilding double-hull VLCC for delivered cost of $79.2 million which was subsequently sold for $76.0 million realising a loss of $2.7 million and acquired the remaining 50% of a double-hull VLCC which was already 50% owned for $9.5 million. Through a reorganisation of interests in joint ventures the Company disposed of 50% interests in 2 VLCCs and increased interests in a further 4 double-hull VLCCs from 33.3% to 50.1% through a combination of sale, acquisition and exchange of interest transactions. Our net cash investment in these transactions was $3.3 million and we recorded impairment losses of $5.2 million.

In February 2004 through a further reorganistion of joint ventures the Company exchanged its 50.1% interests in 3 double-hull VLCCs for the remaining 49.9% interests in 3 double-hull VLCCs of which the Company already owned 50.1%. We accounted for these exchanges as non-cash exchanges of assets at book value. We received a net cash settlement of $2.3 million as a result of equalization of the values of the assets exchanged and recorded a gain of $0.2 million on the transactions.

Acquisition of Independent Tankers Corporation

In May 2004, the Company exercised its option to acquire all of the issued shares of Independent Tankers Corporation. Through this transaction the Company acquired a fleet of six modern double-hull VLCCs and four Suezmax tankers, three of which are double-hull. The Company consolidated the assets and liabilities of ITC with effect from December 31, 2003 as a result of implementation of FASB Interpretation 46, Consolidation of Variable Interest Entities (as described below in "Accounting Changes").

All of ITC's vessels are on long-tem bareboat charters to Chevron and BP. The initial fixed terms of the charters range from 8 to 10 years. After the initial fixed term the charterers have options to extend the charters of the vessels for further periods of between 8 to 12 years.

ITC is financed by Term and Serial Notes. These Notes mature between 2004 and 2021 and are secured on ITC's vessels and long-term charters. Interest is payable on the Notes at fixed rates which range between 6.42% and 8.52%.

Spin-Off of Ship Finance International Limited and Future Strategy

In December 2003, our wholly owned subsidiary, Ship Finance issued $580 million of 8.5% Senior Notes. In the first quarter of 2004, Ship Finance has used the proceeds of the Notes issue, together with a refinancing of existing debt, to fund the acquisition from us of a fleet of 47 crude oil tankers (including one purchase option for a VLCC) and we have chartered each of the ships back for most of their remaining lives. 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.

Under the terms of a charter ancillary agreement, beginning with the 11-month period from February 1, 2004 and for each calendar year after that, we have agreed to pay Ship Finance a profit sharing payment equal to 20% of the charter revenues for the applicable period, calculated on a TCE basis, realised by us from use of their fleet in excess of average rates of $25,575 per day for each VLCC and $21,100 per day for each Suezmax tanker.

These arrangements are described in detail in Item 4 "Information on the Company"

On May 28, 2004, we announced the distribution of 25 % of Ship Finance's common shares to our common shareholders in a partial spin off.

Following the spin off of 25 % of Ship Finance, our operations will be comprised of four main components as follows:

- Our charter and management agreements with Ship Finance including a $250 million cash deposit we are required to reserve to secure the charters.
- The ownership of 75 % of Ship Finance.
- The ownership of ITC.
- The ownership of our remaining vessels which include our three dry bulk carriers, nine VLCCs and three Suezmaxes chartered in under long-term leases, two joint venture owned VLCCs and one wholly-owned non-recourse financed VLCC.

It is the Frontline Board's intention that during 2004, Frontline shall divest all its shares in Ship Finance either through a straight sale, a corporate transaction or through further distributions to Frontline's shareholders.

Our strategy is to become, over time, a world leading chartering company with flexibility to adjust our exposure to the tanker market depending on cyclical conditions. In addition, we will, when the financing arrangements permit, consider divesting the "non Ship Finance" vessels. This may be done through sale and leaseback or straight sales of the vessels.

Following the spin off of Ship Finance we will be more financially exposed to the chartering market. This is likely to increase our activity in the chartering market with respect to both short and long-term charters of vessels in and out. Our purpose will be to manage risk through a portfolio of charters. Consolidation of the tanker market will remain an important objective for the Company.

Market Overview

2003 was a good year for the tanker market as freight rates increased dramatically compared to 2002, mainly due to limited fleet growth and strong growth in the demand for oil, and implicitly for oil tankers.

According to the International Energy Agency, world oil demand grew by 1.7 million barrels per day (mb/d) compared to 2002 with total world demand rising to 78.7 mb/d. The main driver of this growth was strong economic growth in China resulting in record import levels.

The world supply of oil increased by 2.8 mb/d compared with 2002 to a total of 79.4 mb/d in 2003. Repercussions of the oil workers' strike in Venezuela led to low inventories in the United States and the necessary oil to replenish them

came to a large extent from the Middle East. At the moment Venezuela is still producing some 0.5 mb/d less than before the strike. This resulted in strong demand for VLCCs, and a very healthy market for most of the year. In addition, strong growth in the demand for oil in China gave the market additional strength. The war in Iraq reduced output from that country to 0.3-0.4 mb/d. However, during the fall season output continued to climb and averaged about 2.0 mb/d in the 4th quarter of 2003.

The size of the world tanker fleet increased by 2.5% in 2003. The VLCC segment of the market was unchanged, but Suezmax and smaller tankers increased by 4.5%. A total of 19.9 million deadweight tons (mill dwt) of tankers were scrapped in 2003, including 27 VLCC's and 13 Suezmaxes. A total of 49.3 mill dwt , including 51 VLCC's and 55 Suezmaxes, were added to orderbooks in the same period.

The total orderbook for tankers stood at 75.3 mill dwt at the end of 2003. This represents 24.6% of the current tanker fleet, compared to about 19% at the same time in 2002.

The outlook for the tanker market for the remainder of 2004 is positive since it seems that continued growth in oil consumption will ensure a positive demand for tankers. The freight forward market for the second half of 2004, as of June 15, 2004, stands at $75,000 per day for VLCC tankers.

Effective December 31, 2003, we have presented our income statement using total operating revenues and total operating expenses. The Company's vessels are operated under time charters, bareboat charters, voyage charters pool arrangements and COAs. Under a time charter, the charterer pays substantially all of the vessel voyage costs. 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. Vessel voyage costs are primarily fuel and port charges. 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. 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 average daily time charter equivalent earnings, or TCEs. For voyage charters, this is calculated by dividing net voyage revenues by the number of days on charter. Days spent off-hire are excluded from this calculation. Net voyage revenues, a non-GAAP measure, provides more meaningful information to us than voyage revenues, the most directly comparable GAAP measure. Net voyage revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles our net voyage revenues to voyage revenues.

	2003	2002	2001	2000	19
Voyage revenues	1,089,583	489,286	639,807	656,917	339,9
Voyage expenses and commission	(323,598)	(135,074)	(88,292)	(97,316)	(116,6
Net voyage revenues	765,985	354,212	551,515	559,601	223,3

The following table sets out the daily TCEs earned by the Company's tanker fleet over the last five years:

	2003	2002	2001	2000	1999
(in $ per day)					
VLCC	42,300	22,500	40,800	46,300	20,000
Suezmax	33,900	18,400	30,700	35,500	16,700

Suezmax OBO	31,900	17,700	28,900	33,300	16,800

The Company's fleet of dry bulk carriers are all fixed on medium to long-term bareboat or time charters. These arrangements provide sufficient cash flows to cover the debt service on this fleet.

Accounting Changes

In December 2003 the Company implemented the provisions of FASB Interpretation 46, Consolidation of Variable Interest Entities ("FIN 46"). The effect of implementation of FIN 46 by the Company was to require consolidation of certain entities in which the Company held interests but which had not previously been consolidated. This resulted in the Company recording an increase in total assets of $918.3 million, an increase in total liabilities of $952.1 million and the cumulative effect of a change in accounting principle of $33.8 million effective December 31, 2003 as discussed below.

The Company owns 50% of the issued shares of and has made loans to Golden Fountain Corporation, owner of a VLCC. Prior to the adoption of FIN 46 Frontline accounted for its interest in Golden Fountain Corporation using the equity method. We have determined that Golden Fountain Corporation is a variable interest entity and that Frontline is the primary beneficiary. Accordingly we have consolidated the assets and liabilities of Golden Fountain Corporation effective December 31, 2003. The effect of consolidation of Golden Fountain Corporation as of December 31, 2003 is to increase total assets by $7.8 million, increase total liabilities by $16.4 million and to record the cumulative effect of a change in accounting principle of $8.5 million.

On July 1, 2003, the Company's subsidiary Golden Ocean Group Ltd, purchased a call option to acquire all of the shares of Independent Tankers Corporation ("ITC") from Hemen Holding Ltd, a related party, for a total consideration of $4.0 million plus 4 % interest per year. ITC operates a total of six VLCCs and four Suezmax tankers, which are on long-term charters to BP and Chevron. Golden Ocean paid $10.0 million for the option, which expires on July 1, 2010. Prior to the adoption of FIN 46 Frontline did not consolidate ITC. We have determined that ITC is a variable interest entity and that Frontline is the primary beneficiary. Accordingly we have consolidated the assets and liabilities of ITC effective December 31, 2003. The effect of consolidation of ITC as of December 31, 2003 is to increase total assets by $910.5 million, increase total liabilities by $935.7 million and to record the cumulative effect of a change in accounting principle of $25.2 million.

The company leases twelve vessels from special purpose lessor entities which were established and are owned by independent third parties who provide financing through debt and equity participation. Prior to the adoption of FIN 46R these special purpose entities were not consolidated by Frontline. Four of these leases are accounted for as operating leases and eight of these leases are accounted for as capital leases. We have determined that due to the existence of certain put and call options over the leased vessels, these entities are variable interest entities. The determination of the primary beneficiary of a variable interest entity requires knowledge of the participations in the equity of that entity by individual and related equity holders. Our lease agreements with the leasing entities do not give us any right to obtain this information and after exhaustive efforts we have been unable to obtain this information by other means. Accordingly we are unable to determine the primary beneficiary of these leasing entities. At December 31, 2003, the original cost to the lessor of the assets under such arrangements was approximately $856.5 million. At December 31, 2003, the company's residual value guarantees associated with these leases, which represent the maximum exposure to loss, are $132.3 million.

The Company has both an obligation and an option to purchase the VLCC Oscilla on expiry of a five-year time charter, which commenced in March 2000. Oscilla is

owned and operated by an unrelated special purpose entity. Prior to the adoption of FIN 46R this special purpose entity was not consolidated by Frontline. We have determined that the entity that owns Oscilla is a variable interest entity and that Frontline is the primary beneficiary. At the current date after exhaustive efforts we have been unable to obtain the accounting information necessary to be able to consolidate the entity that owns Oscilla. If the Company has exercised its option at December 31, 2003, the cost to the Company of the Oscilla would have been approximately $42.3 million and the maximum exposure to loss was $17.4 million.

