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FRONTLINE LTD /  
Form 20-F  
July 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

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

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_

Commission file number 001-16601 \_\_\_\_\_

Frontline Ltd

-----  
(Exact name of Registrant as specified in its charter)

Frontline Ltd

-----  
(Translation of Registrant's name into English)

Bermuda

-----  
(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

None

-----  
(Title of Class)

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

Ordinary Shares, \$2.50 Par Value

-----  
(Title of Class)

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

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

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

Yes  No

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

Yes  No

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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Item 17  | | Item 18

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

Yes  No

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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties

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and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the tanker market, including changes in demand resulting from changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents, political events or acts by terrorists, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission.

### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

#### ITEM 3. KEY INFORMATION

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

##### A. SELECTED FINANCIAL DATA

The selected income statement data of the Company with respect to the fiscal years ended December 31, 2006, 2005 and 2004 and the selected balance sheet data of the Company with respect to the fiscal years ended December 31, 2006 and 2005 have been derived from the Company's Consolidated Financial Statements included in Item 18 of this annual report, prepared in accordance with United States generally accepted accounting principles. The selected income statement data with respect to the fiscal years ended December 31, 2003 and 2002 and the selected balance sheet data with respect to the fiscal years ended December 31, 2004, 2003 and 2002 have been derived from consolidated financial statements of the Company not included herein. The income statement data for the years ended December 31, 2004, 2003 and 2002 has been restated to reflect discontinued operations as a result of the sale of the Company's last remaining drybulk carrier in 2005. The income statement and balance sheet data as at and for the years ended December 31, 2005, 2004 and 2003 has been restated to change from consolidation accounting to equity method accounting for four subsidiaries

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acquired in 2003. During 2006, the Company revisited its analysis of the accounting for these subsidiaries and determined that it was not the primary beneficiary of these entities under FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 and therefore has accounted for these subsidiaries using the equity method. As the consolidation and equity accounting models result in the same net income, there has been no change in opening equity or earnings per share data as a result of this restatement. The following table should be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's Consolidated Financial Statements and Notes thereto included herein.

	2006	Fiscal year ended December 31, 2005 (restated)	2004 (restated)	2003 (restated)
(in thousands of \$, except ordinary shares, per ordinary share data and ratios)				
<b>Income Statement Data:</b>				
Total operating revenues (1)	1,583,863	1,504,516	1,842,923	1,159,863
Total operating expenses(1)	856,939	717,054	737,389	683,389
Net operating income	822,579	863,543	1,125,108	480,474
Net income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	674,844	766,389	970,936	439,863
Net income from continuing operations before cumulative effect of change in accounting principle	516,000	598,054	905,763	439,863
Discontinued operations (2)	-	8,785	117,619	3,616
Cumulative effect of change in accounting principle (3)	-	-	-	(33,616)
Net income (loss)	516,000	606,839	1,023,382	409,863
Earnings from continuing operations before cumulative effect of change in accounting principle per ordinary share				
- basic	\$6.90	\$7.99	\$12.21	\$4.39
- diluted	\$6.90	\$7.99	\$12.21	\$4.39
Net income (loss) per ordinary share				
- basic	\$6.90	\$8.11	\$13.79	\$4.39
- diluted	\$6.90	\$8.11	\$13.79	\$4.39
Cash dividends declared per share	\$7.00	\$10.10	\$13.60	\$13.60
<b>Balance Sheet Data (at end of year):</b>				
Cash and cash equivalents	197,181	92,782	96,879	112,863
Newbuildings and vessel purchase options	166,851	15,927	24,231	8,785
Vessels and equipment, net	2,446,278	2,584,847	2,254,361	2,165,863
Vessels under capital lease, net	626,374	672,608	718,842	765,863
Investments in associated companies	17,825	15,783	28,881	179,863
Total assets	4,589,937	4,454,817	4,211,160	4,319,863
Short-term debt and current portion of long-term debt	281,409	228,135	137,332	174,863
Current portion of obligations under capital lease	28,857	25,142	21,498	20,863
Long-term debt	2,181,885	2,101,061	1,879,598	1,966,863
Obligations under capital lease	723,073	706,279	732,153	753,863
Share capital	187,063	187,063	187,063	184,863
Stockholders' equity	668,560	715,166	917,968	1,255,863

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Ordinary shares outstanding	74,825,169	74,825,169	74,825,169	73,647
Weighted average ordinary shares outstanding	74,825,169	74,825,169	74,192,939	74,901
Other Financial Data:				
Equity to assets ratio (percentage) (4)	14.6%	16.1%	21.8%	
Debt to equity ratio (5)	4.8	4.3	3.2	
Price earnings ratio (6)	4.6	4.7	3.2	
Time charter equivalent revenue (7)	1,172,566	1,163,418	1,477,537	832

Notes:

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 expenses and now report total operating revenues and total operating expenses.
2. During the years ended December 31, 2005, 2004 and 2002 the Company disposed of portions of its dry-bulk operations which have been recorded as discontinued operations in the years ended December 31, 2005, 2004, 2003 and 2002. These operations were acquired in 2000.
3. In 2003, the Company adopted FIN 46R "Consolidation of Variable Interest Entities" and recorded a charge of \$33.7 million as a result of this change in accounting principle. On January 1, 2002, the Company adopted FAS 142 "Goodwill and Other Intangible Assets" and subsequently wrote off goodwill of \$14.1 million.
4. Equity to assets ratio is calculated as total stockholders' equity divided by total assets.
5. Debt to equity ratio is calculated as total interest bearing current and long-term liabilities, including obligations under capital leases, divided by stockholders' equity.
6. Price earnings ratio is calculated using the closing year end share price divided by basic earnings per share.
7. A reconciliation of time charter equivalent revenues to total operating revenues as reflected in the consolidated statements of operations is as follows:

	2006	2005	2004	2003	2002
(in thousands of \$)					
Total operating revenues	1,583,863	1,504,516	1,842,923	1,159,439	543,811
Less:					
Other revenue	(14,721)	(3,877)	(3,777)	(3,111)	(2,111)
Voyage expense	(396,576)	(337,221)	(361,609)	(323,378)	(134,111)
Time charter equivalent revenue	1,172,566	1,163,418	1,477,537	832,950	406,600

Our vessels are operated under time charters, bareboat charters, voyage charters, pool arrangements and contracts of affreightment, or COAs. Under a time charter, the charterer pays substantially all of the vessel voyage costs

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which are primarily fuel and port charges. Under a bareboat charter the charterer pays substantially all of the vessel voyage and operating costs. Under a voyage charter, the vessel owner pays such costs. Under contracts of affreightment, the owner carries an agreed upon quantity of cargo over a specified route and time period. Accordingly, charter income from a voyage charter would be greater than that from an equally profitable time charter to take account of the owner's payment of vessel voyage costs, and charter income from a bareboat charter would be lower than that from an equally profitable time charter, to take account of the charterer's payment of vessel operating costs. In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of time charter equivalent revenue, or TCE. Total TCE is the sum of time charter, voyage charter and bareboat charter revenues, less voyage expenses. Total TCE, which is not covered by generally accepted accounting principles, or GAAP, provides more meaningful information to us than total operating revenues, the most directly comparable GAAP measure. Average daily TCEs are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages. In order to calculate the daily TCE figures disclosed in ITEM 5, TCEs for bareboat charters include an allowance for estimated operating costs that would be paid by us under an equivalently profitable time charter. Other companies may calculate TCE using a different method.

### B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable

### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable

### D. RISK FACTORS

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

#### Risks Related to Our Industry

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

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

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

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

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- 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 vessel casualties;
- o price of steel;
- o potential conversion of vessels to alternative use;
- o the number of vessels that are out of service; and
- o changes in environmental and other regulations that may effectively cause reductions in the carrying capacity of vessels or early obsolescence of tonnage.

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

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

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

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

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

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

An increase in the supply of vessel capacity without an increase in demand for vessel capacity would likely cause charter rates and vessel values to decline,



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which could have a material adverse effect on our results of operations and financial condition

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

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

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

- o marine disaster;
- o piracy;
- o environmental accidents;
- o cargo and property losses or damage; and
- o 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.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions a maritime 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, which could have a material adverse effect on our results of operations and financial condition

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels

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would negatively impact our revenues.

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.

### Risks Related to Our Business

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

A significant portion of our vessels currently operate on a spot charter basis or under contracts of affreightment under which we carry an agreed upon quantity of cargo over a specified route and time period. Although spot chartering is common in the tanker industry, the spot charter market is highly competitive and spot charter rates may fluctuate significantly based upon tanker and oil supply and demand. The successful operation of our vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent 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. Historically, oil trade and therefore charter rates increased in the winter months and eased in the summer months as demand for oil in the Northern Hemisphere rose in colder weather and fell in warmer weather. In addition, unpredictable weather patterns in the winter months tend to disrupt vessel scheduling. The tanker industry in general is less dependent on the seasonal transport of heating oil than a decade ago as new uses for oil and oil products have developed, spreading consumption more evenly over the year. Most apparent is a higher seasonal demand during the summer months due to energy requirements for air conditioning and motor vehicles. The oil price volatility resulting from these factors has historically led to increased oil trading activities and demand for vessels. The change in demand for vessels may affect the charter rates that we receive.

As at December 31, 2006, we charter 45 vessels from Ship Finance International Limited at fixed rates on long-term charters. In addition, we charter 14 vessels under medium term charters from third parties. We are obliged to make fixed rate hire payments even though our income may decrease to levels that make these charters unprofitable

The long term time charters to us from Ship Finance International Limited, which

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we refer to as Ship Finance, extend for various periods depending on the age of the vessels, ranging from approximately five to 21 years. With certain exceptions as discussed below in Item 10C. "Material Contracts- Charter Ancillary Agreement" the daily base charter rates, which are payable by us range from \$25,575 in 2006 to \$24,175 from 2011 and beyond for very large crude carriers, or VLCCs, and \$21,100 in 2006 to \$19,700 from 2011 and beyond for Suezmaxes. The third party medium term charters to us extend from five to nine years. Daily base charter rates payable by us under these charters range from \$20,995 to \$25,615 in 2007 to \$22,310 in 2015 for Suezmaxes and from \$29,580 to \$31,200 in 2007 to \$29,140 to \$30,915 in 2015 for VLCCs.

If our earnings from the 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 but not limited to the following factors:

- o general economic and market conditions affecting the shipping industry;
- o competition from other shipping companies;
- o types and sizes of vessels;
- o other modes of transportation;
- o cost of newbuildings;
- o shipyard capacity;
- o governmental or other regulations;
- o age of vessels;
- 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 a reduction of our shareholders' equity. It is possible that the market value of our vessels will decline in the future.

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

Our tanker fleet includes nine non-double hull tankers. The United States, the European Union and the International Maritime Organization, or the IMO, have all imposed limits or prohibitions on the use of these types of tankers in specified markets after certain target dates, depending on certain factors such as the size of the vessel and the type of cargo. In the case of our non-double hull tankers, these phase out dates range from 2010 to 2015. In 2005, the Marine Environmental Protection Committee of the IMO has amended the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of certain categories of single hull tankers, including the types of vessels in our fleet, from 2015 to 2010 unless the relevant flag states extend the date. This change could result in a number of our vessels being unable to trade in many markets after 2010. The phase out of single hull tankers may therefore reduce the demand for single hull tankers, and force the remaining single hull tankers into employment on less desirable trading routes and increase the number of tankers trading on those routes. As a result, single hull tankers may be chartered less frequently and at lower rates. Moreover, additional regulations may be adopted in the future that could further adversely affect the useful lives of our non-double hull tankers, as well as our ability to generate income from them.

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

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

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

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

For example, OPA affects all vessel owners shipping oil to, from or within the United States. OPA allows for potentially unlimited liability without regard to fault for owners, operators and bareboat charterers of vessels for oil pollution in United States waters. Similarly, the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, which has been adopted by most countries outside of the United States., imposes liability for oil pollution in international waters. OPA expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability.

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

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

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

As of May 31, 2007, 31 of our vessels are contractually committed to time or bareboat charters, with the contracts expiring in 2007 for two vessels, on dates between 2008 and 2013 for 20 vessels and on dates beyond 2013 for the remaining 9 vessels. In addition, we have six vessels contractually committed to time charters based on spot market rates rather than fixed income. Although time charters generally provide reliable revenues, they also limit the portion of our fleet available for spot market voyages during an upswing in the tanker industry cycle, when spot market voyages might be more profitable.

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

Rising fuel prices may adversely affect our profits

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

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

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

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

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in even more emphasis on security and pressure on insurance rates. If costs continue to rise, our results of operations could be materially or adversely affected.

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

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

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

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. In addition, if the lenders accelerate the debt outstanding under one facility in default, it could result in a default on our other facilities.

An increase in interest rates could adversely affect our financial performance

At December 31, 2006 we had total interest bearing debt outstanding of \$2,463.3 million, of which \$1,602.9 million is floating rate debt. We use interest rate swaps to manage interest rate risk. As at December 31, 2006, our interest rate swap arrangements effectively fix the Company's interest rate exposure on \$738.7 million of floating rate debt. Our maximum exposure to interest rate fluctuations is \$864.2 million at December 31, 2006. If interest rates rise significantly, our results of operations could be adversely affected.

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 Troim, 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. Troim, for any extended period of time could have an adverse effect on our business and results

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of operations.

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

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

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

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

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, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, is characterized as United States source shipping income and such income is subject to a 4% United States federal income tax without allowance for deduction, unless that corporation qualifies for exemption under Section 883 of the Code.

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

If we or our subsidiaries are not entitled to this statutory tax exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% United States federal income tax on United States sources shipping income. The imposition of this taxation could have an adverse effect on our business.

Our Liberian subsidiaries may not be exempt from Liberian taxation, which would materially reduce our Liberian subsidiaries', and consequently our, net income

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and cash flow by the amount of the applicable tax.

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

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

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

### Risks Related to Our Ordinary Shares

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

We are a Bermuda corporation. Our memorandum of association and bye-laws and the Bermuda Companies Act 1981, as amended, govern our affairs. Investors may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction. Under Bermuda law a director generally owes a fiduciary duty only to the company; not to the company's shareholder. Our shareholders may not have a direct course of action against our directors. In addition, Bermuda law does not provide a mechanism for our shareholders to bring a class action lawsuit under Bermuda law. Further, our Bye-laws provide for the indemnification of our directors or officers against any liability arising out of any act or omission except for an act or omission constituting fraud, dishonesty or illegality.

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

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

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

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which requires us to include in our annual report on Form 20-F our management's report on, and assessment of the effectiveness of, our internal controls over financial reporting. In addition, our independent registered public accounting firm is



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

### ITEM 4. INFORMATION ON THE COMPANY

#### A. HISTORY AND DEVELOPMENT OF THE COMPANY

##### The Company

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

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

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

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

##### Vessel Acquisitions, Disposals and Other Significant Transactions

In February 2004, through a reorganization of joint ventures, we exchanged our 50.1% interests in three double-hull VLCCs for the remaining 49.9% interests in three double-hull VLCCs of which we 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.

We also acquired five single-hull Suezmax tankers in 2004 for a total cost of \$125.1 million. The vessel Golden Fountain was sold for gross proceeds of \$61.0 million, realizing a gain of \$19.7 million. The spin-off of our wholly owned subsidiary Golden Ocean Group Limited, which we refer to as Golden Ocean,

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resulted in the disposal of two dry bulk carriers in 2004.

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

We entered into the following acquisitions and dispositions in 2006:

- o In February and March 2006, we entered into shipbuilding contracts with the Jiangnan Shipyard for the construction and acquisition of four VLCC newbuilding vessels. In June 2006, we sold two of these newbuilding contracts for a net gain of \$9.8 million. Subsequent to this sale, we entered into two further shipbuilding contracts with the Jiangnan Shipyard for the construction and acquisition of two VLCC newbuildings and an option for an additional two VLCC newbuildings.
- o In September 2006, we exercised two options for VLCC newbuilding contracts with Jiangnan Shipyard and simultaneously sold these newbuilding contracts to a third party for a net gain of \$6.2 million.
- o In March 2006, we acquired the Aframax tanker "Gerrita" (renamed "Front Puffin") for a purchase price of \$35.9 million. This vessel was converted to a Floating, Production, Storage and Offloading vessel, or FPSO. It was sold as part of the spin off of the Sea Production group (see below).
- o In March 2006, we sold the VLCC Golden Stream for gross sale proceeds of \$53.1 million.
- o In June 2006, a subsidiary of Ship Finance bought a jack up rig for a cost of \$210.0 million.
- o In September 2006, we sold the VLCC Front Beijing, which we had taken delivery of in July, for gross sale proceeds of \$141.5 million.
- o In September 2006, a subsidiary of Ship Finance purchased a Panamax vessel, Front Shadow, for a cost of \$28.4 million.
- o In September 2006, a subsidiary of Ship Finance announced the sale of the VLCC Front Tobago to a third party for gross proceeds of \$45.0 million. Frontline received a compensation payment from Ship Finance on termination of the charter.
- o In September 2006, we took delivery of the VLCC Front Shanghai at a cost of approximately \$81.0 million.
- o In July 2006, we entered into shipbuilding contracts with Jiangsu Rongsheng Heavy Industries Group Co Ltd, or Rongsheng, in China for the delivery of two 156,000 dwt Suezmax newbuildings and simultaneously entered into options for four further similar Suezmax newbuilding contracts.
- o In August 2006, we exercised options for four 156,000 dwt Suezmax newbuilding contracts at Rongsheng and sold two of these Suezmax newbuilding contracts to Ship Finance.

We have also entered into a number of acquisitions and dispositions in 2007:

- o In January 2007, Ship Finance sold its single hull Suezmax tanker Front Transporter to an unrelated third party for a gross sales price

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of \$38.0 million. We received a compensation payment of \$14.8 million from Ship Finance on termination of the charter. The vessel was delivered to her new owner in March 2007.

- o In March 2007, the single hull VLCC Front Vanadis was sold to an unrelated third party and delivery took place in May 2007. Upon delivery, the long term charter party between Frontline and Ship Finance was terminated, and Frontline received a compensation payment in the amount of \$13.2 million for the early termination of the charter party, which will be recorded in the second quarter of 2007.
- o In June 2007, we announced the sale of the single hull Suezmax tanker Front Horizon for net sale proceeds of \$28.0 million. Delivery to the buyers is expected to be in the period July to August 2007. The buyer of the vessel is a joint venture in which our Chairman, John Fredriksen has an indirect interest in one of the joint venture partners. The vessel will stop active trading and is intended to be used for other purposes.
- o In March and April 2007, we exercised options with Rongsheng for four Suezmax newbuilding contracts.

At the end of May 2007, we had newbuilding contracts for four VLCCs and eight Suezmaxes with expected deliveries in the period from the third quarter of 2008 through the fourth quarter of 2010. We paid \$68.9 million in newbuilding instalments for these contracts in 2006, \$27.9 million for these contracts in 2007 and we have future commitments of \$885 million.

### Establishment of Sealift Ltd

In January 2007, we established a separate entity to develop our heavy lift activity named Sealift Ltd, or Sealift. Sealift completed a private placement of \$180.0 million in equity and its shares have been listed on the Norwegian over-the-counter (OTC) market since January 2007. We invested \$60.0 million in the company and following the initial private placement in January we became a 33% shareholder. Sealift acquired four single-hull Suezmax vessels from Frontline for \$100 million each which Frontline has the obligation to convert from Suezmax vessels to heavy lift vessels. Our current remaining commitment for these conversions is \$118.8 million. Sealift also acquired two Suezmax vessels from Frontline for \$38 million each and option contracts with a shipyard to convert these two additional Suezmax vessels into heavy lift vessels. The total consideration for all six vessels acquired by Sealift is \$476 million, of which \$396 million has been received in cash and \$80 million will be settled by way of non-interest bearing Seller's Credit. Forty million of the Seller's Credit is payable on delivery of each of the final two converted vessels. Five of the vessels sold to Sealift were first acquired from Ship Finance. One converted heavy lift vessel was delivered in May 2007. The agreed delivery dates for the three remaining converted heavy lift vessels are from September 2007 to May 2008. If Frontline's delivery of a converted vessel to Sealift is delayed more than six months beyond the agreed delivery date for the vessel, Sealift has the option to cancel its purchase of the vessel. The expected profit of \$155 million from the sale of vessels to Sealift is likely to be recognized over the course of the conversions and is dependant on the cost of the conversions. Two of these vessels are currently chartered back to Frontline until conversion commences on a bareboat rate of \$15,000 per day and two of the vessels on a bareboat rate of \$12,500 per day.

In May 2007, Sealift completed the combination of its businesses with the Dockwise group of companies. Frontline is the second largest shareholder in the combined group with an ownership interest of 17.1%.

### Spin-Off of Ship Finance

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

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

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

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

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

### Establishment and Spin-Off of Sea Production Ltd

In February 2007, the Company's wholly owned subsidiary, Frontline Floating Production Ltd ("FFP"), sold its assets to Sea Production. The assets of FFP included a 70% investment in Puffin Ltd, the entity who ultimately owns the vessel Front Puffin. Sea Production was incorporated in 2007 as a wholly owned subsidiary of the Company. Also in February 2007, Sea Production raised \$180.0 million in equity in a private placement. The shares have been listed on the Norwegian OTC market. We held 28.33% of the shares in Sea Production following the private placement. We recorded a gain on the issuance of these shares of \$39.8 million in the first quarter of 2007. In June 2007, we sold our entire holding in Sea Production in line with our strategy to remain a pure crude oil transportation company and our previously announced strategy to either sell or spin off the Sea Production shares. We expect to record a gain of approximately \$32 million in the second quarter of 2007 as a result of this sale.

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### Spin-Off of Golden Ocean Group Limited

In November 2004, we established Golden Ocean as a wholly owned subsidiary in Bermuda for the purpose of transferring, by way of contribution, certain of our dry bulk shipping interests. Three of our subsidiaries and cash equal to the difference between \$22.45 million and the historical net book value of those subsidiaries was transferred to Golden Ocean on December 1, 2004. On the same date, our Board resolved to distribute all of our shares of Golden Ocean to our shareholders in proportion to their ownership in Frontline. On December 13, 2004 we distributed 76.0% of the shares of Golden Ocean to our shareholders in a three for one stock dividend. Certain of our U.S. shareholders were excluded from the distribution and received a cash payment in lieu of shares equal to \$0.60 per Golden Ocean share, which represents the average price per share of the Golden Ocean shares during their first five days of trading on the Oslo Stock Exchange. Golden Ocean was listed on the Oslo Stock Exchange on December 15, 2004. The Company sold 30 million Golden Ocean shares, equivalent to 13.3%, to provide funds for the cash payment and the Company retained a 10.7% interest in Golden Ocean which was subsequently sold in February 2005. The Company has not retained any significant continuing involvement in these dry bulk operations.

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

### Acquisition of Independent Tankers Corporation

On July 1, 2003, we purchased a call option for \$10.0 million to acquire all of the shares of Independent Tankers Corporation, or ITC from Hemen Holdings Inc., or Hemen for a total consideration of \$4.0 million plus 4% interest per year. Hemen is indirectly controlled by our Chairman, John Fredriksen. On May 27, 2004 we exercised this purchase option and acquired all of the shares of ITC. ITC operates a total of six VLCCs and four Suezmax tankers, which are on long-term charters to subsidiaries of BP Plc and Chevron Corporation, or Chevron. In 2006, the Front Voyager was redelivered from Chevron and is on bareboat charter to Frontline. The initial fixed terms of the charters range from eight to 10 years. After the initial fixed term the charterers have options to extend the charters of the vessels for further periods of between eight to twelve years. ITC is financed by Term and Serial Notes. These notes mature between 2006 and 2021 and are secured by ITC's vessels and long-term charters. Interest is payable on the Notes at fixed rates which range between 6.5% and 8.52%.

### B. BUSINESS OVERVIEW

At May 31, 2007 we operate a tanker fleet consisting of 81 vessels, which we believe is one of the largest and most modern in the world. The fleet consists of 40 VLCCs which are either owned or chartered in, 21 Suezmax tankers which are either owned or chartered in, 8 Suezmax OBOs which are chartered in, and 8 VLCCs, 3 Suezmax tankers and 1 Aframax tanker under our commercial management. We also have four VLCC newbuildings and eight Suezmax newbuildings on order.

As of May 31, 2007, the fleet that we operate has a total tonnage of approximately 19.35 million dwt, including the 2.8 million dwt under commercial management. Our tanker vessels have an average age of approximately 10 years compared with an estimated industry average of approximately 9.3 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

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place substantially outside of the United States. Our subsidiaries, therefore, own and operate vessels which may be affected by changes in foreign governments and other economic and political conditions. We are engaged primarily in transporting crude oil and, in addition, raw materials like coal and iron ore. Our VLCCs are specifically designed for the transportation of crude oil and, due to their size, are primarily used to transport crude oil from the Middle East Gulf to the Far East, Northern Europe, the Caribbean and the Louisiana Offshore Oil Port, or LOOP. Our Suezmax tankers are similarly designed for worldwide trading, but the trade for these vessels is mainly in the Atlantic Basin and Middle East to South East Asia.

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

The supply of tanker and OBO capacity is influenced by the number of new vessels built, the number of older vessels scrapped, converted, laid up and lost, the efficiency of the world tanker or OBO fleet and government and industry regulation of maritime transportation practices. The demand for tanker and OBO capacity is influenced by global and regional economic conditions, increases and decreases in industrial production and demand for crude oil and petroleum products, the proportion of world oil output supplied by Middle Eastern and other producers, political changes and armed conflicts (including wars in the Middle East) and changes in seaborne and other transportation patterns. The demand for OBO capacity is, in addition, influenced by increases and decreases in the production and demand for raw materials such as iron ore and coal. In particular, demand for our tankers and our services in transporting crude oil and petroleum products and dry cargoes has been dependent upon world and regional markets. Any decrease in shipments of crude oil or raw materials in world markets could have a material adverse effect on our earnings. Historically, these markets have been volatile as a result of, among other things, general economic conditions, prices, environmental concerns, weather and competition from alternative energy sources. Because many factors influencing the supply of and demand for tankers and OBO carriers are unpredictable, the nature, timing and degree of changes in industry conditions are also unpredictable.

We are committed to providing quality transportation services to all of our customers and to developing and maintaining long term relationships with the major charterers of tankers. Increasing global environmental concerns have created a demand in the petroleum products/crude oil seaborne transportation industry for vessels that are able to conform to the stringent environmental standards currently being imposed throughout the world. Our fleet of modern single hull VLCCs may discharge crude oil at LOOP until the year 2015, and our single hull Suezmax tanker (Front Voyager) 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. Refer to Item 5 "Operating and Financial Review and Prospects" for a discussion of the tanker market in 2007.

Similar to structures commonly used by other shipping companies, our vessels are all owned by, or chartered to, separate subsidiaries or associated companies.

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

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

### Strategy

Our strategy is to be a world leading operator and charterer of modern, high quality oil tankers with flexibility to adjust our exposure to the tanker market depending on existing factors such as charter rates, newbuilding costs, vessel resale and scrap values and vessel operating expenses resulting from, among other things, changes in the supply of and demand for tanker capacity. We may adjust our exposure through time charters, bareboat charters, sale and leasebacks, straight sales and purchases of vessels and acquisitions.

We are currently a significant shareholder in Sealift and our intention is to sell or dividend the shares in line with our overall strategy of focusing on the oil tanker business.

Our business strategy is primarily based upon the following principles:

- o emphasizing operational safety and quality maintenance for all of our vessels;
- o complying with all current and proposed environmental regulations;
- o outsourcing technical operations and crewing;
- o continuing to achieve competitive operational costs;
- o operating a modern and homogeneous fleet of tankers;
- o achieving high utilization of our vessels;
- o achieving competitive financing arrangements;
- o achieving a satisfactory mix of term charters, contracts of affreightment and spot voyages; and
- o developing and maintaining relationships with major oil companies and industrial charterers.

After having delivered their cargo, spot market vessels typically operate in ballast until being rechartered. It is the time element associated with these ballast legs that we seek to minimize by efficiently chartering OBO carriers and tankers that we operate. Our strategies to minimize time spent on ballast legs include allocating cargoes among our vessels so as to achieve the minimum total time spent on ballast legs across our fleet.

We continue to evaluate opportunities in the time charter market. On the basis of the strength of the drybulk market, two three year charters, one four year charter and two five year charters were recently concluded for Front Breaker and Front Driver at a gross time charter rate of \$52,360 per day, for Front Rider at a gross time charter rate of \$50,000 per day and for Front Climber and Front

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Leader a gross time charter rate of \$40,000 per day. The charters commence in the period June 2007 to January 2008. After this, all of our eight OBO carriers are now on long term charters at an average rate of about \$39,000 in 2007 and about \$43,000 in 2008. As of June 15, 2007 approximately 39% of our remaining operating days for 2007 are on fixed time charter.

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.

We currently have four VLCC and eight Suezmax newbuildings on order, all favorably priced compared to current newbuilding prices. We order new tonnage to renew our fleet in line with our opportunistic investment approach. Our order book confirms our position as a leading operator of quality Suezmax and VLCC tonnage.

We seek to pay quarterly dividends to our shareholders. The amount of dividends will be guided by present earnings, market prospects, current capital expenditure programs as well as investment opportunities.