With effect from December 2003, the International Maritime Organisation implemented new regulations that result in the accelerated phase-out of single hull vessels. As a result of this, the Company has re-evaluated the estimated useful life of its 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 the Company's wholly owned vessels and two vessels owned by associated companies were reduced in the fourth quarter of 2003. A change in accounting estimate was recognised 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.

In 2001, the Company changed its accounting policy for drydockings. Prior to 2001, provisions for future drydockings were accrued and charged to expense on a pro-rata basis over the period to the next scheduled drydockings. Since January 1, 2001 the Company has recognised the cost of a drydocking at the time the drydocking takes place, that is it applies the "expense as incurred" method. The expense as incurred method is considered by management to be a more reliable method of recognising drydocking costs as it eliminates the uncertainty associated with estimating the cost and timing of future drydockings. The cumulative effect of this change in accounting principle is shown separately in the consolidated statements of operations for the year ended December 31, 2001 and resulted in a credit to income of $31.5 million in 2001. The cumulative effect of this change as of January 1, 2001 on the Company's consolidated balance sheet was to reduce total liabilities by $32.3 million. Assuming the "expense as incurred" method had been applied retroactively, the pro forma income before cumulative effect of change in accounting principle for 2000 and 1999 would have been increased by $6.3 million and $7.0 million, or $0.09 and $0.14 per basic and diluted share, respectively.

In June 2001, the FASB approved SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 applies to all acquired intangible assets whether acquired singly, as part of a group, or in a business combination. SFAS 142 superseded APB Opinion No. 17, "Intangible Assets". This statement is effective for fiscal years beginning after December 15, 2001. SFAS 142 requires that goodwill and indefinite lived intangible assets will no longer be amortized but will be reviewed annually for impairment. Intangible assets that are not deemed to have an indefinite life will continue to be amortised over their useful lives. At December 31, 2001, the Company had unamortised goodwill of $14.1 million. The Company adopted SFAS 142 effective January 1, 2002 and recorded an impairment charge of $14.1 million for the unamortised goodwill on that date that is shown separately in the consolidated statement of operations as a cumulative effect of change in accounting principle. The valuation of the fair value of the reporting unit used to assess the recoverability of goodwill was a combination of independent third party valuations and the quoted market price.

As of January 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS 133"). Certain hedge relationships met the hedge criteria prior to SFAS 133, but do not meet the criteria for hedge accounting under SFAS 133. The Company adopted SFAS 133 in the first quarter of fiscal year 2001 and upon initial adoption recognised the fair value of its derivatives as assets of $0.4

million and liabilities of $0.6 million. A gain of $0.3 million was recognised in income and a charge of $0.5 million made to other comprehensive income. On January 1, 2002, the Company discontinued hedge accounting for two interest rate swaps previously accounted for as cash flow hedges. This resulted in a balance of $4.1 million being frozen in accumulated other comprehensive income as at that date and this will be reclassified to the income statement over the life of the underlying instrument.

Critical Accounting Policies and Estimates

The preparation of the Company's 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. The following is a discussion of the accounting policies applied by the Company that are considered to involve a higher degree of judgement in their application. See Note 2 to the Company's audited Consolidated Financial Statements included herein for details of all of the Company's 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 recognised rateably over the estimated duration of the voyage. The operating results of voyages in progress at a reporting date are estimated and recognised pro-rata on a per day basis. 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.

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" 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" in our statements of operations.

Vessels and Depreciation

The cost of the Company's vessels is depreciated on a straight-line basis over the vessels' remaining economic useful lives. Management estimates the useful life of the Company's vessels to be 25 years. This is a common life expectancy applied in the shipping industry. With effect from April 2001, the IMO implemented new regulations that result in the accelerated phase-out of single hull vessels. As a result of this, the Company re-evaluated the estimated useful life of its single hull vessels and determined this to be either 25 years or the vessel's anniversary date in 2017, whichever comes first. As a result, the estimated useful lives of six of the Company's vessels were reduced in the fourth quarter of 2001. In December 2003, the Marine Environmental Protection

Committee of the IMO adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of single hull tankers from 2015 to 2010 unless the relevant flag states extend the date to 2015. This proposed amendment will take effect in April 2005 unless objected to by a sufficient number of states. As a result, the Company has re-evaluated the estimated useful lives of its single hull vessels and determined this to be the earlier of 25 years or the vessel's anniversary date in 2015, resulting in the reduction of the estimated useful lives of fourteen of the Company's vessels in the fourth quarter of 2003

If the estimated economic useful life is incorrect, or circumstances change such that the estimated economic useful life has to be revised, an impairment loss could result in future periods. The Company will continue to monitor the situation and revise the estimated useful lives of its non-double hull vessels as appropriate when new regulations are implemented.

The vessels held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the vessels' carrying amounts, the Company must make assumptions regarding estimated future cash flows. These assumptions include assumptions about the spot market rates for vessels, the operating costs of our vessels and the estimated economic useful life of our vessels. In making these assumptions the Company refers to historical trends and performance as well as any known future factors. Factors we consider important which could affect recoverability and trigger impairment include significant underperformance relative to expected operating results, new regulations that change the estimated useful economic lives of our vessels and significant negative industry or economic trends.

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. FASB Interpretation 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, the Company 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.

The Company initially applied the provisions of Interpretation 46 to all special purpose entities and other entities created after January 31, 2003 on December 31, 2003. The Company 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 3 independent broker valuations of a vessel. Our estimates of expected future

values of vessels are based on current fair values amortised 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 Historical Results and Our Future Results Prior to Our Spin-Off of Ship Finance

The principal factors that have affected our historical results of operations and financial position and our future results prior to our spin-off of Ship Finance include:

- the earnings of our vessels in the charter market;
- vessel expenses;
- administrative expenses;
- depreciation;
- interest expense; and
- foreign exchange.

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

A bareboat charter is a contract for the use of a vessel for a specified period of time where the charterer pays substantially all of the vessel voyage costs and operating costs. A time charter is a contract for the use of a vessel for a specific period of time during which the charterer pays substantially all of the vessel voyage costs but the vessel owner pays the operating costs. A voyage charter is a contract for the use of a vessel for a specific voyage in which the vessel owner pays substantially all of the vessel voyage costs and operating costs. Revenues and voyage expenses of vessels operating in pool arrangements, are pooled and net operating revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. A contract of affreightment is a form of voyage charter in which the owner agrees to carry a specific type and quantity of cargo in two or more shipments over an agreed period of time. 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. 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 average daily time charter equivalent earnings, or TCEs. For voyage charters, this is calculated by dividing net voyage revenues by the number of days on charter. Days spent off-hire are excluded from this calculation.

As at December 31, 2003, 2002 and 2001, 51, 53 and 29 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.

The Company's fleet of dry bulk carriers are all fixed on medium to long-term bareboat or time charters. These arrangements provide sufficient cash flows to cover the debt service on this fleet.

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.

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. In 2002 and 2001, administrative expenses also included administrative costs associated with Frontline's participation in Tankers International LLC, or Tankers, a pooling arrangement for the commercial operation of the VLCCs of Frontline and five other VLCC operators, entered into in December of 1999. Frontline withdrew from the pool in July of 2002 and these costs ceased in the second half of 2002.

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. We depreciate the cost of our vessels, less their estimated residual value, over their estimated useful life on a straight-line basis. No charge is made for depreciation of vessels under construction until they are delivered.

Interest expense relates to vessel specific debt facilities and corporate debt. 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. As at December 31, 2003, 48% of our debt was floating rate debt. We may enter into interest rate swap arrangements if we believe it is advantageous to do so. As at December 31, 2003, certain of our subsidiaries had Yen denominated debt and charters denominated in Yen, which expose us to exchange rate risk. As at December 31, 2003 and 2002, we had Yen denominated debt in subsidiaries of (Y)9.6 billion and (Y)5.1 billion respectively.

Ship Finance has a $1.058 billion secured six-year credit facility with a syndicate of financial institutions. This credit facility provided Ship Finance with a portion of the capital required to complete the acquisition of their fleet of vessels from us and to refinance related secured indebtedness. They have entered into interest rate swaps to fix the interest on $500.0 million of the borrowings under this facility for a period of five years at an average rate of 3.4%.

Factors Affecting Our Future Results After Our Spin Off of Ship Finance

Principal factors that are expected to affect our future results of operations and financial position after our spin-off of Ship Finance include:

- the earnings of our vessels;
- the earnings and expenses related to any additional vessels that we acquire;
- charter payments we make to Ship Finance;
- profit sharing payments we make to Ship Finance;
- vessel operating costs of vessels we manage for Ship Finance;
- administrative expenses and;
- depreciation

Initially after our spin-off of Ship Finance, our future revenues will derive primarily from our operation of the 47 vessels that we charter from Ship Finance under long term charters, described above under "Spin-Off of Ship Finance International Limited and Future Strategy." In addition, beginning with the final 11-month period in 2004 and for each calendar year thereafter, we will pay Ship Finance profit sharing payment if our earnings from use of vessels we charter from Ship Finance exceed certain amounts.

The Company's future expenses after our spin-off of Ship Finance will consist primarily of vessel operating costs and administrative expenses. With respect to vessel operating costs, our subsidiary Frontline Management has entered into fixed cost management agreements with Ship Finance under which Frontline Management will be responsible for all technical management of the vessels we charter from Ship Finance, including crewing, maintenance, repair, capital expenditures, drydocking, vessel taxes and other vessel operating and voyage expenses. Frontline Management will receive a fixed fee of $6,500 per day per vessel for all of the above services.

Frontline Management has entered into an administrative services agreement with Ship Finance under which Frontline Management will provide Ship Finance with administrative support services such as the maintenance of corporate books and records, the preparation of tax returns and financial statements, assistance with corporate and regulatory compliance matters not related to Ship Finance's vessels, payroll services, legal services, and other non-vessel related administrative services. Ship Finance will pay Frontline Management a fixed fee of $20,000 per year per vessel for its services under the agreement, and reimburse Frontline Management for reasonable third party costs, if any, advanced on their behalf by Frontline, including directors fees and expenses, shareholder communications and public relations, registrars, audit, legal fees and listings costs.

The accounting impact of our spin-off of Ship Finance will depend in part on the method through which it is effected, that is whether the spin-off is achieved through a straight sale, a corporate transaction or through a distribution to Frontline's shareholders. Given the level of contractual arrangements that will exist between Frontline and Ship Finance, management are in the process of considering the accounting treatment of a spin-off transaction, including whether the financial results and position of Ship Finance can be deconsolidated from Frontline.

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. In addition, in a shipping downturn, costs subject to inflation can usually be controlled because shipping companies typically monitor costs to preserve liquidity and encourage suppliers and service providers to lower rates and prices in the event of a downturn.

Results of Operations

Year ended December 31, 2003 compared with the year ended December 31, 2002

Total operating revenues increased by 113 % to $1,173.8 million in 2003 compared with $551.6 million in 2002. Net voyage revenues increased by 116 % to $766.0 million in 2003 compared with $354.2 million in 2002. Voyage charter revenue represents 93 % of our total operating revenues in 2003 and as a result, the Company's revenues are significantly affected by the prevailing spot market rates in which the vessels operate. Traditionally, spot market rates are highly volatile and are determined by market forces such as worldwide demand, changes

in the production of crude oil, changes in seaborne and other transportation patterns including changes in the distances that cargoes are transported, environmental concerns and regulations and competition from other sources of energy. As discussed in the market overview above, the 2003 tanker market experienced significantly stronger charter rates. The annual average daily TCEs earned by the Company's VLCCs, Suezmax tankers, and Suezmax OBO carriers for 2003 year were $42,300, $33,900 and $31,900 respectively compared with $22,500, $18,400 and $17,700, respectively in 2002.

Ship operating expenses, which include drydocking costs, increased 8 % to $117.6 million from $109.3 million in 2002. This increase reflects the increase in the size of the fleet due to fleet additions in 2002. Average daily operating costs, including drydockings, of the Company's VLCCs, Suezmax tankers and Suezmax OBO carriers were $6,300, $5,500 and $5,500 respectively compared with $6,300, $5,600 and $5,700 respectively in 2002. In 2003, 11 of our vessels drydocked compared with 15 in 2002.

Charterhire expenses increased to $81.0 million in 2003 from $60.6 million in 2002, principally due to the inclusion a full year's expense in 2003 for four vessels on charter from BP Shipping Ltd., the shipping arm of BP Plc - these charters commenced in July 2002 and were terminated in December 2003 and January 2004.

Administrative expenses increased 40% to $17.9 million in 2003 from $12.8 million in 2002. Administrative expenses are reported net of management fee income of $3.8 million and $3.6 million for 2003 and 2002, respectively. Included in fee income was $0.6 million and $0.8 million received from related parties for 2003 and 2002 respectively. The increase in administrative expenses is primarily as a result of the Company recording a non-cash charge of $5.5 million in connection with employee stock options compared with $0.5 million in 2002.

Depreciation and amortisation increased 7% to $146.9 million in 2003 from $136.9 million in 2002. The increase relates to the inclusion of a full year's depreciation on five new vessels acquired in 2002.

Net interest expense (being interest expense net of interest income) for 2003 was $65.9 million, an increase of 13% compared with $58.3 million in 2002. Interest income decreased to $9.1m in 2003 from $13.0 million in 2002 mainly as a result of a decrease in interest income from loans to associated companies. Interest expense increased to $75.1 million from $71.3 million in 2002 with the increase primarily relating to an increase in capital lease interest expense as a result of the sale and leaseback of four vessels in the year. Additionally interest costs of $2.1 million were incurred due to the issuance in December 2003 of $580 million 8.5% Senior Notes by Ship Finance International Limited, a wholly-owned subsidiary of the Company.

The Company's share in results of associated companies increased to earnings of $33.5 million from a loss of $10.7 million in 2002. This increase is due to a combination of the strength of tanker earnings in 2003 compared with 2002 and foreign currency exchange losses recognised in associated companies with Yen denominated long-term debt. In 2003, the Company recorded an impairment charge of $5.2 million related to the other-than-temporary decline in value of its investments in Golden Lagoon Corporation and Ichiban Transport Corporation. This impairment charge was triggered by signing agreements on June 25, 2003 for the sale of our investments for proceeds which were less than the book value of those investments.

The Company incurred foreign currency exchange losses of $17.1 million in 2003 compared with losses of $10.9 million in 2002, as a result of the strengthening of the Yen against the US Dollar from 118.54 at December 31, 2002 to 107.1 at December 31, 2003. At December 31, 2003, the Company had Yen debt of Yen 16.8

billion, compared with Yen 13.1 billion at December 31, 2002.

Other financial items changed from an expense of $8.6 million in 2002 to income of $0.3 million in 2003. In both years, other financial items consists primarily of market value adjustments on derivative instruments including interest rate swaps and freight future agreements. In September 2001 the Company established a facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia, or BNS, whereby the latter acquired shares in the Company, and the Company carried the risk of fluctuations in the share price. The Company terminated this Equity Swap Line on June 17, 2003 resulting in 3,070,000 shares being repurchased at an average cost of $8.98 per share at a time when the market share price was $16.31 As a result the Company recorded income of $22 million in 2003 compared to a charge of $4.0 million in 2002. We incurred losses on freight future contracts amounting to $33.0 million in 2003 ($0.5 million in 2002). This increase substantially relates to speculative freight forward agreements based on the Baltic Capesize Index. In addition, in 2003, the Company recorded income of $6.1 million relating to the market value adjustment on the Company's interest rate swaps compared to a charge of $3.0 million in 2002.

The Company adopted FIN 46 Consolidation of Variable Interest Entities on December 31, 2003 and recorded the cumulative effect of change in accounting principle of $33.8 million. Net income for 2003 before the cumulative effect of change in accounting principle was $443.1 million and basic earnings per share were $5.92 (diluted - $5.90).

Year ended December 31, 2002 compared with the year ended December 31, 2001

Total operating revenues decreased by 23 per cent to $551.1 million from $716.5 million. Total net voyage revenues decreased by 36 per cent to $354.2 million in 2002 compared with $551.5 million in 2001. In 2002, the Company took delivery of five wholly-owned double-hulled VLCCs and two double-hulled VLCCs in which the Company has a 33.33 per cent interest. In addition, the Company sold five dry bulk carriers and sold its 50 per cent interest in two joint ventures, each owning a dry bulk carrier. However, the decrease in net operating revenues primarily reflects the significantly weaker tanker market experienced in 2002. The annual average daily TCEs earned by the Company's VLCCs, Suezmax tankers, and Suezmax OBO carriers for 2002 year were $22,500, $18,400 and $17,700, respectively, compared with $40,800, $30,700 and $28,900, respectively in 2001.

Ship operating expenses, which include drydocking costs, decreased six per cent to $109.3 million from $116.3 million in 2001. This decrease is a result of a cost saving exercise in 2002. The average daily operating costs, including drydockings, of the Company's VLCCs, Suezmax tankers and Suezmax OBO carriers was $6,300, $5,600 and $5,700 respectively compared with $6,300, $5,700 and $9,000 in 2001. In 2001, 12 of our vessels drydocked compared with 15 in 2002.

Charterhire expenses increased to $60.6 million in 2002 from $41.9 million in 2001, principally due to the inclusion in the second half of the year of four additional vessels on short-term charters from BP Shipping Ltd., the shipping arm of BP Plc.

Administrative expenses decreased two per cent to $12.8 million in 2002 from $13.0 million in 2001. Administrative expenses are reported net of fee income of $3.6 million and $3.2 million for 2002 and 2001, respectively. Included in fee income was $0.8 million and $0.5 million received from related parties for 2002 and 2001, respectively. In 2001, the Company recorded a non-cash charge of $1.2 million in connection with employee stock options. In 2002, this charge was reduced to $0.5 million. Offsetting this reduction were increased administrative expenses due to an increase in the number of employees.

Depreciation and amortisation increased 17 per cent from $117.2 million in 2001

to $136.9 million in 2002. The increase relates to the acquisition of five new vessels in 2002 and the impact for a full year of the reduced expected useful life for six of the Company's vessels following the implementation of IMO regulations in 2001.

Net interest expense for 2002 was $58.3 million, a decrease of 24 per cent compared with $77.0 million in 2001. Interest income was unchanged at $13.0 million for both 2001and 2002. Interest expense decreased from $90.0 million in 2001 to $71.3 million in 2002. At December 31, 2002 the Company had $1,424.9 million of floating rate debt and the decrease in the interest expense reflects the benefit of lower interest rates throughout 2002.

The share in result of associated companies decreased from earnings of $22.3 million in 2001 to a loss of $10.7 million in 2002. Certain of the associated companies in which the Company has investments, have Yen denominated long-term debt. In 2002 the loss is due to a combination of lower revenues and the Yen strengthened against the U.S. Dollar with the resulting unrealised foreign exchange loss included within the share in results of associated companies.

The Company incurred a foreign currency exchange loss of $10.9 million in 2002 compared with a gain of $15.5 million in 2001, as a result of the strengthening of the Yen against the US Dollar from 131.14 at December 31, 2001 to 118.54 at December 31, 2002. At December 31, 2002, the Company has Yen debt (including Yen denominated capital leases) of Yen 13.1 billion, compared with Yen 25.7 billion at December 31, 2001.

The charge for other financial items increased from $5.7 million in 2001 to $8.6 million in 2002. In both years, other financial items consists primarily of market value adjustment on derivatives following the adoption of SFAS No. 133 on January 1, 2001. In September 2001 the Company established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia, or BNS, whereby the latter acquires shares in the Company, and the Company carries the risk of fluctuations in the share price of those acquired shares. In 2001 the mark to market valuation of the Equity Swap Line resulted in a credit to income of $4.4 million. This was offset by a charge of $9.8 million in connection with the market value adjustments on interest rates swaps. In 2002 the Company incurred a $4.0 million charge relating to the market value adjustment on the Company's Equity Swap Line and a $3.0 million charge relating to the market value adjustments for interest rate swaps.

Net income from continuing operations before income taxes and before the cumulative effect of change in accounting principle was $7.2 million in 2002 compared with $330.6 million in 2001. In 2002, the Company sold a portion of its dry bulk operations and these disposals have been recorded as a charge of $1.9 million for discontinued operations.

The Company adopted FAS 142 effective January 1, 2002 and recognised an impairment loss on goodwill of $14.1 million that is shown separately in the consolidated statement of operations as a cumulative effect of change in accounting principle. Net income for 2002 before the cumulative effect of change in accounting principle was $5.2 million and earnings per share were $0.07.

Liquidity and Capital Resources

Liquidity:

The Company operates in a capital intensive industry and has historically financed its purchase of tankers and other capital expenditures through a combination of cash generated from operations, equity capital and borrowings from commercial banks. Our ability to generate adequate cash flows on a short and medium term basis depends substantially on the trading performance of our vessels in the market. Market rates for charters of our vessels have been

volatile historically. Periodic adjustments to the supply of and demand for oil tankers causes the industry to be cyclical in nature. We expect continued volatility in market rates for our vessels in the foreseeable future with a consequent effect on our short and medium term liquidity.