Although there has been a trend to consolidation over the past 15 years, the tanker market remains highly fragmented. We estimate, based on available industry data that we currently own or operate approximately 9.4% of the world VLCC fleet and 9.4% of the world Suezmax tanker fleet. It is our intention to use our strong operational cash flow together with our available financing to continue the consolidation of the tanker market. We always look opportunistically for attractive investments and acquisitions and will finance such investments through a combination of debt and equity. Our role in the consolidation of the tanker market may include the acquisition of new vessels and second-hand vessels and we may also engage in business acquisitions and strategic transactions such as marketing joint ventures. In the ordinary course of our business, we engage in the evaluation of potential candidates for acquisitions and strategic transactions. While we are constantly evaluating opportunities for acquisitions and growth, at this time we do not have any planned acquisitions.

### Seasonality

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

### Customers

Our customers include major oil companies, petroleum products traders, government agencies and various other entities. During the year ended December 31, 2006, one customer (2005: one customer) accounted for more than 10% of our consolidated operating revenues.

### Competition

The market for international seaborne crude oil transportation services is highly fragmented and competitive. Seaborne crude oil transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent shipowner fleets. In



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

### 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. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market.

Frontline Management is responsible for arranging 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 include 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 \$1.0 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.

### Environmental Regulation and Other Regulations

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

A variety of government, quasi-governmental and private organizations subject our tankers to both scheduled and unscheduled inspections. These organizations

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include the local port authorities, national authorities, harbor masters or equivalent, classification societies, flag state and charterers, particularly terminal operators and oil companies. Some of these entities require us to obtain permits, licenses and certificates for the operation of our tankers. Our failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all tankers and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels emphasizing operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. We believe that the operation of our vessels will be in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our tankers. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

### International Maritime Organization

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

- o 25-year old tankers must be of double hull construction or of a mid-deck design with double-sided construction, unless:
  - (1) they have wing tanks or double-bottom spaces not used for the carriage of oil which cover at least 30% of the length of the cargo tank section of the hull or bottom; or
  - (2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);
- o 30-year old tankers must be of double hull construction or mid-deck design with double-sided construction; and
- o all tankers will be subject to enhanced inspections.

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

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- o is the subject of a contract for a major conversion or original construction on or after July 6, 1993;
- o commences a major conversion or has its keel laid on or after January 6, 1994; or
- o completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

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

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

As a result of the oil spill in November 2002 relating to the loss of the MT Prestige, which was owned by a company not affiliated with us, in December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC, adopted an amendment to the MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G accelerating the phase-out of single hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation, single hull oil tankers were required to be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

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

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

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

Vessel Name	Vessel type	Vessel Category(s)	Year Built	IMO phase out	Flag state exemption
Front Birch(**)	Suezmax	DS	1991	2010	2016
Front Horizon(*)	Suezmax	SH	1988	2010	2013
	1991		2010		
Front Voyager	Suezmax	SH			
Front Voyager	Suezmax	SH	1992	2010	2015
Edinburgh(**)	VLCC	DS	1993	2010	2018
Front Ace(**)	VLCC	SH	1993	2010	2015
Front Duchess(**)	VLCC	SH	1993	2010	2015
Front Duke(**)	VLCC	SH	1992	2010	2015
Front Highness(**)	VLCC	SH	1991	2010	2015
Front Lady(**)	VLCC	SH	1991	2010	2015
Front Lord(**)	VLCC	SH	1991	2010	2015
Front Sabang(**)	VLCC	SH	1990	2010	2015

(\*) Vessel sold in June 2007 with expected delivery in July or August 2007.

(\*\*) Vessel owned through Ship Finance and not consolidated after March 31, 2007.

Under regulation 13H, the double sided tankers will be allowed to continue operations until their 25th anniversary.

In October 2004, the MEPC adopted a unified interpretation of regulation 13G that clarified the delivery date for converted tankers. Under the interpretation, where an oil tanker has undergone a major conversion that has resulted in the replacement of the fore-body, including the entire cargo carrying section, the major conversion completion date shall be deemed to be the date of delivery of the ship, provided that:

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

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technical specifications survey to be completed in accordance with MARPOL Convention.

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

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

- o crude oils having a density at 15(0)C higher than 900 kg/m<sup>3</sup>;
- o fuel oils having either a density at 15(0)C higher than 900 kg/m<sup>3</sup> or a kinematic viscosity at 50(0)C higher than 180 mm<sup>2</sup>/s; or
- o bitumen, tar and their emulsions.

Under the regulation 13H, the flag state may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15(0)C higher than 900 kg/m<sup>3</sup> but lower than 945 kg/m<sup>3</sup>, that conform to certain technical specifications and, in the opinion of the such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state may also allow continued operation of a single hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of the such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

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

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

Revised Annex I to the MARPOL Convention entered into force in January 2007. Revised Annex I incorporates various amendments adopted since the MARPOL Convention entered into force in 1983, including the amendments to regulation 13G (regulation 20 in the revised Annex) and Regulation 13H (Regulation 21 in the revised Annex). Revised Annex I also imposes construction requirements for oil tankers delivered on or after January 1, 2010. A further amendment to revised Annex I includes an amendment to the definition of heavy grade oil that will broaden the scope of Regulation 21.

In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI was ratified in May 2004, and became effective May 19, 2005. Annex VI sets limits on sulphur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulphur content

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of fuel oil and allows for special areas to be established with more stringent controls on sulphur emissions. We believe that all our vessels are currently compliant in all material respects with these regulations. Additional or new conventions, laws and regulations may be adopted that could adversely affect our business, cash flows, results of operations and financial condition.

The IMO has also adopted the International Convention for the Safety of Life at Sea, or SOLAS Convention, and the International Convention on Load Lines, 1966, or LL Convention, which impose a variety of standards to regulate design and operational features of ships. SOLAS Convention and LL Convention standards are revised periodically. We believe that all our vessels are in substantial compliance with SOLAS Convention and LL Convention standards. Under Chapter IX of SOLAS, the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO, also affect our operations. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We intend to rely upon the safety management system that the appointed ship managers have developed.

The ISM Code requires that vessel ship manager or operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with the ISM Code requirements for a safety management system. No vessel can obtain a safety management certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. The appointed ship managers have obtained documents of compliance for their offices and safety management certificates for all of our vessels for which the certificates are required by the IMO.

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

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. Additional or new conventions, laws and regulations may be adopted which could limit our ability to do business and which could have a material adverse effect on our business and results of operations. The IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping.

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

assessment in the shipping industry.

Although the United States is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC. Under this convention and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability will be limited to approximately 4.51 million SDR plus 631 SDR for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability will be limited to 89.77 million SDR. The exchange rate between SDRs and U.S. dollars was 0.669487 SDR per U.S. dollar on February 6, 2007. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on March 13, 2007. The right to limit liability is forfeited under the International Convention on Civil Liability for Oil Pollution Damage where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the International Convention on Civil Liability for Oil Pollution Damage has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover the liability under the plan adopted by the IMO.

#### United States Requirements

In 1990, the United States Congress enacted OPA to establish an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability for cleanup and natural resource damage from the release of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our operations.

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

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

OPA previously limited the liability of responsible parties to the greater of \$1,200 per gross ton or \$10.0 million per tanker that is over 3,000 gross tons

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

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

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

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

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

Owners or operators of tankers operating in the waters of the United States must file vessel response plans with the U.S. Coast Guard, and their tankers are



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required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- o 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;
- o describe crew training and drills; and
- o identify a qualified individual with full authority to implement removal actions.

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

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

### Other Regulations

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

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by the European Union or any other country or authority.

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

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the U.S. Environmental Protection Agency, or EPA, to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase our costs, based on the regulations that have been proposed to date, we believe that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required.

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

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

### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or MTSA, came into effect. To

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implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- o on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- o on-board installation of ship security alert systems, which do not sound on the vessel but only alerts the authorities on shore;
- o the development of vessel security plans;
- o ship identification number to be permanently marked on a vessel's hull;
- o a continuous synopsis record kept onboard showing a vessel's history including, name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- o compliance with flag state security certification requirements.

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

### Inspection by Classification Societies

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

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

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

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- o Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.
- o Intermediate Surveys. Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.
- o Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a ship owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five year cycle. At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

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

Most vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the ship owner within prescribed time limits.

### C. ORGANIZATIONAL STRUCTURE

See Exhibit 8.1 for a list of our significant subsidiaries and equity interests.

### D. PROPERTY, PLANT AND EQUIPMENT

#### The Company's Vessels

The following table sets forth the fleet that we operate as of May 31, 2007 (including contracted newbuildings not yet delivered):

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
-----	-----	-----	-----	-----	-----

Tonnage Owned Directly

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VLCCs

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Antares Voyager	1998	310,000	Double-hull	BA	Bareboat charter
Phoenix Voyager	1999	308,500	Double-hull	BA	Bareboat charter
Hull 2396 (Newbuilding)	2009	297,000	Double-hull	n/a	n/a
Hull 2397 (Newbuilding)	2009	297,000	Double-hull	n/a	n/a
Hull 2419 (Newbuilding)	2010	297,000	Double-hull	n/a	n/a
Hull 2420 (Newbuilding)	2010	297,000	Double-hull	n/a	n/a
Front Shanghai	2006	298,500	Double-hull	HK	Spot market

Suezmax Tankers

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Hull 1017 (Newbuilding)	2008	156,000	Double-hull	n/a	n/a
Hull 1018 (Newbuilding)	2009	156,000	Double-hull	n/a	n/a
Hull 1019 (Newbuilding)	2008	156,000	Double-hull	n/a	n/a
Hull 1026 (Newbuilding)	2009	156,000	Double-hull	n/a	n/a
Hull 1056 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Hull 1057 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Hull 1060 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Hull 1061 (Newbuilding)	2010	156,000	Double-hull	n/a	n/a
Front Horizon(*)	1988	149,500	Single-hull	MI	Spot market
Front Voyager	1992	155,000	Single-hull	BA	Spot market
Cygnus Voyager	1993	157,000	Double-hull	BA	Bareboat charter
Altair Voyager	1993	136,000	Double-hull	BA	Bareboat charter
Sirius Voyager	1994	156,000	Double-hull	BA	Bareboat charter

Tonnage chartered in from Ship Finance

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VLCCs

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Front Sabang	1990	286,000	Single-hull	SG	Time charter
Front Highness	1991	284,000	Single-hull	SG	Time charter
Front Lady	1991	284,000	Single-hull	SG	Time charter
Front Lord	1991	284,000	Single-hull	SG	Time charter
Front Duke	1992	284,000	Single-hull	SG	Time charter
Front Duchess	1993	284,000	Single-hull	SG	Time charter
Edinburgh	1993	302,000	Double-side	LIB	Spot market
Front Ace	1993	276,000	Single-hull	LIB	Time charter
Front Vanguard	1998	300,000	Double-hull	MI	Spot market
Front Century	1998	311,000	Double-hull	MI	Spot market
Front Champion	1998	311,000	Double-hull	BA	Time charter
Front Vista	1998	300,000	Double-hull	MI	Spot market
Front Comanche	1999	300,000	Double-hull	FRA	Time charter
Golden Victory	1999	300,000	Double-hull	MI	Time charter
Front Circassia	1999	306,000	Double-hull	MI	Spot market
Front Opalia	1999	302,000	Double-hull	MI	Spot market
Ocana (Ex Front Commerce)	1999	300,000	Double-hull	IoM	Bareboat charter
Front Scilla	2000	303,000	Double-hull	MI	Spot market
Oliva (Ex Ariake)	2001	299,000	Double-hull	IoM	Bareboat charter
Front Serenade	2002	299,000	Double-hull	LIB	Time charter
Otina (Ex Hakata)	2002	298,000	Double-hull	IoM	Bareboat charter
Ondina (Ex Front Stratus)	2002	299,000	Double-hull	LIB	Bareboat charter
Front Falcon	2002	309,000	Double-hull	BA	Spot market
Front Page	2002	299,000	Double-hull	LIB	Time charter
Front Energy	2004	305,000	Double-hull	CYP	Spot market
Front Force	2004	305,000	Double-hull	CYP	Spot market

Suezmax OBO Carriers

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Front Breaker	1991	169,000	Double-hull	MI	Time charter
Front Climber	1991	169,000	Double-hull	SG	Time charter
Front Driver	1991	169,000	Double-hull	MI	Time charter
Front Guider	1991	169,000	Double-hull	SG	Time charter
Front Leader	1991	169,000	Double-hull	SG	Time charter
Front Rider	1992	169,000	Double-hull	SG	Time charter
Front Striver	1992	169,000	Double-hull	SG	Time charter
Front Viewer	1992	169,000	Double-hull	SG	Time charter

Suezmax Tankers

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Front Birch	1991	150,000	Double-side	MI	Spot market
Front Maple	1991	150,000	Double-side	MI	Spot market
Front Pride	1993	150,000	Double-hull	NIS	Spot market
Front Glory	1995	150,000	Double-hull	NIS	Time charter
Front Splendour	1995	150,000	Double-hull	NIS	Spot market
Front Ardenne	1997	150,000	Double-hull	NIS	Spot market
Front Brabant	1998	150,000	Double-hull	NIS	Spot market
Mindanao	1998	150,000	Double-hull	SG	Spot market

Containerships

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Sea Alfa	2005	1,700 TEU(1)	n/a	CYP	Time charter
Sea Beta	2005	1,700 TEU	n/a	CYP	Time charter

Tonnage chartered in from Third Parties

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VLCCs

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Front Chief	1999	311,000	Double-hull	BA	Spot market
Front Commander	1999	311,000	Double-hull	BA	Spot market
Front Crown	1999	311,000	Double-hull	BA	Spot market
British Pioneer	1999	307,000	Double-hull	IoM	Bareboat charter
British Pride	2000	307,000	Double-hull	IoM	Bareboat charter
British Progress	2000	307,000	Double-hull	IoM	Bareboat charter
British Purpose	2000	307,000	Double-hull	IoM	Bareboat charter
Front Tina	2000	299,000	Double-hull	LIB	Spot market
Front Commodore	2000	299,000	Double-hull	LIB	Time charter
Front Eagle	2002	309,000	Double-hull	BA	Spot market
Cosgreat Lake	2002	298,833	Double-hull	PAN	Spot market

Suezmax Tankers

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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
Front Traveller	1990	150,000	Single-hull	MI	Spot market
Front Granite	1991	150,000	Single-hull	MI	Spot market
Front Comor	1993	150,000	Single-hull	MI	Time charter
Marble	1992	150,000	Single-hull	MI	Spot market
Front Target	1990	150,000	Single-hull	MI	Spot market

(\* ) Vessel sold in June 2007 with expected delivery in July or August 2007.

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 nine of these leases by up to an additional five years from expiry of the fixed term. We have fixed price purchase options to buy nine of these vessels at certain future dates and the lessors have fixed price options to put nine of these vessels to us at the end of the lease period. The remaining four

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lease agreements are not cancellable by us without agreement of the end-user of the vessel.

### Key to Flags:

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

(1) Measured in "twenty-foot equivalent units" (TEU)

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

### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### Overview

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

Our principal focus and expertise is the transportation of crude oil and oil product cargoes for major integrated oil companies and other customers. As at December 31, 2006, our tanker fleet consisted of 30 VLCCs, four VLCC newbuilding contracts and 28 Suezmax tankers, of which eight are Suezmax OBOs, six Suezmax newbuilding contracts and one Aframax tanker. We also charter in eleven modern VLCCs and three modern Suezmax tankers from third parties. A full fleet list is provided in Item 4.D. "Information on the Company" showing the vessels that we currently own and charter in.

#### Fleet Changes

Refer to Item 4 for discussion on acquisitions and disposals of vessels. A summary of our fleet changes for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
-----			
VLCCs			
At start of period	43	38	36
Acquisitions	2	5	3
Dispositions	4	-	1
-----			
At end of period	41	43	38
-----			
VLCCs owned by equity investees			
At start of period	-	1	7
Acquisitions	-	-	-
Dispositions	-	1	6
-----			
At end of period	-	-	1

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Suezmax			
At start of period	23	28	23
Acquisitions	-	-	5
Dispositions	-	5	-
-----			
At end of period	23	23	28
-----			

Suezmax OBOs			
-----			
At start and end of period	8	8	8
-----			

Aframax			
At start of period	-	-	-
Acquisitions	1	-	-
Dispositions	-	-	-
-----			
At end of period	1	-	-
-----			

Drybulk			
At start of period	-	1	3
Dispositions	-	1	2
-----			
At end of period	-	-	1
-----			

Total fleet			
At start of period	74	76	77
Acquisitions	3	5	8
Dispositions	4	7	9
-----			
At end of period	73	74	76
-----			

Summary of Fleet Employment

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

	As at December 31,					
	2006		2005		2004	
	No.	%	No.	%	No.	%
-----						
VLCCs						
Spot or pool	18	44%	29	67%	25	66%
Time charter	13	32%	9	21%	2	5%
Bareboat charter	10	24%	5	12%	11	29%
-----						
Total	41	100%	43	100%	38	100%
-----						
VLCCs owned by equity investees						
Spot or pool	-	-	-	-	1	100%
-----						
Total	-	-	-	-	1	100%
-----						



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Suezmax						
Spot or pool	16	70%	22	96%	24	86%
Time charter	3	13%	1	4%	-	-
Bareboat charter	3	13%	-	-	4	14%
Under Conversion	1	4%	-	-	-	-
-----						
Total	23	100%	23	100%	28	100%
-----						
Aframax						
Under Conversion	1	100%	-	-	-	-
-----						
Total	1	100%	-	-	-	-
-----						
Suezmax OBOs						
Spot or pool	-	-	-	-	-	-
Time charter	8	100%	8	100%	8	100%
-----						
Total	8	100%	8	100%	8	100%
-----						
Drybulk						
Time charter	-	-	-	-	-	-
Bareboat charter	-	-	-	-	1	100%
-----						
Total	-	-	-	-	1	100%
-----						
Total fleet						
Spot or pool	34	47%	51	69%	50	66%
Time charter	24	32%	18	24%	10	13%
Bareboat charter	13	18%	5	7%	16	21%
Under Conversion	2	3%	-	-	-	-
-----						
Total	73	100%	74	100%	76	100%
-----						

Market Overview and Trend Information

The tanker market continued to strengthen in 2006 and it was the demand side which had the greatest influence on rates and the seasonal pattern for the Suezmax and VLCC segments were quite similar though the Suezmaxes witnessed more volatility. The year started at a TCE of approximately \$81,000 per day for the VLCCs and about \$70,000 per day for the Suezmaxes. Rates then followed the traditional seasonal pattern by softening to about \$33,000 per day for the VLCCs and about \$25,000 per day for the Suezmaxes around the middle of April 2006. From this point, the rates began to firm against market predictions at the time and rose to about \$89,000 per day for the VLCCs and about \$75,000 per day for the Suezmaxes by the end of August. The fear of another active hurricane season in the US Gulf, geopolitical uncertainty and increased risk of supply disruptions gave strong incentives to build oil reserves throughout the summer. On land storage capacity was in some regions filled to capacity, driven by extraordinarily strong future rates compared to market rates, resulting in the wide use of tankers for storage purposes.

The reserve build up triggered a sharp drop in crude prices, from \$76 per barrel in early August to \$56 per barrel in early October. This led to the market weakening and rates fell to about \$45,000 per day for the VLCCs and about \$30,000 per day for the Suezmaxes by the middle of December 2006. Depending on the source of information, the average TCE for the year was about \$63,000 per day for a double hulled VLCC and about \$50,000 per day for a double hulled

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Suezmax.

There is a trend that oil majors discriminate single hull tonnage when transporting persistent oils and therefore also avoid inspecting single hull ships on the same basis. Oil traders with crude or fuel oil cargoes often require double hull tonnage in order to have full flexibility with regards to cargo delivery. Hence, single hull ships appear no longer able to trade to their full capacity compared to the double hull vessels which implies a further gap in the already existing 'two tier market' between the double and the single vessels.

Bunkers followed the movements in the oil market closely in 2006 with Fujairah's highest bunker quote for the year set early May at \$359 per metric ton, or mt, with the low set at the end of November at \$258/mt. The average bunker price in 2006 was calculated to about of \$309/mt.

In order to prevent an uncontrolled price dive, OPEC cut production by 1.2 million barrels per day from November 2006. It was reported by the International Energy Agency, or IEA, that average OPEC Oil production, including Iraq but not Angola, was approximately 29.7 million barrels per day during 2006, a 0.02 million barrel per day decrease from 2005. Even if OPEC crude production was unchanged from 2005 to 2006 there was a noticeable shift in production from Nigeria and Venezuela to the Middle East. On January 1, 2007, Angola became the twelfth member of OPEC and it will be interesting to see if the inclusion of Angola will strengthen the capability of OPEC in fulfilling its objectives and help to further stabilize the market.

OPEC producers are expected to add a net 2.6 million barrels per day, or mb/d, to installed crude capacity in 2007 and 2008 according to IEA. Capacity is expected to reach 34.8 mb/d by the end of 2007, compared with 33.9 mb/d at the end of 2006. Growth could accelerate in 2008, with capacity reaching 36.5 mb/d by the end of the year. Capacity growth is expected to be heavily skewed towards Angola and Saudi Arabia, together accounting for half of the net increase.

The Middle East Gulf exports dropped in the first half of 2007 but are expected to rebound in the second half. The long haul trade route West Africa-Asia is expected to be stable in 2007.

The IEA further estimates that the average world oil demand was 84.5 million barrels per day in 2006, a 1% increase from 2005. For 2007 a 1.8% or 1.55 million barrels per day growth is forecasted in world oil demand with North America, China and the Middle East as the main drivers.

The International Monetary Fund, or IMF, expect global growth to moderate to 4.9% in 2007 and 2008, approximately half a percentage point lower than in 2006 according to their World Economic Outlook report released April 2007. In the United States, growth is expected to come down to 2.2% this year, from 3.3% in 2006. Growth is also expected to ease in Europe, while in Japan it is expected that the expansion continue at about the same pace as in 2006. Emerging markets and developing countries are expected to continue to grow strongly, albeit at a some what slower pace than in 2006. China's growth is projected to remain rapid in 2007 and 2008, albeit a little below the torrid pace in 2006, while India's economy should also continue to grow rapidly.

The total Suezmax fleet increased by 7.5% in 2006 to 346 vessels according to industry sources, who also state that a total of 25 new vessels were delivered to owners during 2006 while 77 new orders were made. The majority of these are set to be delivered in 2009. The total order book amounted to 123 vessels at the end of the year which represented approximately 35% of the existing fleet.

The total VLCC fleet increased by 3.2% in 2006 to 479 vessels with a total of 18

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new vessels delivered to owners during 2006 while 79 new orders were made. The total order book amounted to 161 vessels at the end of the year which represented approximately 34% of the existing fleet.

We believe it is likely that more tankers will be either converted or scrapped compared to recent years. We expect approximately 30 VLCCs and about 25 Suezmaxes to be delivered from shipyards during 2007.

### Accounting Changes

In December 2003 we implemented the provisions of FIN 46. The effect of our implementation of FIN 46 was to require consolidation of certain entities in which we held interests but which had not previously been consolidated. This resulted in us recording a cumulative effect of a change in accounting principle of \$33.7 million effective December 31, 2003 as discussed below.

- o During 2004, we owned 50% of the issued shares of and had made loans to Golden Fountain Corporation, owner of a VLCC. Prior to the adoption of FIN 46, we accounted for our interest in Golden Fountain Corporation using the equity method. We determined that Golden Fountain Corporation was a variable interest entity and that we were the primary beneficiary. Accordingly we 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 was a cumulative change in accounting principle of \$8.5 million. Golden Fountain Corporation sold its vessel in December 17, 2004.
- o On July 1, 2003, we purchased a call option for \$10.0 million to acquire all of the shares of ITC from Hemen, a related party, for a total consideration of \$4.0 million plus 4% interest per year. Prior to the adoption of FIN 46 we did not consolidate ITC. We determined that ITC was a variable interest entity and that we were the primary beneficiary. Accordingly we consolidated the assets and liabilities of ITC effective December 31, 2003, with the exception of certain subsidiaries which have been accounted for using the equity method. The consolidation of ITC as of December 31, 2003 had a cumulative effect of a change in accounting principle of \$25.2 million.
- o Nine of the vessels we leased as at December 31, 2006 are leased from special purpose lessor entities which were established and are owned by independent third parties who provide financing through debt and equity participation. Each entity owns one vessel, which is leased to us, and has no other activities. Prior to the adoption of FIN 46R, we did not consolidate these special purpose lessor entities. At December 31, 2006, one of these leases is accounted for as an operating lease and eight of these leases are accounted for as capital leases. We 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 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, 2006, the original cost to the lessor of the assets under such arrangements was \$618.5 million. At December 31, 2006, our residual value guarantees associated with these leases, which represent the maximum exposure to loss, are \$84.5 million.
- o We had both an obligation and an option to purchase the VLCC Oscilla

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on expiry of a five-year time charter, which commenced in March 2000. Oscilla was owned and operated by an unrelated special purpose entity. Prior to the adoption of FIN 46R, we did not consolidate this special purpose entity. We determined that the entity that owns Oscilla is a variable interest entity and that we were the primary beneficiary. At December 31, 2004 through to January 2005, when we exercised our option to acquire the vessel, we were unable to obtain the accounting information necessary to be able to consolidate the entity that owns Oscilla. If we had exercised our option at December 31, 2004, the cost to us of the Oscilla would have been approximately \$28.5 million and the maximum exposure to loss was \$15.4 million. On January 17, 2005, we exercised our option to acquire the Oscilla and the vessel was delivered to us on April 4, 2005.

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

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

### Restatement of Prior Years

During 2006, we reassessed our accounting treatment of certain subsidiaries in the ITC Group under FIN 46(R) and determined that we are not the primary beneficiary of the variable interest entities CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited, CalPetro Tankers (Bahamas III) Limited and CalPetro Tankers (IOM) Limited for the years ended December 31, 2004 and December 31, 2005. In prior years these entities were fully consolidated but as a result of the reassessment they are now being accounted for under the equity method. As a result of this reassessment we have retroactively restated our financial statements for the years ended December 31, 2004 and 2005. The impact of the restatement is detailed fully in note 3 of the financial statements included in Item 18. Because the equity accounting and consolidation models result in the same net income, the restatement has not resulted in a change in net assets, however, there have been several reclassifications in the balance sheets and statements of operations.

In April 2006, Chevron terminated its bareboat charter with CalPetro Tankers (Bahamas III) Limited. Under FIN 46(R) this is considered a triggering event and we began to consolidate the variable interest entity from that date.

### Discontinued Operations

In November 2004, we established Golden Ocean as a wholly owned subsidiary in Bermuda for the purpose of transferring, by way of contribution, certain dry bulk shipping interests. We will not have any significant continuing involvement in these dry bulk operations and as a result, the financial results from our dry bulk operations transferred to Golden Ocean have been reported under "discontinued operations" for 2004, 2003 and 2002. We have accounted for the spin off of Golden Ocean at fair value and have recorded a gain of \$99.5 million in the year ended December 31, 2004.

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

### Critical Accounting Policies and Estimates

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

Management believes that the following accounting policies are the most critical in fully understanding and evaluating our reported financial results as they require a higher degree of judgement in their application resulting from the need to make estimates about the effect of matters that are inherently uncertain. See Note 2 to our audited Consolidated Financial Statements included herein for details of all of our material accounting policies.

### Revenue Recognition

Revenues are generated from freight billings, time charter and bareboat charter hires. Time charter and bareboat charter revenues are recorded over the term of the charter as service is provided. Under a voyage charter the revenues and associated voyage costs are recognized rateably over the estimated duration of the voyage, which is measured from completion of discharge to completion of discharge. The operating results of voyages in progress at a reporting date are estimated and recognized 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" which are included in voyage revenues in our statements of operations. Certain pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. We account for gross pool revenues allocated by these pools as "pool revenues" which are included in voyage revenues in our statements of operations.

### Vessels and Depreciation

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

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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 resulted 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 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.

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. We will continue to monitor the situation and revise the estimated useful lives of our non-double hull vessels as appropriate when new regulations are implemented or expectations of the impact of current rules change.

The vessels held and used by us 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, we 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 we refer 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

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

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

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

### Leases

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Leases are classified as either capital leases or operating leases based on an

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assessment of the terms of the lease. Classification of leases involves the use of estimates or assumptions about fair values of leased vessels, expected future values of vessels and, if lessor's rates of return are not known, lessee's cost of capital. We generally base our estimates of fair value on the average of three independent broker valuations of a vessel. Our estimates of expected future values of vessels are based on current fair values 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 Results

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

- o the earnings of our vessels in the charter market;
- o vessel operating expenses;
- o administrative expenses;
- o depreciation;
- o interest expense;
- o minority interest

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

As at December 31, 2006, 2005 and 2004, 34, 51 and 50, 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.

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.

Depreciation, or the periodic cost charged to our income for the reduction in usefulness and long-term value of our vessels, is also related to the number of vessels we own or lease. We depreciate the cost of 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.

All of our charter and management arrangements with Ship Finance are eliminated on consolidation. However, due to the spin-off of our holdings of Ship Finance shares, we record as an expense the share of total consolidated income attributable to the minority interest.