The Company's funding and treasury activities are conducted within corporate policies to maximise investment returns while maintaining appropriate liquidity for the Company's requirements. Cash and cash equivalents are held primarily in U.S. dollars with some balances held in Japanese Yen, British Pound and Norwegian Kroner.

Short-term liquidity requirements of the Company relate to servicing our debt, payment of operating costs, lease payments for our chartered in fleet, funding working capital requirements and maintaining cash reserves against fluctuations in operating cash flows. Sources of short-term liquidity include cash balances, restricted cash balances, short-term investments and receipts from our customers. Revenues from time charters and bareboat charters are generally received monthly or fortnightly in advance while revenues from voyage charters are received upon completion of the voyage.

At December 31, 2003 we estimated cash breakeven average daily TCE rates of $15,900 for our Suezmax tankers and $21,400 for our VLCCs. These are the daily rates our vessels must earn to cover payment of budgeted operating costs (including corporate overheads), estimated interest and scheduled loan principal repayments. These rates do not take into account loan bullet repayments at maturity, which we expect to refinance with new loans.

Long-term liquidity requirements of the Company include funding the equity portion of investments in new or replacement vessels, repayment of long-term debt balances including our $580 million 8.5% Senior Notes due 2013 and funding any payments we may be required to make due to lessor put options on certain vessels we charter in. Sources of funding our long-term liquidity requirements include new loans or equity issues, vessel sales and sale and leaseback arrangements.

As of December 31, 2003, 2002 and 2001, the Company had cash and cash equivalents of $124.2 million, $92.1 million and $178.2 million, respectively. As of December 31, 2003, 2002 and 2001, the Company had restricted cash balances of $891.9 million, $8.2 million and $11.1 million respectively. Our restricted cash balances contribute to our total short and medium term liquidity as they are used to fund payment of certain loans and lease payments which would otherwise be paid out of our cash balances. The large increase in restricted cash balances as at December 31, 2003 is due to two factors. A cash deposit of $565.5 million, representing net proceeds from our offering of $580.0 million 8.5% Senior Notes due 2013, was retained by the Trustee pending our satisfaction of certain covenants. We satisfied those covenants during the first quarter of 2004 and the cash deposit was released to us. We consolidated the assets and liabilities of Independent Tankers Corporation ("ITC") with effect from December 31, 2003. ITC's assets included $323.8 million of restricted cash deposits. Use of these deposits is restricted to lease payments for 4 chartered in VLCCs.

In the first quarter of 2004 we established a new restricted deposit of $250.0 million. We are required to maintain this minimum deposit as part of our commitment to secure payment of lease obligations to Ship Finance. Use of the deposit is restricted to making lease payments to Ship Finance under certain circumstances which may arise if our earnings from use of Ship Finance's fleet are lower than the charter rates we have agreed to pay for Ship Finance's vessels.

Borrowing activities:

In December 2003, our wholly-owned subsidiary Ship Finance issued $580.0 million

principal amount of 8.5% Senior Notes due 2013. Our newly-acquired subsidiary ITC had $604.7 million outstanding Note liabilities at December 31, 2003. ITC's Notes mature between 2004 and 2021 and incur fixed rates of interest between 6.42% and 8.52%. Our ability to issue further Notes in future will depend substantially on the availability and pricing of capital for shipping industry projects.

In January and February 2004 our wholly-owned subsidiary Ship Finance refinanced substantially all of its secured bank debt with a new $1,058.0 million syndicated senior secured credit facility. This facility bears interest Libor plus 1.25% and is repayable between 2004 and 2010 with a final bullet of $499.7 million payable on maturity. In common with other secured loans, this facility contains a minimum value covenant which requires that the aggregate value of Ship Finance's vessels exceed 140% of the outstanding amount of the facility.

Frontline does not guarantee any of Ship Finance's debt facilities.

Covenants contained in our secured loan agreements may restrict our ability to obtain new secured facilities in future. We were in compliance with all loan covenants at December 31, 2003.

Acquisitions and Disposals:

In the year ended December 31, 2003 we took delivery of a VLCC. We paid a total amount of $66.6 million in 2003 for this vessel which was partly financed with a new loan of $47.3 million.

We reorganised our joint venture interests during 2003 by disposing of two 50% interests in VLCCs and increasing our interests in four VLCCs from 33.3% to 50.1%. Our total investment in joint ventures was $91.6 million in the year, partly offset by dividends and sale proceeds of $18.9 million.

A further reorganistion occurred in the first quarter of 2004 whereby we exchanged interests with our joint venture partner. As a result we disposed of our 50.1% interests in 3 VLCCs and increased our interests in 3 VLCCs from 50.1% to 100%. We received net cash proceds of $2.3 million in this exchange.

In the year ended December 31, 2003 we sold 3 VLCCs and 6 Suezmax tankers for aggregate cash proceeds of $427.3 million plus 2 million common share of OMI Corporation which had a value of $7.08 per share at the time of sale. These sales include 2 Suezmax tankers and 2 VLCCs which were subsequently leased back by the Company on long-term charters. We used $234.6 million of these proceeds to retire debt secured on the vessels, thereby increasing total liquidity by $192.7 million. We subsequently sold all of the OMI shares for cash, realising a profit of $0.6 million.

Equity:

In June 2003, the company exercised it call option on Frontline shares held by the Bank of Nova Scotia under an Equity Swap Line facility. This transaction involved the Company acquiring 3,070,000 shares at a cost of $8.97 per share at a time when the market price per share was $16.31 As a result the Company recorded a gain of $22.5 million. These shares were immediately cancelled.

During 2003 the Company received $2.9 million proceeds from the issuance of shares in connection with the exercise of employee share options. At December 31, 2003 there were 295,436 unexercised employee stock options. These all became exercisable by June 2004 and were exercised. The Company's Board currently has no plan to issue further employee stock options.

Derivative Activities:

The Company uses financial instruments to reduce the risk associated with fluctuations in interest rates. The Company has a portfolio of interest rate swaps that swap floating rate interest to fixed rate, which from a financial perspective hedge interest rate exposure. The Company does not hold or issue instruments for speculative or trading purposes. As at December 31, 2003 the Company's interest rate swap arrangements effectively fix the Company's interest rate exposure on $140.5 million of floating rate debt. These interest rate swap agreements expire between January 2006 and August 2008.

In connection with its new $1,058.0 million syndicated senior secured credit facility, Ship Finance entered into new 5-year interest rate swaps with a combined principal amount of $500.0 million in the first quarter of 2004. These swaps are at rates between 3.3% and 3.5%.

The Company enters into forward freight agreements for trading purposes in order to manage its exposure to the risk of movements in the spot market for certain trade routes and, to some extent, for speculative purposes. Market risk exists to the extent that spot market fluctuations may have a negative effect on the Company's cash flows and consolidated statements of operations. See Item 11. "Quantitative and Qualitative Disclosures about Market Risk".

Tabular disclosure of contractual obligations:

At December 31 2003, the Company had the following contractual obligations and commitments:

	Payment due by period			
	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
In thousands of $				
$580 million 8.5% notes (1)	--	--	--	580,000
Term notes (7.84% to 8.52%) (2)	3,355	16,068	28,989	435,688
Serial notes (6.42% to 7.62%) (2)	34,450	55,370	24,500	6,300
Other long-term debt	153,326	461,750	230,778	251,843
Operating lease obligations	33,210	67,585	67,814	63,325
Capital lease obligations	80,260	161,236	165,014	813,988
Total contractual cash obligations	304,601	762,009	517,095	2,151,144

(1) In December, 2003, Ship Finance International Limited, a wholly owned subsidiary of Frontline Ltd., issued $580 million 8.5% senior notes which mature in 2013.

(2) These are term and serial notes included as a result of the consolidation of ITC at December 31, 2003. The term notes mature between 2006 and 2021, while the serial notes have maturity dates between 2004 and 2010.

At December 31 2003, the Company leased twelve vessels that were sold by the Company at various times during the period from November 1998 to December 2003, and leased back on charters that range for periods of eight to twelve and a half years with lessors' options to extend the charters for periods that range up to five years. Four of these vessels are accounted for as operating leases and eight as capital leases. The Company has fixed price purchase options at certain specified dates and the lessors have options to put these twelve vessels to the Company at the end of each lease term.

Additionally, the Company's newly acquired subsidiary ITC leases 4 VLCCs on 24 year charters which began on delivery of the vessels in 1999 and 2000. These leases are classified as capital leases and the liabilities have been consolidated with effect from December 31, 2003.

Off balance sheet financing:

Charter hire payments to third parties for certain contracted-in vessels are accounted for as operating leases. The Company is also committed to make rental payments under operating leases for office premises. The future minimum rental payments under the Company's non-cancellable operating leases are disclosed above in "Tabular disclosure of contractual obligations"

The total amount that the Company could be required to pay under put options with respect vessels leased under operating leases is $56.8 million.

At December 31, 2003 joint ventures which the Company accounts for using the equity method had secured bank debt totalling $87.2 million. Frontline was guarantor to $37.7 million of this debt.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Position
John Fredriksen	60	Chairman, Chief Executive Officer, President and Director
Tor Olav Tr0im	41	Vice-President and Director
Kate Blankenship	39	Chief Accounting Officer, Company Secretary and Director
Tom E. Jebsen	46	Chief Financial Officer of Frontline Management
Oscar Spieler	43	Chief Executive Officer of Frontline Management

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

John Fredriksen has been the Chairman of the Board, Chief Executive Officer, President and a director of the Company since November 3, 1997. He was previously the Chairman and Chief Executive Officer of Old Frontline. Mr. Fredriksen has served for over eight years as a director of Seatankers Management Co. Ltd. ("Seatankers"), a ship operating company and an affiliate of the Company's principal shareholder. Mr. Fredriksen indirectly controls Hemen Holding Ltd, a Cyprus company who is our principal shareholder. Mr. Fredriksen is a director of and indirectly controls Golar LNG Limited, a Bermuda company listed on the Oslo Stock Exchange and the Nasdaq National Market.

Tor Olav Tr0im has been Vice-President and a director of the Company since November 3, 1997. He previously served as Deputy Chairman of Frontline from July 4, 1997, and was a director of Old Frontline from July 1, 1996. Until April, 2000 Mr. Tr0im was the Chief Executive Officer of Frontline Management AS, a company which supports the Company in the implementation of decisions made by the Board of Directors. Mr. Tr0im also serves as a consultant to Seatankers and since May 2000, has been a director and Vice-Chairman of Knightsbridge Tankers Ltd, a Bermuda company listed on the Nasdaq National Market. He is a director of Aktiv Inkasso ASA and Northern Oil ASA, both Norwegian Oslo Stock Exchange listed companies and Northern Offshore Ltd., a Bermuda company listed on the

Oslo Stock Exchange. Mr. Tr0im is President and Chief Executive Officer of Ship Finance International since October 15, 2003. Prior to his service with Frontline, from January 1992, Mr. Tr0im served as Managing Director and a member of the Board of Directors of DNO AS, a Norwegian oil company. Mr. Tr0im has served as a director of Golar LNG Limited since May 2001.

Kate Blankenship is Chief Accounting Officer and Secretary of the Company and has been a director since August, 2003. Mrs. Blankenship joined the Company in 1994. Prior to joining the Company, she was a Manager with KPMG Peat Marwick in Bermuda. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship has been Chief Financial Officer of Knightsbridge Tankers Ltd since April 2000 and Secretary of Knightsbridge since December 2000. Mrs. Blankenship is Director and Secretary of Ship Finance International Limited since October 15, 2003. Mrs.Blankenship has served as a director of Golar LNG Limited since July, 2003.

Tom E. Jebsen has served as Chief Financial Officer of Frontline Management since June 1997. From December 1995 until June 1997, Mr. Jebsen served as Chief Financial Officer of Tschudi & Eitzen Shipping ASA, a publicly traded Norwegian shipowning company. From 1991 to December 1995, Mr. Jebsen served as Vice President of Dyno Industrier ASA, a publicly traded Norwegian explosives producer. Mr. Jebsen is also a director of Assuranceforeningen Skuld and Hugin ASA, an internet company.

Oscar Spieler has served as Chief Executive Officer of Frontline Management AS since October 2003, and prior to that time as Technical Director of Frontline Management AS since November 1999. From 1995 until 1999, Mr. Spieler served as Fleet Manager for Bergesen, a major Norwegian gas tanker and VLCC owner. From 1986 to 1995, Mr. Spieler worked with the Norwegian classification society DNV, working both with shipping and offshore assets.

B. COMPENSATION

During the year ended December 31, 2003, the Company paid to its directors and executive officers (five persons) aggregate cash compensation of $1,018,755 and an aggregate amount of $61,360 for pension and retirement benefits.

The Company did not grant any options to acquire Ordinary Shares of the Company to the Directors and officers during 2003.

C. BOARD PRACTICES

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

The officers of the Company are elected by the Board of Directors as soon as possible following each Annual General Meeting and shall hold office for such period and on such terms as the Board may determine.

There are no service contracts between the Company and any of our Directors providing for benefits upon termination of their employment or service.

The Company does not currently have an audit committee.

D. EMPLOYEES

As of December 31, 2003, the Company and its subsidiaries employed approximately 40 people in their respective offices in Bermuda and Oslo. The Company contracts with independent ship managers to manage and operate its vessels.

E. SHARE OWNERSHIP

The beneficial interests of our Directors and officers in the Ordinary Shares of the Company as of June 4, 2004, were as follows:

Director or Officer	Ordinary Shares of $2.50 each	Percentage of Ordinary Shares Outstanding
John Fredriksen*	35,079,053	47.45%
Tor Olav Tr0im	194,934	**
Kate Blankenship	10,000	**
Tom E. Jebsen	39,557	**
Oscar Spieler	19,000	**

* Includes Ordinary Shares held by Hemen Holding Ltd. and other companies indirectly controlled by Mr. John Fredriksen.

** Less than one per cent

As of June 4, 2004 none of the Company's Directors and officers hold any options to acquire Ordinary Shares of the Company.

As of June 4, 2004, there are no authorised and unissued Ordinary Shares reserved for issue pursuant to subscription under options granted under the Company's share option plans.

The Company maintained a Bermuda Employee Share Option Plan and a United Kingdom Employee Share Option Plan. These plans have expired as at June 4, 2004 and have currently not been replaced.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The Company is indirectly controlled by another corporation (see below). The following table presents certain information regarding the current ownership of the Ordinary Shares with respect to (i) each person who is known by the Company to own more than five per cent of the Company's outstanding Ordinary Shares; and (ii) all directors and officers as a group as of June 4, 2004.

	Ordinary Shares	
Owner	Amount	Per cent
Hemen Holding Ltd. and associated companies (1)	35,079,053	47.45%
All Directors and Officers as a group (five persons) (2)	35,342,544	47.81%

(1) Hemen Holding Ltd. is a Cyprus holding company indirectly controlled by Mr. John Fredriksen, who is the Chairman and Chief Executive Officer of the Company.

(2) Includes Ordinary Shares held by Hemen Holding Ltd. and associated companies indirectly controlled by Mr. John Fredriksen.

At both June 2003 and June 2002 Hemen Holding Ltd. and associated companies held 47.74% and 45.22% of the Company's Ordinary Shares, respectively.

The Company's major shareholders have the same voting rights as other shareholders of the Company.

As at May 31, 2004, 5,527,107 of the Company's Ordinary Shares were held by 103

holders of record in the United States.

No corporation or foreign government owns more than 50% of the Company's outstanding Ordinary Shares.

The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

B. RELATED PARTY TRANSACTIONS

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

On December 5, 2000, a subsidiary of Frontline made a short-term loan of $20 million to World Shipholding Ltd.. This loan was repaid in full on February 6, 2001. Fees and interest totalling $234,680 were recorded in 2001. World Shipholding Ltd. is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder in the Company.

In February 2001, the Company acquired newbuilding contracts from Seatankers Management Co. Ltd for the construction and purchase of three VLCC tankers at the Hitachi shipyard in Japan. These contracts were acquired for the original contract price of $72 million each plus $0.5 million per contract. These three newbuildings were delivered in 2002. Seatankers Management Co. Ltd is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder.

In the years ended December 31, 2003, 2002 and 2001, Frontline provided services to Seatankers Ltd. These services comprise management support and administrative services including administration of a newbuilding project known as the Uljanik Project. In the years ended December 31, 2003, 2002 and 2001 the Company earned management fees of $107,995, $253,762 and $277,855, respectively from Seatankers Ltd. As at December 31, 2003, 2002 and 2001 amounts of $17,880, $141,359 and $314,923 respectively were due from Seatankers Ltd in respect of these fees and for the reimbursement of costs incurred on behalf of Seatankers Ltd. Seatankers Ltd. is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder in the Company.

In the years ended December 31, 2003 and 2002 Frontline has provided management support and administrative services to Osprey Maritime Ltd ("Osprey"). In the years ended December 31, 2003 and 2002 the Company earned management fees of $51,600 and $42,000 respectively from Osprey. As at December 31, 2003 and 2002 amounts of $18,719 and $18,000 respectively were due from Osprey in respect of these fees and for the reimbursement of costs incurred on behalf of Osprey. At December 31, 2002, an amount of $103,838 was due to Osprey in respect of Tankers pool distributions due to Osprey that were received by the Company. Osprey is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder in the Company.

In the years ended December 31, 2003, 2002 and 2001, Frontline has provided services to Golar LNG Limited ("Golar"). The services provided include management support, corporate and administrative services. In the years ended December 31, 2003, 2002 and 2001, the Company earned management fees of $261,000, $391,153 and $258,960, respectively from Golar. As at December 31, 2003, 2002 and 2001, amounts of $79,335, $86,343 and $547,966 respectively were due from Golar in respect of these fees and for the reimbursement of costs incurred on behalf of Golar. Golar is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder in the Company.

In the year ended December 31, 2003 and 2002 Frontline has provided management support and administrative services to Northern Offshore Ltd, ("NOF"), In the years ended 31 December 2003 and 2002 the Company earned management fees of

$134,016 and $173,724 respectively from NOF. As at December 31, 2003 and 2002 amounts of $2,422 and $31,071 respectively were due from NOF in respect of these fees and for the reimbursement of costs incurred on behalf of NOF. NOF is indirectly controlled by John Fredriksen who is Frontline Ltd's Chairman and a major stockholder in the Company.

C. INTERESTS OF EXPERTS AND COUNSEL

Not Applicable

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

Legal Proceedings

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

Dividend Policy

In May 2003, the Company announced that it was seeking to adopt a policy that provided a more predictable minimum dividend stream and has consequently adopted a dividend policy whereby the Company seeks to have a minimum quarterly dividend of $0.25 per share, equivalent to $1.00 per share per annum. Prior to May 2003, the Company had not paid regular quarterly or annual dividends pursuant to a specific policy since 1997 and it had been the Company's policy to pay dividends only when considered appropriate by the Company's Board of Directors. The Company has paid the following dividends in 2001, 2002 and 2003.

Record Date	Payment Date	Amount per Share
2001		
May 21, 2001	June 7, 2001	$1.00
August 23, 2001	September 5, 2001	$0.40
November 22, 2001	December 5, 2001	$0.10
2002		
March 13, 2002	March 20, 2002	$0.20
May 31, 2002	June 12, 2002	$0.05
2003		
March 10, 2003	March 24, 2003	$0.15
May 20, 2003	June 6, 2003	$1.00
June 23, 2003	July 7, 2003	$1.00
August 18, 2003	September 2, 2003	$1.10
November 28, 2003	December 12, 2003	$1.30

On February 29, 2004 the Company announced a dividend of $4.50 per share, representing a $0.25 ordinary dividend and a $4.25 special dividend, payable March 29, 2004. On May 28, 2004 the Company announced a dividend of $5.00 per share, representing a $0.25 ordinary dividend and a $4.75 special dividend,

payable June 16, 2004.

The timing and amount of dividends, if any, is at the discretion of the Company's Board of Directors and will depend upon the Company's results of operations, financial condition, cash requirements, restrictions in financing arrangements and other relevant factors.

B. SIGNIFICANT CHANGES

Ship Finance, a wholly-owned subsidiary of the Company, was incorporated in Bermuda in October 2003 for the purpose of acquiring certain of the shipping assets of the Company. In December 2003, Ship Finance issued $580 million of 8.5% Senior Notes. In the first quarter of 2004, Ship Finance used the proceeds of the Notes issue, together with a refinancing of existing debt, to fund the acquisition of a fleet of 47 crude oil tankers (including one purchase option for a VLCC) from the Company and has chartered each of the ships back to the Company for most of their remaining lives. Ship Finance also entered into fixed rate management and administrative services agreements with the Company to provide for the operation and maintenance of the Company's vessels and administrative support services. In May 2004, the Company announced the distribution of 25 per cent of Ship Finance's common shares to Frontline's ordinary shareholders in a partial spin off. Each Frontline shareholder received one share in Ship Finance for every four Frontline shares held. The Company further announced that it is the Board's intention that during 2004, the Company shall divest all its shares in Ship Finance either through a straight sale, a corporate transaction, or through further dividend distribution to Frontline's shareholders. In conjunction with the spin-off of Ship Finance, the Company's strategy will be focussed on becoming a world-leading chartering company. See Item 4. Information on the Company - Spin-Off of Ship Finance International Limited and Future Strategy.