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### Inflation

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

Year ended December 31, 2006 compared with the year ended December 31, 2005

Total operating revenues and voyage expenses and commission

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Voyage charter revenues	1,114,531	1,152,240	(37,709)	(3)
Time charter revenues	364,956	205,837	159,119	77
Bareboat charter revenues	89,655	142,562	(52,907)	(37)
Finance lease interest income	9,411	-	9,411	100
Other income	5,310	3,877	1,433	37
<b>Total operating revenues</b>	<b>1,583,863</b>	<b>1,504,516</b>	<b>79,347</b>	<b>5</b>

Total operating revenues were relatively stable between 2005 and 2006 due to similar market conditions. During 2006 there was a change in fleet employment from the spot market to the time charter market in order to reduce exposure to the spot market, especially in the case of non-double hull vessels. The change in fleet employment has resulted in an increase in total time charter revenues and a decrease in voyage charter revenues. See the table above "Summary of Fleet Employment" for more details of our fleet employment during 2006. Bareboat charter revenues declined due to the redelivery from bareboat charters of four vessels in the first and second quarters of 2006.

Voyage charter revenues include pool revenues. Certain pools are responsible for paying voyage expenses and distribute net pool revenues to the participants while other pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. An analysis of our pool revenues included in voyage revenues is as follows:

(in thousands of \$)	2006	2005
Pool earnings allocated on gross basis	131,099	128,726
Pool earnings allocated on net basis	-	25,015
<b>Total pool earnings</b>	<b>131,099</b>	<b>153,741</b>

Our vessels are operated under time charters, bareboat charters, voyage



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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 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. For comparability, TCEs for bareboat charters include an allowance for estimated operating costs that would be paid by us under an equivalently profitable time charter. In 2006 we include an allowance of \$6,500 per day for estimated operating costs (2005 and 2004-\$6,500 per day).

A summary of average time charter equivalent earnings per day for our fleet is as follows:

(in \$ per day)	2006	2005	2004	2003	2002
VLCC	57,800	57,400	78,000	42,300	22,500
Suezmax	37,800	40,300	57,900	33,900	18,400
Suezmax OBO	31,700	34,900	27,900	31,900	17,700
Containerships	22,700	26,100	-	-	-

### Ship operating expenses

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Suezmax OBO	32,111	17,658	14,453	82
Suezmax	63,068	53,935	9,133	17
VLCC	100,113	75,931	24,182	32
Containerships	4,085	1,178	2,907	247
	199,377	148,702	50,675	34

Ship operating expenses are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance. Overall, ship operating expenses have increased in 2006 compared with 2005 due to fleet changes and increased drydockings.

Major movements between 2006 and 2005 are as follows:

- o An increase in drydockings during the year from 10 vessels in 2005 to 19 vessels in 2006. This resulted in an operating expense increase of \$27.8 million.
- o Costs associated with the newly acquired Aframax vessel Front Puffin were \$2.1 million before we started the conversion of this vessel to an FPSO vessel.
- o Increased commercial management fees of \$3.4 million in relation to certain charters beginning in 2006.
- o General increase of \$15.9 million due to vessels acquired and delivered from bareboat during 2006.
- o Vessel sales did not result in a significant decline in ship operating expenses due to vessels sold during the year being primarily bareboat vessels.

### Charterhire expenses

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(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Charterhire expenses	24,923	11,711	13,212	113

Number of vessels chartered in and accounted for as operating leases:		2006	2005
VLCC		1	-
Suezmax		1	1
		2	1

The increase in charterhire expense in 2006 is due to two vessels under operating lease in 2006 compared to one vessel under operating lease in 2005.

Administrative expenses

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Administrative expenses	32,214	21,061	11,153	53

The increase in administrative expenses in 2006 compared to 2005 is primarily due to the following items:

- o \$6.0 million due to increased salary costs as the result of an increase in total employees and performance related bonuses,
- o \$3.4 million due to an increase in professional fees in relation to corporate transactions and Sarbanes-Oxley section 404 compliance,
- o \$0.3 million due to increased rent costs, and
- o \$0.7 million due to increased travel costs.

Interest income

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Interest income	47,733	40,867	6,866	17

Interest income has increased primarily as a result of an increase in interest earned on bank deposits due to a combination of increased interest rates and an increase in average cash balances held.

Interest expense

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Interest expense	206,144	206,058	86	-

Interest expense increased in 2006 compared to 2005 due to rising LIBOR rates on a relatively stable average debt balance. This was partially offset by favourable movements in Ship Finance's interest rate swaps and lower amortization of deferred charges. In 2005, we had high amortization of deferred charges due to write offs as a result of repayment of debt on vessels sold during the year and the repurchase of Ship Finance 8.5% Senior Notes.

Equity earnings of unconsolidated subsidiaries and associated companies

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(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Share of results of associated companies	1,118	3,379	(2,261)	(67)

As of December 31, 2006, we account for seven investees (2005: seven) under the equity method. There was an overall decrease in share of results in associated companies because of decreased earnings from Tobago, as, after the sale of this vessel to Ship Finance, we began consolidation of this vessel. Also, we began consolidation of CalPetro Tankers (Bahamas III) Limited in 2006, which resulted in a further decrease. These decreases were partially offset by earnings from the new investee, Front Shadow.

Foreign currency exchange gains

(in thousands of \$)	Year ended December 31,		Change	
	2006	2005	\$	%
Foreign currency exchange gains	1,056	18,829	(17,773)	(94)

Our foreign currency exchange gains are principally due to forward currency exchange contracts which are denominated in Yen. As of December 31, 2005 we were party to five Yen denominated forward currency exchange contracts with a notional principal of (Y) 8.7 billion. In the year ended December 31, 2005, we recorded realized gains of \$16.7 million in relation to these forward currency exchange contracts. The gains were due to the weakening of the Yen against the US Dollar. All of our Yen denominated forward currency exchange contracts expired during the fourth quarter of 2006. The gain on these contracts during 2006 was much lower than 2005 due to less movement in the Yen against the US dollar.

Other

(in thousands of \$)	Year ended December 31,		Change
	2006	2005	
Mark to market adjustments for financial derivatives	(2,735)	16,068	(18,803)
Gains and losses from freight forward agreements	(8,162)	(1,569)	(6,593)
Dividends received	13,317	1,540	11,777
Realized gain on sale of securities	9,782	28,035	(18,253)
Other financial items, net	(3,700)	1,755	(5,455)

The unfavourable movement in market to market adjustments relates primarily to interest rate swaps held by Ship Finance and is due to new interest rate swaps fixing interest at a higher rate in 2006.

Dividend income in 2006 was primarily dividends received on the shares of General Maritime Corporation, or General Maritime, that we held.

The 2005 gain on sale of securities represents the gain on sale of Golden Ocean and General Maritime shares described below. The 2006 gain on sale of securities represents the gain on sale of the remainder of our holding in General Maritime shares.

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### Minority interest

Minority interest represents minority investors' interests in the net income of Ship Finance. As of December 31, 2006 minority investors owned 88.9% (2005: 83.83%) of the shares of Ship Finance.

Year ended December 31, 2005 compared with the year ended December 31, 2004

### Total operating revenues and voyage expenses and commission

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Voyage charter revenues	1,152,240	1,554,519	(402,279)	(26)
Time charter revenues	205,837	108,246	97,591	90
Bareboat charter revenues	142,562	176,381	(33,819)	(19)
Other income	3,877	3,777	100	3
<b>Total operating revenues</b>	<b>1,504,516</b>	<b>1,842,923</b>	<b>(338,407)</b>	<b>(18)</b>

Total operating revenues decreased by 18% in 2005 compared with 2004 which primarily reflects weaker earnings in the spot market. The decrease in voyage charter revenues primarily reflects the strategic change in the employment of five VLCCs from the spot market to time charters along with a general downward trend in the market compared to the unusually high market in 2004. An analysis of our pool revenues included in voyage revenues is as follows:

(in thousands of \$)	2005	2004
Pool earnings allocated on gross basis	128,726	78,430
Pool earnings allocated on net basis	25,015	117,179
<b>Total pool earnings</b>	<b>153,741</b>	<b>195,609</b>

The increase in time charter revenues mainly reflects the change in employment of five of our VLCCs to time charters during 2005. These time charters provide us with a guaranteed minimum charter rate along with a 50:50 profit sharing of average earnings above agreed thresholds.

Bareboat charter revenues in 2004 include \$17.0 million in relation to two VLCCs which were employed in the spot market part way through 2004. In 2004, we placed four wholly owned VLCCs on bareboat charters which provide for a flat bareboat rate along with a profit share based on market rates. Total earnings for these vessels were \$79.0 million in 2005 compared to \$96.1 million in 2004 with the decrease reflecting a decrease in market rates compared to 2004.

### Ship operating expenses

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Suezmax OBO	17,658	15,350	2,308	15
Suezmax	53,935	43,523	10,412	24
VLCC	75,931	71,512	4,419	6
Containerships	1,178	-	1,178	100
<b>Total</b>	<b>148,702</b>	<b>130,385</b>	<b>18,317</b>	<b>14</b>

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Ship operating expenses have increased primarily as a result of fleet changes and drydockings in the year. Major movements are as follows:

- o An increase in drydockings during the year from seven vessels in 2004 to ten in 2005
- o Inclusion of a full year's operating costs for five Suezmaxes purchased during 2004 resulting in an increase in costs totalling \$10.9 million
- o Increase of \$4.7 million due to acquisition of four VLCCs during 2005
- o Increase of \$1.2 million due to acquisition of two containerships during 2005
- o Reduction of costs totalling \$2.1 million due to sale of the vessel Golden Fountain late in 2004
- o Reduction of costs of \$4.7 million due to the sale of five Suezmaxes during the year

### Charterhire expenses

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Charterhire expenses	11,711	39,302	(27,591)	(70)

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

	2005	2004
VLCC	-	3
Suezmax	1	1
	1	4

Charterhire expenses have decreased primarily as a result of our purchase in the first quarter of the year of three VLCCs which were previously chartered in and accounted for as operating leases.

### Administrative expenses

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Administrative expenses	21,061	25,596	(4,535)	(18)

The decrease in administrative expenses in 2005 is mainly attributable to 2004 including charges relating to employee stock options of \$5.5 million which have not been incurred in 2005 as our employee stock option plans terminated in June 2004.

### Depreciation

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Depreciation	198,359	180,497	17,862	10

The increase in depreciation is primarily attributable to:

- o Reduction of \$5.9 million due to sale of five vessels in the year
- o Additional depreciation of \$15.6 million due to purchase of nine vessels in the year
- o Increase of \$8.9 million due to full year's depreciation for vessels

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purchased during 2004

In 2004, Golden Fountain was fully consolidated under FIN 46 and \$3.3 million in depreciation was included in the charge for that year. As discussed in Note 17 of the financial statements included herein, the vessel Golden Fountain was sold late 2004 and as such, we have not recorded any depreciation in 2005.

### Interest income

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Interest income	40,867	31,403	9,464	30

Interest income has increased primarily as a result of an increase in interest earned on bank deposits due to a combination of increased interest rates and an increase in average cash balances held.

### Interest expense

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Interest expense	206,058	194,378	11,680	6

Interest expense has increased primarily due to:

- o Increase in loan interest of \$25.2 million due to combination of increase in LIBOR and a larger debt balance
- o Decrease in swap interest of \$10.7 million due to the increase in LIBOR
- o Decrease in interest on Ship Finance 8.5% Senior Notes of \$5.6 million as a result of the repurchase of \$73.2 million of the Notes
- o Increase in amortization of deferred charges of \$6.6 million primarily due to write offs as a result of repayment of debt on vessels sold during the year and the repurchase of Ship Finance 8.5% Senior Notes

### Equity earnings of unconsolidated subsidiaries and associated companies

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%
Share of results of associated companies	3,379	10,425	(7,046)	(68)

As of December 31, 2005, we account for seven investees under the equity method (2004: six investees). One of those investees, Golden Fountain Corporation, sold its vessel in December 2004 and was effectively dormant in 2005. Our share of results of associated companies has decreased primarily due to an overall reduction in investee earnings for the year.

### Foreign currency exchange gains and losses

(in thousands of \$)	Year ended December 31,		Change	
	2005	2004	\$	%

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Foreign currency exchange gains (losses)	18,829	(4,932)	23,761	482
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Our foreign currency exchange gains are principally due to forward currency exchange contracts which are denominated in Yen. As of December 31, 2005 and 2004, we were party to five Yen denominated forward currency exchange contracts with a notional principal of (Y) 8.7 billion and (Y) 14.6 billion respectively. In the year ended December 31, 2005, we recorded realized gains of \$16.7 million in relation to these forward currency exchange contracts compared to realised losses of \$8.4 million in 2004. The gains recorded can be attributed to the weakening of the Yen against the US Dollar from 103.1 at December 31, 2004 to 117.9 at December 31, 2005.

Other

(in thousands of \$)	Year ended December 31,		Change
	2005	2004	\$
Mark to market adjustments for financial derivatives	16,068	9,000	7,068
Gains and losses from freight forward agreements	(1,569)	(14,844)	13,275
Dividends received	1,540	21	1,519
Realized gain on sale of securities	28,035	7,151	20,884
Other financial items, net	1,755	1,981	(226)

The increase in mark to market adjustments for interest rate swaps is due to the increase in the forward rate curve. As of December 31, 2005, we were party to interest rate swaps with a total notional principal of \$618.3 million compared to a total notional principal of \$631.4 million in 2004.

The freight forward agreements are primarily speculative and are based on the Baltic Capesize Index. Lower losses are due to favourable movements in 2005.

Gain on sale of securities relates to the sale of General Maritime and Golden Ocean shares in 2005 and General Martime and Knightsbridge Tankers shares in 2004.

Minority interest

Minority interest represents minority investors' interests in the net income of Ship Finance. As of December 31, 2005, minority investors owned 83.83% of the shares of Ship Finance.

Discontinued operations

As discussed in Item 4A above, the financial results of certain dry bulk interests transferred to Golden Ocean have been reported under discontinued operations for 2005 and 2004. Of the \$117.6 million reported as discontinued operations in 2004, \$99.5 million relates to a gain on disposal due to accounting for the non pro-rata distribution of Golden Ocean shares at fair value. This gain comprises of \$84.6 million from the distribution of shares and \$14.9 million from the sale of shares on behalf of our US shareholders who were excluded from the distribution. The fair value of the spin off was determined by reference to the average quoted share price of NOK 3.71 (US\$ 0.60) which represents the average share price of Golden Ocean on the Oslo stock exchange in the first five days of trading.

The \$84.6 million gain on the distribution of shares and cash has been calculated as the difference between the fair value of the shares distributed of

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\$102.3 million and their book value of \$17.7 million. The \$14.9 million gain on the sale of shares is calculated as the difference between the sale proceeds of \$18.0 million and the book value of the shares of \$3.1 million.

As at December 31, 2004, the Company held 23,918,832 Golden Ocean shares representing 10.7% of the shares outstanding which have been classified as marketable securities. These shares were subsequently sold in February 2005.

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

### Recent accounting pronouncements

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets - an amendment to FAS 140 ("FAS 156"). FAS 156 requires that all separately recognized servicing rights be initially measured at fair value if practicable. The statement also permits an entity to choose between two measurement methods for each class of separately recognized servicing assets and liabilities. FAS 156 is effective for fiscal years beginning after September 15, 2006. The adoption of FAS 156 on January 1, 2007 did not have an impact on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes - an interpretation of FAS 109 ("FIN 48"). FIN 48 clarifies the application of FAS 109 by defining the criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an entity's financial statements and also provides guidance on measurement, de-recognition, classification, interest and penalties and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 on January 1, 2007 did not have an impact on the Company's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under most other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the effect of adoption of FAS 157 on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an amendment of FAS 87, 88, 106, and 132R ("FAS 158"). FAS 158 requires that the funded status of defined benefit post retirement plans be recognized in the statement of financial position and changes in the funded status be reflected in comprehensive income. FAS 158 also requires the benefit obligations to be measured as of the same date of the financial statements and requires additional disclosures related to the effects of delayed recognition of gains or losses, prior service costs or credits and transition assets or obligation on net periodic benefit cost. FAS 158 is effective for fiscal years ending after December 15, 2006 for employers without publicly traded securities. The adoption of FAS 158 on January 1, 2007 did not have an impact on the Company's financial statements.

In September 2006, the United States Securities and Exchange Commission ("SEC")



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issued SAB No. 108 Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, which provides interpretative guidance on how registrants should quantify financial statement misstatements. Under SAB 108 registrants are required to consider both a "rollover" method, which focuses primarily on the income statement impact of misstatements, and the "iron curtain" method, which focuses primarily on the balance sheet impact of misstatements. The effects of prior year uncorrected errors include the potential accumulation of improper amounts that may result in material misstatement on the balance sheet or the reversal of prior period errors in the current period that result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in a current period financial statements and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. We adopted the provisions of SAB 108 as of December 31, 2006 and this did not have a material effect on the Company's results of operations or financial position.

### Liquidity and Capital Resources

#### Liquidity

We operate in a capital intensive industry and have historically financed our 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.

Our funding and treasury activities are conducted within corporate policies to maximize investment returns while maintaining appropriate liquidity for our requirements. Cash and cash equivalents are held primarily in U.S. dollars with some balances held in British Pound and Norwegian Kroner.

Our short-term liquidity requirements 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, 2006 we estimated cash breakeven average daily TCE rates of approximately \$22,400 for our Suezmax tankers and approximately \$29,700 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.

Our long-term liquidity requirements include funding the equity portion of investments in new or replacement vessels, repayment of long-term debt balances including Ship Finance's \$449.1 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. During 2006, Ship Finance bought back and cancelled 8.5% Senior Notes with a principal amount of \$8.0 million. Sources of funding our long-term liquidity requirements include new loans or equity issues, vessel sales and sale and leaseback arrangements.

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As of December 31, 2006, 2005 and 2004, we had cash and cash equivalents of \$197.1 million, \$92.8 million and \$96.9 million, respectively. As of December 31, 2006, 2005 and 2004, we had restricted cash balances of \$677.5 million, \$636.8 million and \$592.6 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. \$269.1 million of our restricted cash as of December 31, 2006 serves to support our obligations to make charterhire payments to Ship Finance, and is subject to adjustment based on the number of charters that we are a party to. We are entitled to use these funds only (1) to make charterhire payments (including profit sharing payments) to Ship Finance and (2) for reasonable working capital purposes to meet short term voyage expenses.

We currently have four VLCC and eight Suezmax vessels under construction. We paid \$68.9 million in newbuilding instalments in 2006 in respect of these newbuilding contracts and have paid \$27.9 million so far in 2007. The remaining instalments of approximately \$885 million will be financed through a combination of bank loans, other financing sources and existing liquidity. In addition to the newbuilding commitment, we also have commitments with respect to the delivery of three heavy lift vessels to Sealift. The remaining heavy lift conversion commitments as of the end of June are \$118.8 million and are likely to be financed from the proceeds from the sale of the vessels to Sealift.

We consolidated the assets and liabilities of ITC effective December 31, 2003, with the exception of certain subsidiaries which have been accounted for using the equity method. We acquired ITC in May 2004. At December 31, 2006 ITC's assets include \$390.9 million (2005: \$328.9 million) of restricted cash deposits which is held for the benefit of the holders of the Notes issued on behalf of ITC subsidiaries. This restricted cash also includes deposits which can only be used to meet liabilities under the lease agreements.

During the year ended December 31, 2006 we paid total cash dividends of \$654.5 million. In the first quarter of 2007, we declared a cash dividend of \$2.05 per share for the fourth quarter of 2006 representing a total cash payment of \$153.4 million.

### Borrowing activities

In August 2004, we entered into a \$65 million secured term loan facility with a syndicate of banks. The facility bore interest at LIBOR plus a margin of 1.00%. The facility was repaid in March 2006.

In October 2004, we entered into a \$20 million secured term loan facility. The proceeds were used to finance the acquisition of a 1992 built Suezmax tanker. The facility bore interest at LIBOR plus a margin of 0.75%. The loan was repaid in full in February 2007.

In January 2005, we entered into a \$20 million secured term loan facility. The proceeds were used to finance the acquisition of a 1988 built Suezmax tanker. The facility bears interest at LIBOR plus a margin of 0.80%. The facility must be repaid by January 31, 2010. The facility contains a minimum value covenant and covenants that require the Company to maintain a minimum level of free cash and positive working capital.

In December 2005, we entered into a \$69.0 million loan facility with DnB NOR Bank ASA. The facility bore interest at LIBOR plus 120 basis points secured by certain marketable securities and cash deposits. The facility was repaid in full in August 2006.

In June 2006, we entered into an \$80 million secured term loan facility. The proceeds were used to finance the acquisition of a 2006 built VLCC tanker. The

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facility bears interest at LIBOR plus a margin of 0.50%. The facility was due June 26, 2007, and has now been refinanced on the same terms and conditions with maturity in June 2008. The facility contains a minimum value covenant and covenants that require the Company to maintain a minimum level of free cash and positive working capital.

In September 2006, we entered into a \$24 million secured term loan facility. The proceeds were used to finance the acquisition of a 1990 built Aframax tanker. The facility bore interest at LIBOR plus a margin of 0.90%. The facility was repaid in April 2007.

In 2006, Ship Finance repurchased and cancelled 8.5%, senior notes with a total principal amount of \$8.0 million. In February 2006, Ship Finance entered into a total return bond swap line with a bank in which the bank buys their senior notes, and they compensate the bank for its funding cost plus a margin. Through this arrangement, Ship Finance is able to realize profits, but guarantee against losses for the bank. During 2006 the bank acquired senior notes with a total principal amount of \$52.0 million under this bond swap line. As at December 31, 2006, Ship Finance had \$449.1 million outstanding on its issue in 2003 of \$580.0 million 8.5% Senior Notes due 2013.

In February 2005, Ship Finance refinanced their existing \$1,058.0 million secured credit facility with a new \$1,131.4 million secured credit facility. This facility bears interest at LIBOR plus a margin of 0.70% per annum, is repayable over a term of six years and has similar security terms to the repaid facility. In September 2006, Ship Finance signed an agreement whereby the existing debt facility which had been partially repaid, was increased by \$219.7 million to the original outstanding amount of \$1,131.4 million. The increase is available on a revolving basis. At December 31, 2006, the outstanding amount on this facility was \$953.3 million. This facility contains a minimum value covenant, which requires that the aggregate value of Ship Finance vessels secured as collateral exceed 140% of the outstanding amount of the facility. The new facility also contains covenants that require Ship Finance to maintain certain minimum levels of free cash, working capital and equity ratios.

In June 2005, Ship Finance entered into a combined \$350.0 million senior and junior secured term loan facility with a syndicate of banks. At December 31, 2006, the outstanding amount on this facility was \$316.1 million. The proceeds of the facility were used to partly fund the acquisition of five VLCCs. The facility bears interest at LIBOR plus a margin of 0.65% per annum for the senior loan and LIBOR plus a margin of 1.00% per annum for the junior loan. The facility is repayable over a term of seven years has similar security terms as the \$1,131.4 million facility. This facility contains a minimum value covenant, which requires that the aggregate value of Ship Finance vessels exceed 140% of the outstanding amount of the senior loan and, for as long as any amount is outstanding under the junior loan, 125% of the total outstanding loan. The facility also contains covenants that require Ship Finance to maintain certain minimum levels of free cash, working capital and equity ratios.

In April 2006, five vessel owning subsidiaries of Ship Finance entered into a \$210 million secured term loan facility with a syndicate of banks. The facility is non recourse to Ship Finance, as the holding company does not guarantee this debt. The proceeds of the facility were used to partly fund the acquisition of five newbuilding container vessels in connection with Ship Finance's long-term bareboat charters to Horizon Lines. At December 31, 2006, the outstanding amount under this facility was \$41.6 million relating to the first vessel, which was delivered during the fourth quarter 2006. The second vessel was delivered during the first quarter of 2007, and the remaining three vessels were delivered during the second quarter of 2007. The facility bears interest at LIBOR plus a margin of 1.40% per annum, is repayable over a term of 12 years and is secured by the vessel owning subsidiaries' assets. The facility contains a minimum value covenant, which requires that the aggregate value of Ship Finance vessels exceed

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120% of the outstanding loan if there is a default under any of the charters. The vessel owning subsidiaries have entered into 12 year interest rate swaps with a combined notional principal amount of \$207.9 million at rates of approximately 5.65% per annum.

In June 2006, Ship Finance's subsidiary, Rig Finance, entered into a \$165 million secured term loan facility with a syndicate of banks. The proceeds of the facility were used to partly fund the acquisition of a newbuilding jack-up drilling rig. At December 31, 2006, the outstanding amount under this facility was \$155.1 million. The facility bears interest of LIBOR plus a margin of 1.15% per annum as long as the rig is employed under an initial sub-charter to a third party, but in no event longer than the first 36 months, and LIBOR plus a margin of 1.20% per annum thereafter. The facility contains a minimum value covenant, which requires that the value of the rig exceed 120% of the outstanding loan during the period up to six months prior to expiry of the initial sub-charter to the third party, and 140 % thereafter. The facility is repayable over six years and is secured by the rig owning subsidiary's assets. The lenders have limited recourse to Ship Finance as the holding company only guarantees \$10 million of this debt. The facility contains covenants that require Ship Finance to maintain certain minimum levels of free cash, working capital and equity ratios.

In June 2006, Ship Finance entered into a \$25 million secured revolving credit facility. The proceeds of the facility were used to partly fund a VLCC acquired in January 2006. The facility was repaid in full in December 2006, when the vessel was sold to an unrelated third party.

In September 2006, Ship Finance's subsidiary Front Shadow entered into a \$22.7 million secured term loan facility. The proceeds of the facility were used to partly fund the acquisition of a 1997 built Panamax dry bulk carrier. At December 31, 2006, the outstanding amount under this facility was \$22.7 million. Front Shadow is accounted for using the equity method. The facility bears interest of LIBOR plus a margin of 0.59% per annum. The facility contains a minimum value covenant, which requires that the value of the vessel exceed 110% of the outstanding loan during the first four years, and 125% thereafter. The facility is repayable over ten years and is secured by the vessel owning subsidiary's assets. The lenders have limited recourse to Ship Finance as the holding company guarantees \$2.1 million of this debt.

We were in compliance with all loan covenants at December 31, 2006.

### Acquisitions and Disposals

#### Ship Finance

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In 2004, we distributed 48.2% of the common shares of Ship Finance to our ordinary shareholders. On January 28, 2005 and February 22, 2005 our Board approved further spin-offs of the shares in Ship Finance. On February 18, 2005, each of our shareholders received one share of Ship Finance for every four shares of ours held and on March 24, 2005 each of our shareholders received one share of Ship Finance for every ten shares of ours held. Following these transactions our shareholding in Ship Finance was approximately 16.2% at December 31, 2005.

On February 17, 2006, our Board approved a further spin-off of the shares in Ship Finance. On March 20, 2006, each of our shareholders received one share of Ship Finance for every twenty shares of ours held. Following this transaction our shareholding in Ship Finance was approximately 11.1% at December 31, 2006.

On February 27, 2007, our Board approved a final spin-off of our remaining shares in Ship Finance. On March 22, 2007, each of our shareholders received three shares of Ship Finance for every twenty-eight shares of ours held. All of

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these share distributions have had no effect on our liquidity.

### Golden Ocean

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In the fourth quarter of 2004, the Company completed the non pro-rata spin off of its subsidiary Golden Ocean. In connection with the spin off, total cash of \$32.1 million was paid to non qualifying U.S. shareholders who received a cash equivalent of \$1.80 (\$0.60 per Golden Ocean share) per Frontline share held. The spin off resulted in the recognition of a gain of \$99.5 million. We retained 10.7% of the shares of Golden Ocean as at December 31, 2004. These shares were subsequently sold in February 2005 for proceeds of NOK 100.5 million, equivalent to approximately \$16.5 million.

In 2005, Golden Ocean exercised its options to acquire from us the shares in two single purpose companies each owing a newbuilding contract for a Panamax vessel. These options were at a price equal to our costs, including instalments paid to date, plus our funding expenses. These options were exercised at a total price of \$16.8 million.

### Independent Tankers Corporation

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On July 1, 2003, we purchased a call option for \$10.0 million to acquire all of the shares of ITC from Hemen for a total consideration of \$4.0 million plus 4% interest per year. On May 27, 2004 we exercised this purchase option and paid \$14.1 million.

Chevron redelivered the Suezmax vessel Front Voyager to us in April 2006 and pursuant to the terms of the charter paid us a termination fee in the amount of \$5.05 million.

### General Maritime

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As at January 1, 2005 we held a total of 1,584,700 shares in General Maritime Corporation, or Genmar. During 2005 we acquired a total of 5,209,000 Genmar shares and sold 2,933,700 Genmar shares and as at December 31, 2005 held 3,860,000 Genmar shares which was equivalent to 9.98% of their total shares outstanding.

In August 2006, we sold our entire holding of 3,860,000 shares in Genmar for \$40 per share.

### Tsakos Shipping and Trading SA

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In March 2007, we sold our entire holding of 32,000 shares in Tsakos for approximately \$1.5 million.

### Sealift

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In January 2007, we subscribed for 30 million shares issued by Sealift in a private placement at a cost of \$60 million. In May 2007, Sealift completed the combination of its businesses with the Dockwise group of companies. As part of the transaction, Sealift completed another private placement of 19.9 million shares and Frontline subscribed for five million of these additional shares. Sealift also issued 94.1 million shares to the former Dockwise shareholders. After completion of this transaction Frontline owns 17.1% of Sealift.

### Sea Production

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 In February 2007, we subscribed for approximately 28% of the equity issued in a private placement by Sea Production at a cost of \$51 million. In June 2007, we sold our entire holding of 25,500,000 shares in Sea Production for a net price of NOK 15.75 per share, equivalent to approximately \$67 million.