ITEM 9. THE OFFER AND LISTING

Not applicable except for Item 9.A. 4. and Item 9. C.

The Company's Ordinary Shares are traded on the New York Stock Exchange ("NYSE"), the Oslo Stock Exchange ("OSE") and on the London Stock Exchange ("LSE") under the symbol "FRO".

The Company's ADSs, each of which represented one Ordinary Share, were traded on the Nasdaq National Market under the symbol "FRONY" until August 3, 2001 when the ADSs were delisted. The ADR program was terminated on October 5, 2001. The Company's Ordinary Shares began trading on the NYSE on August 6, 2001.

The New York Stock Exchange is the Company's "primary listing". As an overseas company with a secondary listing on the LSE, the Company is not required to comply with certain listing rules applicable to companies with a primary listing on the LSE. The listing on the OSE is also a secondary listing. The Company's Ordinary Shares have been thinly traded on the London Stock Exchange since 1999.

The following table sets forth, for the five most recent fiscal years, the high and low prices for the Ordinary Shares on the NYSE and OSE and the high and low prices for the ADSs as reported by the Nasdaq National Market.

	NYSE		OSE		NASDAQ	
	High	Low	High	Low	High	Low
Fiscal year ended December 31						
2003	$27.69	$8.93	NOK185.00	NOK61.00	--	--

2002	$13.05	$3.19	NOK108.50	NOK25.90	--	--
2001	$15.45	$6.55	NOK215.50	NOK59.50	$24.50	$11.563
2000	--	--	NOK164.00	NOK37.00	$18.250	$3.938
1999	--	--	NOK45.00	NOK16.00	$4.250	$3.000

The following table sets forth, for each full financial quarter for the two most recent fiscal years, the high and low prices of the Ordinary Shares on the NYSE and the OSE.

	NYSE		OSE	
	High	Low	High	Low
Fiscal year ended December 31, 2003				
First quarter	$12.54	$8.93	NOK87.50	NOK61.00
Second quarter	$16.85	$10.00	NOK117.00	NOK73.00
Third quarter	$19.89	$13.40	NOK146.50	NOK95.50
Fourth quarter	$27.69	$15.47	NOK185.00	NOK108.50
Fiscal year ended December 31, 2002				
First quarter	$12.50	$9.05	NOK108.50	NOK81.50
Second quarter	$13.05	$8.79	NOK108.50	NOK64.00
Third quarter	$9.76	$3.19	NOK73.50	NOK25.90
Fourth quarter	$9.41	$4.06	NOK69.00	NOK28.50

The following table sets forth, for the most recent six months, the high and low prices for the Ordinary Shares on the NYSE and OSE.

	NYSE		OSE	
	High	Low	High	Low
May 2004	$35.37	$24.36	NOK237.00	NOK172.00
April 2004	$31.10	$25.25	NOK216.50	NOK173.50
March 2004	$35.89	$25.10	NOK249.50	NOK175.50
February 2004	$32.45	$28.75	NOK225.00	NOK201.50
January 2004	$31.30	$25.50	NOK214.00	NOK165.50
December 2003	$27.69	$20.65	NOK185.00	NOK139.00

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not Applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company has previously been filed as Exhibit 3.1 to the Company's Registration Statement on Form F-1, (Registration No. 33-70158) filed with the Securities and Exchange Commission on October 13, 1993, and is hereby incorporated by reference into this Annual Report.

On April 5, 2004, the Company adopted revised Bye-laws. These Amended and Restated Bye-Laws of the Company as adopted by shareholders on April 5, 2004 are filed as Exhibit 1.4 to this Annual Report.

The action necessary to change the rights of holders of the stock and the conditions governing the manner in which annual general meetings and extraordinary meetings if shareholders are invoked, including the conditions of admission, are described in the Company's Bye-laws.

The Company's Bye-laws contain certain restrictions with respect to the registration of shares which are summarised below:

(i) The Board may decline to register the transfer of any share held through the Verdipapirsentralen, or VPS, the computerised central share registry maintained in Oslo, Norway, for bodies corporate whose shares are listed for trading on the OSE, if the registration of such transfer would be likely, in the opinion of the Board, to result in fifty per cent or more of the aggregate issued share capital of the Company or shares of the Company to which are attached fifty per cent or more of the votes attached to all outstanding shares of the Company being held or owned directly or indirectly, (including, without limitation, through the VPS) by a person or persons resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time).

(ii) If fifty per cent or more of the aggregate issued share capital of the Company or shares to which are attached fifty per cent or more of the votes attached to all outstanding shares of the Company are found to be held or owned directly or indirectly (including, without limitation, through the VPS) by a person or persons resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time), other than the Registrar in respect of those shares registered in its name in the Register as nominee of persons whose interests in such shares are reflected in the VPS, the Board shall make an announcement to such effect through the OSE, and the Board and the Registrar shall thereafter be entitled and required to dispose of such number of shares of the Company or interests therein held or owned by such persons as will result in the percentage of the aggregate issued share capital of the Company held or owned as aforesaid being less than fifty per cent.

The Company has in place a Shareholders Rights Plan that would have the effect of delaying, deferring, preventing a change in control of the Company. The Shareholders Rights Plan has been filed as part of the Form 8-A filed with the Securities and Exchange Commission on December 9, 1996, and is hereby incorporated by reference into this Annual Report.

C. MATERIAL CONTRACTS

None

D. EXCHANGE CONTROLS

The Company is classified by the Bermuda Monetary Authority as a non-resident of Bermuda for exchange control purposes.

The transfer of Ordinary Shares between persons regarded as resident outside Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act of 1972 and regulations thereunder and the issuance of Ordinary Shares to persons regarded as resident outside Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act of 1972 and regulations thereunder. Issues and transfers of Ordinary Shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act of 1972.

The owners of Ordinary Shares who are ordinarily resident outside Bermuda are not subject to any restrictions on their rights to hold or vote their shares. Because the Company has been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to U.S. residents who are holders of Ordinary Shares, other than in respect of local Bermuda currency.

As an "exempted company", the Company is exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians.

E. TAXATION

Bermuda currently imposes no tax (including a tax in the nature of an income, estate duty, inheritance, capital transfer or withholding tax) on profits, income, capital gains or appreciations derived by, or dividends or other distributions paid to U.S. Shareholders of Ordinary Shares. Bermuda has undertaken not to impose any such Bermuda taxes on U.S. Shareholders of Ordinary Shares prior to the year 2016 except in so far as such tax applies to persons ordinarily resident in Bermuda.

There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income except in the case of insurance enterprises. There also is no estate tax treaty between the United States and Bermuda.

F. DIVIDENDS AND PAYING AGENTS

Not Applicable

G. STATEMENT BY EXPERTS

Not Applicable

H. DOCUMENTS ON DISPLAY

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements the Company files reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. 20549. The SEC maintains a website (http://www.sec.gov.) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at the Company's headquarters at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda.

I. SUBSIDIARY INFORMATION

Not Applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks, including interest rates, spot market rates for vessels and foreign currency fluctuations. The Company uses interest rate swaps to manage interest rate risk. The Company has entered into forward freight agreements and futures for trading purposes in order to manage its exposure to the risk of movements in the spot market for certain trade routes and, to some extent, for speculative purposes. The Company enters into other derivative instruments from time to time for speculative purposes.

Our exposure to interest rate risk relates primarily to our debt and related interest rate swaps. The majority of this exposure derives from our floating rate debt, which totalled $1,095.1 million at December 31, 2003 (2002: $1,424.9 million). The Company has entered into interest rate swap agreements to manage its exposure to interest rate changes by swapping floating interest rates with fixed interest rates. At December 31, 2003, we had three swaps with a total notional principal of $140.5 million (2002 - eight swaps with notional principal of $352.7 million). The swap agreements mature between January 2006 and August

2008, and we estimate that we would have to pay $9.1 million to terminate these agreements as of December 31, 2003 (2002 - $4.1 million). Our net exposure to interest rate fluctuations is $954.6 million at December 31, 2003 (2002: $1,072.2 million). Our net exposure is based on our total floating rate debt less the notional principal of our floating to fixed interest rate swaps. A one per cent change in interest rates would increase or decrease interest expense by $9.5 million per year as of December 31, 2003 (2002: $10.7 million).

The fair market value of our fixed rate debt was $1,194.9 million as of December 31, 2003 (2002: $13.3 million). If interest rates were to increase or decrease by one per cent with all other variables remaining constant, we estimate that the market value of our fixed rate debt would decrease or increase by approximately $72.1 and $79.4 million respectively (2002: $0.1 million).

We are exposed to market risk in relation to our forward freight agreements and futures contracts. Fluctuations in underlying freight market indices upon which our forward agreements are based has a consequent effect on the Company's cash flows and consolidated statements of operations. As at December 31, 2003, the notional principal amounts of our forward freight contracts and futures contracts was $31.3 million. A ten per cent change in underlying freight market indices would increase or decrease net income by $6.9 million as of December 31, 2003 (2002: $3.4 million).

The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. Certain of the Company's subsidiaries report in Sterling, Swedish kronor or Norwegian kroner and risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have an effect on the value of the Company's cash flows; and a translation risk, which is the impact of currency fluctuations in the translation of foreign operations and foreign assets and liabilities into U.S. dollars in the Company's consolidated financial statements. Certain of the Company's subsidiaries, and associated companies in which the Company has investments, have Yen denominated long-term debt and charter contracts denominated in Yen. There is a risk that currency fluctuations will have a negative effect on the value of the Company's cashflows. At December 31, 2003, the Company had Yen denominated long-term debt, including capital leases, of (Y)16.8 billion and its share of Yen denominated long-term debt in associate companies was nil (2002 - (Y)13.1 billion and (Y)7.2 billion, respectively). At December 31, 2003 the Company was not party to any forward currency exchange contracts which would have an effect on the Company's financial condition and results of operations.

ITEM 12. DESCRIPTION OF SECURITIES

Not Applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None

ITEM 15. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of December 31, 2003, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the principal executive officers and principal financial officers concluded that the Company's disclosure controls and procedures are effective in alerting them timely to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) Not Applicable

(c) Not Applicable

(d) Changes in internal controls over financial reporting

There have been no changes in internal controls over financial reporting (identified in connection with management's evaluation of such internal controls over financial reporting) that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company does not currently have a separate audit committee. The Company expects to have an audit committee and an audit committee financial expert in the year 2005.

ITEM 16 B. CODE OF ETHICS.

The Company has adopted a Code of Ethics, filed as Exhibit 14.1 to this Annual Report that applies to all employees.

ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(a) Audit Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements for the two most recent fiscal years.

Fiscal year ended December 31, 2003	$ 1,585,759
Fiscal year ended December 31, 2002	$ 1,158,004

(b) Audit -Related Fees

For the fiscal years ended December 31, 2003 and 2002, there have been no assurance and related services rendered by the principal accountant related to the performance of the audit or review of the Company's financial statements which have not been reported under Audit Fees above.

(c) Tax Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

Fiscal year ended December 31, 2003	$ 33,504
Fiscal year ended December 31, 2002	$ 65,626

(d) All Other Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by the principal accountant for services other than audit fees, audit-related fees and tax fees set forth above.

Fiscal year ended December 31, 2003	$ nil
Fiscal year ended December 31, 2002	$ nil

(e) Audit Committee's Pre-Approval Policies and Procedures

The Company's Board of Directors has adopted pre-approval policies and procedures in compliance with paragraph (c) (7)(i) of Rule 2-01 of Regulation S-X that require the Board to approve the appointment of the independent auditor of the Company before such auditor is engaged and approve each of the audit and non-audit related services to be provided by such auditor under such engagement by the Company. All services provided by the principal auditor in 2003 were approved by the Board pursuant to the pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable

ITEM 17. FINANCIAL STATEMENTS

Not Applicable

ITEM 18. FINANCIAL STATEMENTS

The following financial statements listed below and set forth on pages F-1 through F- 33 are filed as part of this annual report:

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ITEM 19. EXHIBITS

Number	Description of Exhibit
1.1*	Memorandum of Association of the Company, incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form F-1, Registration No. 33-70158 filed on October 12, 1993 (the "Original Registration Statement").
1.4*	Amended and Restated Bye-Laws of the Company as adopted by shareholders on April 5, 2004, incorporated by reference to Exhibit 1.4 of the Company's Annual Report filed on form 20-F on June 30, 2004.
2.1*	Form of Ordinary Share Certificate, incorporated by reference to Exhibit 4.1 of the Original Registration Statement.
2.2*	Form of Deposit Agreement dated as of November 24, 1993, among Frontline Ltd. (F/K/A London & Overseas Freighters Limited), The Bank of New York as Depositary, and all Holders from time to time of American Depositary Receipts issued thereunder, including form of ADR, incorporated by reference to Exhibit 4.2 of the Original Registration Statement.
2.3*	Form of Deposit Agreement dated as of November 24, 1993, as amended and restated as of May 29, 2001, among Frontline Ltd. (F/K/A London & Overseas Freighters Limited), The Bank of New York as Depositary, and all Holders from time to time of American Depositary Receipts issued thereunder, including form of ADR, incorporated by reference to Exhibit 2 of the Company's Annual Report on Form 20-F, filed on June 13, 2001 for the fiscal year ended December 31, 2000.
2.4*	Rights Agreement (the "Rights Agreement") between the Company and the Bank of New York incorporated by reference to Exhibit 1.3 of the Company's Registration Statement on Form 8-A, File No.0-22704 filed on December 9, 1996.
2.5*	Amendment No. 1 to the Rights Agreement incorporated by reference to Exhibit 4.3 of the Amalgamation Registration Statement.
2.6*	The Subregistrar Agreement related to the registration of certain securities issued by Frontline Ltd. in the Norwegian Registry of Securities between Frontline Ltd. and Christiania Bank og Kreditkasse ASA together with the Form of Warrant Certificate and Conditions attaching thereto, incorporated by reference to Exhibit 1.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1998.
4.1*	Form of United Kingdom Share Option Plan, incorporated by reference to Exhibit 10.1 of the Original Registration Statement.
4.2*	Form of Bermuda Share Option Plan, incorporated by reference to Exhibit 10.2 of the Original Registration Statement.
4.3*	The Subordinated Convertible Loan Facility Agreement USD 89,000,000 dated July 13, 1999, between Frontline Ltd. as Borrower and Metrogas Holdings Inc. as Lender, incorporated by reference to Exhibit 2.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1998.
4.4*	Master Agreement, dated September 22, 1999, among Frontline AB and Frontline Ltd (collectively "FL"), Acol Tankers Ltd. ("Tankers"), ICB Shipping AB ("ICB"), and Ola Lorentzon (the

"Agent"), incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1999.

8.1*	Subsidiaries of the Company incorporated by referene to Exhibit 8.1 of the Company's Annual Report filed on Form 20-F on June 30, 2004.
14.1*	Code of Ethics incorporated by referene to Exhibit 14.1 of the Company's Annual Report filed on Form 20-F on June 30, 2004.
31.1	Certification of the Principal Executive Officer
31.2	Certification of the Principal Financial Officer
32.1	Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Executive Officer
32.2	Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Financial Officer

* Incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorised.

Frontline Ltd.
\--
(Registrant)

Date October 8, 2004

By /s/ Kate Blankenship
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Kate Blankenship
Company Secretary and Chief Accounting Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Frontline Ltd.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of Frontline Ltd. and its subsidiaries at December 31, 2003 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements the Company adopted FASB Interpretation No. 46 Revised on December 31, 2003.

PricewaterhouseCoopers DA
Oslo, Norway
June 24, 2004

Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Frontline Ltd.

In our opinion, based on our audit and the report of other auditors, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of Frontline Ltd. and its subsidiaries at December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Golden Ocean Group Limited, a wholly-owned subsidiary, which statements reflect total assets of $87.9 million at December 31, 2002 and total revenues of approximately $22.3, million for the year ended December 31, 2002. The financial statements of Golden Ocean Group Limited were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Golden Ocean Group Limited, is based solely on the report of the other auditors. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements the Company adopted Statement of Financial Accounting Standard No. 142 on January 1, 2002. As discussed in Note 27 to the financial statements, the Company adopted Statement of Financial Accounting Standard No. 144 on January 1, 2002.

PricewaterhouseCoopers
Hamilton, Bermuda
June 24, 2003, except for Note 27 for which the date is July 14, 2003

Golden Ocean Group Limited
Report of Independent Auditors

TO THE BOARD OF DIRECTORS AND STOCKHOLDER OF GOLDEN OCEAN GROUP LIMITED

We have audited the accompanying consolidated balance sheets of Golden Ocean Group Limited and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2002 and 2001 and the period from October 10, 2000 to December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Golden Ocean Group Limited and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years ended December 31, 2002 and 2001 and the period from October 10, 2000 to December 31, 2000, in conformity with U.S. generally accepted accounting principles.

As discussed in note 20 to the financial statements, the Company ceased accruing drydock costs with effect from January 1, 2001

Moore Stephens
Chartered Accountants
London, England
February 19, 2003

Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Frontline Ltd.

In our opinion, based on our audit and the report of other auditors, the accompanying consolidated statements of operations, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the results of operations Frontline Ltd and its subsidiaries and their cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Golden Ocean Group Limited, a wholly-owned subsidiary, which statements reflect total revenues of approximately $82.1 million for the period ended December 31, 2001. The financial statements of Golden Ocean Group Limited were audited by other auditors whose report thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Golden Ocean Group Limited, is based solely on the report of the other auditors. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on January 1, 2001 the Company changed its method of accounting for drydocking costs and adopted Financial Accounting Standard no. 133.

PricewaterhouseCoopers DA
Oslo, Norway
June 28, 2002, except for Note 27 for which the date is July 14, 2003

Frontline Ltd.
Consolidated Statements of Operations for the years ended
December 31, 2003, 2002 and 2001
(in thousands of $, except per share data)

	2003	2002	20
Operating revenues			
Time charter revenues	56,270	30,385	44,6
Bareboat charter revenues	27,930	31,924	32,0
Voyage charter revenues	1,089,583	489,286	639,8
Total operating revenues	1,173,783	551,595	716,4
Gain (loss) on sale of assets	5,626	(1,228)	35,6
Operating expenses			
Voyage expenses and commission	323,598	135,074	88,2
Ship operating expenses	117,604	109,286	116,2
Charterhire expenses	81,009	60,634	41,8
Administrative expenses	17,889	12,806	13,0
Depreciation and amortisation	146,907	136,891	117,2
Total operating expenses	687,007	454,691	376,6
Net operating income	492,402	95,676	375,4
Other income (expenses)			

Interest income	9,185	13,042	12,9
Interest expense	(75,097)	(71,311)	(89,9
Share in results from associated companies	33,533	(10,711)	22,3
Foreign currency exchange gain (loss)	(17,193)	(10,932)	15,5
Other financial items, net	300	(8,614)	(5,7
Net other expenses	(49,272)	(88,526)	(44,8
Net income from continuing operations before income taxes	443,130	7,150	330,5
Income taxes	(3)	(22)	4
Net income from continuing operations before cumulative effect of change in accounting principle	443,127	7,172	330,1
Discontinued operations	--	(1,929)	21,0
Cumulative effect of change in accounting principle	(33,767)	(14,142)	31,5
Net (loss) income	409,360	(8,899)	382,7
Earnings (loss) per share:			
Basic earnings per share from continuing operations before cumulative effect of change in accounting principle	$5.92	$0.09	$4.
Diluted earnings per share from continuing operations before cumulative effect of change in accounting principle	$5.90	$0.09	$4.
Basic earnings per share before cumulative effect of change in accounting principle	$5.92	$0.07	$4.
Diluted earnings per share before cumulative effect of change in accounting principle	$5.90	$0.07	$4.
Basic earnings (loss) per share	$5.47	$(0.12)	$4.
Diluted earnings (loss) per share	$5.45	$(0.12)	$4.