Equity

In the first quarter of 2004, a Special General Meeting of our shareholders approved the compulsory repurchase of all registered shareholdings of 49 or less of our ordinary shares. Consequently, on April 6, 2004, we compulsorily repurchased and cancelled 20,197 ordinary shares at the closing market price of the ordinary shares on April 5, 2004 which was \$31.22 per ordinary share. Total cash used to repurchase these shares was \$0.6 million.

In 2004, we issued a total of 900,000 ordinary shares in two private placements to institutional investors. In July 2004, we issued 600,000 ordinary shares at a purchase price of NOK 246 per share, which was the equivalent of \$35.84 per share at the time of the sale. In October 2004, we issued 300,000 ordinary shares at a purchase price of NOK 352 per share, which was the equivalent of \$55.33 per share at the time of sale. Total proceeds from these issues were \$37.2 million.

In July 2004, Ship Finance issued 1,600,000 common shares to an institutional investor at \$15.75 per share. Total proceeds from this issue were \$25.2 million.

In November and December 2004, Ship Finance repurchased and cancelled a total of 625,000 shares at an average cost of \$23.61 per share. Total cash used to repurchase these shares was \$14.8 million.

During 2005, Ship Finance repurchased and cancelled a further 1,757,100 common shares. The shares were repurchased at an average price of \$18.81 for a total amount of \$33.1 million.

In January 2006, Ship Finance repurchased and cancelled a further 400,000 common shares. The shares were repurchased at an average price of \$18.03 for a total amount of \$7.2 million, which resulted in an increase in Frontline's shareholding from 16.2% to 16.3%.

Derivative Activities

Ship Finance uses financial instruments to reduce the risk associated with fluctuations in interest rates. Ship Finance has a portfolio of interest rate swaps that swap floating rate interest to fixed rate, which from a financial perspective hedge interest rate exposure. We do not currently hold or issue instruments for speculative or trading purposes. As at December 31, 2006 Ship Finance's interest rate swap arrangements effectively fix interest rate exposure on \$738.7 million of floating rate debt. These interest rate swap agreements expire between August 2008 and May 2019.

Tabular disclosure of contractual obligations

At December 31 2006, we had the following contractual obligations and commitments:

	Payment due by period			
	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
-----	-----	-----	-----	-----

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(In thousands of \$)

Senior notes (8.5%)	-	-	-	449,080	4
Serial notes (6.5% to 6.68%)	13,700	15,900	1,200	-	
Term notes (7.84% to 8.04%)	1,340	13,365	27,750	323,745	3
Term notes (8.52%)	570	1,290	1,520	9,364	
Other long-term debt	265,799	294,523	733,387	310,761	1,6
Operating lease obligations	7,950	15,683	12,211	7,430	
Capital lease obligations	127,253	240,545	367,736	288,683	1,0
Newbuilding commitments	235,435	403,595	125,520	-	7
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Total	652,047	984,901	1,269,324	1,389,063	4,2
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The newbuilding commitments as per December 31, 2006 consists of four VLCC's and four Suezmax vessels. We have since declared options for further four Suezmax vessels.

At December 31 2006, we leased nine vessels that were sold by us at various times during the period from December 1999 to December 2003, and leased back on charters for periods of eight years with lessors' options to extend the charters for periods that range up to five years. One of these vessels is accounted for as an operating lease and eight as capital leases. We have fixed price purchase options at certain specified dates and the lessors have options to put these nine vessels to us at the end of each lease term.

Additionally, our subsidiary ITC leases four VLCCs on 24 year charters which began on delivery of the vessels in 1999 and 2000. These leases are classified as capital leases.

#### Off balance sheet financing

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

Forward-looking information discussed in this Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as "forward-looking statements." We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements" in this Report.

#### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

##### A. DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Position
John Fredriksen	62	Chairman, Chief Executive Officer, President and Director
Tor Olav Troim	44	Vice-President and Director
Kate Blankenship	42	Director and Audit Committee Chairman
Frixos Savvides	55	Director and Audit Committee member
Bjorn Sjaastad	49	Chief Executive Officer of Frontline Management AS

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Inger M. Klemp 44 Chief Financial Officer of Frontline Management AS

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 nine years as a director of SeaTankers Management Co. Ltd, or SeaTankers, a ship operating company and an affiliate of the Company's principal shareholder. Mr. Fredriksen indirectly controls Hemen. 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 and has been a director of Golden Ocean, a Bermuda company on the Oslo Stock Exchange, since November 2004. Mr. Fredriksen has served as a director and the chairman of Seadrill Limited, a Bermuda company listed on the Oslo Stock Exchange, since May 2005.

Tor Olav Troim has been Vice-President and a director of the Company since November 3, 1997. He previously served as Deputy Chairman of Frontline from July 4, 1997, and was a director of Old Frontline from July 1, 1996. Until April 2000, Mr. Troim 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. Troim graduated as M.Sc Naval Architect from the University of Trondheim, Norway in 1985. His careers include Portfolio Manager Equity in Storebrand ASA (1987-1990) and Chief Executive Officer for the Norwegian Oil Company DNO AS (1992-1995). Since 1995, Mr. Troim has been a director of SeaTankers Management in Cyprus. In this capacity, he has acted as Chief Executive Officer for the public companies Knightsbridge Tankers Limited and Golar LNG Limited (NASDAQ). Mr. Troim was also Chief Executive Officer of Seadrill Ltd. until the recent takeover and integration of Smedvig ASA. Mr Troim is currently Vice Chairman of these three companies and in addition is a director and Chairman of Ship Finance International Limited (NYSE) and a member of the Boards in the public companies Golden Ocean Group Limited (OSE), Aktiv Kapital ASA (OSE) and Marine Harvest ASA (OSE).

Kate Blankenship has been a director since August, 2003. Mrs. Blankenship joined the Company in 1994 and served as the Company's Chief Accounting Officer and Company Secretary until October 2005. Mrs. Blankenship has been Chief Financial Officer of Knightsbridge Tankers Ltd since April 2000 and Secretary of Knightsbridge from December 2000 to March 2007. Mrs. Blankenship has been a Director of Ship Finance since October 2003. Mrs. Blankenship has served as a director of Golar LNG Limited since July 2003 and Golden Ocean since November 2004. Mrs. Blankenship has served as a director of Seadrill Limited since May 2005. She is a member of the Institute of Chartered Accountants in England and Wales.

Frixos Savvides a Chartered Accountant, is a Fellow of the Institute of Chartered Accountants of England and Wales. He was the founder of the audit firm PKF Savvides and Partners in Cyprus and held the position of Managing Partner until 1999 when he became Minister of Health of the Republic of Cyprus. He held this office until 2003. Mr. Savvides is currently a senior independent business consultant, and holds several Board positions including his recent appointment as Vice Chairman of Cyprus Airways. Frixos Savvides was appointed to the Board of Directors of Frontline July 31, 2005.

Bjorn Sjaastad has served as Chief Executive Officer of Frontline Management AS since October 2006. From 2004 to 2006 Mr. Sjaastad ran his own consultancy business. From 1990 to 2004, Mr. Sjaastad was the Chief Executive Officer of Odfjell ASA, a Norwegian based, stock listed, international chemical tanker operator. From 1981 to 1989 Mr. Sjaastad served as a lending officer of DnB NOR ASA (previously Bergen Bank AS), heading up the banks shipping and offshore department in Bergen. Mr. Sjaastad has, over the years, been a member of the boards of a range of companies and has also been the President of the Norwegian Shipowners Association. Please see Item 8.A. "Consolidated Statements and Other



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Financial Items - Legal Proceedings" for a description of proceedings involving Mr. Sjaastad not involving us.

Inger M. Klemp has served as Chief Financial Officer of Frontline Management AS since June 1, 2006. Mrs. Klemp has served as Vice President Finance from August 2001 until she was promoted in May 2006. Mrs. Klemp graduated as MSc in Business and Economics from the Norwegian School of Management (BI) in 1986. Mrs. Klemp served as Assistant Director Finance in Color Group ASA from 1998 to 2001 and as Group Financial Manager in Color Line ASA from 1992 to 1998, a Norwegian based cruise operator which was stock listed up to October 1999. From 1989 to 1992 Mrs. Klemp served as Assistant Vice President in Nordea Bank Norge ASA handling structuring and syndication of loan facilities in the international banking market. From 1986 to 1989, Mrs. Klemp served as a lending officer of Fokus Bank ASA.

### B. COMPENSATION

During the year ended December 31, 2006, we paid to our directors and executive officers (six persons) aggregate cash compensation of \$1,648,012 and an aggregate amount of \$135,585 for pension and retirement benefits.

### C. BOARD PRACTICES

In accordance with our Bye-laws the number of Directors shall be such number not less than two as our shareholders 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. We currently have four Directors.

We currently have an audit committee, which is responsible for overseeing the quality and integrity of our financial statements and its accounting, auditing and financial reporting practices, our compliance with legal and regulatory requirements, the independent auditor's qualifications, independence and performance and our internal audit function. Our audit committee consists of two members, Mr. Savvides and Mrs Blankenship.

In lieu of a compensation committee comprised of independent directors, our Board of Directors is responsible for establishing the executive officers' compensation and benefits. In lieu of a nomination committee comprised of independent directors, our Board of Directors is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees.

Our officers 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 us and any of our Directors providing for benefits upon termination of their employment or service.

As a foreign private issuer we are exempt from certain requirements of the New York Stock Exchange that are applicable to U.S. listed companies. For a listing and further discussion of how our corporate governance practices differ from those required of U.S. companies listed on the New York Stock Exchange, please visit the corporate governance section of our website at [www.frontline.bm](http://www.frontline.bm).

### D. EMPLOYEES

As of December 31, 2006, Frontline and its subsidiaries employed approximately 48 people in their respective offices in Bermuda, London, Oslo and Singapore. We contract with independent ship managers to manage and operate our vessels.

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### E. SHARE OWNERSHIP

The beneficial interests of our Directors and officers in the Ordinary Shares of Frontline as of June 13, 2007, were as follows:

Director or Officer	Ordinary Shares of \$2.50 each	% of Ordinary Shares Outstanding
John Fredriksen*	26,079,053	34.85%
Tor Olav Troim	194,994	**
Kate Blankenship	2,000	**
Frixos Savvides	-	**
Inger M. Klemp	16,000	**
Bjorn Sjaastad	-	**

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

\*\* Less than one per cent

As of May 31, 2007, Bjorn Sjaastad holds 100,000 options to acquire ordinary shares in the Company. The options were granted under the Frontline Ltd Share Option Scheme, which was approved by the board on November 16, 2006. The options begin to vest in November 2007 and expire in November 2011. The exercise price of the options is NOK 238.50 and is reduced by the amount of dividends paid. None of our other Directors and officers or employees holds any options to acquire Frontline's Ordinary Shares. In the past we maintained a Bermuda Employee Share Option Plan and a United Kingdom Employee Share Option Plan, however, these plans expired at the end of 2004.

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. MAJOR SHAREHOLDERS

Frontline is indirectly controlled by another corporation (see below). The following table presents certain information regarding the current ownership of our Ordinary Shares with respect to (i) each person who we know to own more than five percent of our outstanding Ordinary Shares; and (ii) all directors and officers as a group as of June 13, 2007.

Owner	Ordinary Shares Amount	%
Hemen Holding Ltd. and associated companies (1)	26,079,053	34.85%
All Directors and Officers as a group (six persons) (2)	26,292,047	35.14%

(1) Hemen is a Cyprus holding company indirectly controlled by Mr. John Fredriksen, who is our Chairman and Chief Executive Officer.

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

In June 2007 and June 2006, Hemen and associated companies held 34.85% of the Company's Ordinary Shares.

As at May 15, 2007, 45,005,708 of our Ordinary Shares were held by 288 holders of record in the United States.

Our major shareholders have the same voting rights as our other shareholders. No corporation or foreign government owns more than 50% of our outstanding Ordinary Shares. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of Frontline.

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### B. RELATED PARTY TRANSACTIONS

In June 2006, Rig Finance, a subsidiary of Ship Finance, purchased the jack up rig SeaDrill 3 from SeaDrill Invest I Ltd, or SeaDrill Invest, an affiliated company, for \$210 million. The rig was immediately chartered back to SeaDrill Invest for a period of 15 years. The charter party is fully guaranteed by Seadrill Limited, the ultimate parent company of SeaDrill Invest. SeaDrill Invest has been granted fixed price purchase options after 3, 5, 7, 10, 12 and 15 years.

..

In June 2006, Front Shadow Inc. ("Front Shadow") a subsidiary of Ship Finance, entered into an agreement to acquire a Panamax vessel, Rain Shadow, for \$28.4 million from Golden Ocean. The vessel was chartered back to Golden Ocean for a period of 10 years. As part of the agreement, Golden Ocean has provided an interest free and non-amortizing seller credit of \$2.6 million. Golden Ocean has been granted fixed purchase options after 3, 5, 7 and 10 years. At the end of the charter, the Front Shadow also has an option to sell the vessel back to Golden Ocean at an agreed fixed price of \$10.4 million. Front Shadow is equity accounted by Ship Finance following the application of FIN 46(R).

A summary of amounts earned and balances with related parties is as follows:

Net amounts earned from (paid to) related parties (in thousands of \$)	Year ended December 31,		
	2006	2005	2004
Seatankers Ltd	432	265	49
Golar LNG Limited	180	255	495
Golden Ocean Group Limited	597	362	8
Northern Offshore Ltd	-	-	25
Norse Energy Group ASA (formerly Northern Oil ASA)	-	6	92
Aktiv Kapital First Investment Ltd	-	10	-
Bryggegata AS	(1,021)	(692)	-
Individual related to John Fredriksen	12	-	-
Seadrill Limited	545	(24)	-
CalPetro Tankers (Bahamas I) Limited	40	38	37
CalPetro Tankers (Bahamas II) Limited	40	38	37
CalPetro Tankers (Bahamas III) Limited	-	38	37
CalPetro Tankers (IOM) Limited	40	38	37

Balances with related parties (receivable/(payable)) (in thousands of \$)	As of December 31,	
	2006	2005
Seatankers Ltd	275	1,397
Golar LNG Limited	(553)	644
Northern Offshore Ltd	49	48
Golden Ocean Group Limited	942	(2,182)
Seadrill Limited	30	55
CalPetro Tankers (Bahamas I) Limited	10	10
CalPetro Tankers (Bahamas II) Limited	10	10
CalPetro Tankers (Bahamas III) Limited	-	10
CalPetro Tankers (IOM) Limited	10	10

Golar, Northern Offshore, Norse Energy Group, Aktiv Kapital, Seadrill, Bryggegata AS, Golden Ocean, Crystal Sea Marine and Seatankers are each subject to the significant influence or control of John Fredriksen.

### C. INTERESTS OF EXPERTS AND COUNSEL

Not Applicable

### ITEM 8. FINANCIAL INFORMATION

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### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

#### Legal Proceedings

We are 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. We believe that the resolution of such claims will not have a material adverse effect on the Company's operations or financial condition.

In his capacity as President and Chief Executive Officer of Odfjell ASA, an operator of chemical tankers, Mr. Sjaastad entered into an agreement with the US Department of Justice in September 2003 pursuant to which he pled guilty to one count of violating the Sherman Act. This plea was part of a global agreement with the US Department of Justice involving Odfjell ASA and Odfjell Seachem AS. The matter did not involve Frontline Ltd or its affiliates.

#### Dividend Policy

Since May 2003, our policy has been to pay regular, targeted dividends. In February 2005, we increased the targeted minimum quarterly dividend to \$0.625 per share, equivalent to \$2.50 per share per annum. We have paid the following cash dividends in 2004, 2005 and 2006.

Payment Date -----	Amount per Share -----
2004	
March 29, 2004	\$4.50
June 16, 2004	\$5.00
September 13, 2004	\$1.60
December 17, 2004	\$2.50
2005	
March 18, 2005	\$3.50
June 24, 2005	\$3.10
September 20, 2005	\$2.00
December 13, 2005	\$1.50
2006	
March 20, 2006	\$1.50
June 26, 2006	\$1.50
September 18, 2006	\$1.50
December 21, 2006	\$2.50

On February 27, 2007 the Board declared a cash dividend of \$2.05 per share for the fourth quarter of 2006 that was paid on March 22, 2007. On May 30, 2007 the Board declared a cash dividend of \$1.50 per share for the first quarter of 2007 that was paid June 22, 2007.

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

### B. SIGNIFICANT CHANGES

During 2004, we distributed approximately 48.3% of our shares in Ship Finance to

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our shareholders and at December 31, 2004 held 50.8% of Ship Finance. See Item 4. "Information on the Company--History and Development of the Company--Spin-Off of Ship Finance." In February and March 2005, we have spun off a further 35% of our shares in Ship Finance to our shareholders and at December 31 2005 held 16.2% of Ship Finance. In February 2006, a further 5% interest in Ship Finance was spun off and we held approximately 11.1% of the shares in Ship Finance as at December 31, 2006. These shares were distributed to shareholders on March 22, 2007 following which we hold a minimal number of shares in Ship Finance. As a result of this spin-off, we no longer consolidate Ship Finance as of March 31, 2007. The most significant impacts on the financial statements of the deconsolidation of Ship Finance are as follows:

- o At December 31, 2006 Ship Finance owned vessels with a book value of \$2.2 billion in the Frontline consolidated financial statements, of which \$1.9 billion were on charter to Frontline. The vessels chartered in by Frontline will be presented in the balance sheet as vessels and equipment under capital lease rather than vessels and equipment after deconsolidation. Frontline will also record a corresponding obligation under capital lease of approximately \$2.2 billion in the balance sheet and finance lease interest expense in the income statement when it adopts the lease accounting presentation for these vessels. The increase in obligation under capital lease is offset by a debt reduction of \$1.9 billion for debt relating to Ship Finance.
- o Minority interests of \$534 million relating to Ship Finance at December 31, 2006 will no longer be presented in our accounts.
- o Net working capital of approximately \$68 million at December 31, 2006 relating to Ship Finance will no longer be presented in our accounts.

### ITEM 9. THE OFFER AND LISTING

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 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.

	NYSE		OSE	
	High	Low	High	Low
Fiscal year ended December 31				
2006	\$44.65	\$28.80	NOK280.00	NOK184.00
2005	\$57.97	\$35.89	NOK355.00	NOK230.00
2004	\$62.33	\$24.36	NOK367.81	NOK158.06
2003	\$27.69	\$8.93	NOK185.00	NOK61.00
2002	\$13.05	\$3.19	NOK108.50	NOK25.90

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

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Fiscal year ended December 31, 2006				
First quarter	\$41.29	\$32.70	NOK270.50	NOK218.00
Second quarter	\$38.25	\$28.80	NOK237.50	NOK184.00
Third quarter	\$44.65	\$36.32	NOK280.00	NOK228.50
Fourth quarter	\$39.76	\$31.63	NOK254.50	NOK196.75

	NYSE		OSE	
	High	Low	High	Low
-----				
Fiscal year ended December 31, 2005				
First quarter	\$57.97	\$40.65	NOK355.00	NOK254.00
Second quarter	\$51.25	\$36.10	NOK326.50	NOK232.50
Third quarter	\$47.10	\$40.63	NOK305.50	NOK261.50
Fourth quarter	\$44.70	\$35.89	NOK300.00	NOK230.00

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 2007	\$46.95	\$37.78	NOK281.00	NOK232.00
April 2007	\$38.50	\$34.26	NOK226.00	NOK207.50
March 2007	\$35.80	\$29.35	NOK219.50	NOK185.25
February 2007	\$36.55	\$33.17	NOK209.00	NOK222.25
January 2007	\$33.28	\$30.00	NOK211.00	NOK192.25
December 2006	\$36.08	\$31.63	NOK218.50	NOK196.75

### 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.

The Amended and Restated Bye-Laws of the Company as adopted on April 5, 2004, have previously been filed as Exhibit 1.4 to the Company's Annual Report on Form 20-F for the fiscal year ended December 31 2003, filed with the Securities and Exchange Commission on June 30, 2004. At the 2006 Annual General Meeting of the Company the shareholders voted to amend the Company's Bye-Law 110. The purpose of this amendment was to provide for a change to the requirements for the form and signatories to the seal of the Company. These amended Bye-Laws of the Company as adopted by shareholders on December 1, 2006 are filed as Exhibit 1.2 to this Annual Report.

The purposes and powers of the Company are set forth in Items 6(1) and 7(a) through (h) of our Memorandum of Association and in the Second Schedule of the Bermuda Companies Act of 1981 which is attached as an exhibit to our Memorandum of Association. These purposes include exploring, drilling, moving, transporting and refining petroleum and hydro-carbon products, including oil and oil products; the acquisition, ownership, chartering, selling, management and operation of ships and aircraft; the entering into of any guarantee, contract, indemnity or suretyship and to assure, support, secure, with or without the consideration or benefit, the performance of any obligations of any person or persons; and the borrowing and raising of money in any currency or currencies to secure or discharge any debt or obligation in any manner.

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The Company's Bye-laws provide that its board of directors shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Bermuda Companies Act of 1981 at such times and places (other than Norway) as the Board shall decide. The board of directors may call special meetings at its discretion or as required by the Bermuda Companies Act of 1981.

Bermuda law permits the Bye-laws of a Bermuda company to contain a provision eliminating personal liability of a director or officer to the company for any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence default, breach of duty or breach of trust of which the officer or person may be guilty. Bermuda law also grants companies the power generally to indemnify directors and officers of the company if any such person was or is a party or threatened to be made a party to a threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a director and officer of the company or was serving in a similar capacity for another entity at the company's request.

Special rights attaching to any class of our shares may be altered or abrogated with the consent in writing of not less than 75% of the issued and shares of that class or with the sanction of a resolution passed at a separate general meeting of the holders of such shares voting in person or by proxy.

The Company's Bye-laws do not prohibit a director from being a party to, or otherwise having an interest in, any transaction or arrangement with the Company or in which the Company is otherwise interested. The Company's Bye-laws provide that a director who has an interest in any transaction or arrangement with the Company and who has complied with the provisions of the Companies Acts and with its Bye-Laws with regard to disclosure of such interest shall be taken into account in ascertaining whether a quorum is present, and will be entitled to vote in respect of any transaction or arrangement in which he is so interested. The Company's Bye-laws provide its board of directors the authority to exercise all of the powers of the Company to borrow money and to mortgage or charge all or any part of our property and assets as collateral security for any debt, liability or obligation. The Company's directors are not required to retire because of their age, and the directors are not required to be holders of the Company's ordinary shares. Directors serve for one year terms, and shall serve until re-elected or until their successors are appointed at the next annual general meeting.

The Company's Bye-laws provide that no director, alternate director, officer, person or member of a committee, if any, resident representative, or his heirs, executors or administrators, which we refer to collectively as an indemnitee, is liable for the acts, receipts, neglects, or defaults of any other such person or any person involved in our formation, or for any loss or expense incurred by us through the insufficiency or deficiency of title to any property acquired by us, or for the insufficiency or deficiency of any security in or upon which any of our monies shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortuous act of any person with whom any monies, securities, or effects shall be deposited, or for any loss occasioned by any error of judgment, omission, default, or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in relation to the execution of his duties, or supposed duties, to us or otherwise in relation thereto. Each indemnitee will be indemnified and held harmless out of our funds to the fullest extent permitted by Bermuda law against all liabilities, loss, damage or expense (including but not limited to liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable) incurred or suffered by him as such director, alternate director, officer, person or committee member or resident representative (or in his reasonable belief that he is acting as any of the above). In addition, each indemnitee shall be indemnified against all liabilities incurred in defending any proceedings, whether civil or criminal, in

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which judgment is given in such indemnitee's favor, or in which he is acquitted. The Company is authorized to purchase insurance to cover any liability it may incur under the indemnification provisions of its Bye-laws.

There are no pre-emptive, redemption, conversion or sinking fund rights attached to our ordinary shares. Holders of ordinary shares are entitled to one vote per share on all matters submitted to a vote of holders of ordinary shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of ordinary shares require approval by a simple majority of votes cast at a meeting at which a quorum is present.

In the event of our liquidation, dissolution or winding up, the holders of ordinary shares are entitled to share in our assets, if any, remaining after the payment of all of our debts and liabilities, subject to any liquidation preference on any outstanding preference shares.

The Company's Bye-laws provide that its board of directors may, from time to time, declare and pay dividends out of contributed surplus. Each ordinary share is entitled to dividends if and when dividends are declared by the board of directors, subject to any preferred dividend right of the holders of any preference shares.

There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our ordinary shares.

The Company's Bye-laws provide that any person, other than its registrar, who acquires or disposes of an interest in shares which triggers a notice requirement of the Oslo Stock Exchange must notify the Company's registrar immediately of such acquisition or disposal and the resulting interest of that person in shares.

The Company's Bye-laws laws require the Company to provide notice to the Oslo Stock Exchange if a person resident for tax purposes in Norway (or such other jurisdiction as the Board may nominate from time to time) is found to hold 50% or more of the Company's aggregate issued share capital, or holds shares with 50% or more of the outstanding voting power, other than the Company's registrar. The Company's Bye-laws also require it to comply with requirements that the Oslo Stock Exchange may impose from time to time relating to notification of the Oslo Stock Exchange in the event of specified changes in the ownership of the Company's ordinary shares.

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

#### Ship Finance

##### Charter Ancillary Agreement

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Frontline has entered into charter ancillary agreements with Ship Finance, its vessel owning subsidiaries that own the vessels and our wholly owned and consolidated subsidiaries Frontline Shipping Limited ("Frontline Shipping") and Frontline Shipping II Limited ("Frontline Shipping II"), which remain in effect until the last long term charter with Ship Finance terminates in accordance with its terms. Throughout this section Frontline Shipping and Frontline Shipping II are collectively referred to as ("the Charterers"). Frontline has guaranteed the Charterers' obligations under the charters, except for the Charterers' obligations to pay charterhire. Frontline has guaranteed the Charterers'



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obligations under the charter ancillary agreements.

### Charter Terms

The long term time charters to us extend for various periods depending on the age of the vessels, ranging from approximately six to 20 years. Two of the vessels that Ship Finance acquired are on current long term time charters at December 31, 2006. With certain exceptions, the daily base charter rates, which are payable by Frontline Shipping 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

The daily base charter rates for vessels that reach their 18th delivery date anniversary, in the case of non-double hull vessels, or their 20th delivery date anniversary, in the case of double hull vessels, will decline to \$18,262 per day for VLCCs and \$15,348 for Suezmax tankers after such dates, respectively.

In addition, the base charter rate for Ship Finance's non-double hull vessels will decline to \$7,500 per day on each vessels anniversary date in 2010. At which time we will have the option to terminate the charters for those vessels.

The daily base charterhire for our vessels that are chartered to Frontline Shipping II, which is also payable monthly in advance for a maximum of 360 days per year (361 days per leap year), is as follows:

Vessel	2005 to 2006	2007 to 2010	2011 to 2018	2019 and beyond
Front Champion	\$31,340	\$31,140	\$30,640	\$28,464
Front Century	\$31,501	\$31,301	\$30,801	\$28,625
Golden Victory	\$33,793	\$33,793	\$33,793	\$33,793
Front Energy	\$30,014	\$30,014	\$30,014	\$30,014
Front Force	\$29,853	\$29,853	\$29,853	\$29,853

Under the charters, Ship Finance is required to keep the vessels seaworthy, and to crew and maintain them. We perform those duties for Ship Finance under the management agreements. If a structural change or new equipment is required due to changes in classification society or regulatory requirements, we may make them, at our expense, without Ship Finance's consent, but those changes or improvements will become Ship Finance's property. We are not obligated to pay Ship Finance charterhire for off hire days in excess of five off hire days per year per vessel calculated on a fleet-wide basis, which include days a vessel is unable to be in service due to, among other things, repairs or drydockings. However, under the management agreements, we will reimburse Ship Finance for any loss of charter revenue in excess of five off hire days per vessel, calculated on a fleet-wide basis.

The terms of the charters do not provide us with an option to terminate the charter before the end of its term, other than with respect to non-double hull vessels on each vessels anniversary date in 2010. Ship Finance may terminate any or all of the charters in the event of an event of default under a charter ancillary agreement. The charters may also terminate in the event of (1) a requisition for title of a vessel or (2) the total loss or constructive total loss of a vessel. In addition, each charter provides that Ship Finance may not sell the related vessel without our consent.

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### Charter Service Reserve

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We made initial capital contributions to Frontline Shipping and Frontline Shipping II in the amount of \$250 million and \$21 million in cash respectively. Due to sales and acquisitions, the current capitalization in the Charterers is \$197.0 million and \$35.0 million respectively. These amounts serve to support our obligations to make charterhire payments to Ship Finance, and are subject to adjustment based on the number of charters that we are a party to. The Charterers are entitled to use the charter service reserve only (1) to make charter payments to Ship Finance and (2) for reasonable working capital to meet short term voyage expenses. The Charterers are required to provide Ship Finance with monthly certifications of the balances of and activity in the charter service reserve.

### Material Covenant

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Pursuant to the terms of the charter ancillary agreement, the Charterers have agreed not to pay dividends or other distributions to its shareholders or loan, repay or make any other payment in respect their indebtedness or of any of their affiliates (other than Ship Finance or its wholly owned subsidiaries), unless (1) the Charterers are then in compliance with its obligations under the charter ancillary agreements, (2) after giving effect to the dividend or other distribution, (A) they remain in compliance with such obligations, (B) the balance of the charter service reserves equal at least \$197 million in the case of Frontline Shipping and \$35 million in the case of Frontline Shipping II (which threshold will be reduced by \$5.3 million and \$7.0 million in the case of Frontline Shipping and Frontline Shipping II, respectively, upon the termination of other than by reason of a default by Frontline Shipping or Frontline Shipping II which we refer to as the "Minimum Reserve", and (C) they certify to Ship Finance that they reasonably believe that the charter service reserves will be equal to or greater than the Minimum Reserve level for at least 30 days after the date of that dividend or distribution, taking into consideration their reasonably expected payment obligations during such 30-day period, (3) any charter payments deferred pursuant to the deferral provisions described below have been fully paid to Ship Finance and (4) any profit sharing payments deferred pursuant to the profit sharing payments provisions described below have been fully paid. In addition, the Charterers have agreed to certain other restrictive covenants, including restrictions on their ability to, without the consent of Ship Finance:

- o amend its organisational documents in a manner that would adversely affect Ship Finance;
- o violate its organisational documents;
- o engage in businesses other than the operation and chartering of Ship Finance vessels; (not applicable for Frontline Shipping II)
- o incur debt, other than in the ordinary course of business;
- o sell all or substantially all of its assets or the assets of any of its subsidiaries or enter into any merger, consolidation or business combination transaction;
- o enter into transactions with affiliates, other than on an arm's-length basis;
- o permit the incurrence of any liens on any of its assets, other than liens incurred in the ordinary course of business;

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- o issue any capital stock to any person or entity other than Frontline; and
- o make any investments in, provide loans or advances to, or grant guarantees for the benefit of any person or entity other than in the ordinary course of business.

In addition, we have agreed that we will cause the Charterers at all times to remain our wholly owned subsidiaries.

### Deferral of Charter Payments

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For any period during which the cash and cash equivalents held by Frontline Shipping is less than \$75 million, Frontline Shipping is entitled to defer from the payments payable to Ship Finance under each charter up to \$4,600 per day for each of our vessels that is a VLCC and up to \$3,400 per day for each of our vessels that is a Suezmax, in each case without interest. However, no such deferral with respect to a particular charter may be outstanding for more than one year at any given time. Frontline Shipping will be required to immediately use all revenues that it receives that are in excess of the daily charter rates payable to Ship Finance to pay any deferred amounts at such time as the cash and cash equivalents held by Frontline Shipping are greater than \$75 million, unless Frontline Shipping reasonably believes that the cash and cash equivalents held by it will not exceed \$75 million for at least 30 days after the date of the payment. In addition, Frontline Shipping will not be required to make any payment of deferred charter amounts until the payment would be at least \$2 million.

### Profit Sharing Payments

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Under the terms of the charter ancillary agreement, beginning with the final 11-month period in 2004 and for each calendar year after that, the Charterers have agreed to pay Ship Finance a profit sharing payment equal to 20% of the charter revenues for the applicable period, calculated annually on a TCE basis, realized by them for the Ship Finance fleet in excess of the daily base charterhire. After 2010, all of Ship Finance's non-double hull vessels will be excluded from the annual profit sharing payment calculation. For purposes of calculating bareboat revenues on a TCE basis, expenses are assumed to equal \$6,500 per day. Each Charterer has agreed to use its commercial best efforts to charter the Ship Finance vessels on market terms and not to give preferential treatment to the marketing of any other vessels owned or managed by us or our affiliates.

Frontline Shipping and Frontline Shipping II are entitled to defer, without interest, any profit sharing payment to the extent that, after giving effect to the payment, the charter service reserve would be less than the Minimum Reserve. Frontline Shipping and Frontline Shipping II are required to immediately use all revenues that it receives that are in excess of the daily charter rates payable to Ship Finance to pay any deferred profit sharing amounts at such time as the charter service reserve exceeds the minimum reserve, unless Frontline Shipping and Frontline Shipping II reasonably believe that the charter service reserve will not exceed the minimum reserve level for at least 30 days after the date of the payment. In addition, Frontline Shipping and Frontline Shipping II will not be required to make any payment of deferred profit sharing amounts until the payment would be at least \$2 million.

### Collateral Arrangements

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The charter ancillary agreements provides that the obligations of the Charterers

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to Ship Finance under the charters and the charter ancillary agreements are secured by a lien over all of the assets of the Charterers and a pledge of the equity interests in the Charterers.

### Default

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An event of default shall be deemed to occur under the charter ancillary agreement if:

- o the relevant Charterer materially breaches any of its obligations under any of the charters, including the failure to make charterhire payments when due, subject to Frontline Shipping's deferral rights explained above,
- o the relevant Charterer or Frontline materially breaches any of its obligations under the charter ancillary agreement or the Frontline performance guarantee,
- o Frontline Management materially breaches any of its obligations under any of the management agreements or
- o Frontline Shipping and Frontline Shipping II fails at any time to hold at least \$55 million or \$7.5 million in cash and cash equivalents, respectively.

On the occurrence of any event of default under the charter ancillary agreements that continues for 30 days after notice, Ship Finance may elect to:

- o terminate any or all of the charters with the relevant Charterer,
- o foreclose on any or all of our security interests described above with respect to the relevant charterer and/or
- o pursue any other available rights or remedies.

### Vessel Management Agreements

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Ship Finance's vessel owning subsidiaries entered into fixed rate management agreements with Frontline Management. Under the management agreements, Frontline Management is responsible for all technical management of the vessels, including crewing, maintenance, repair, certain capital expenditures, drydocking, vessel taxes and other vessel operating expenses. In addition, if a structural change or new equipment is required due to changes in classification society or regulatory requirements, Frontline Management will be responsible for making them, unless the Charterer does so under the charters. Frontline Management outsources many of these services to third party providers.

Frontline Management is also obligated under the management agreements to maintain insurance for each of Ship Finance's vessels, including marine hull and machinery insurance, protection and indemnity insurance (including pollution risks and crew insurances) and war risk insurance. Frontline Management will also reimburse Ship Finance for all lost charter revenue caused by our vessels being off hire for more than five days per year on a fleet-wide basis or failing to achieve the performance standards set forth in the charters. Under the management agreements, Ship Finance pays Frontline Management a fixed fee of \$6,500 per day per vessel for all of the above services, for as long as the relevant charter is in place. If Frontline Shipping exercises its right under a charter to bareboat charter the related vessel to a third party, the related management agreement provides that Ship Finance's obligation to pay the \$6,500 fixed fee to Frontline Management will be suspended for so long as the vessel is

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bareboat chartered. Both Ship Finance and Frontline Management have the right to terminate any of the management agreements if the relevant charter has been terminated and in addition Ship Finance has the right to terminate any of the management agreements upon 90 days prior written notice to Frontline Management.

Frontline has guaranteed to Ship Finance Frontline Management's performance under these management agreements.

### Administrative Services Agreement

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Ship Finance and its vessel owning subsidiaries entered into an administrative services agreement with Frontline Management in 2004 under which Frontline Management provides administrative support services such as the maintenance of Ship Finance's corporate books and records, payroll services, the preparation of tax returns and financial statements, assistance with corporate and regulatory compliance matters not related to the vessels, legal and accounting services, assistance in complying with United States and other relevant securities laws, obtaining non-vessel related insurance, if any, cash management and bookkeeping services, development and monitoring of internal audit controls, disclosure controls and information technology, furnishing any reports or financial information that might be requested by Ship Finance and other non-vessel related administrative services. Under this agreement Frontline Management also provides Ship Finance with office space in Bermuda. Ship Finance and its vessel owning subsidiaries pay Frontline Management a fixed fee of \$20,000 each per year for its services under the agreement, and reimburse Frontline Management for reasonable third party costs, including directors fees and expenses, shareholder communications and public relations, registrars, audit, legal fees and listing costs, if Frontline Management advances them on their behalf. These agreements were terminated at the end of December 2006 and are in the process of being renegotiated since we are now providing less administrative services to Ship Finance.

Frontline guaranteed to Ship Finance Frontline Management's performance under this administrative services agreement.

Golden Ocean

### Agency Agreement

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We have entered into an agency agreement with Golden Ocean pursuant to which Golden Ocean will provide various management services to us relevant to the operation of our OBO carrier fleet from time to time. The arrangement commenced on January 1, 2005.

Golden Ocean shall receive a fixed fee of \$1,000 per month per vessel in relation to the eight OBO carriers which at present is part of the agreement and any subsequent OBO carriers which becomes part of our OBO carrier fleet, until the month in which such OBO carrier is first fixed on a dry charter by Golden Ocean. With effect from such month, Golden Ocean shall, for such OBO carrier, receive a fixing commission of 0.625% of the gross freight earned by such OBO carrier under such and all subsequent dry charters as long as the agreement is in effect. The fixed fee of \$1,000 per month per vessel terminates when the fixing commission of 0.625% of gross freight revenue enters into effect for a vessel. The fees and the commission are subject to annual review and may, on this basis, be adjusted upwards only. Each party may terminate the agreement with six months' prior notice.

Sealift

Purchase of Vessels and Option Agreements

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During January 2007, we agreed with Ship Finance that we should acquire five single purpose companies from them, each being the owner of one single hull Suezmax tanker vessel. All of the five vessels were subject to long term charters to our subsidiaries, Frontline Shipping Ltd. and Frontline Shipping II Ltd. Four of the vessels were furthermore parties to conversion contracts with Cosco Shipyard Group Co. Ltd. ("Cosco") setting out the terms and conditions subject to which Cosco would convert their respective vessels to specially designed heavy lift vessels. In addition to the acquisition of the five companies we agreed with Ship Finance that we would acquire their rights and obligations under an option agreement with Cosco pursuant to which Ship Finance had a right to conclude conversion contracts for a further two vessels (the "Option Agreement").

#### Purchase Agreement with Sealift

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In January 2007, we also agreed with Sealift that they would purchase six single purpose companies from us, each being the owner of one single hull Suezmax tanker vessel together with our rights and obligations under the Option Agreement. Five of the companies to be sold were the same companies we had agreed to purchase from Ship Finance while the sixth was an existing subsidiary owning one single hull Suezmax tanker vessel. The long term charters with Frontline Shipping Ltd. and Frontline Shipping II Ltd. were agreed to be replaced with bareboat charters with our subsidiary Key Chartering Inc., covering the period until each vessel was delivered to Cosco for conversion. The terms of the agreement included an obligation on us to take responsibility for the completion of the conversion of the four vessels subject to the conversion contracts with Cosco. This responsibility would include both the financing and payment of the work to be performed by Cosco and the supervision thereof throughout the conversion period.

#### Sealift's Financing

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Completion of the purchase agreement between Sealift and us was subject to Sealift being able to obtain the required financing. This was done by way of the taking up by Sealift of a senior bank loan of \$240 million, a bond issue by Sealift of \$110 million and a private placement of shares in Sealift raising in total \$180 million. We agreed to subscribe for one third of the shares in Sealift issued at a cost of \$60 million. The transaction between Sealift and ourselves closed in March, 2007, whereafter we became a minority shareholder in Sealift.

#### Subsequent Events

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Sealift subsequently made an agreement to purchase all of the shares in Delphi Acquisition Holding (which was the owner of Dockwise Transport B.V., an established operator in the heavy lift market). This was financed by another share issue which diluted our ownership share in Sealift to 17.1%.

#### Sea Production

On February 14, 2007 our subsidiary Frontline Floating Production Ltd. ("FFP") entered into an agreement for the sale and purchase of assets with Sea Production whereby FFP agreed to sell to Sea Production; (i) 70% of its shares in Puffin Ltd., the company indirectly holding the ownership of the vessel "Front Puffin" under conversion to an FPSO, (ii) our outstanding intercompany loans relating to the purchase and conversion of "Front Puffin", and (iii) all the shares of Sea Production Management AS, a Norwegian subsidiary where the

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floating production organization and expertise are employed. Also on February 14, 2007 Sea Production entered into a share purchase agreement with KSI Production Ltd. to acquire the remaining 30% of the shares of Puffin Ltd.

On February 15, 2007 Sea Production entered into two share purchase agreements with Greenwich Holdings Limited to acquire all the shares of Langford Shipping Company Limited and Melrose Shipping Company Limited respectively. Langford Shipping Company owned the Aframax tanker "Sea Cat", and Melrose Shipping Company the vessel "Sea Jaguar", also an Aframax tanker. Also on February 15 2007, Sea Production entered into a share purchase agreement with Seadrill Ltd. to acquire all the shares of Wisdom Shipping (S) Pte. Ltd., the owner of the FPSO "Crystal Ocean".

Sea Production financed these acquisitions and the future conversion costs of Front Puffin through a \$180 million equity issue, a \$130 million bond issue and a \$105 million bank facility. We agreed to subscribe for 28.33% of the shares in Sea Production in the equity offering at an aggregate cost of \$51 million. The acquisition of the shares and assets, the equity issue and the bond issue were completed simultaneously on February 15, 2007. We have subsequently sold all our shares in Sea Production in market transactions and have currently no financial interest in the company.

### 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 there under 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 there under. 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.

### 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.

#### United States Taxation

The following discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. Unless otherwise noted, references to the "Company" include the Company's Subsidiaries. This discussion assumes that we do not have an office or other fixed place of

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business in the United States.

### Taxation of the Company's Shipping Income: In General

The Company anticipates that it will derive substantially all of its gross income from the use and operation of vessels in international commerce and that this income will principally consist of freights from the transportation of cargoes, hire or lease from time or voyage charters and the performance of services directly related thereto, which the Company refers to as "shipping income."

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered to be 50% derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. The Company does not engage in transportation that gives rise to 100% U.S. source income.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to U.S. federal income tax.

Based upon the Company's anticipated shipping operations, the Company's vessels will operate in various parts of the world, including to or from U.S. ports. Unless exempt from U.S. taxation under Section 883 of the Code, the Company will be subject to U.S. federal income taxation, in the manner discussed below, to the extent its shipping income is considered derived from sources within the United States.

### Application of Code Section 883

Under the relevant provisions of Section 883 of the Code ("Section 883"), the Company will be exempt from U.S. taxation on its U.S. source shipping income if:

- (i) It is organized in a qualified foreign country which is one that grants an equivalent exemption from tax to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883 (a "qualified foreign country") and which the Company refers to as the "country of organisation requirement"; and
- (ii) It can satisfy any one of the following two (2) stock ownership requirements for more than half the days during the taxable year:
  - o the Company's stock is "primarily and regularly" traded on an established securities market located in the United States or a qualified foreign country, which the Company refers to as the "Publicly-Traded Test"; or
  - o more than 50% of the Company's stock, in terms of value, is beneficially owned by any combination of one or more individuals who are residents of a qualified foreign country or foreign corporations that satisfy the country of organisation requirement and the Publicly-Traded Test, which the Company refers to as the "50% Ownership Test."

The U.S. Treasury Department has recognized Bermuda, the country of incorporation of the Company and certain of its subsidiaries, as a qualified foreign country. In addition, the U.S. Treasury Department has recognized Liberia, Panama, the Isle of Man, Singapore and Cyprus, the countries of incorporation of certain of the Company's subsidiaries, as qualified foreign



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countries. Accordingly, the Company and its vessel owning subsidiaries satisfy the country of organisation requirement.

Therefore, the Company's eligibility to qualify for exemption under Section 883 is wholly dependent upon being able to satisfy one of the stock ownership requirements.

For the 2006 tax year, the Company satisfied the Publicly-Traded Test since, on more than half the days of the taxable year, the Company's stock was primarily and regularly traded on the New York Stock Exchange.

### Taxation in Absence of Internal Revenue Code Section 883 Exemption

To the extent the benefits of Section 883 are unavailable with respect to any item of U.S. source income, the Company's U.S. source shipping income, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since under the sourcing rules described above, no more than 50% of the Company's shipping income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on the Company's shipping income would never exceed 2% under the 4% gross basis tax regime.

### Gain on Sale of Vessels.

Regardless of whether we qualify for exemption under Section 883, we will not be subject to United States federal income taxation with respect to gain realised on a sale of a vessel, provided the sale is considered to occur outside of the United States under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by us will be considered to occur outside of the United States.

### Taxation of U.S. Holders

The following is a discussion of the material United States federal income tax considerations relevant to an investment decision by a U.S. Holder, as defined below, with respect to the common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under United States federal, state, local or foreign law of the ownership of common stock.

As used herein, the term "U.S. Holder" means a beneficial owner of our common stock that (i) is a U.S. citizen or resident, a U.S. corporation or other U.S. entity taxable as a corporation, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust and (ii) owns the our common stock as a capital asset, generally, for investment purposes.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common stock, you are encouraged consult your own tax advisor on this issue.

### Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by us with respect to our common stock to a U.S. Holder will

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generally constitute dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, U.S. Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (a "U.S. Individual Holder") will generally be treated as "qualified dividend income" that is taxable to such U.S. Individual Holders at preferential tax rates (through 2008) provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the New York Stock Exchange); (2) we are not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be); and (3) the U.S. Individual Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend.

Legislation has been recently introduced in the U.S. Congress which, if enacted in its present form, would preclude our dividends from qualifying for such preferential rates prospectively from the date of the enactment. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder.

### Sale, Exchange or other Disposition of Common Stock

Assuming we do not constitute a passive foreign investment company for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

### Passive Foreign Investment Company Status and Significant Tax Consequences

Special United States federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company, or a PFIC, for United States federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held our common stock, either

- o at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or
- o at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether we are a PFIC, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of

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the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

Based on our current operations and future projections, we do not believe that we are, nor do we expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that, for purposes of determining whether we are a PFIC, the gross income we derive or are deemed to derive from the time chartering and voyage chartering activities of our wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, we believe that such income does not constitute passive income, and the assets that we or our wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute passive assets for purposes of determining whether we are a PFIC. We believe there is substantial legal authority supporting our position consisting of case law and Internal Revenue Service pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, in the absence of any legal authority specifically relating to the statutory provisions governing passive foreign investment companies, the Internal Revenue Service or a court could disagree with our position. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a "QEF election." As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to our common stock, as discussed below.

### Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF election, which U.S. Holder we refer to as an "Electing Holder," the Electing Holder must report each year for United States federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common stock and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock.

### Taxation of U.S. Holders Making a "Mark-to-Market" Election

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate, our stock is treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common stock. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder's adjusted tax basis in the common stock. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in his common

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stock would be adjusted to reflect any such income or loss amount. Gain realised on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realised on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

### Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

Finally, if we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election for that year, whom we refer to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (2) any gain realised on the sale, exchange or other disposition of our common stock. Under these special rules:

- o the excess distribution or gain would be allocated rateably over the Non-Electing Holders' aggregate holding period for the common stock;
- o the amount allocated to the current taxable year and any taxable years before the Company became a PFIC would be taxed as ordinary income; and
- o the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common stock. If a Non-Electing Holder who is an individual dies while owning our common stock, such holder's successor generally would not receive a step-up in tax basis with respect to such stock.

### Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. Such payments will also be subject to "backup withholding" if you are a non-corporate U.S. Holder and you:

- o fail to provide an accurate taxpayer identification number;
- o are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or
- o in certain circumstances, fail to comply with applicable certification requirements.

If you sell your ordinary shares to or through a U.S. office or broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless you establish an exemption. If you sell your ordinary shares through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States then information reporting and backup withholding generally will not apply to that payment. However, U.S. information reporting requirements, but not backup withholding, will apply to a

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payment of sales proceeds, including a payment made to you outside the United States, if you sell your common stock through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the United States.

Backup withholding is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by filing a refund claim with the U.S. Internal Revenue Service.

### Bermuda 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 Common Shares. Bermuda has undertaken not to impose any such Bermuda taxes on U.S. Shareholders of Common Shares prior to the year 2016 except in so far as such tax applies to persons ordinarily resident in Bermuda.

### Liberian Taxation

The Republic of Liberia enacted a new income tax act effective as of January 1, 2001 (the "New Act"). In contrast to the income tax law previously in effect since 1977 (the "Prior Law"), which the New Act repealed in its entirety, the New Act does not distinguish between the taxation of a non-resident Liberian corporation, such as our Liberian subsidiaries, which conduct no business in Liberia and were wholly exempted from tax under the Prior Law, and the taxation of ordinary resident Liberian corporations.

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

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

### F. DIVIDENDS AND PAYING AGENTS

Not Applicable

### G. STATEMENT BY EXPERTS

Not Applicable

### H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file 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 100 F Street, N.E., Room 1580 Washington, D.C. 20549. You may obtain information on

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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 facilities maintained by 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 our principal executive offices at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda HM 08.

### I. SUBSIDIARY INFORMATION

Not Applicable

#### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rates, spot market rates for vessels and foreign currency fluctuations. We use interest rate swaps to manage interest rate risk. We may enter into forward freight agreements and futures for trading purposes in order to manage our exposure to the risk of movements in the spot market for certain trade routes and, to some extent, for speculative purposes but currently we have not entered into any such agreements. We may also enter into other derivative instruments from time to time for speculative purposes but currently we have not entered into any such agreement.

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 \$1,602.9 million at December 31, 2006 (2005: \$1,450.6 million). Ship Finance 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, 2006, Ship Finance had 18 swaps with a total notional principal of \$738.7 million (2005 - 15 swaps with notional principal of \$618.3 million). The swap agreements mature between August 2008 and May 2019, and Ship Finance estimate that they would receive \$9.1 million to terminate these agreements as of December 31, 2006 (2005 - receive \$18.3 million). Our net exposure to interest rate fluctuations is \$864.2 million at December 31, 2006 (2005: \$832.3 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 \$8.6 million per year as of December 31, 2006 (2005: \$8.3 million). All of the interest rate swap agreements relate to Ship Finance.

The fair market value of our fixed rate debt was \$877.2 million as of December 31, 2006 (2005: \$874.3 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 \$48.4 million and \$52.5 million respectively (2005: decrease by \$56.8 million and increase by \$62.5 million).

We are exposed to market risk in relation to our forward freight agreements and futures contracts, if we have any. Fluctuations in underlying freight market indices upon which our forward agreements are based have a consequent effect on our cash flows and consolidated statements of operations. As at December 31, 2006, the nominal principal amount of our forward freight contracts, futures contracts and options contracts was \$nil (2005: \$12.0 million). We use a Value at Risk approach to estimate the risk in the freight derivatives position. Given a 95% confidence level and one day holding period, the VaR on the open position as per December 31, 2006 was \$nil (2005: \$1.1 million).

The majority of our transactions, assets and liabilities are denominated in U.S. dollars, our functional currency. Certain of our subsidiaries report in Sterling 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

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effect on the value of our 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 our consolidated financial statements. At December 31, 2006 we had (Y)nil receivable in relation to long term Yen denominated charter contracts (2005 - (Y)35.7 billion).

At December 31, 2005 we had five Yen denominated forward currency contracts entered into for speculative purposes, with a notional principal of (Y)8.8 billion (equivalent to approximately \$74.2 million). These contracts were all terminated during 2006, so as per December 31, 2006 we had no Yen denominated forward currency contracts.

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY 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) Disclosure Controls and Procedures

Management assessed the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this annual report as of December 31, 2006. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the evaluation date.

#### b) Management's annual report on internal controls over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) promulgated under the Securities Exchange Act of 1934.

Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- o Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts

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and expenditures are being made only in accordance with authorizations of Company's management and directors; and

- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management conducted the evaluation of the effectiveness of the internal controls over financial reporting using the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published in its report entitled Internal Control-Integrated Framework.

Our management with the participation of our Principal Executive Officer and Principal Financial Officer assessed the effectiveness of the design and operation of the Company's internal controls over financial reporting pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as of December 31, 2006. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers AS, an independent registered public accounting firm, as stated in their report.

### c) Changes in internal control over financial reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially effected or are reasonably likely to materially affect, the Company's internal control over financial reporting

### ITEM 16. RESERVED

#### ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that the Company's Audit Committee has one Audit Committee Financial Expert. Mr. Frixos Savvides is an independent Director and is the Audit Committee Financial Expert.

#### ITEM 16 B. CODE OF ETHICS

We have adopted a Code of Ethics that applies to all entities controlled by us and all employees, directors, officers and agents of the Company. The Code of Ethics has previously been filed as Exhibit 14.1 to the Company's Annual Report on Form 20-F for the fiscal year ended December 31 2003, filed with the Securities and Exchange Commission on June 30, 2004, and is hereby incorporated by reference

We have posted a copy of our Code of Ethics on our website at [www.frontline.bm](http://www.frontline.bm). We will provide any person, free of charge, a copy of its Code of Ethics upon written request to our registered office.

#### ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our principal accountant for 2006 and 2005 was PricewaterhouseCoopers AS. The



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following table sets forth for the two most recent fiscal years the fees paid or accrued for audit and services provided by PricewaterhouseCoopers AS.

(in thousands of \$)

	2006	2005
Audit Fees (a)	2,934	2,315
Audit-Related Fees (b)	-	-
Tax Fees (c)	-	4
All Other Fees (d)	-	-
Total	2,934	2,319

### (a) Audit Fees

Audit fees represent professional services rendered for the audit of our annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements.

### (b) Audit-Related Fees

Audit-related fees consisted of assurance and related services rendered by the principal accountant related to the performance of the audit or review of our financial statements which have not been reported under Audit Fees above.

### (c) Tax Fees

Tax fees represent fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

### (d) All Other Fees

All other fees include services other than audit fees, audit-related fees and tax fees set forth above.

Our 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 2006 were approved by the Board pursuant to the pre-approval policy.

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

Not applicable

## ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable

## PART III

## 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-38 are filed as part of this annual report:

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Notes to Consolidated Financial Statements	F-9

### 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").
1.2	Amended and Restated Bye-Laws of the Company as adopted by shareholders on December 1, 2006.
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 there under, 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 there under, 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*	Amendment No. 1 to the Rights Agreement incorporated by reference to Exhibit 4.3 of the Amalgamation Registration Statement.
2.5*	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.

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- 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.
- 4.5\* Fleet Purchase Agreement between Frontline Ltd and Ship Finance International Limited dated December 11, 2003 incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.6\* Charter Ancillary Agreement between Frontline Ltd and Ship Finance International Limited dated January 1, 2004 incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.7\* Addendum to Charter Ancillary Agreement between Frontline Ltd and Ship Finance International Limited dated June 15, 2004 incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.8\* Form of Performance Guarantee issued by the Company incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.9\* Form of Time Charter incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.10\* Form of Vessel Management Agreements incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.11\* Administrative Services Agreement incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.12\* Contribution Agreement between Frontline Ltd and Golden Ocean Group Limited dated November 29, 2004 incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.
- 4.13 Merger Agreement, Dockwise and Sealift dated April 27, 2007.
- 4.14 Shareholder's Agreement Relating to Sealift Ltd dated April 27, 2007.
- 4.15 Second Supplemental Purchase Agreement dated April 27, 2007.
- 4.16 Frontline Ltd Share Option Scheme dated November 16, 2006
- 8.1 Subsidiaries of the Company.
- 11.1\* Code of Ethics, incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003.

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- 12.1 Certification of the Principal Executive Officer.
- 12.2 Certification of the Principal Executive Officer.
- 12.3 Certification of the Principal Financial Officer.
- 13.1 Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Executive Officer.
- 13.2 Certifications under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Executive Officer.
- 13.3 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 authorized.

Frontline Ltd.

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(Registrant)

Date July 2, 2007

By /s/ Inger M. Klemp

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Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Frontline Ltd

We have completed an integrated audit of Frontline Ltd's 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits and the report of other auditors, are presented below.

Consolidated financial statements

In our opinion, based on our audits and the report of other auditors, the

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accompanying consolidated balance sheets and the related consolidated statements of operation, of cash flows and of the changes in stockholders' equity present fairly, in all material respects, the financial position of Frontline Ltd and its subsidiaries at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 audits. We did not audit the combined financial statements of Independent Tankers Corporation, Buckingham Shipping PLC, Caernarfon Shipping PLC, Holyrood Shipping PLC, Sandringham Shipping Plc, Golden State Petro (IOM I-A) PLC, Golden State Petro (IOM I-B) PLC and, from April 1, 2006, CalPetro Tankers (Bahamas III) Limited, wholly-owned subsidiaries, which statements reflect total assets of \$797.4 million and \$747.0 million (as restated) as of December 31, 2006 and December 31, 2005, respectively, and total revenues of \$58.1 million, \$56.2 million (as restated) and \$56.2 million (as restated) for each of the years ended December 31, 2006, 2005 and 2004, respectively. Those statements 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 Independent Tankers Corporation, Buckingham Shipping PLC, Caernarfon Shipping PLC, Holyrood Shipping PLC, Sandringham Shipping Plc, Golden State Petro (IOM I-A) PLC, Golden State Petro (IOM I-B) PLC and, from April 1, 2006, CalPetro Tankers (Bahamas III) Limited, is based solely on the report of the other auditors. We conducted our audits 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 of financial statements 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 audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 3, the Company has restated its consolidated financial statements as of December 31, 2005 and for the years ended December 31, 2005 and 2004.

### Internal control over financial reporting

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Also, in our opinion, based on our audit, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under item 15(b) of Frontline Ltd's 2006 Annual Report on Form 20-F, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes

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obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers AS  
Oslo, Norway  
July 2, 2007

Report of Independent Registered Public Accounting Firm  
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To the Board of Directors  
Independent Tankers Corporation

We have audited the accompanying combined balance sheets of Independent Tankers Corporation ("ITC") (a Cayman Islands Company and wholly owned subsidiary of Frontline Ltd.), Buckingham Shipping PLC, Caernarfon Shipping PLC, Holyrood Shipping PLC, Sandringham Shipping Plc, Golden State Petro (IOM I-A) PLC, Golden State Petro (IOM I-B) PLC and CalPetro Tankers (Bahamas III) Limited (collectively the "Company") as of December 31, 2006 and 2005 and the related combined statements of operations, and cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2006. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in

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the financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Independent Tankers Corporation and Affiliates as of December 31, 2006 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, ITC has restated its financial statements as of December 31, 2005 and for the years ended December 31, 2005 and 2004 due to an error in the initial application of FIN 46R. ITC incorrectly believed it was the primary beneficiary for the Windsor Petroleum Group, the Golden State Group and the CalPetro Group of entities. During 2006, management revisited their analysis and determined that ITC was not the primary beneficiary of any of the entities, but that Frontline Ltd. was the primary beneficiary for the Windsor Petroleum Group and the Golden State Group, but not the CalPetro Group. Accordingly, the consolidated financial statements of ITC have been restated to present financial statements of ITC combined with the Windsor Petroleum Group and the Golden State Group of entities. The effect of the restatement was to decrease total assets to \$747 million from \$860 million as of December 31, 2005 and there was no effect on total revenues for the years ended December 31, 2005 and 2004.

/s/ Grant Thornton LLP

New York, New York  
July 2, 2007

Frontline Ltd.

Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004 (in thousands of \$, except per share data)

	2006	2005 (restated)	(n)
Operating revenues			
Time charter revenues	364,956	205,837	
Bareboat charter revenues	89,655	142,562	
Voyage charter revenues	1,114,531	1,152,240	1
Finance lease interest income	9,411	--	
Other income	5,310	3,877	
-----			
Total operating revenues	1,583,863	1,504,516	1
-----			
Gain on sale of assets	95,655	76,081	
Operating expenses			
Voyage expenses and commission	396,576	337,221	
Ship operating expenses	199,377	148,702	
Charterhire expenses	24,923	11,711	
Administrative expenses	32,214	21,061	
Depreciation and amortisation	203,849	198,359	
-----			
Total operating expenses	856,939	717,054	
-----			
Net operating income	822,579	863,543	1
-----			

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Other income (expenses)		
Interest income	47,733	40,867
Interest expense	(206,144)	(206,058)
Equity earnings of unconsolidated subsidiaries and associated companies	1,118	3,379
Foreign currency exchange gain (loss)	1,056	18,829
Mark to market of derivatives	(10,897)	14,499
Gain on sale of securities	9,782	28,035
Dividends received	13,317	1,540
Other financial items, net	(3,700)	1,755
-----		
Net other expenses	(147,735)	(97,154)
-----		
Net income from continuing operations before income taxes, minority interest	674,844	766,389
Minority interest	(158,682)	(169,459)
Income tax (expense) benefit	(162)	19
Gain on issuance of shares by associate	--	1,105
-----		
Net income from continuing operations	516,000	598,054
Discontinued operations	--	8,785
-----		
Net income	516,000	606,839
=====		
Earnings per share:		
Basic and diluted earnings per share from continuing operations	\$6.90	\$7.99
Basic and diluted earnings per share for discontinued operations	--	\$0.12
Basic and diluted earnings per share	\$6.90	\$8.11
Weighted average shares outstanding, basic and diluted	74,825	74,825
Cash dividends per share declared	\$7.00	\$10.10
=====		

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

Frontline Ltd.  
Consolidated Balance Sheets as of December 31, 2006 and 2005  
(in thousands of \$)

	2006	2005 (restated)
ASSETS		
Current Assets		
Cash and cash equivalents	197,181	92,782
Restricted cash	677,533	636,790
Marketable securities	1,469	144,156
Trade accounts receivable	59,728	72,719
Other receivables	39,018	20,024
Inventories	43,791	44,984
Voyages in progress	43,412	94,479
Prepaid expenses and accrued income	11,900	7,043
Net investment in finance lease, current portion	23,608	--
Derivative instruments receivable amounts, short term	2,931	5,132



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Other current assets	11,571	568
-----		
Total current assets	1,112,142	1,118,677
Newbuildings	166,851	15,927
Vessels and equipment, net	2,446,278	2,584,847
Vessels and equipment under capital lease, net	626,374	672,608
Investment in unconsolidated subsidiaries and associated companies	17,825	15,783
Net investment in finance lease, long term portion	175,141	--
Deferred charges	16,937	18,011
Derivative instruments receivable amounts, long term	17,807	19,563
Other long-term assets	10,582	9,401
-----		
Total assets	4,589,937	4,454,817
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	281,409	228,135
Current portion of obligations under capital leases	28,857	25,142
Trade accounts payable	17,573	9,382
Accrued expenses	90,316	84,847
Deferred charter revenue	15,783	7,071
Derivative instruments liabilities, short term	--	214
Other current liabilities	9,978	83,856
-----		
Total current liabilities	443,916	438,647
Long-term liabilities		
Long-term debt	2,181,885	2,101,061
Obligations under capital leases	723,073	706,279
Deferred gains on sales of vessels	21,732	18,102
Derivative instruments liabilities, long term	8,743	3,307
Other long-term liabilities	906	1,505
-----		
Total liabilities	2,936,339	3,268,901
Commitments and contingencies		
Minority interest	541,122	470,750
Stockholders' equity		
Share capital (74,825,169 shares outstanding, par value \$2.50)	187,063	187,063
Contributed surplus	485,922	534,787
Accumulated other comprehensive loss	(4,425)	(6,684)
Retained earnings	--	--
Total stockholders' equity	668,560	715,166
-----		
Total liabilities and stockholders' equity	4,589,937	4,454,817
=====		

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, 2006, 2005 and 2004 (in thousands of \$)

2006  
2005  
(restated) (resta

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Net income	516,000	606,839	1,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	203,849	198,875	183
Amortisation of deferred charges	3,346	16,705	10
Gain from sale of assets (including marketable securities)	(105,439)	(109,657)	(126)
Equity earnings of unconsolidated subsidiaries and associated companies	(1,118)	(3,380)	(10)
Unrealised foreign exchange loss	75	(2,222)	(15)
Adjustment of derivatives to market value	9,348	(12,335)	(15)
Minority interest	158,682	169,459	64
Other, net	(5,326)	(3,030)	(3)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Trade accounts receivable	12,991	64,981	(93)
Other receivables	(13,464)	(6,493)	1
Inventories	1,193	(12,967)	(5)
Voyages in progress	51,067	54,421	(88)
Prepaid expenses and accrued income	(4,231)	2,144	(3)
Trade accounts payable	8,191	1,114	1
Accrued expenses	4,777	7,126	12
Deferred charter revenue	8,179	2,689	(43)
Other, net	(16,564)	5,781	(43)
Net cash provided by operating activities	831,556	980,050	905
Investing activities			
Maturity (placement) of restricted cash	13,730	(44,183)	301
Additions to newbuildings, vessels and equipment	(569,819)	(558,163)	(126)
Proceeds from sale of vessels and equipment	275,190	250,339	59
Insurance proceeds from loss of vessels and equipment	12,173	--	--
Acquisition of subsidiaries and businesses, net of cash	--	--	(18)
Investments in associated companies	(3,431)	(2,610)	(37)
Dividends received from associated companies	1,318	20,911	3
Purchase of minority interest	(7,198)	(33,083)	(14)
Proceeds from sale of investments in associated companies	--	--	11
Receipts from finance leases and loans receivable	12,562	7,051	2
Purchases of other assets	(71,067)	(168,038)	(90)
Proceeds from sale of other assets	154,409	152,752	75
Proceeds from issuance of shares in subsidiary	7,800	--	24
Proceeds from sale of newbuilding contracts	9,769	16,800	--
Net cash (used in) provided by investing activities	(164,564)	(358,224)	190
Financing activities			
Proceeds from long-term debt	539,748	1,660,503	1,724
Repayments of long-term debt	(420,925)	(1,347,217)	(1,797)
Payment of obligations under capital leases	(24,706)	(22,230)	(20)
Debt fees paid	(2,230)	(7,405)	(16)
Cash dividends paid	(654,480)	(909,574)	(1,038)
Repurchase of shares and warrants	--	--	--
Proceeds from issuance of equity	--	--	38
Net cash used in financing activities	(562,593)	(625,923)	(1,111)
Net increase (decrease) in cash and cash equivalents	104,399	(4,097)	(15)
Cash and cash equivalents at beginning of year	92,782	96,879	112
Cash and cash equivalents at end of year	197,181	92,782	96
Supplemental disclosure of cash flow information:			

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Interest paid	207,610	225,053	177
Income taxes paid	62	46	

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, 2006, 2005 and 2004 (in thousands of \$, except number of shares)

	2006	2005	2004
<b>NUMBER OF SHARES OUTSTANDING</b>			
Balance at beginning of year	74,825,169	74,825,169	73,647,9
Shares issued	--	--	1,197,4
Shares bought back	--	--	(20,1
Balance at end of year	74,825,169	74,825,169	74,825,1
<b>SHARE CAPITAL</b>			
Balance at beginning of year	187,063	187,063	184,1
Shares issued	--	--	2,9
Shares bought back and cancelled	--	--	(
Balance at end of year	187,063	187,063	187,0
<b>CONTRIBUTED SURPLUS</b>			
Balance at beginning of year	534,787	568,127	513,8
Shares issued	--	--	42,8
Shares bought back and warrants exercised or expired	--	--	(5
Excess of cash proceeds over book value on issue of shares by subsidiary	--	--	9,0
Contribution from related party	--	85,364	
Cash dividends	(35,634)	(203,643)	
Minority interest in deemed equity contributions and deemed dividends	(13,231)	84,939	2,9
Balance at end of year	485,922	534,787	568,1
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Balance at beginning of year	(6,684)	5,414	(6,9
Other comprehensive income (loss)	2,259	(12,098)	12,3
Balance at end of year	(4,425)	(6,684)	5,4
<b>RETAINED EARNINGS</b>			
Balance at beginning of year	--	157,364	564,3
Net income	516,000	606,839	1,023,3
Cash dividends	(488,158)	(552,322)	(1,040,0
Stock dividends	(27,842)	(211,881)	(390,3
Balance at end of year	--	--	157,3

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TOTAL STOCKHOLDERS' EQUITY	668,560	715,166	917,9
=====			
COMPREHENSIVE INCOME (LOSS)			
Net income	516,000	606,839	1,023,3
Unrealised gains (loss) from marketable securities	1,721	(11,877)	10,4
Unrealised gains from cash flow hedging derivative instruments	--	--	2,4
Foreign currency translation and other	538	(221)	(5
-----			
Other comprehensive income	2,259	(12,098)	12,3
-----			
Comprehensive income	518,259	594,741	1,035,7
=====			

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 and operates three containerships which range from 1,700 to 2,824 twenty-foot equivalent units ("TEU"). The Company operates primarily through subsidiaries and partnerships located in Bermuda, Isle of Man, Liberia, Norway, Panama, Singapore, Cayman Islands, Malta, the Bahamas and Cyprus. 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, the Company established Ship Finance International Limited ("Ship Finance") in Bermuda. Through transactions executed in January 2004, the Company transferred to Ship Finance ownership of 46 vessel-owning entities each owning one vessel and its corresponding financing, and one entity owning an option to acquire a VLCC. The Company then leased the vessels back on long-term charters. The assets and liabilities were transferred to, and recorded by Ship Finance, 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 Ship Finance to Frontline's shareholders. Frontline's shareholders received one share in Ship Finance for every four Frontline shares held. Further share dividends have been declared as follows:

Declaration Date	Distribution Date	% of Frontline holding distributed
August 2004	September 2004	10.0
November 2004	December 2004	13.2
January 2005	February 2005	25.0
February 2005	March 2005	10.0
February 2006	March 2006	5.1

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As of December 31, 2006, the Company's remaining shareholding in Ship Finance was 11.1%. The Company has accounted for the spin off of Ship Finance at historical cost. Ship Finance shares are traded on the New York Stock Exchange under the ticker symbol SFL. Under the provisions of FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 ("FIN 46(R)") Ship Finance remains consolidated into Frontline.

As of December 31, 2006, Ship Finance had total assets of \$2,553.7 million and net assets of \$600.5 million. A total of \$2,427.1 million of the assets of Ship Finance, which have been recorded as owned vessels in the Company's consolidated financial statements, are pledged as security for Ship Finance's debt obligations. The Company has not guaranteed the obligations of Ship Finance.

In November 2004, the Company established Golden Ocean Group Limited ("Golden Ocean") as a wholly owned subsidiary in Bermuda for the purpose of transferring, by way of contribution, certain dry bulk shipping interests. Three Frontline subsidiaries and cash equal to the difference between \$22.45 million and the historical net book value of those subsidiaries was transferred to Golden Ocean on December 1, 2004. On the same date, the Board of Frontline resolved to distribute its shares in Golden Ocean to its shareholders in proportion to their ownership in Frontline. Frontline's shareholders received three shares in Golden Ocean for every Frontline share held. Certain of the Company's U.S. shareholders were excluded from the distribution and received a cash payment in lieu of shares equal to \$0.60 per Golden Ocean share, which represented the average price per share of the Golden Ocean shares during their first five days of trading on the Oslo Stock Exchange where Golden Ocean was listed on December 15, 2004. The Company does not have any significant continuing involvement in these dry bulk operations and as a result, the financial results from the Company's dry bulk operations transferred to Golden Ocean have been reported under "discontinued operations" for 2004. The Company accounted for the spin off of Golden Ocean at fair value and recorded a gain of \$99.5 million in the year ended December 31, 2004 which is included in the result from discontinued operations in the statement of operations.

As discussed in Note 3, the Company began consolidating the variable interest entity CalPetro Tankers (Bahamas III) Limited ("Bahamas III") as of April 1, 2006. Bahamas III has total assets of \$18.8 million and net assets of \$2.6 million and its sole asset, which is recorded as an owned vessel in the Company's consolidated financial statements, is pledged as security for the debt obligations of Bahamas III. The Company has not guaranteed the obligations of Bahamas III.

## 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 the primary beneficiary. All intercompany balances and transactions have been eliminated on consolidation.

A variable interest entity ("VIE") is a legal entity where either (a) equity interest holders as a group 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

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to finance its activities without additional subordinated financial support, or where (c) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. FIN 46(R) 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.

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.

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

### Investment in finance leases

Certain vessels are chartered under agreements that are classified as

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direct financing leases. The minimum payments under the charter agreements are recorded as the gross investment in the finance lease. The difference between the gross investment in the finance lease and the cost of the vessel is recorded as unearned income. Throughout the term of the charter agreement, the Company records as revenue interest income and unearned income. This unearned income is amortised to income over the life of the charter agreement to produce a constant periodic rate of return on the net investment in the finance lease.

### Vessels and equipment

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

### Vessels and equipment under capital lease

The Company charters in certain vessels under agreements that are classified as capital leases. Depreciation of vessels under capital lease is included within depreciation and amortisation expense in the 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 the 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, a 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. The Company assesses 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's carrying value and fair value. In

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addition, long-lived assets to be disposed of are reported at the lower of carrying amount and fair value less estimated costs to sell.

### Deferred charges

Loan costs, including debt arrangement fees, are capitalised and amortised on a straight-line basis over the term of the relevant loan. The straight line basis of amortisation approximates the effective interest method in the Company's statement of operations. Amortisation of loan costs is included in interest expense. If a loan is repaid early, any unamortised portion of the related deferred charges is charged against income in the period in which the loan is repaid.

### Discount on loans

Discount on issue of certain of the Company's long-term debt, is being amortised over the respective periods to maturity of the debt.

### Trade accounts receivable

Trade and other receivables are presented net of allowances for doubtful balances. If amounts become uncollectible, they are charged to the income statement when that determination is made.

### Revenue and expense recognition

Revenues and expenses are recognised on the accruals basis. Revenues are generated from freight billings, time charter and bareboat charter hires. The operating results of voyages in progress are estimated and recorded pro-rata on a per day basis in the consolidated statements of operations. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter and bareboat charter revenues are recorded over the term of the charter as a service is provided. The Company uses a discharge-to-discharge basis in determining percentage of completion for all spot voyages and voyages servicing contracts of affreightment whereby it recognises revenue rateably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. The Company does not begin recognising revenue until a charter has been agreed to by a customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. Amounts receivable or payable arising from profit sharing arrangements are accrued based on amounts earned as of 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 expense 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. 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. The Company accounts for gross pool revenues allocated by these pools as "pool revenues" which are included in voyage revenues in its statements of operations.

### Drydocking



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Normal vessel repair and maintenance costs are expensed when incurred. The Company recognises the cost of a drydocking at the time the drydocking takes place, that is, it applies the "expense as incurred" method.

### Derivatives

The Company may enter into interest rate swap transactions to hedge a portion of its exposure to floating interest rates. These transactions involve the conversion of floating rates into fixed rates over the life of the transactions without an exchange of underlying principal. The fair values of the interest rate swap contracts are recognised as assets or liabilities with changes in fair values recognised in the consolidated statements of operations.

The Company may enter into forward freight contracts and options in order to hedge exposure to the spot market for certain trade routes and in some cases, for speculative purposes. These transactions involve entering into a contract to swap theoretical market index based voyage revenues for a fixed daily rate. The fair values of the forward freight contracts are recognised as assets or liabilities with changes in fair values recognised in the consolidated statements of operations.

The Company entered into Yen denominated forward currency contracts for speculative purposes. The fair values of forward currency contracts are recognised as assets or liabilities with changes in fair value recognised in the consolidated statements of operations. These contracts were all terminated during 2006 and there were no Yen denominated forward currency contracts outstanding at December 31, 2006.

### Financial Instruments

In determining the fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments, including most derivatives and long-term debt, standard market conventions and techniques such as options pricing models are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

### Foreign currencies

The Company's functional currency is the U.S. dollar as the majority of revenues are received in U.S. dollars and a majority of the Company's expenditures are made in U.S. dollars. The Company's reporting currency is also U.S. dollars. Most of the Company's subsidiaries have U.S. dollars as their functional currency. For subsidiaries that maintain their accounts in currencies other than U.S. dollars, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in stockholders' equity.

Transactions in foreign currencies during the year are translated into U.S. dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

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### Stock-based compensation

On January 1, 2006, the Company adopted SFAS 123(R) Share-Based Payment ("FAS 123R"). Under FAS 123R, the Company is required to expense the fair value of stock options issued to employees over the period the options vest.

### Earnings per share

Basic earnings per share ("EPS") is computed based on the income available to common stockholders and the weighted average number of shares outstanding for basic EPS. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

### Issuance of shares by a subsidiary/ associate

The Company recognises a profit when its subsidiary or associate issues its stock to third parties at a price per share in excess of its carrying amount if such profit is realisable. If such profit is not realisable, it is recorded as an increase to contributed surplus.

### 3. RESTATEMENT OF PRIOR YEARS

As discussed in note 27, the Company acquired the Independent Tankers Corporation ("ITC Group") from a related party in 2004. The Company has restated its Consolidated Financial Statements as of December 31, 2005 and for the years ended December 31, 2005 and 2004 as a result of the correction of an error in its initial application of FIN 46R. The Company had incorrectly concluded that it was the primary beneficiary of the variable interest entities CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited, CalPetro Tankers (Bahamas III) Limited and CalPetro Tankers (IOM) Limited for the years ended December 31, 2004 and December 31, 2005 and as a result, these entities were fully consolidated. During 2006, the Company revisited this analysis and determined that it was not the primary beneficiary of these entities and therefore has accounted for these investments under the equity method.

As discussed in Note 17, in April 2006, CalPetro Tankers (Bahamas III) Limited cancelled its bareboat contract with Chevron Transport Corporation ("Chevron"). Under FIN 46(R) this is considered a triggering event and the Company began to consolidate the variable interest entity into its accounts from that date.

The tables below illustrate the effect of the restatement on the Company's prior year Consolidated Statements of Operations and Consolidated Statements of Cashflows for the years ended December 31, 2005 and 2004, and the Consolidated Balance Sheet as of December 31, 2005. As the consolidation and equity accounting models result in the same net income, there has been no change in opening equity or earnings per share data as a result of this restatement.

(in thousands of \$)	2005 (as previously reported)	Adjustment	2005 (restated)
Finance lease interest income	9,584	(9,584)	
Other income	3,610	267	3,877

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Administrative expenses	21,181	(120)	21,0
Interest income	41,040	(173)	40,8
Interest expense	215,995	(9,937)	206,0
Equity earnings of unconsolidated subsidiaries and associated companies	3,691	(312)	3,3
Other financial items, net	2,010	(255)	1,7
Net income	606,839	--	606,8
Cash and cash equivalents	100,533	(7,751)	92,7
Other receivables	20,053	(29)	20,0
Prepaid expenses and accrued income	9,328	(2,285)	7,0
Net investment in finance lease, current portion	11,861	(11,861)	
Investment in unconsolidated subsidiaries and associated companies	10,169	5,614	15,7
Net investment in finance lease, long term portion	96,057	(96,057)	
Deferred charges	18,664	(653)	18,0
Total assets	4,567,839	(113,022)	4,454,8
Short-term debt and current portion of long-term debt	240,191	(12,056)	228,1
Accrued expenses	87,336	(2,489)	84,8
Long-term debt	2,199,538	(98,477)	2,101,0
Total liabilities	3,381,923	(113,022)	3,268,9
Net cash provided by operating activities	979,774	276	980,0
Net cash used in investing activities	344,737	13,487	358,2
Net cash used in financing activities	640,206	(14,283)	625,9
Cash and cash equivalents at beginning of year	105,702	(8,823)	96,8
Cash and cash equivalents at end of year	100,533	(7,751)	92,7

(in thousands of \$)	2004 (as previously reported)	Adjustment	2004 (restated)
Finance lease interest income	10,794	(10,794)	--
Other income	3,630	147	3,777
Administrative expenses	25,739	(143)	25,596
Interest income	31,595	(192)	31,403
Interest expense	205,458	(11,080)	194,378
Equity earnings of unconsolidated subsidiaries and associated companies	10,553	(128)	10,425
Other financial items, net	2,237	(256)	1,981
Net income	1,023,382	--	1,023,382
Net cash provided by operating activities	905,987	(147)	905,840
Net cash used in investing activities	178,490	11,904	190,394
Net cash used in financing activities	1,102,964	8,391	1,111,355
Cash and cash equivalents at beginning of year	124,189	(12,189)	112,000
Cash and cash equivalents at end of year	105,702	(8,823)	96,879

4. RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 1, 2006, the Company adopted FAS No. 123R Share-Based Payment ("FAS 123R") using the modified prospective transition method. Under the modified prospective method the Company recognizes compensation cost beginning with the effective date based on the requirements of FAS 123R for all share-based payments granted after the effective date. Prior period results have not been restated.

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In 2006, the Company recorded compensation expense of \$2.2 million in relation to share-based payments, which was calculated in accordance with FAS 123R. The compensation expense related to share-based payments granted under the Ship Finance International Limited share option scheme. In 2005 the Company did not record any compensation expense as no options were granted or outstanding during 2005.

Under the modified prospective method, the Company continued to account for 2004 compensation expense in accordance with Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees ("APB 25"), where the compensation cost for stock options is recognised as an expense over the service period based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date, over the exercise price to be paid to acquire the stock.

In 2004, the Company recorded compensation expense of \$4.2 million in connection with employee share options. Had the compensation costs for 2004 been determined consistent with the fair value method required in FAS 123R, the Company's net income and earnings per share would have been increased to the following pro forma amounts in 2004:

(in thousands, except per share data)	2004
<hr/>	
Net income (loss)	
As reported	1,023,382
Add: Compensation expenses as reported	4,231
Compensation expense determined under fair value based method for all awards	(2,756)
<hr/>	
Adjusted net income, fair value based method for all awards	1,024,857
<hr/>	
Basic earnings per share	
As reported	\$13.79
FAS 123R adjusted	\$13.81
Diluted earnings per share	
As reported	\$13.79
FAS 123R adjusted	\$13.81

### 5. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets - an amendment to FAS 140 ("FAS 156"). FAS 156 requires all separately recognised servicing rights be initially measured at fair value if practicable. The statement also permits an entity to choose between two measurement methods for each class of separately recognised servicing assets and liabilities. FAS 156 is effective for fiscal years beginning after September 15, 2006. The adoption of FAS 156 on January 1, 2007 did not have an impact on the Company's financial statements.

In July 2006, the FASB issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes - an interpretation of FAS 109 ("FIN 48"). FIN 48 clarifies the application of FAS 109 by defining the criterion that an individual tax position must meet for any part of the benefit of that position to be recognised in an entity's financial statements and also provides guidance on measurement, de-recognition, classification, interest and penalties and disclosure. FIN 48 is effective for fiscal years

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beginning after December 15, 2006. The adoption of FIN 48 on January 1, 2007 did not have an impact on the Company's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under most other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the effect of adoption of FAS 157 on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an amendment of FAS 87, 88, 106, and 132R ("FAS 158"). FAS 158 requires that the funded status of defined benefit post retirement plans be recognized in the statement of financial position and changes in the funded status be reflected in comprehensive income. FAS 158 also requires the benefit obligations to be measured as of the same date of the financial statements and requires additional disclosures related to the effects of delayed recognition of gains or losses, prior service costs or credits and transition assets or obligation on net periodic benefit cost. FAS 158 is effective for fiscal years ending after December 15, 2006 for employers with publicly traded securities. The adoption of FAS 158 on January 1, 2007 did not have an impact on the Company's financial statements.

In September 2006, the SEC issued SAB No. 108 Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements ("SAB 108"), which provides interpretative guidance on how registrants should quantify financial statement misstatements. Under SAB 108 registrants are required to consider both a "rollover" method, which focuses primarily on the income statement impact of misstatements, and the "iron curtain" method, which focuses primarily on the balance sheet impact of misstatements. The effects of prior year uncorrected errors include the potential accumulation of improper amounts that may result in material misstatement on the balance sheet or the reversal of prior period errors in the current period that result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in a current period financial statements and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. The Company adopted the provisions of SAB 108 as of December 31, 2006. The adoption of SAB 108 did not have an effect on the Company's results of operations or financial position.

### 6. SEGMENT INFORMATION

The Company has two reportable segments: the tanker segment and the "all other" segment. The tanker segment derives its revenues from the transportation of crude oil with its fleet of VLCC and Suezmax vessels. Revenues and expenses not belonging to the tanker segment comprise primarily corporate head office administration expenses, operation of the company's OBO and containership fleets, and FPSO and Heavylift conversion projects and have been reported under the All Other segment.

Segment results are evaluated based on income from vessel operations before general and administrative expenses, which is net of total operating revenues and voyage expenses. The accounting policies used in the reportable segments are the same as those followed in the preparation of

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the Company's consolidated financial statements.

In the prior year the Company presented OBO and drybulk operations as separate segments. As of 2005, all drybulk operations are now discontinued and as such, segmental disclosure is no longer appropriate. The OBO segment is not a reportable segment as it does not meet the quantitative thresholds used to determine reportable segments - voluntary disclosure of this segment was given in prior years but has not been disclosed in the current year. Segment information for the years ended December 31, 2005 and 2004 has been restated to reflect current year presentation.

The Company's management does not evaluate performance by geographical region as this information is not meaningful.

Information about the Company's reportable segments and a reconciliation to the consolidated totals as of and for each of the years ended December 31, 2006, 2005 and 2004 is as follows:

(in thousands of \$)	Tankers	All Other	Total
2006			
Total operating revenues	1,459,606	124,257	1,583,863
Voyage expenses	392,328	4,248	396,576
Ship operating expenses	165,363	34,014	199,377
Depreciation and amortisation	178,542	25,307	203,849
Interest income	25,533	22,200	47,733
Interest expense	186,744	19,400	206,144
Share in results from associated companies	592	526	1,118
Net income (loss)	640,930	(124,930)	516,000
Vessels and equipment, net	2,071,685	374,593	2,446,278
Vessels under capital lease	626,374	--	626,374
Investment in associated companies	5,881	11,944	17,825
Total assets	3,365,617	1,224,320	4,589,937
Expenditure for vessels	213,867	355,952	569,819

(in thousands of \$)	Tankers	All Other	Total
2005			
Total operating revenues	1,386,509	118,007	1,504,516
Voyage expenses	332,395	4,826	337,221
Ship operating expenses	129,865	18,837	148,702
Depreciation and amortisation	175,491	22,868	198,359
Interest income	24,490	16,377	40,867
Interest expense	192,348	13,710	206,058
Share in results from associated companies	2,888	491	3,379
Net income (loss)	654,773	(47,934)	606,839
Discontinued operations	--	8,785	8,785
Vessels and equipment, net	2,243,221	341,626	2,584,847
Vessels under capital lease	672,608	--	672,608
Investment in associated companies	7,796	7,987	15,783
Total assets	3,529,681	925,136	4,454,817
Expenditure for vessels	558,163	--	558,163

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(in thousands of \$)	Tankers	All Other	Total
-----			
2004			
Total operating revenues	1,754,878	88,045	1,842,923
Voyage expenses	358,863	2,746	361,609
Ship operating expenses	114,984	15,401	130,385
Depreciation and amortisation	159,478	21,019	180,497
Interest income	21,950	9,453	31,403
Interest expense	179,223	15,155	194,378
Share in results from associated companies	8,935	1,490	10,425
Net income	942,329	81,053	1,023,382
Discontinued operations	--	117,619	117,619
Vessels and equipment, net	1,975,447	278,914	2,254,361
Vessels under capital lease	718,842	--	718,842
Investment in associated companies	21,214	7,667	28,881
Total assets	3,448,027	763,134	4,211,161
Expenditure for vessels	126,947	--	126,947

All other is comprised of items as follows:

(in thousands of \$)	2006	2005	2004
-----			
Other operating revenues			
Vessel operating revenue	109,077	113,713	84,114
Finance lease interest income	9,410	--	--
Other operating revenues	5,770	4,294	3,931
-----			
Total other operating revenues	124,257	118,007	88,045
-----			
Other net income			
Net income from vessels	39,645	62,008	149,453
Minority interest	(158,682)	(169,459)	(57,602)
Net income (loss) attributable to corporate holding and management companies	(5,893)	59,517	(10,798)
-----			
Total other net income	(124,930)	(47,934)	81,053
-----			
Other assets			
Vessels, equipment and newbuildings	470,470	339,007	277,651
Cash and cash equivalents attributable to holding company	445,245	378,674	333,507
Marketable securities held by corporate holding company	1,469	144,156	78,327
Investment in finance leases attributable to other segments	198,749	--	--
Other assets attributable to corporate holding and management companies	108,387	63,299	73,649
-----			
Total other assets	1,224,320	925,136	763,134
-----			

During the year ended December 31, 2006, the Company reported total income from one customer which represented approximately 13% of consolidated operating revenues (2005: one customer, 2004: two customers). These revenues are reported under the tanker segment.

7. TAXATION

Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2016.

United States

The Company does not accrue U.S. income taxes as, in the opinion of U.S. counsel, the Company is not engaged in a U.S. trade or business and is exempted from a gross basis tax under Section 883 of the U.S. Internal Revenue Code.

A reconciliation between the income tax expense resulting from applying the U.S. Federal statutory income tax rate and the reported income tax expense has not been presented herein as it would not provide additional useful information to users of the financial statements as the Company's net income is subject to neither Bermuda nor U.S. tax.

Other Jurisdictions

Certain of the Company's subsidiaries in Singapore, Norway and the United Kingdom are subject to taxation in their respective jurisdictions. The tax paid by subsidiaries of the Company that are subject to taxation is not material.

8. EARNINGS PER SHARE

The computation of basic EPS is based on the weighted average number of shares outstanding during the year. The computation of diluted EPS assumes the foregoing and the exercise of stock options using the treasury stock method.

The components of the numerator for the calculation of basic EPS and diluted EPS for net income from continuing operations and net income are as follows:

(in thousands of \$)	2006	2005	2004
Net income from continuing operations	516,000	598,054	905,763
Discontinued operations	--	8,785	117,619
Net income available to stockholders	516,000	606,839	1,023,382

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

(in thousands)	2006	2005	2004
Basic and diluted earnings per share:			
Weighted average number of ordinary shares outstanding	74,825	74,825	74,192



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All of the 100,000 stock options issued by Frontline during 2006 were anti-dilutive. In the years ended December 31, 2005 and 2004 no options were anti-dilutive.

### 9. LEASES

As of December 31, 2006 the Company leased in thirteen vessels on long-term time charters and bareboat charters from third parties. One of those leases is classified as an operating lease and twelve as capital leases. The Company's long-term leases of vessels generally contain optional renewal periods and purchase and put options.

Rental expense

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 as follows:

(in thousands of \$)	
Year ending December 31,	
2007	7,950
2008	7,863
2009	7,820
2010	6,105
2011	6,106
2012 and later	7,430
Total minimum lease payments	43,274

Total rental expense for operating leases was \$24.9 million, \$11.7 million and \$39.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table discloses information about the terms of the Company's leases of vessels contracted in which are accounted for as operating leases:

Vessel Type	Expiry of Mandatory Lease Period	Extended Lease Periods at Lessor's Option	Extended Lease Periods at Company's Option	Company's Purchase Option Periods	Lessor's Put Option Exercise Date
Front Warrior (Suezmax)	2007	2008-2011	2010-2011	2007- 2011	2011

A liability for put options on vessels leased under leases classified as operating leases is recorded at such time that market conditions make it likely that a put option will be exercised on the exercise date. A liability is recognised based on the amount, if any, by which the put option price exceeds the fair market value of the related vessel. At December 31, 2006 no such liability had arisen.

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Nine of the thirteen vessels leased by the Company are leased from special purpose lessor entities which were established and are owned by independent third parties who provide financing through debt and equity participation. Each entity owns one vessel, which is leased to the Company, and has no other activities. Prior to the adoption of FIN 46(R), these special purpose entities were not consolidated by Frontline. One of these leases is accounted for as operating leases and eight of these leases are accounted for as capital leases. The Company has 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 the Company has been unable to obtain this information by other means. Accordingly the Company is unable to determine the primary beneficiary of these leasing entities. At December 31, 2006, the original cost to the lessor of the assets under such arrangements was \$618.5 million. At December 31, 2006 and 2005, the Company's residual value guarantees associated with these leases, which represent the maximum exposure to loss, are \$84.5 million.

The following table discloses information about the Company's activity with these non-consolidated lessor entities in the three year period ended December 31, 2006:

	Year ended December 31,		
	2006	2005	2004
Repayments of principal obligations under capital leases	25,142	22,205	19,686
Interest expense for capital leases	34,867	36,850	38,436
Charterhire expense for operating leases	5,402	5,211	31,839

As of December 31, 2006 the Company leased out thirty four of its vessels to third parties on time and bareboat charters with initial periods ranging between three months and five and a half years. All of those leases are classified as operating leases.

Rental income

The minimum future revenues to be received on time and bareboat charters which are accounted for as operating leases and other contractually committed income as of December 31, 2006 are as follows:

(in thousands of \$)	Total
2007	301,335
2008	214,174
2009	128,151
2010	42,156
2011	4,879
2012 and later	--
Total minimum lease revenues	690,695

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The cost and accumulated depreciation of the vessels leased to third parties as of December 31, 2006 were approximately \$2,167.4 million and \$849.3 million, respectively, and as of December 31, 2005 were approximately \$2,012.8 million and \$729.0 million, respectively.

### 10. MARKETABLE SECURITIES

Marketable securities held by the Company are equity securities considered to be available-for-sale securities.

(in thousands of \$)	2006	2005
Cost	1,198	145,606
Net unrealised gain (loss)	271	(1,450)
Fair value	1,469	144,156

The net unrealised gain (loss) on marketable securities, including a component of foreign currency translation, included in comprehensive income decreased by \$1.7 million for the year ended December 31, 2006 (2005 - decrease in net unrealised gain of \$11.9 million).

(in thousands of \$)	2006	2005	2004
Proceeds from sale of available-for-sale securities	154,409	152,814	57,450
Realised gain (including amounts classified in discontinued operations)	9,782	28,035	7,151

The cost of sale of available-for-sale marketable securities is calculated on an average cost basis.

### 11. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are presented net of allowances for doubtful accounts relating to demurrage claims amounting to \$3.0 million and \$7.5 million as of December 31, 2006 and 2005 respectively.

### 12. OTHER RECEIVABLES

(in thousands of \$)	2006	2005
Agent receivables	7,039	4,998
Due from related parties	1,683	2,549
Claims receivables	8,458	4,657
Receivable from sale of assets	13,372	--
Other receivables	8,466	7,820
	39,018	20,024

Other receivables are presented net of allowances for doubtful accounts amounting to \$nil as of December 31, 2006 and 2005.

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13. OTHER CURRENT ASSETS

(in thousands of \$)	2006	2005
Security deposits on newbuildings	11,222	--
Other	349	568
Other current assets	11,571	568

Security deposits on newbuildings relate to deposits paid plus related interest accrued by Ship Finance in relation to containership newbuildings.

14. NEWBUILDINGS

(in thousands of \$)	2006	2005
Newbuildings	166,851	15,927

The carrying value of newbuildings represents the accumulated costs to the balance sheet date, which the Company has paid by way of purchase instalments, and other capital expenditures together with capitalised loan interest. Interest capitalised in the cost of newbuildings amounted to \$3.6 million in 2006 (2005 and 2004: \$nil). The two newbuilding contracts held in 2005 were completed and delivered in 2006. There were six newbuilding contracts representing costs of \$71.0 million and two conversion projects representing costs of \$95.9 million as at December 31, 2006. The conversion projects are for the conversion of an Aframax tanker into a Floating Production Storage Offshore ("FPSO") vessel and the conversion of a single hull Suezmax tanker into a heavy lift vessel.

The cost for the conversion projects includes \$55.3 million which has been transferred from vessels and equipment as the vessels are undergoing conversion and are considered to be newbuildings until conversion is complete.

15. VESSELS AND EQUIPMENT, NET

(in thousands of \$)	2006	2005
Cost	3,567,607	3,620,847
Accumulated depreciation	(1,121,329)	(1,036,000)
Net book value at end of year	2,446,278	2,584,847

Included in the above amounts as of December 31, 2006 and 2005 is equipment with a net book value of \$3.5 million and \$2.6 million, respectively. Depreciation expense for vessels and equipment was \$157.6 million, \$198.8 million and \$137.0 million for the years ended December 31, 2006, 2005 and 2004, respectively, including amounts recorded in discontinued operations.

In November 2005, the bareboat charterer of the Navix Astral declared their intent to exercise a purchase option with the vessel being delivered to her new owner in January 2006. An impairment loss of \$1.9 million was included in the Statement of Operations for the year ended December 31, 2005 in respect of this vessel. The net sale proceeds were denominated in Yen and due to fluctuations in the value of the Yen, the actual realised loss on

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the sale of the Navix Astral was \$0.8 million.

16. VESSELS UNDER CAPITAL LEASE, NET

(in thousands of \$)	2006	2005
Cost	835,746	835,746
Accumulated depreciation	(209,372)	(163,138)
Net book value at end of year	626,374	672,608

Depreciation expense for vessels under capital lease was \$46.2 million, \$46.2 million and \$46.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The outstanding obligations under capital leases are payable as follows:

(in thousands of \$)	
Year ending December 31,	
2007	127,253
2008	82,976
2009	157,569
2010	227,345
2011	140,391
2012 and later	288,683
Minimum lease payments	1,024,217
Less: imputed interest	(272,287)
Present value of obligations under capital leases	751,930

As of December 31, 2006, the Company held twelve vessels under capital leases (2005 - twelve). These leases are for terms that range from eight to twenty four years. The Company has purchase options over eight of these vessels at certain specified dates and the lessor has options to put these vessels to the Company at the end of the lease term. Gains arising from the sale and leaseback transactions have been deferred and are being amortised over the lease terms.

The following table discloses information about the terms of the Company's leases of vessels contracted in which are accounted for as capital leases:

Vessel Type	Expiry of Mandatory Lease Period	Extended Lease Periods at Lessor's Option	Extended Lease Periods at Company's Option	Company's Purchase Option Periods	Lessor's Option Exercise D
Front Crown (VLCC)	2009	2010-2014	2013-2014	2009 to 2014	2
Front Chief (VLCC)	2009	2010-2014	2013-2014	2009 to 2014	2
Front Commander (VLCC)	2009	2010-2014	2013-2014	2009 to 2014	2
Front Eagle (VLCC)	2010	2011-2015	2014-2015	2010 to 2015	2
Front Melody (Suezmax)	2011	2012-2015	2014-2015	2011 to 2015	2

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Front Symphony (Suezmax)	2011	2012-2015	2014-2015	2011 to 2015
Front Tina (VLCC)	2011	2012-2015	2014-2015	2011 to 2015
Front Commodore (VLCC)	2011	2012-2015	2014-2015	2011 to 2015
British Pioneer (VLCC)	2024	none	Note (2)	Note (1)
British Progress (VLCC)	2025	none	Note (2)	Note (1)
British Purpose (VLCC)	2025	none	Note (2)	Note (1)
British Pride (VLCC)	2025	none	Note (2)	Note (1)

Put options on vessels leased under leases classified as capital leases are recorded as part of the lease's minimum lease payments. Lease liabilities are amortised so that the remaining balance at the date the put option becomes exercisable is equal to the put option amount. An additional liability is recognised based on the amount, if any, by which the put option price exceeds the fair market value of the related vessel. As of December 31, 2006 no such additional liability had arisen.

Note (1.) The Company does not have options to purchase the vessel but it has first refusal if the vessel's owner offers the vessel for sale.

Note (2.) The Company has the right to terminate the lease at any time but only with permission of the charterer.

### 17. EQUITY METHOD INVESTMENTS

As of December 31, 2006, the Company has the following participation in investments that are recorded using the equity method:

	2006	2005
International Maritime Exchange ASA	24.49%	24.49%
Front Tobago Shipping Corporation	40.00%	40.00%
Golden Fountain Corporation	50.00%	50.00%
Front Shadow Inc	100.00%	--
CalPetro Tankers (Bahamas I) Limited	100.00%	100.00%
CalPetro Tankers (Bahamas II) Limited	100.00%	100.00%
CalPetro Tankers (Bahamas III) Limited	--	100.00%
CalPetro Tankers (IOM) Limited	100.00%	100.00%

Summarised balance sheet information of the Company's equity method investees is as follows:

(in thousands of \$)	2006	2005
Current assets	71,320	45,772
Non current assets	139,983	105,559
Current liabilities	27,267	16,922
Non current liabilities	99,247	98,477

Summarised statement of operations information of the Company's equity method investees is as follows:

(in thousands of \$)	2006	2005	2004
Net operating revenues	28,876	27,377	52,486
Net operating income	10,461	27,545	44,427
Net income	3,691	20,312	31,244

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Dividends totalling \$1.3 million were received from equity method investees in the year ended December 31, 2006.

As of December 31, 2003 the Company determined that it was the primary beneficiary of Golden Fountain Corporation under FIN 46(R) and therefore consolidated the entity at that date. Golden Fountain sold its vessel on December 17, 2004 which resulted in an accounting gain of \$19.7 million. The sale of the vessel and subsequent extinguishment of debt was considered a triggering event and the Company assessed that it was no longer the primary beneficiary and resumed accounting for its investment in Golden Fountain Corporation using the equity method in 2005.

In 2004, the Company's investment in International Maritime Exchange ASA ("IMAREX") increased to 26.56%. Accordingly, the Company changed its accounting treatment of the investment from a cost basis to the equity method. The Company's shareholding was subsequently reduced to 24.49% as a result of an issuance of shares by IMAREX which the Company did not participate in. The Company is recording its share of income from IMAREX one quarter in arrears. The closing share price for IMAREX as of December 31, 2006 on the Oslo Stock Exchange was NOK 88.00 resulting in an aggregate value of the Company's investment based on the quoted market price of approximately \$24.2 million.

In December 2004, the vessel and all related balances in relation to the operation of Front Tobago were transferred from Front Tobago Inc to a new company Front Tobago Shipping Corporation. The Company's 40% investment in Front Tobago Inc was replaced with a 40% investment in Front Tobago Shipping Corporation.

In December 2005, Front Tobago Shipping Corporation sold the vessel Front Tobago to the Company for approximately \$35.6 million and subsequently realised a gain on sale of \$9.6 million. The Company's share of income from associates in 2005 excluded its share of this gain on sale as it was applied against the cost of the Front Tobago.

Front Shadow is a wholly owned subsidiary of Ship Finance and was incorporated during 2006 for the purpose of holding a single capital asset and leasing that asset to a related party. Front Shadow owns a Panamax vessel. Ship Finance has provided a guarantee in the amount of \$2.1 million for the debt of Front Shadow. The net assets of Front Shadow are \$0.3 million, therefore, Ship Finance's maximum exposure to loss for this entity is \$2.4 million. The entity is being equity accounted for as it has been determined that it is a VIE and that Ship Finance is not the primary beneficiary under FIN 46(R).

As discussed in note 3, the Company has determined that under FIN 46(R), it is not the primary beneficiary of the VIEs CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited and as such, these entities are being equity accounted for.

As discussed in note 3, the Company has determined that under FIN 46(R), it is not the primary beneficiary of the VIEs CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited and as such, these entities are being equity accounted for. These companies were incorporated in 1994 for the purpose of acquiring three oil tankers from Chevron Transport Corporation ("Chevron") and concurrently charter these vessels back to Chevron on long term charter agreements. The companies were acquired by Independent Tankers Corporation which in turn is a wholly owned subsidiary of the Company. In April 2006, Chevron cancelled its bareboat contract with CalPetro Tankers (Bahamas III) Limited. Under FIN 46(R) this is considered a trigger event and the Company began consolidating the VIE into its accounts from that date. The Company does

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not guarantee the debt of these entities and the net assets of the three entities that are not consolidated total \$4.1 million.

### 18. INVESTMENT IN FINANCE LEASES

Ship Finance's jack-up drilling rig is chartered on a long term fixed rate bareboat charter to Seadrill III Ltd. The terms of the charter provide the charterer with various call options throughout the charter period, which expires in 2021.

The following schedule lists the components of the net investment in finance lease:

(in thousands of \$)	2006	2005
Total minimum lease payments to be received	297,277	--
Estimated residual values of leased property (unguaranteed)	60,000	--
Less: Unearned income	(158,528)	--
<b>Net investment in finance leases</b>	<b>198,749</b>	<b>--</b>

Lease payments under the charter agreement for each of the five succeeding years are as follows: \$41.1 million in 2007, \$41.2 million in 2008, \$29.9 million in 2009, \$18.8 million in 2010 and \$18.8 million in 2011.

### 19. DEFERRED CHARGES

Deferred charges represent debt arrangement fees that are capitalised. If a loan is repaid early, any unamortised portion of the related deferred charges is charged against income in the period in which the loan is repaid. The deferred charges are comprised of the following amounts:

(in thousands of \$)	2006	2005
Debt arrangement fees	24,102	32,224
Accumulated amortisation	(7,165)	(14,213)
	<b>16,937</b>	<b>18,011</b>

### 20. ACCRUED EXPENSES

(in thousands of \$)	2006	2005
Voyage expenses	22,064	25,404
Ship operating expenses	22,748	14,528
Administrative expenses	6,618	3,409
Interest expense	37,627	38,733
Taxes	317	200
Other	942	2,573
	<b>90,316</b>	<b>84,847</b>

### 21. OTHER CURRENT LIABILITIES



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(in thousands of \$)	2006	2005
Forward contract payable	--	70,851
Accrued charterhire	--	674
Related party payables	941	2,587
Other	9,037	9,744
	9,978	83,856

22. DEBT

(in thousands of \$)	2006	2005
US Dollar denominated floating rate debt (LIBOR + 0.50% to 1.25%) due through 2011	1,602,920	1,450,574
8.5% Senior Notes due 2013	449,080	457,080
Serial Notes (6.5% to 6.68%) due through 2010	30,800	53,100
Term Loans (8.52%) due 2015	12,744	--
Term Notes (7.84% to 8.04%) due through 2021	366,200	366,200
	2,461,744	2,326,954
Credit facilities	1,550	2,242
Total debt	2,463,294	2,329,196
Less: short-term and current portion of long-term debt	(281,409)	(228,135)
	2,181,885	2,101,061

The outstanding debt as of December 31, 2006 is repayable as follows:

(in thousands of \$)	
Year ending December 31,	
2007	279,859
2008	168,512
2009	156,566
2010	142,945
2011	620,911
2012 and later	1,092,951
	2,461,744

The weighted average interest rate for the floating rate debt denominated in US dollars was 5.39 percent as of December 31, 2006 (2005 - 4.31 percent). The weighted average interest rate for the floating rate debt denominated in Yen was 1.34 percent as of December 31, 2005. There is no Yen denominated debt outstanding as of December 31, 2006. These rates take into consideration related interest rate swaps.

US DOLLAR DENOMINATED FLOATING RATE DEBT

\$1,058 million senior secured credit facility

In February 2005, Ship Finance refinanced its existing \$1,058.0 million senior secured credit facility with a new \$1,131.4 million secured credit facility discussed in more detail below.

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### \$1,131 million secured term loan facility

In February 2005, Ship Finance entered into a \$1,131.4 million term loan facility with a syndicate of banks. The proceeds from the facility were used to repay the \$1,058.0 million syndicated senior secured credit facility and for general corporate purposes. The facility bears interest at LIBOR plus a margin of 0.7% per annum. The facility is repayable over a term of six years.

In September 2006, Ship Finance signed an agreement whereby the existing debt facility, which had been partially repaid, was increased by \$219.7 million to the original amount of \$1,131.4 million. The increase is available on a revolving basis.

### \$350 million combined senior and junior secured term loan facility

In June 2005, the Company entered into a combined \$350 million senior and junior secured term loan facility with a syndicate of banks. The proceeds from the facility were used to fund the acquisition of five VLCCs. The facility bears interest at LIBOR plus a margin of 0.65% per annum for the senior loan and LIBOR plus a margin of 1.00% per annum for the junior loan. The facility is repayable over a term of seven years.

### \$65 million term loan facility

In August 2004, the Company entered into a \$65 million secured term loan facility with a syndicate of banks. The facility bore interest at LIBOR plus a margin of 1.00%. The facility was repaid in March 2006.

### \$20 million term loan facility

In October 2004, the Company entered into a \$20 million secured term loan facility. The facility bore interest at LIBOR plus a margin of 0.75%. The loan was repaid in full in February 2007.

### \$20 million term loan facility

In January 2005, the Company entered into a \$20 million secured term loan facility. The facility bears interest at LIBOR plus a margin of 0.80%. The facility must be repaid by January 31, 2010.

The facility contains a minimum value covenant and covenants that require the Company to maintain a minimum level of free cash and positive working capital.

### \$69 million loan facility

In December 2005, the Company entered into a \$69.0 million loan facility with DnB NOR Bank ASA. The facility bore interest at LIBOR plus 120 basis points secured by certain marketable securities and cash deposits. The facility was repaid in full in August 2006.

### \$210 million secured term loan facility

In April 2006, five vessel owning subsidiaries of Ship Finance entered into a \$210 million secured term loan facility with a syndicate of banks to partly fund the acquisition of five new container vessels. The facility bears interest at LIBOR plus a margin of 1.4% per annum and the facility is repayable over a term of 12 years.

### \$80 million term loan facility

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In June 2006, the Company entered into a \$80 million secured term loan facility. The facility bears interest at LIBOR plus a margin of 0.50%. The facility was due June 26, 2007 and has now been refinanced on the same terms and conditions with maturity in June 2008.

### \$165 million secured term loan facility

In June 2006, Ship Finance's subsidiary Rig Finance Limited ("Rig Finance") entered into a \$165 million secured term loan facility with a syndicate of banks. The proceeds of the facility were used to partly fund the acquisition of the jack up drilling rig West Ceres. The facility currently bears interest at LIBOR plus a margin of 1.15% per annum and is repayable over a term of six years.

### \$24 million term loan facility

In September 2006, the Company entered into a \$24 million secured term loan facility. The facility bore interest at LIBOR plus a margin of 0.90%. The facility was repaid in April 2007.

Agreements related to Ship Finance's long-term debt provide limitations on the amount of total borrowings and secured debt, and acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants.

### 8.5% SENIOR NOTES DUE 2013

On December 15, 2003, Ship Finance issued \$580 million of senior notes. Interest on the notes is payable in cash semi-annually in arrears on June 15 and December 15. The notes are not redeemable prior to December 15, 2008 except in certain circumstances. After that date, Ship Finance may redeem notes at redemption prices which reduce from 104.25 per cent in 2008 to 100 per cent in 2011 and thereafter.

In February 2006, Ship Finance entered into a total return bond swap line with a bank for a term of 12 months. The bond swap line has been extended for a period up to August 2009. As of December 31, 2006, Ship Finance held bonds with a principal amount of \$52 million under this agreement. In February 2007, Ship Finance entered into an additional bond swap line with a second bank for a term of 12 months.

In 2006 and 2005, Ship Finance bought back and cancelled notes with a principal amount of \$8.0 million and \$73.2 million, respectively. As of December 31, 2006, the outstanding amount of Notes was \$449.1 million (December 31, 2005 - \$457.1 million).

### TERM AND SERIAL NOTES

ITC is the holding company for three separate structures involved in financing and leasing transactions. One of these structures has Serial Notes maturing between 2007 and 2010 and two of these structures have Term Notes maturing between 2015 and 2021. The Notes are collateralised by first preferred mortgages on the vessels owned by the ITC subsidiaries. As of December 31, 2006 the effective interest rate for the Term and Serial Notes was 7.90% (2005 - 7.90%).

The 8.52% First Preferred Mortgage Notes due 2015, the 7.84% First Preferred Mortgage Term Notes due 2018 and the 8.04% First Preferred Mortgage Term Notes due 2019 are each subject to redemption through the operation of mandatory sinking funds according to the schedule of sinking fund redemption payments set forth below. The sinking fund redemption price

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is 100% of the principal amount of Term Notes being redeemed, together with accrued and unpaid interest to the date fixed for redemption.

-----  
(in thousands of \$)

Year ending December 31,  
-----

2007	1,340
2008	5,765
2009	7,600
2010	11,115
2011	16,635
2012 and later	323,745
	-----
	366,200
	=====

Term Loans

Principal is repayable on the 8.52% Term Loans due 2015 in accordance with a remaining nine-year sinking fund schedule. Of the four entities reporting these term loans, only one entity, CalPetro Tankers (Bahamas III) Limited ("Bahamas III") is consolidated as the remaining three entities are accounted for under the equity method under FIN 46(R) as it has been determined that the Company is not the primary beneficiary of these entities. As discussed above, Bahamas III's initial charter with Chevron was terminated on April 1, 2006 and as such, the revised sinking fund redemption amounts and final principal payment is as follows:

Scheduled payment date	Amount \$'000
2007	570
2008	620
2009	670
2010	730
2011	790
2012, and later	9,364
	-----
	12,744
	=====

Assets pledged

(in thousands of \$)	2006	2005
Ship mortgages	2,494,526	2,393,984
	-----	-----

23. SHARE CAPITAL

Authorised share capital:

(in thousands of \$, except share data)	2006	2005
125,000,000 ordinary shares of \$2.50 each	312,500	312,500

Issued and fully paid share capital:

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(in thousands of \$, except share data)	2006	2005
74,825,169 ordinary shares of \$2.50 each (2005: 74,825,169)	187,063	187,063

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

24. ACCUMULATED OTHER COMPREHENSIVE INCOME

The activity in Accumulated Other Comprehensive Income may be summarised as follows:

	Unrealised investment gains (losses)	Gains (losses) on derivative instruments	Translation adjustments and other	Total
Balance at December 31, 2003	(14)	(2,471)	(4,468)	(6,953)
Change in 2004	10,441	2,471	(545)	12,367
Balance at December 31, 2004	10,427	--	(5,013)	5,414
Change in 2005	(11,877)	--	(221)	(12,098)
Balance at December 31, 2005	(1,450)	--	(5,234)	(6,684)
Change in 2006	1,721	--	538	2,259
Balance at December 31, 2006	271	--	(4,696)	(4,425)

25. SHARE OPTION PLANS

Frontline Ltd Share Option Scheme

In November 2006, the board of directors approved the Frontline Ltd Share Option Scheme (the "Frontline Scheme"). The Frontline Scheme permits the board of directors, at its discretion, to grant options to employees of the Company or its subsidiaries. The Frontline Scheme will expire in November 2016. The subscription price for all options granted under the scheme will be reduced by the amount of all dividends declared by the company per share in the period from the date of grant until the date the option is exercised, provided the subscription price never shall be reduced below the par value of the share. Options granted under the scheme will vest at a date determined by the board at the date of the grant. The options granted under the plan to date vest over a period of one to three years. There is no maximum number of shares authorised for awards of equity share options and authorised, unissued shares of Frontline Ltd will be used to satisfy exercised options.

The fair value of each option award is estimated on the date of the grant using a Black Scholes option valuation model with the following assumptions: risk-free interest rate of 4.74%, volatility of 44%, a dividend yield of 0% and a weighted average expected option term of 3.5 years. The risk-free interest rate was estimated using the interest rate on 3 year US treasury zero coupon issues. The volatility was estimated using historical share price data. The dividend yield has been estimated at 0% as the exercise price is reduced by all dividends declared by the company from

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the date of grant to the exercise date. It is assumed that all options granted under the plan will vest.

The following summarises share option transactions related to the Frontline Scheme:

(in thousands except per share data)	Shares	Exercise Price
Options outstanding at December 31, 2005	--	--
Granted	100	NOK 238.50
Exercised	--	--
Cancelled	--	--
Vested	--	--
Options outstanding at December 31, 2006	100	NOK 238.50

The weighted average grant-date fair value of options granted during 2006 is \$15.23.

As of December 31, 2006, there was \$1.5 million in unrecognised compensation cost related to non-vested options granted under the Frontline Scheme. The compensation expense will be recognized over a period of three years in accordance with vesting conditions.

### Ship Finance International Limited Share Option Scheme

In November 2006, the board of directors of Ship Finance approved the Ship Finance International Limited Share Option Scheme (the "Ship Finance Scheme"). The Ship Finance Scheme permits the board of directors, at its discretion, to grant options to employees of Ship Finance or its subsidiaries. The Ship Finance Scheme will expire in November 2016. The subscription price for all options granted under the scheme will be reduced by the amount of all dividends declared by the company per share in the period from the date of grant until the date the option is exercised, provided the subscription price never shall be reduced below the par value of the share. Options granted under the scheme will vest at a date determined by the board at the date of the grant. The options granted under the plan to date vest over a period of one to three years. There is no maximum number of shares authorised for awards of equity share options and authorised, unissued shares of Ship Finance will be used to satisfy exercised options.

The fair value of each option award is estimated on the date of the grant using a Black Scholes option valuation model with the following assumptions: risk-free interest rate of 4.74%, volatility of 31%, a dividend yield of 0% and a weighted average expected option term of 3.5 years. The risk-free interest rate was estimated using the interest rate on 3 year US treasury zero coupon issues. The volatility was estimated using historical share price data. The dividend yield has been estimated at 0% as the exercise price is reduced by all dividends declared by the company from the date of grant to the exercise date. It is assumed that all options granted under the plan will vest.

The following summarises share option transactions related to the Ship Finance Scheme:

(in thousands except per share data)	Shares	Exercise Price
Options outstanding at December 31, 2005	--	--

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Granted	150	\$22.85
Exercised	--	--
Cancelled	--	--
Vested	--	--
-----		
Options outstanding at December 31, 2006	150	\$22.85
=====		

The weighted average grant-date fair value of options granted during 2006 is \$6.67.

As of December 31, 2006, there was \$0.95 million in unrecognised compensation cost related to non-vested options granted under the Ship Finance Scheme. The compensation expense will be recognized over a period of three years in accordance with vesting conditions.

Share-based bonus

The employment contract for one employee of Ship Finance contains a share-based bonus provision. Under the terms of the contract, the share based bonus is payable annually based on the share-price movement of Ship Finance, plus dividend declarations, multiplied by a notional share holding of 200,000 shares. The share-based bonus fair value of \$1.7 million as of December 31, 2006 was recorded as a liability.

Bermuda and United Kingdom Share Option Plans

The Company had in place a Bermuda Share Option Plan (the "Bermuda Plan") and a United Kingdom Share Option Plan (the "U.K. Plan"), both of which expired in 2004. Both share option plans have been accounted for as variable plans. Under the terms of the plans, the exercise price set on the grant of share options could not be less than the average of the fair market value of the underlying shares for the three dealing days before the date of grant. The number of shares granted under the plans could not in any ten year period exceed 7% of the issued share capital of the Company. No consideration was payable for the grant of an option. In 2004, the Bermuda Plan was amended to provide that all outstanding options that had not vested became immediately exercisable.

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

(in thousands except per share data)	Shares	Weighted average exercise price
-----		
Options outstanding at December 31, 2003	297	\$8.49
Granted	--	--
Exercised	(297)	\$5.91
Cancelled	--	--
-----		
Options outstanding at December 31, 2004	--	--
=====		

As of December 31, 2006, 2005 and 2004 there were no options remaining outstanding under the U.K. Plan or the Bermuda Plan.

There were no options granted in the years ended December 31, 2005 and 2004.

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### 26. FINANCIAL INSTRUMENTS

#### Interest rate risk management

##### Interest rate swaps

In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. Ship Finance has a portfolio of 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. The counterparties to such contracts are Credit Agricole Indosuez, Deutsche Schiffsbank, DnB NOR ASA, Skandinaviska Enskilda Banken AB, Fortis Bank, Scotia Bank, Nordea Bank Norge ASA, Citibank, HSH Nordbank, HBOS, and NIBC. Credit risk exists to the extent that the counterparties are unable to perform under the contracts.

The Company manages its debt portfolio with interest rate swap agreements in U.S. dollars to achieve an overall desired position of fixed and floating interest rates. Ship Finance has entered into the following interest rate swap transactions involving the payment of fixed rates in exchange for LIBOR:

Principal (in thousands of \$)	Inception Date	Maturity Date	Fixed Interest Rate
\$50,000	February 2004	February 2009	3.49%
\$100,000	February 2004	February 2009	3.49%
\$50,000	February 2004	February 2009	3.35%
\$50,000	February 2004	February 2009	3.49%
\$50,000	February 2004	February 2009	3.35%
\$50,000	February 2004	February 2009	3.35%
\$50,000	February 2004	February 2009	3.37%
\$25,000	February 2004	February 2009	3.32%
\$25,000	February 2004	February 2009	3.32%
\$25,000	February 2004	February 2009	3.33%
\$25,000	February 2004	February 2009	3.32%
\$41,588	April 2006	November 2018	5.64%
\$41,588	April 2006	March 2019	5.64%
\$41,588	April 2006	April 2019	5.64%
\$41,588	April 2006	May 2019	5.64%
\$41,588	April 2006	May 2019	5.64%
\$14,849	February 2004	August 2008	6.24%
\$15,919	February 2004	August 2008	6.24%

As of December 31, 2006 and 2005, the notional principal amounts subject to such swap agreements were \$738.7 million and \$618.3 million, respectively.

##### Foreign currency risk

The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. Certain of the Company's subsidiaries report in Sterling, Swedish kronor or Norwegian kroner and risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have a negative effect on the value of the Company's cash flows; and a translation risk, the impact of adverse currency fluctuations in the translation of foreign operations and foreign assets and liabilities into U.S. dollars for the Company's consolidated financial statements. The Company has not entered into derivative contracts for either transaction or translation risk.



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From time to time the Company may enter into forward currency contracts for speculative purposes. As of December 31, 2005 the Company had five forward currency contracts outstanding with a notional principal of (Y)8.8 billion expiring January and February 2006 with exchange rates ranging from 117.42 to 119.35. As of December 31, 2006 there were no such contracts outstanding.

Accordingly, such risk may have an adverse effect on the Company's financial condition and results of operations.

### Forward freight contracts

The Company may enter into forward freight contracts, futures and option contracts in order to manage its exposure to the risk of movements in the spot market for certain trade routes for speculative purposes. Market risk exists to the extent that spot market fluctuations have a negative effect on the Company's cash flows and consolidated statements of operations. As of December 31, 2006 and 2005, the notional principal amounts subject to such forward freight contracts, futures and option contracts were \$nil and \$12.0 million, respectively.

### Fair Values

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2006 and 2005 are as follows:

(in thousands of \$)	2006		2005
	Fair Value	Carrying Value	Fair Value
<b>Non-Derivatives:</b>			
Cash and cash equivalents	197,181	197,181	92,782
Restricted cash	677,533	677,533	636,790
Marketable securities	1,469	1,469	144,156
Floating rate debt and credit facilities	1,604,470	1,604,470	1,452,816
8.5% Senior notes	448,799	449,080	425,999
Serial Notes (6.5% to 6.68%) due through 2010	31,307	30,800	54,639
8.52% Term Loan, due 2015	13,588	12,744	--
Term Notes (7.84% to 8.04%) due through 2019	383,492	366,200	393,705
<b>Derivatives:</b>			
Interest rate swap transactions receivable	17,807	17,807	19,563
Interest rate swap transactions payable	(8,743)	(8,743)	(1,241)
Forward freight contracts	--	--	3,021
Forward currency contracts	--	--	(169)
Bond swaps	2,931	2,931	--

The carrying value of cash and cash equivalents, which are highly liquid, is a reasonable estimate of fair value.

The estimated fair value of marketable securities is based on the quoted market price of these or similar instruments when available.

The estimated fair value for floating rate long-term debt is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. The estimated fair value for fixed

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rate long-term senior notes is based on the quoted market price. The estimated fair value for the remaining fixed rate long-term loans and notes is based on the quoted market price of these or similar instruments when available.

The fair value of interest rate swaps is estimated by taking into account the cost of entering into interest rate swaps to offset the Company's outstanding swaps.

The fair value of forward freight contracts is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date.

In February 2006, Ship Finance entered into a total return bond swap line with Fortis Bank for a term of twelve months. This swap facilitated the repurchase of Ship Finance's 8.5% Senior Notes in the amount of \$50.0 million. The fair value of the bond swap is estimated by taking into account the cost of entering into the bond swap to offset Ship Finance's outstanding bond swap.

### Concentrations of risk

There is a concentration of credit risk with respect to cash and cash equivalents to the extent that substantially all of the amounts are carried with Skandinaviska Enskilda Banken, The Bank of New York and Nordea Bank Norge. There is a concentration of credit risk with respect to restricted cash to the extent that substantially all of the amounts are carried with Skandinaviske Enskilda Banken, Nordea Pacific Life, The Bank of New York, HSBC Midland, CIBC World Markets and JP Morgan Chase. However, the Company believes this risk is remote as these banks are high credit quality financial institutions.

The majority of the vessels' gross earnings are receivable in U.S. dollars. During the year ended December 31, 2006, one customer accounted for more than 10% of our consolidated operating revenues (2005: one customer, 2004: two customers).

### 27. RELATED PARTY TRANSACTIONS

In July 2003, the Company purchased a call option to acquire all of the shares of ITC from Hemen Holding Ltd ("Hemen") for a total consideration of \$4.0 million plus 4% interest per year. Hemen is indirectly controlled by John Fredriksen who is the Company's Chairman and Chief Executive Officer. On May 27, 2004 the Company exercised this option. The total purchase price paid to Hemen for ITC was \$14.1 million which comprised a payment of \$10.0 million for the purchase option and a payment of \$4.1 million to exercise the option. This purchase price represents the initial arms length price paid by the Company in May 1998 plus an interest component calculated from that date. The Company initially recorded the \$10.0 million paid in 2003 on the Company's balance sheet as an asset at cost. In December 2003 the Company implemented the provisions of FIN 46(R) and consequently was required to consolidate ITC, with the exception of certain ITC subsidiaries which have been accounted for using the equity method as discussed in note 3. The consolidation of ITC resulted in the Company recording a \$25.2 million expense as the cumulative effect of a change in accounting principle in accordance with the guidance of FIN 46(R). The Company accounted for the exercise payment in 2004 as an addition to the total purchase price for ITC and specifically as an addition to the recorded cost of the underlying long-term assets, being the vessels owned by ITC. The results of ITC have been reflected in the consolidated results of the Company.

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In June 2004, the Company drew down \$49.5 million under a short-term loan facility from a related party and used the proceeds to repay Yen denominated debt of (Y)5.5 billion (equivalent to \$49.4 million). This short-term loan facility was repaid in August 2004.

In June 2004, the Company participated in a bidding process to acquire from the Indonesian state oil enterprise's shipping division, PT Pertamina (Persero) two VLCCs that were under construction by Hyundai Heavy Industries Co. Ltd. The Company was successful in this process and nominated two single purpose companies, Windstar Marine Inc. ("Windstar") and Speed Shipping Corp. ("Speed"), to acquire the vessels for total consideration of \$184 million. Windstar and Speed are controlled by Hemen. Hemen took delivery of these vessels in July and September, 2004. In June 2005, Ship Finance purchased the vessels from Hemen for a total consideration of \$184.6 million. This transaction has been recorded at fair value of \$270 million and an equity contribution from Hemen of \$85.4 million has been recorded within contributed surplus.

In November 2004, the Company formed Golden Ocean as a wholly owned subsidiary for the purpose of transferring, by way of contribution, certain dry bulk shipping interests held by the Company. These assets were transferred to Golden Ocean on December 1, 2004 and a summary of the assets and liabilities contributed is as follows:

-----  
(in thousands of \$)  
-----

Vessels and equipment, net	48,918
Long-term debt	48,950
Cash and other assets and liabilities, net	22,418

The assets and liabilities contributed by Frontline are recorded at their historical net book values as recorded in Frontline's consolidated financial statements. Golden Ocean was spun-off on December 15, 2004 to Frontline's shareholders.

In 2005 Golden Ocean exercised its options to acquire from the Company the shares in two single purpose companies each owing a newbuilding contract for a Panamax vessel. These options were at a price equal to the Company's costs, including instalments paid to date, plus the Company's funding expenses. These options were exercised during 2005 at a total price of \$16.8 million.

In May 2005, Ship Finance entered into an agreement with parties affiliated with Hemen, to acquire two vessel owning companies, each owning one 2005 built containership for a total consideration of \$98.6 million. The Sea Alfa was delivered in May 2005, and the Sea Beta was delivered in September 2005.

In June 2006, Ship Finance purchased the jack up rig Seadrill 3 from SeaDrill Invest I Ltd ("SeaDrill Invest"), an affiliated company, for \$210 million. The rig was immediately chartered back to SeaDrill Invest for a period of 15 years. The charter party is fully guaranteed by Seadrill Limited, the ultimate parent company of SeaDrill Invest. SeaDrill Invest has been granted fixed price purchase options after 3, 5, 7, 10, 12 and 15 years. This transaction was enacted through the Company's 100% owned subsidiary Rig Finance.

In June 2006, Ship Finance entered into an agreement to acquire a Panamax vessel, Rain Shadow, for \$28.4 million from Golden Ocean. The vessel was chartered back to Golden Ocean for a period of 10 years. As part of the agreement, Golden Ocean has provided an interest free and non-amortising

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seller credit of \$2.6 million. Golden Ocean has been granted fixed purchase options after 3, 5, 7 and 10 years. At the end of the charter, the Company also has an option to sell the vessel back to Golden Ocean at an agreed fixed price of \$10.4 million. This transaction was enacted through the Company's 100% owned subsidiary Front Shadow Inc. As a result of this transaction, under FIN 46(R), Front Shadow Inc is now equity accounted by the Company.

A summary of amounts earned and balances with related parties is as follows:

Net amounts earned from related parties (in thousands of \$)	Year ended December 31,		
	2006	2005	2004
Seatankers Ltd	432	265	49
Golar LNG Limited	180	255	495
Northern Offshore Ltd	--	--	25
Norse Energy Group ASA (formerly Northern Oil ASA)	--	6	92
Golden Ocean Group Limited	597	362	8
Individual related to John Fredriksen	12	--	--
Aktiv Kapital First Investment Ltd	--	10	--
Bryggegata AS	(1,021)	(692)	--
Seadrill Limited	545	(24)	--
CalPetro Tankers (Bahamas I) Limited	40	38	37
CalPetro Tankers (Bahamas II) Limited	40	38	37
CalPetro Tankers (Bahamas III) Limited	--	38	37
CalPetro Tankers (IOM) Limited	40	38	37

Net amounts earned from related parties comprise office rental income and management, technical advisory, corporate and administrative service income and expenses.

Receivables (payables) with related parties (in thousands of \$)	As of December 31,	
	2006	2005
Seatankers Ltd	275	1,397
Golar LNG Limited	(553)	644
Northern Offshore Ltd	49	48
Golden Ocean Group Limited	942	(2,182)
Seadrill Limited	30	55
CalPetro Tankers (Bahamas I) Limited	10	10
CalPetro Tankers (Bahamas II) Limited	10	10
CalPetro Tankers (Bahamas III) Limited	--	10
CalPetro Tankers (IOM) Limited	10	10

Receivables and payables with related parties comprise unpaid management, technical advisory, administrative service and rental charges. In addition, certain payables and receivables arise when the company pays an invoice on behalf of a related party and vice versa.

Golar, Northern Offshore, Norse Energy (formerly Northern Oil), Aktiv Kapital, Seadrill, Bryggegata AS, Golden Ocean and Seatankers are each subject to the significant influence or indirect control of John Fredriksen. CalPetro Tankers (Bahamas I), CalPetro Tankers (Bahamas II), CalPetro Tankers (Bahamas III) and CalPetro Tankers (IOM) were all equity accounted until March 30, 2006 when we began consolidation of CalPetro Tankers (Bahamas III).

### 28. MINORITY INTEREST AND DIVIDEND DISTRIBUTION TO SHAREHOLDERS

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The Company accounts for pro-rata distributions to owners in a spin-off at the book value of shares distributed and accounts for non pro-rata distributions to owners in a spin-off at the fair value of shares distributed.

A summary of pro-rata partial spin offs of Ship Finance by the Company are as follows:

Distribution Date	% Frontline holding Distributed	Distribution Ratio (Ship Finance/ Frontline shares held)	Value of dividend \$ millions
June 16, 2004	25.0%	1/4	\$142.5
September 24, 2004	9.9%	1/10	\$59.8
December 15, 2004	13.3%	2/15	\$85.7
February 18, 2005	25.0%	1/4	\$154.9
March 24, 2005	10.0%	1/10	\$57.0
March 20, 2006	5.14%	1/20	\$27.8

The value of the non-cash dividend is valued based on the book value of Ship Finance at the date of distribution.

On December 13, 2004 the Company completed the non pro-rata spin off of its subsidiary Golden Ocean and distributed 76.0% of Golden Ocean's common shares to the Company's shareholders with each qualifying shareholder receiving three shares in Golden Ocean for every one share held in the Company. Non qualifying shareholders received a cash equivalent of \$1.80 per Frontline share held. The value of the non-cash dividend has been established as \$102.3 million, representing 76.0% of the fair value of Golden Ocean on the date of distribution. Fair value was established by using the average price of Golden Ocean's shares over the first five trading days after the shares were listed on the Oslo Stock Exchange.

As of December 31, 2006 the Company owned 11.1% of the shares in Ship Finance and consolidated Ship Finance in accordance with the provisions of FIN 46(R).

In November 2006, 30% of shares in Puffin Ltd, a subsidiary of the company, were issued to a third party for \$7.8 million as part of the proposed spin off of the Company's FPSO (Floating Production, Storage and Offloading) operations.

### 29. COMMITMENTS AND CONTINGENCIES

The Company insures the legal liability risks for its shipping activities with Assuranceforeningen SKULD, Assuranceforeningen Gard Gjensidig and Britannia Steam Ship Insurance Association Limited, all mutual protection and indemnity associations. As a member of these mutual associations, the Company is subject to calls payable to the associations based on the Company's claims record in addition to the claims records of all other members of the associations. A contingent liability exists to the extent that the claims records of the members of the associations in the aggregate show significant deterioration, which result in additional calls on the members.

As of December 31, 2006, the Company had nine vessels that were sold by the Company at various times during the period from November 1998 to December 31, 2003, and leased back on charters that range for periods of eight to twelve and a half years with options on the lessors' side to extend the charters for periods that range up to five years. Eight of these charters are accounted for as capital leases and one is accounted for as an

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operating lease. The Company has purchase options at certain specified dates and the lessor has options to put the vessels on the Company at the end of the lease terms for all of these nine vessels. The total amount that the Company would be required to pay under these put options with respect to the operating lease is \$9.0 million.

As of December 31, 2006 Chevron Transport Corporation charters three vessels on long-term bareboat charters recorded as investments in finance leases. Chevron holds options to purchase each vessel for \$1 on April 1, 2015 provided no earlier optional termination of the bareboat charter has occurred. The Company has not received notice of Chevron's intent to terminate any of these charters.

As of December 31, 2006, the Company had eight contracts for the construction of four VLCC newbuildings scheduled for delivery in 2009 and 2010 and four Suezmax newbuildings scheduled for delivery in 2008. As of December 31, 2006, the Company was committed to make further instalments of \$626.7 million.

As of December 31, 2006, the Company had a contract for the conversion of the Aframax vessel Front Puffin to a FPSO (Floating Production Storage Offloading) vessel with the delivery of the converted vessel in June, 2007. As of December 31, 2006, the Company was committed to make further instalments of \$72.8 million.

As of December 31, 2006, the Company had contracts for the conversion of the single hull Suezmax vessels Front Sunda and Front Target into heavy lift vessels. As of December 31, 2006, the Company was committed to make further instalments of \$64.9 million.

In June 2006, Ship Finance guaranteed a \$165 million term loan facility for its wholly owned subsidiary Rig Finance Ltd to finance a portion of the acquisition costs of the jack up rig SeaDrill 3. Ship Finance's maximum liability under this guarantee is limited to \$10.0 million.

In September 2006, Ship Finance guaranteed a \$22.7 million term loan facility for its wholly owned subsidiary Front Shadow Inc to assist in financing the purchase of the vessel Front Shadow. Ship Finance's maximum liability under this guarantee is \$2.1 million plus any outstanding interest.

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 believes that the resolution of such claims will not have a material adverse effect on the Company's operations or financial condition.

### 30. SUPPLEMENTAL INFORMATION

Non-cash investing and financing activities includes the following:

(in thousands of \$)	2006	2005	2004
Exchange of interests in associated companies:			
Additions to investments in associated companies	--	--	96,0
Disposals of investments in associated companies	--	--	(96,0

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Exercise of employee share options:			
Non-cash proceeds recorded for issuance of shares	--	--	7,5
Stock dividends:			
Spin-off of Golden Ocean	--	--	102,3
Spin-off of Ship Finance	27,841	211,881	287,9
Purchase of marketable securities:			
Forward contract	--	70,850	25,0
Vessels:			
Reclassification of vessel under conversion to newbuildings	(55,317)	--	
Vessel addition on termination of capital lease	13,502	--	
Additions to vessels purchased from related party	--	85,363	
Equity contribution from related party	--	(85,363)	

In December 2003, Frontline agreed with its partner, Overseas Shipholding, Group, Inc ("OSG"), to swap interests in six joint venture companies, which each own a VLCC. These agreements resulted in the Company exchanging its interest in three vessels in exchange for OSG's interest in three other vessels, thereby increasing its interest in those vessels to 100% each. The exchanges of interests were completed on February 24, 2004. These transactions have been accounted for as a non-monetary exchange of productive assets. The Company received a net cash settlement of \$2.3 million in the exchange transaction to reflect the difference in values of the assets exchanged and recognised a gain of \$0.2 million.

31. DISCONTINUED OPERATIONS

During the years ended December 31, 2005 and 2004, the Company disposed of portions of its dry bulk operations. In 2005, the Company's last remaining dry bulk vessel was sold and in 2004, dry bulks were disposed of in connection with the spin off of Golden Ocean. The portions disposed of have been recorded as discontinued operations in accordance with the requirements of FAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144") as the operations and cash flows of the operations have been eliminated from the ongoing operations of the Company as a result of the disposal. The Company will not have any significant continuing involvement in these dry bulk operations in the future.

The following table presents the information required by FAS 144 in respect of discontinued operations:

(in thousands of \$)	2005	2004
Carrying amount of assets disposed of	12,875	72,592
Carrying amount of debt or lease retired	11,246	48,950
Amounts recorded in discontinued operations:		
Operating revenues	1,324	32,594
Net income before cumulative effect of change in accounting principle	8,785	117,619
Gain on disposal	5,533	99,505

The gain on disposal of \$99.5 million in 2004 comprises of \$84.6 million from the distribution of 170,558,775 shares of Golden Ocean (equivalent of 76.0% of outstanding shares) and \$14.9 million from the sale of 30 million shares (equivalent of 13.4% of outstanding shares) which were sold on behalf of certain of the Company's U.S. shareholders who were excluded from

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the distribution of shares.

The fair value of the spin off of Golden Ocean was determined to be \$0.60 per Golden Ocean share (equivalent to NOK 3.71) by reference to the quoted share price of Golden Ocean on the Oslo Stock Exchange. In each of the first five days of trading on the Oslo Stock Exchange, the Company sold six million Golden Ocean shares in order to fund the cash portion of the distribution.

The Company used NOK 3.71 (\$0.60) as the per share fair value in calculating the gain on the distribution of shares and cash. The \$84.6 million gain on the distribution of shares and cash was been calculated as the difference between the fair value of the shares distributed of \$102.3 million and their book value of \$17.7 million. The \$14.9 million gain on the sale of shares was calculated as the difference between the sale proceeds of \$18.0 million and the book value of the shares of \$3.1 million.

As of December 31, 2004, the Company held 23,918,832 Golden Ocean shares representing 10.6% of the shares outstanding. These were reported under Marketable Securities and in February 2005, the Company sold these shares for a net gain of \$12.8 million, of which \$11.8 million was classified as discontinued operations representing the difference between the cost of the shares sold and the fair value of the shares at the date of the spin off of Golden Ocean.

In 2005 the Company recognised an expense in discontinued operations of \$10.2 million in connection with its guarantee of profit sharing payments for the vessel Channel Alliance.

### 32. POOL REVENUES

Voyage charter revenues include pool revenues. Certain pools are responsible for paying voyage expenses and distribute net pool revenues to the participants while other pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. An analysis of the Company's pool revenues included within voyage revenues is as follows:

	2006	2005	2004
Pool earnings allocated on gross basis	131,099	128,726	78,430
Pool earnings allocated on net basis	--	25,015	117,179
<b>Total pool earnings</b>	<b>131,099</b>	<b>153,741</b>	<b>195,609</b>

### 33. GAIN ON ISSUANCE OF SHARES BY ASSOCIATE

The Company has a 24.49% investment in IMAREX. IMAREX is an authorised marketplace for the trading of freight derivatives in the global oil and dry cargo shipping markets and was established in early 2000.

On March 31, 2005, IMAREX announced that it had successfully concluded a share issue prior to its listing on the Oslo Stock Exchange. A total of 432,098 shares were sold for a price of NOK 81 per share (par value NOK 1) raising a total of NOK 35 million. The Company did not participate in this share issue and as a result, its holding changed from 26.56% to 24.84%. On July 14, 2005, IMAREX issued 98,750 shares pursuant to their employee share option scheme and as a result, in 2005, the Company's holding changed to



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24.49%. A gain of \$1.1 million was recorded in the statement of operations as a result of these share issues by IMAREX.

### 34. SUBSEQUENT EVENTS

In January 2007, Ship Finance announced the sale of the vessel Front Transporter to an unrelated third party for gross proceeds of \$38 million. The vessel was delivered to her new owner in March 2007.

In January 2007, Ship Finance announced that it had entered into an agreement with Seadrill Limited to acquire the newbuilding jack-up rig West Prospero for an agreed purchase price of \$210 million with expected delivery in July 2007. Upon delivery, the rig will be bareboat chartered back to Seadrill for 15 years.

In January 2007, the Board of Directors of the Company's then wholly owned subsidiary Sealift Ltd ("Sealift") approved for up to 5% of Sealift's authorised share capital to be made available for the issuance of stock options to employees, directors and officers of Sealift.

In February 2007, the Company's Board of Directors declared a cash dividend of \$2.05 per share, which was paid on March 22, 2007.

In February 2007, Ship Finance announced the acquisition of two newbuilding Capesize dry bulk vessels from Golden Ocean for a purchase price of \$160 million with delivery expected to be in the fourth quarter of 2008 and the first quarter of 2009. Upon delivery, the vessels will commence a 15 year bareboat charter back to Golden Ocean.

In February 2007, the Board of Directors of the Company's then wholly owned subsidiary Sea Production Ltd ("Sea Production") approved for up to nine million shares of Sea Production to be made available for the issuance of stock options to present and future employees and directors and officers of Sea Production and its subsidiaries.

In February 2007, the Company's Board of Directors declared the distribution of its remaining holding in Ship Finance Shares. The distribution of three shares in Ship Finance for every 28 shares held in Frontline was made on March 22, 2007. As a result of the distribution the Company will deconsolidate Ship Finance as of the distribution date as it currently holds 73,383 shares which represents 0.01% of Ship Finance's total shares..

In February 2007, the Company's 100% owned subsidiary, Frontline Floating Production Ltd ("FFP"), sold its assets to Sea Production. The assets of FFP included a 70% investment in Puffin Ltd, the entity who ultimately owns the vessel Front Puffin. Sea Production was incorporated in 2007 as a 100% owned subsidiary of the Company. In February 2007 Sea Production completed a private placement of its equity. After the private placement the Company owned 28% of the equity of Sea Production. In June 2007, the Company sold its entire remaining shareholding in Sea Production for a net price of NOK 15.75 per share (approximately \$67 million).

In February 2007, the Board of Directors of Ship Finance approved the granting of the option for 10,000 shares in Ship Finance to an employee at a strike price of \$25.34.

In January 2007, the Company incorporated Sealift Ltd. ("Sealift") and sold six subsidiaries to Sealift. Sealift's total investment before conversion of vessel five and six is approximately \$476 million, adjusted for working capital. Concurrently, Sealift raised \$180 million in a private placement. Subsequent to the private placement, the Company held 33.33 percent of the

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shares in Sealift. As part of the sale agreement, Frontline has undertaken to convert four of the vessels owned by Sealift subsidiaries into heavy lift vessels. In May 2007, in line with the strategy previously advised, Sealift successfully completed the combination of its businesses with the Dockwise group of companies. Frontline is the second largest shareholder in the combined entity with an ownership of 17.1%. The first heavy lift vessel was delivered May 30, 2007 and the estimated delivery dates for the remaining three units will be in the period from September 2007 through second quarter 2008. Two of the vessels have been chartered back to the Company on a bareboat rate of \$15,000 per day per vessel from the end of March 2007 until the conversion takes place and two of the vessels have been chartered back to the Company on a bareboat rate of \$12,500 per day from early May 2007 until March 2008 and May 2008, respectively.

In March 2007, the single hull VLCC Front Vanadis was sold to an unrelated third party and delivery took place in May 2007. Upon delivery, the long term charter party between Frontline and Ship Finance was terminated, and Frontline received a compensation payment in the amount of \$13.2 million for the early termination of the charter party, which will be recorded in the second quarter of 2007.

In March 2007, Ship Finance announced the acquisition of three newbuilding seismic vessels for a price of \$210 million from an unrelated third party. The vessels are expected to be delivered in January, April and July 2008. Upon delivery, the vessels will commence 12 year contracts back to the seller.

In March and April 2007, the Company exercised its four remaining options for 156,000 dwt Suezmax newbuilding contracts which are scheduled for delivery between April and December 2010, respectively.

In May 2007, the Company's Board of Directors declared a cash dividend of \$1.50 per share, to be paid on or around June 22, 2007.

In June 2007, the Company announced that it had agreed to sell the Front Horizon for \$28 million with delivery to her new owners expected in July or August 2007.