See accompanying Notes that are an integral part of these Consolidated Financial Statements

Frontline Ltd.
Consolidated Balance Sheets as of December 31, 2003 and 2002
(in thousands of $)

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	124,189	92,078
Restricted cash	891,887	8,220
Marketable securities	44	42
Trade accounts receivable	48,165	37,091
Other receivables	19,459	10,898
Inventories	26,148	28,723
Voyages in progress	60,282	49,221
Prepaid expenses and accrued income	12,241	6,342
Net investment in finance lease, current portion	15,511	--
Derivative instruments receivable amounts	78	390

Total current assets	1,198,004	233,005
Newbuildings and vessel purchase options	8,370	27,405
Vessels and equipment, net	2,165,239	2,373,239
Vessels and equipment under capital lease, net	765,126	264,902
Investment in associated companies	173,329	119,329
Net investment in finance lease, long term portion	120,894	--
Deferred charges	22,454	5,659
Other long-term assets	10,119	11,204
Total assets	4,463,535	3,034,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	191,131	167,807
Current portion of obligations under capital leases	20,138	13,164
Trade accounts payable	7,289	7,717
Accrued expenses	76,910	40,324
Deferred charter revenue	5,309	1,067
Mark to market valuation of derivatives	9,217	17,442
Other current liabilities	11,318	12,300
Total current liabilities	321,312	259,821
Long-term liabilities		
Long-term debt	2,091,286	1,277,665
Obligations under capital leases	753,823	259,527
Deferred gains on sales of vessels	21,964	7,138
Other long-term liabilities	19,733	3,619
Total liabilities	3,208,118	1,807,770
Commitments and contingencies	--	--
Stockholders' equity		
Share capital	184,120	191,166
Additional paid in capital	513,859	552,241
Accumulated other comprehensive loss	(6,953)	(9,498)
Retained earnings	564,391	493,064
Total stockholders' equity	1,255,417	1,226,973
Total liabilities and stockholders' equity	4,463,535	3,034,743

See accompanying Notes that are an integral part of these Consolidated Financial Statements

Frontline Ltd.
Consolidated Statements of Cash Flows for the years ended
December 31, 2003, 2002 and 2001
(in thousands of $)

	2003	2002	2001
Operating activities			
Net income (loss)	409,360	(8,899)	382,728
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortisation	146,907	139,855	121,725

Amortisation of deferred charges	2,862	2,299	2,233
(Gain) loss from sale of assets	(5,626)	4,337	(35,620)
Share in results from associated companies	(33,533)	10,711	(22,321)
Unrealised foreign exchange loss (gain)	17,955	14,176	(29,148)
Change in accounting principle	33,767	14,142	(32,339)
Adjustment of derivatives to market value	(28,180)	7,495	5,404
Other, net	1,311	1,968	(2,297)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Trade accounts receivable	(7,495)	18,066	40,612
Other receivables	(8,647)	(6,118)	25,921
Inventories	3,489	(17,413)	(120)
Voyages in progress	(9,853)	(40,928)	13,966
Prepaid expenses and accrued income	(2,837)	(2,951)	4,979
Trade accounts payable	(417)	723	1,290
Accrued expenses	(3,281)	4,781	(5,234)
Deferred charter revenue	2,727	(500)	(1,010)
Other, net	4,771	281	6,838
Net cash provided by operating activities	523,280	142,025	477,607
Investing activities			
Maturity (placement) of restricted cash	(559,430)	2,881	1,479
Additions to newbuildings, vessels and equipment	(66,589)	(376,844)	(386,130)
Purchase of option	(10,042)	--	--
Proceeds from sale of vessels and equipment	427,305	177,902	400,111
Acquisition of subsidiaries and businesses, net of cash acquired	(2,363)	--	(64,656)
Investments in associated companies	(91,611)	(21,790)	(60,003)
Dividends received from associated companies	11,581	1,780	2,314
Purchase of minority interest	--	(6,822)	--
Proceeds from sale of investments in associated companies	7,343	--	--
Purchases and sales of other assets, net	14,748	--	3,103
Net cash provided by (used in) investing activities	(269,058)	(222,893)	(103,782)
Financing activities			
Proceeds from long-term debt	627,300	383,828	324,890
Repayments of long-term debt	(465,313)	(341,959)	(460,725)
Payment of obligations under capital leases	(13,134)	(24,671)	(10,337)
Debt fees paid	(18,492)	(3,534)	(1,459)
Cash dividends paid	(338,033)	(19,117)	(115,206)
Repurchase of shares and warrants	(28,562)	--	(44,814)
Proceeds from issuance of equity	2,931	223	8,488
Net cash (used in) provided by financing activities	(233,303)	(5,230)	(299,163)
Net increase (decrease) in cash and cash equivalents before change in accounting principle	20,919	(86,098)	74,662
Cash effect of change in accounting principle	11,192	--	--
Net increase (decrease) in cash and cash equivalents after change in accounting principle	32,111	(86,098)	74,662
Cash and cash equivalents at beginning of year	92,078	178,176	103,514
Cash and cash equivalents at end of year	124,189	92,078	178,176
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalised interest	73,206	73,161	96,202
Income taxes paid	3	2,203	11

See accompanying Notes that are an integral part of these Consolidated Financial Statements

Frontline Ltd.
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001
(in thousands of $, except number of shares)

	2003	2002	2001
NUMBER OF SHARES OUTSTANDING			
Balance at beginning of year	76,466,566	76,407,566	78,068,811
Shares issued	251,364	59,000	546,055
Shares bought back	(3,070,000)	--	(2,207,300)
Balance at end of year	73,647,930	76,466,566	76,407,566
SHARE CAPITAL			
Balance at beginning of year	191,166	191,019	195,172
Shares issued	629	147	1,365
Shares bought back and cancelled	(7,675)	--	(5,518)
Balance at end of year	184,120	191,166	191,019
ADDITIONAL PAID IN CAPITAL			
Balance at beginning of year	552,241	552,166	576,677
Shares issued	3,774	75	7,123
Shares bought back and warrants exercised or expired	(42,156)	--	(31,634)
Balance at end of year	513,859	552,241	552,166
WARRANTS AND OPTIONS			
Balance at beginning of year	--	--	7,662
Options and warrants exercised or expired	--	--	(7,662)
Balance at end of year	--	--	--
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of year	(9,498)	(11,864)	(3,579)
Other comprehensive income (loss)	2,545	2,366	(8,285)
Balance at end of year	(6,953)	(9,498)	(11,864)
RETAINED EARNINGS			
Balance at beginning of year	493,064	521,080	253,558
Net income (loss)	409,360	(8,899)	382,728
Dividends paid	(338,033)	(19,117)	(115,206)
Balance at end of year	564,391	493,064	521,080
Total Stockholders' Equity	1,255,417	1,226,973	1,252,401
COMPREHENSIVE INCOME (LOSS)			
Net income (loss)	409,360	(8,899)	382,728

Unrealised gains (losses) from marketable securities and cash flow hedging derivative instruments	1,595	1,553	(8,255)
Foreign currency translation and other	950	813	(30)
Other comprehensive income (loss)	2,545	2,366	(8,285)
Comprehensive income (loss)	411,905	(6,533)	374,443

See accompanying Notes that are an integral part of these Consolidated Financial Statements

1. GENERAL

Frontline Ltd. (the "Company" or "Frontline") is a Bermuda based shipping company engaged primarily in the ownership and operation of oil tankers, including oil/bulk/ore ("OBO") carriers. The Company operates tankers of two sizes: very large crude carriers ("VLCCs") which are between 200,000 and 320,000 deadweight tons ("dwt"), and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. In addition, the Company owns three dry bulk carriers. The Company operates through subsidiaries and partnerships located in Bermuda, Isle of Man, Liberia, Norway, Panama, Singapore, Sweden, Cayman Islands and the Bahamas. The Company is also involved in the charter, purchase and sale of vessels.

The Company's ordinary shares are listed on the New York Stock Exchange, the Oslo Stock Exchange and the London Stock Exchange.

In October 2003 Frontline established a new subsidiary, Ship Finance International Limited ("SFIL"), in Bermuda. Through transactions executed in January 2004, Frontline transferred to SFIL ownership of 46 vessel-owning entities each owning one vessel and its corresponding financing, and one entity owning an option to acquire a VLCC. Frontline then leased the vessels back on long-term charters. The assets and liabilities were transferred to, and recorded by SFIL, at the historical net book value of each asset at December 31, 2003. In May 2004 the Board of Frontline declared a share dividend of 25% of the issued share capital of SFIL to Frontline's shareholders. Frontline's shareholders received one share in SFIL for every four Frontline shares held. SFIL shares are traded on the New York Stock Exchange under the ticker symbol SFL.

2. ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the assets and liabilities of the Company and its subsidiaries and certain variable interest entities in which the Company is deemed to be subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. All intercompany balances and transactions have been eliminated on consolidation.

Investments in companies over which the Company exercises significant influence but does not consolidate, are accounted for using the equity method. The Company records its investments in equity-method investees on the consolidated balance sheets as "Investments in associated companies" and its share of the investees' earnings or losses in the consolidated statements of operations as "Share in results from associated companies".

The excess, if any, of purchase price over book value of the Company's investments in equity method investees is included in the accompanying consolidated balance sheets in "Investment in associated companies".

Investments in which the Company has a majority shareholding but which it does not control, due to the participating rights of minority shareholders, are accounted for using the equity method. The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period. Effective December 31, 2003 we have reclassified voyage expenses and commission and depreciation and amortisation as components of total operating expenses.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, all demand and time deposits and highly liquid, low risk investments with original maturities of three months or less are considered equivalent to cash.

Restricted cash

Restricted cash consists of bank deposits which may only be used to settle certain pre-arranged loan or lease payments or minimum deposits which must be maintained in accordance with contractual arrangements.

Marketable Securities

Marketable equity securities held by the Company are considered to be available-for-sale securities and as such are carried at fair value with resulting unrealised gains and losses, net of deferred taxes if any, recorded as a separate component of other comprehensive income in stockholders' equity.

Inventories

Inventories, which comprise principally of fuel and lubricating oils, are stated at the lower of cost and market value. Cost is determined on a first-in, first-out basis.

Vessels and equipment

The cost of the vessels less estimated residual value is depreciated on a straight-line basis over the vessels' 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.

With effect from December 2003, the International Maritime Organisation implemented new regulations that result in the accelerated phase-out of single hull vessels. As a result of this, the Company has re-evaluated the estimated useful life of its 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 the Company's wholly owned vessels and two vessels owned by associated companies were

reduced in the fourth quarter of 2003. A change in accounting estimate was recognised 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.

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 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.

Newbuildings and vessel purchase options

The carrying value of the vessels under construction ("Newbuildings") represents the accumulated costs to the balance sheet date which the Company has had to pay by way of purchase instalments and other capital expenditures together with capitalised loan interest and associated finance costs. No charge for depreciation is made until the vessel is put into operation.

Vessel purchase options are capitalised at the time option contracts are acquired or entered into. The Company reviews expected future cash flows, which would result from exercise of each option contract on a contract by contract basis to determine whether the carrying value of the option is recoverable. If the expected future cash flows are less than the carrying value of the option plus further costs to delivery, provision is made to write down the carrying value of the option to the recoverable amount. The carrying value of each option payment is written off as and when the Company adopts a formal plan not to exercise the option. Purchase price payments are capitalised and the total of the option payment, if any, and purchase price payment is transferred to cost of vessels, upon exercise of the option and delivery of the vessel to the Company.

Impairment of long-lived assets

The carrying value of long-lived assets that are held and used by the Company are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset