

FRONTLINE LTD /  
Form 20-F  
March 16, 2015

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, 2014

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 \_\_\_\_\_

Commission file number 001-16601

Frontline Ltd.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Bermuda

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Georgina Sousa, Telephone: (1) 441 295 6935, Facsimile: (1) 441 295 3494,

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

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class

Name of each exchange on which registered

Ordinary Shares, Par Value \$1.00 Per Share

New York Stock Exchange

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

None

(Title of Class)

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

Ordinary Shares, Par Value \$1.00 Per Share

(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.

112,342,989 Ordinary Shares, Par Value \$1.00 Per Share

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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the  
International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, 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

## INDEX TO REPORT ON FORM 20-F

	PAGE
<u>PART I</u>	
<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>
	<u>2</u>
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>
	<u>2</u>
<u>Item 3.</u>	<u>Key Information</u>
	<u>2</u>
<u>Item 4.</u>	<u>Information on the Company</u>
	<u>18</u>
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>
	<u>31</u>
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>
	<u>32</u>
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>
	<u>54</u>
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>
	<u>57</u>
<u>Item 8.</u>	<u>Financial Information</u>
	<u>61</u>
<u>Item 9.</u>	<u>The Offer and Listing</u>
	<u>61</u>
<u>Item 10.</u>	<u>Additional Information</u>
	<u>62</u>
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	<u>74</u>
<u>Item 12.</u>	<u>Description of Securities other than Equity Securities</u>
	<u>75</u>
<u>PART II</u>	
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>
	<u>76</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>
	<u>76</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>
	<u>76</u>
<u>Item 16.</u>	<u>Reserved</u>
	<u>77</u>
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>
	<u>77</u>
<u>Item 16B.</u>	<u>Code of Ethics</u>
	<u>77</u>
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>
	<u>77</u>
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>
	<u>78</u>
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>
	<u>78</u>
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>
	<u>78</u>
<u>Item 16G.</u>	<u>Corporate Governance</u>
	<u>78</u>
<u>Item 16H.</u>	<u>Mine Safety Disclosures</u>
	<u>78</u>
<u>PART III</u>	
<u>Item 17.</u>	<u>Financial Statements</u>
	<u>79</u>
<u>Item 18.</u>	<u>Financial Statements</u>
	<u>79</u>
<u>Item 19.</u>	<u>Exhibits</u>
	<u>80</u>

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this report and the documents incorporated by reference may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements, which 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. and its subsidiaries, 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. 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, including without limitation, management's examination of historical operating trends, data contained in our records and data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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 charter hire rates and vessel values, changes in the supply and demand for vessels comparable to ours, changes in world wide oil production and consumption and storage, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, the market for the Company's vessels, availability of financing and refinancing, our ability to obtain financing and comply with the restrictions and other covenants in our financing arrangements, availability of skilled workers and the related labor costs, compliance with governmental, tax, environmental and safety regulation, any non-compliance with the U.S. Foreign Corrupt Practices Act of 1977 (FCPA) or other applicable regulations relating to bribery, general economic conditions and conditions in the oil industry, effects of new products and new technology in our industry, the failure of counter parties to fully perform their contracts with us, our dependence on key personnel, adequacy of insurance coverage, our ability to obtain indemnities from customers, changes in laws, treaties or regulations, the volatility of the price of our ordinary shares; our incorporation under the laws of Bermuda and the different rights to relief that may be available compared to other countries, including the United States, 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 or Commission.

We caution readers of this report not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward looking statements are not guarantees of our future performance, and actual results and future developments may vary materially from those projected in the forward looking statements. Please see our Risk Factors in Item 3 of this report for a more complete discussion of these and other risks and uncertainties.



## 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 Suezmax tankers, which are vessels between 120,000 and 170,000 dwt. Unless otherwise indicated, all references to "USD", "US\$" and "\$" in this report are U.S. dollars.

## A. SELECTED FINANCIAL DATA

The selected statement of operations data of the Company with respect to the fiscal years ended December 31, 2014, 2013 and 2012 and the selected balance sheet data of the Company as of December 31, 2014 and 2013, have been derived from the Company's consolidated financial statements included herein and should be read in conjunction with such statements and the notes thereto. The selected statement of operations data with respect to the fiscal years ended December 31, 2011 and 2010 and the selected balance sheet data as of December 31, 2012, 2011 and 2010 have been derived from consolidated financial statements of the Company not included herein. The following table should also be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's consolidated financial statements and notes thereto included herein. The Company's accounts are maintained in U.S. dollars.

	Fiscal year ended December 31,				
	2014	2013	2012	2011	2010
(in thousands of \$, except ordinary shares, per share data and ratios)					
Statement of Operations Data (1) (2):					
Total operating revenues	559,688	517,190	578,361	723,495	1,028,303
Total operating expenses	632,908	641,182	594,212	849,476	812,047
Net operating (loss) income	(48,600 )	(100,434 )	18,908	(406,784 )	247,191
Net (loss) income from continuing operations	(171,660 )	(189,878 )	(71,231 )	(530,741 )	114,091
Net (loss) income from discontinued operations	—	(1,204 )	(12,544 )	1,731	50,131
Net (loss) income	(171,660 )	(191,082 )	(83,775 )	(529,010 )	164,004
Net (loss) income attributable to Frontline Ltd.	(162,938 )	(188,509 )	(82,754 )	(529,601 )	161,407
Basic (loss) income per share from continuing operations, excluding loss attributable to noncontrolling interest (\$)	\$(1.63 )	\$(2.35 )	\$(0.90 )	\$(6.82 )	\$1.43
Diluted (loss) income per share from continuing operations, excluding loss attributable to noncontrolling interest (\$)	\$(1.63 )	\$(2.35 )	\$(0.90 )	\$(6.82 )	\$1.33

Edgar Filing: FRONTLINE LTD / - Form 20-F

Basic (loss) income per share attributable to Frontline Ltd. (\$)	\$(1.63	)	\$(2.36	)	\$(1.06	)	\$(6.80	)	\$2.07
Diluted (loss) income per share attributable to Frontline Ltd. (\$)	\$(1.63	)	\$(2.36	)	\$(1.06	)	\$(6.80	)	\$2.01
Cash dividends per share declared (\$)	\$—		\$—		\$—		\$0.22		\$2.00

	Fiscal year ended December 31,				
	2014	2013	2012	2011	2010
(in thousands of \$, except ordinary shares and ratios)					
Balance Sheet Data (at end of year) (2)(3):					
Cash and cash equivalents	64,080	53,759	137,603	160,566	176,639
Newbuildings	15,469	29,668	26,913	13,049	224,319
Vessels and equipment, net	56,624	264,804	282,946	312,292	1,430,124
Vessels and equipment under capital lease, net	550,345	704,808	893,089	1,022,172	1,427,526
Investment in unconsolidated subsidiaries and associated companies	60,000	58,658	40,633	27,340	3,408
Total assets	962,179	1,367,605	1,688,221	1,840,569	3,797,920
Short-term debt and current portion of long-term debt	165,357	22,706	20,700	19,521	173,595
Current portion of obligations under capital leases	78,989	46,930	52,070	55,805	193,379
Long-term debt	27,500	436,372	463,292	493,992	1,190,763
Obligations under capital leases	564,692	742,418	898,490	957,431	1,336,908
Share capital	112,343	86,512	194,646	194,646	194,646
Total (deficit) equity attributable to Frontline Ltd.	(70,981 )	(26,952 )	119,675	200,984	747,133
Ordinary shares outstanding	112,342,989	86,511,713	77,858,502	77,858,502	77,858,502
Weighted average ordinary shares outstanding	99,938,586	79,750,505	77,858,502	77,858,502	77,858,502
Other Financial Data:					
Equity to assets ratio (percentage) (4)	(7.4 )%	(2.0 )%	7.1 %	10.9 %	19.7 %
Debt to (deficit) equity ratio (5)	(11.8)	(46.3 )	12.0	7.6	3.9
Price earnings ratio (6)	(1.5 )	(1.6 )	(3.1 )	(0.6 )	12.3
Time charter equivalent revenue (7)	235,546	191,695	282,731	411,002	731,092

## Notes:

The Company terminated the lease on its final OBO carrier in March 2013 at which time it recorded the results of its 1. OBO carriers as discontinued operations. The statement of operations data for all years presented above has been presented on a comparable basis.

The Company completed a restructuring of its business in December 2011 (see description below in Item 4-A. History and Development of the Company), which involved the sale of 15 wholly-owned special purpose companies (which owned six VLCCs, including one on time charter, four Suezmax tankers and five newbuilding contracts) to an equity method investee of the Company, and the renegotiation of the majority of the Company's charter parties relating to vessels chartered in by the Company. A summary of the major changes to the balance sheet at December 31, 2011 is as follows;

- a. The net book value of 'Vessels and equipment, net' was reduced by \$864.9 million.
- b. The net book value of 'Vessels and equipment under capital lease, net' was reduced by \$156.3 million.
- c. Capital lease obligations with Ship Finance International Limited (NYSE: SFL), a related party, or Ship Finance, were reduced by \$232.5 million and capital lease obligations with other counter parties, not related to the Company,



- were reduced by \$29.8 million.
- d. Bank debt was eliminated.
- e. The net book value of 'Newbuildings' was reduced by \$237.1 million.
- f. Newbuilding commitments were reduced by \$325.5 million.

<sup>3</sup> In July 2014, the Company de-consolidated the Windsor group (see description below in Item 4-A. History and Development of the Company) and removed restricted cash balances of \$17.9 million, other current assets of \$28.1

3

---

million, vessels of \$174.8 million, other current liabilities of \$28.6 million and debt of \$179.8 million from its balance sheet.

4. Equity-to-assets ratio is calculated as total equity attributable to Frontline Ltd. divided by total assets.

5. Debt-to-(deficit) equity ratio is calculated as total interest bearing current and long-term liabilities, including obligations under capital leases, divided by total (deficit) equity attributable to Frontline Ltd..

6. Price earnings ratio is calculated by dividing the closing year end share price 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:

	2014	2013	2012	2011	2010
(in thousands of \$)					
Total operating revenues	559,688	517,190	578,361	723,495	1,028,303
Less:					
Other income	(37,775 )	(25,754 )	(25,785 )	(20,969 )	(20,678 )
Voyage expense	(286,367 )	(299,741 )	(269,845 )	(291,524 )	(276,533 )
Time charter equivalent revenue	235,546	191,695	282,731	411,002	731,092

Consistent with general practice in the shipping industry, the Company uses time charter equivalent revenue, which represents operating revenues less other income and voyage expenses, as a measure to compare revenue generated from a voyage charter to revenue generated from a time charter. Time charter equivalent revenue, a non-GAAP measure, provides additional meaningful information in conjunction with operating revenues, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating the Company's financial performance.

#### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

#### D. RISK FACTORS

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

##### Risks Related to Our Industry

###### Tankers

If the tanker industry, which historically has been cyclical and volatile, continues to be depressed or declines further in the future, our revenues, earnings and available cash flow may be adversely affected

Historically, the tanker industry has been highly cyclical, with volatility in profitability, charter rates and asset values resulting from changes in the supply of, and demand for, tanker capacity. After reaching highs during the summer of

2008, charter rates for crude oil carriers fell dramatically in connection with the commencement of the global financial crisis and current rates continue to remain at relatively low levels compared to the rates achieved in the years preceding the global financial crisis. Fluctuations in charter rates and tanker values result from changes in the supply of and demand for tanker capacity and changes in the supply of and demand for oil and oil products. These factors may adversely affect the rates payable and the amounts we receive in respect of our vessels. Our ability to re-charter our vessels on the expiration or termination of their current spot and time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in

the tanker market and we cannot guarantee that any renewal or replacement charters we enter into will be sufficient to allow us to operate our vessels profitably.

The factors that influence demand for tanker capacity include:

- supply and demand for oil and oil products;
- global and regional economic and political conditions, including developments in international trade, national oil reserves policies, fluctuations in industrial and agricultural production and armed conflicts;
- regional availability of refining capacity;
- environmental and other legal and regulatory developments;
- the distance oil and oil products are to be moved by sea;
- changes in seaborne and other transportation patterns, including changes in the distances over which tanker cargoes are transported by sea;
- increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- currency exchange rates;
- weather and acts of God and natural disasters;
- competition from alternative sources of energy and from other shipping companies and other modes of transport;
- international sanctions, embargoes, import and export restrictions, nationalizations, piracy and wars; and
- regulatory changes including regulations adopted by supranational authorities and/or industry bodies, such as safety and environmental regulations and requirements by major oil companies.

The factors that influence the supply of tanker capacity include:

- current and expected purchase orders for tankers;
- the number of tanker newbuilding deliveries;
- any potential delays in the delivery of newbuilding vessels and/or cancellations of newbuilding orders;
- the scrapping rate of older tankers;
- the successful implementation of the phase-out of single-hull tankers;
- technological advances in tanker design and capacity;
- tanker freight rates, which are affected by factors that may affect the rate of newbuilding, swapping and laying up of tankers;
- port and canal congestion;
- price of steel and vessel equipment;
- conversion of tankers to other uses or conversion of other vessels to tankers;
- the number of tankers that are out of service; and
- changes in environmental and other regulations that may limit the useful lives of tankers.

The factors affecting the supply and demand for tankers have been volatile and are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable, including those discussed above. While market conditions have improved since the global financial crisis in 2008, continued volatility may reduce demand for transportation of oil over longer distances and increase supply of tankers to carry that oil, which may have a material adverse effect on our business, financial condition, results of operations, cash flows, ability to pay dividends and existing contractual obligations.

The international tanker industry has experienced volatile charter rates and vessel values and there can be no assurance that these charter rates and vessel values will return to their previous levels

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 economic growth in the world's economies, as well as seasonal and regional changes in demand and changes in the capacity of the world's fleet. We believe that the relatively high charter rates that were paid prior to 2008 were the result of economic growth in the world economies that exceeded growth in global vessel capacity. Since 2008 charter rates have been volatile, and 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 vessel values and charter rates would have an adverse effect on our business, financial condition, results of operation and ability to pay dividends.

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

The demand for our oil tankers derives primarily from demand for Arabian Gulf, West African, North Sea and Caribbean crude oil, 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. Any decrease in shipments of crude oil from the above mentioned geographical areas would have a material adverse effect on our financial performance. Among the factors which could lead to such a decrease are:

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

In addition, volatile economic conditions affecting the United States and world economies may result in reduced consumption of oil products and a decreased demand for our vessels and lower charter rates, which could have a material adverse effect on our earnings and our ability to pay dividends.

An over-supply of tanker capacity may lead to reductions in charter rates, vessel values and profitability

In recent years, shipyards have produced a large number of new tankers. If the capacity of new vessels delivered exceeds the capacity of tankers being scrapped and converted to non-trading tankers, tanker capacity will increase. If the supply of tanker capacity increases and the demand for tanker capacity does not increase correspondingly, charter rates could materially decline. A reduction in charter rates and the value of our vessels may have a material adverse effect on our results of operations, our ability to pay dividends and our compliance with current or future covenants in any of our agreements.

### Shipping Generally

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:

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

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

Volatile economic conditions throughout the world could have an adverse impact on our operations and financial results

The world economy continues to face a number of challenges, including turmoil and hostilities in the Middle East, North Africa and other geographic areas and continuing economic weakness in the European Union. There has historically been a strong link between the development of the world economy and demand for energy, including oil and gas. An extended period of deterioration in the outlook for the world economy could reduce the overall demand for oil and gas and for our services. While market conditions have improved, continued adverse and developing economic and governmental factors, together with the concurrent volatility in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition and cash flows, and could cause the price of our ordinary shares to decline.

The European Union continues to experience relatively slow growth and exhibit weak economic trends. Over the past six years, the credit markets in Europe have experienced significant contraction, de-leveraging and reduced liquidity. While credit conditions are beginning to stabilize, global financial markets have been, and continue to be, disrupted and volatile. Since 2008, lending by financial institutions worldwide remains at lower levels compared to the period preceding 2008.

The continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP for the year ended December 31, 2014, is estimated to be around 7.4%, down from a growth rate of 7.7% for the year ended December 31, 2013, and remaining below pre-2008 levels. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Our financial condition and results of operations, as well as our future prospects, would likely be impeded by a continuing or worsening economic downturn in any of these countries.

The inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position

As a result of the credit crisis in Europe, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In September 2012, the European Council established a permanent stability mechanism, the European Stability Mechanism, or the ESM, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations. Potential adverse developments in the outlook for European countries could reduce the overall demand for oil cargoes and for our services. Market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

The current state of the global financial markets and current economic conditions may adversely impact our ability to obtain financing on acceptable terms and otherwise negatively impact our business

Global financial markets and economic conditions have been, and continue to be, volatile. This volatility has negatively affected the general willingness of banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. The shipping industry, which is highly dependent on the availability of credit to finance and expand operations, has been and may continue to be negatively affected by this decline.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that financing will be available if needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

In addition, at times, lower demand for crude oil as well as diminished trade credit available for the delivery of such crude oil have led to decreased demand for tankers creating downward pressure on charter rates.

If the current global economic environment worsens, we may be negatively affected in the following ways:

- we may not be able to employ our vessels at charter rates as favorable to us as historical rates or at all or operate our vessels profitably; and
- the market value of our vessels could decrease, which may cause us to recognize losses if any of our vessels are sold or if their values are impaired.



The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

7

---

Acts of piracy on ocean-going vessels could adversely affect our business

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased in 2014 as compared to 2013, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with tankers particularly vulnerable to such attacks. If these piracy attacks occur in regions in which our vessels are deployed that insurers characterize as "war risk" zones or by the Joint War Committee as "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ on-board security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, results of operations, cash flows, financial condition and ability to pay dividends and may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

World events could affect our results of operations and financial condition

Continuing conflicts in the Middle East and North Africa, and the presence of United States and other armed forces in Afghanistan, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences, or the perception that our vessels are potential terrorist targets, could have a material adverse impact on our business, financial condition, results of operations and ability to pay dividends.

Our vessels may call on ports located in countries that are subject to restrictions imposed by the U.S. or other governments, which could adversely affect our reputation and the market for our ordinary shares

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, such as Cuba, Iran, Sudan and Syria. In the past, certain of our vessels have made port calls to Iran, however, none of our vessels made any port calls to Iran during 2014. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. With effect from July 1, 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies, such as ours, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, on May 1, 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's

petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action" ("JPOA"). Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and EU would voluntarily suspend certain sanctions for a period of six months. On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures included, among other things, the

suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014. The U.S. initially extended the JPOA until November 24, 2014, and it has since extended it until June 30, 2015.

Although we believe that we have been in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Compliance with safety and other vessel requirements imposed by classification societies may be costly and could reduce our net cash flows and net income

The hull and machinery of every commercial vessel must be certified as being "in class" by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. We expect our vessels to be on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be dry docked every two and a half to five years for inspection of its underwater parts.

Compliance with the above requirements may result in significant expense. If any vessel does not maintain its class or fails any annual, intermediate or special survey, the vessel will be unable to trade between ports and will be unemployable, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect our business, results of operations and financial condition

Our operations will be subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, European Union regulations, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Clean Air Act, the U.S. Clean Water Act, the International Maritime Organization, or IMO, International

Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the IMO International Convention on Civil Liability for Bunker Oil Pollution Damage, the IMO International Convention for the Prevention of Pollution from Ships of 1973, generally referred to as MARPOL, the IMO International Convention for the Safety of Life at Sea of 1974, generally referred to as SOLAS, the IMO International Convention on Load Lines of 1966 and the U.S. Maritime Transportation Security Act of 2002, or the MTSA. Compliance with such laws and regulations, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. Compliance with such laws and regulations may require us to obtain certain permits or authorizations prior to commencing operations. Failure to obtain such permits or authorizations could materially impact our business results of operations, financial conditions and ability to pay dividends by delaying or limiting our ability to accept charterers. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. Additionally, we cannot predict the cost of compliance with any new regulations that may be promulgated as a result of the 2010 BP plc Deepwater Horizon oil spill in the Gulf of Mexico or other similar incidents in the future. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition.

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, to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective 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. To date, there has not been sufficient adoption of this standard for it to take force. Many of the implementation dates in the BWM Convention have already passed, so that once the BWM Convention enters into force, the period of installation of mandatory ballast water exchange requirements would be extremely short, with several thousand ships a year needing to install ballast water management systems (BWMS). For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of the BWM Convention so that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This, in effect, makes all vessels constructed before the entry into force date "existing vessels" and allows for the installation of a BWMS on such vessels at the first renewal survey following entry into force of the convention. Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of such compliance would be material, it is difficult to predict the overall impact of such a requirement on our operations.

A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability, without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil in U.S. waters, including the 200-nautical mile exclusive economic zone around the United States. An oil spill could also result in significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other international and U.S. Federal, state and local laws, as well as third-party damages, including punitive damages, and could harm our reputation with current or potential charterers of our tankers. We will be required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although our technical manager will arrange for insurance to cover our vessels with respect to certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we fail to comply with international safety regulations, we may be subject to increased liability, which may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports

The operation of our vessels is affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. If we fail to comply with the ISM Code, we may be subject to increased liability, including the invalidation of existing insurance or a decrease of available insurance coverage for our affected vessels and such failure may result in a denial of access to, or detention in, certain ports.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien-holder may enforce its lien by "arresting" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could result in a significant loss of earnings for the related off-hire period.

In addition, in jurisdictions where the "sister ship" theory of liability applies, such as South Africa, a claimant may arrest 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. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

Governments could requisition our vessels during a period of war or emergency resulting in a loss of earnings

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

vessels could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

#### Risks Related to Our Business

We may be unable to comply with the covenants contained in our loan agreement, which could affect our ability to conduct our business

On June 27, 2014, we entered into a \$60.0 million term loan agreement with Nordea Bank Norge ASA (“Nordea”), or the Loan Facility, to partially finance two Suezmax newbuildings. We drew down \$30.0 million in the third quarter of 2014 for the vessel delivered in the second quarter of 2014 and drew down \$30.0 million in January 2015 upon delivery of the second newbuilding. The Loan Facility contains various financial and other covenants. Additionally, the loan associated with our convertible bonds also imposes operating and negative covenants on us and our subsidiaries.

If we are not in compliance with our covenants and we are not able to obtain covenant waivers or modifications, our lenders could require us to post additional collateral, increase our interest payments or pay down our indebtedness to a level where we are in compliance with our loan covenants, or they could accelerate our indebtedness, which would impair our ability to continue to conduct our business. If our indebtedness is accelerated, we might not be able to refinance our debt or obtain additional financing and could lose our vessels if our lenders foreclose their liens. In addition, if we find it necessary to sell our vessels at a time when vessel prices are low, we will recognize losses and a reduction in our earnings, which could affect our ability to raise additional capital necessary for us to comply with our loan agreements.

We are dependent on the spot market and any decrease in spot market rates in the future may adversely affect our earnings and our ability to pay dividends

As of December 31, 2014, our tanker fleet consisted of 22 vessels and comprised 14 VLCCs (excluding the four vessels in the Windsor group, which were not consolidated at December 31, 2014) and eight Suezmax tankers, of which one Suezmax, Front Ull, is owned and the remaining 21 are chartered in. We also had one Suezmax newbuilding on order, Front Idun, a sister vessel of Front Ull, which was delivered in January 2015. Of our vessels, 18 vessels are currently employed in the spot market exposing us to fluctuations in spot market charter rates.

Historically, the tanker market has been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. The spot market may fluctuate significantly based upon supply and demand of vessels and cargoes. The successful operation of our vessels in the competitive spot market depends upon, among other things, obtaining profitable charters and minimizing, to the extent possible, time spent waiting for charters and time spent in ballast. The spot market is very volatile, and, in the past, there have been periods when spot rates have declined below the operating cost of vessels. If future spot market rates decline, then we may be unable to operate our vessels trading in the spot market profitably, meet our obligations, including payments on indebtedness, or to pay dividends in the future. Furthermore, as charter rates in the spot market are fixed for a single voyage, which may last up to several weeks, during periods in which charter rates are rising, we will generally experience delays in realizing the benefits from such increases.

Our ability to renew the charters on our vessels on the expiration or termination of our current charters, or on vessels that we may acquire in the future, or the charter rates payable under any replacement charters and vessel values will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the seaborne transportation of energy resources.



A drop in spot market rates may provide an incentive for some charterers to default on their charters, and the failure of our counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business

We have entered into various contracts, including charter parties with our customers, which subject us to counterparty risks. The ability of each of the counterparties to perform its obligations under a contract with us or contracts entered into on our behalf will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the shipping sector, the overall financial condition of the counterparty, charter rates received for tankers and the supply and demand for commodities. Should a counterparty fail to honor its obligations under any such contracts, we could sustain significant losses that could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to pay dividends.

When we enter into a time charter or bareboat charter, charter rates under that charter are fixed for the term of the charter. If the spot market rates or short-term time charter rates in the tanker industry become significantly lower than the time charter equivalent

rates that some of our charterers are obligated to pay us under our existing charters, the charterers may have incentive to default under that charter or attempt to renegotiate the charter. If our charterers fail to pay their obligations, we would have to attempt to re-charter our vessels, which if re-chartered at lower rates, may affect our ability to operate our vessels profitably and may affect our ability to comply with current or future covenants contained in our loan agreements.

Further, if the charterer of a vessel in our fleet that is used as collateral under any loan agreement enters into default on its charter obligations to us, such default may constitute an event of default under such loan agreement, which could allow the bank to exercise remedies under the loan agreement. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and compliance with current or future covenants in our loan agreements

Changes in the price of fuel, or bunkers, may adversely affect our profits

For vessels on voyage charters, fuel oil, or bunkers, is a significant, if not the largest, expense. Changes in the price of fuel may adversely affect our profitability to the extent we have vessels on voyage charters. 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. Despite lower fuel oil prices in the beginning of 2015, 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.

The operation of tankers involve certain unique operational risks

The operation of tankers has unique operational risks associated with the transportation of oil. An oil spill may cause significant environmental damage, and a catastrophic spill could exceed the insurance coverage available. Compared to other types of vessels, tankers are exposed to a higher risk of damage and loss by fire, whether ignited by a terrorist attack, collision, or other cause, due to the high flammability and high volume of the oil transported in tankers.

Further, our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather and other acts of God, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These hazards may result in death or injury to persons, loss of revenues or property, the payment of ransoms, environmental damage, higher insurance rates, damage to our customer relationships and market disruptions, delay or rerouting.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover at all or in full. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, may adversely affect our business and financial condition. 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 our vessels may be forced to travel to a drydocking facility that is not conveniently located relative to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to travel to more distant drydocking facilities may adversely affect our business and financial condition. Further, the total loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs or loss which could negatively impact our business, financial condition, results of operations, cash flows and ability to pay

dividends.

Purchasing and operating secondhand vessels may result in increased operating costs and vessels off-hire, which could adversely affect our earnings

Even following a physical inspection of secondhand vessels prior to purchase, we do not have the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Accordingly, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. Also, when purchasing previously owned vessels, we do not receive the benefit of any builder warranties if the vessels we buy are older than one year.

12

---

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine technology. Governmental regulations, safety and other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to some of our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. As a result, regulations and standards could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to pay dividends.

Our ability to obtain debt financing may be dependent on the performance of our then-existing charters and the creditworthiness of our charterers

We may incur additional bank debt in the future to fund, among other things, our general corporate purposes or the expansion of our fleet. The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the capital resources required to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain financing at anticipated costs or at all may materially affect our results of operation and our ability to implement our business strategy.

Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels which may adversely affect our earnings, or could cause us to incur impairment charges

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

- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies;
- types and sizes of vessels;
- the availability of other modes of transportation;
- cost of newbuildings;
- shipyard capacity;
- governmental or other regulations;
- age of vessels;
- prevailing level of charter rates;
- the need to upgrade secondhand and previously owned vessels as a result of charterer requirements;
- and
- technological advances in vessel design or equipment or otherwise.

During the period a vessel is subject to a charter, we will not be permitted to sell it to take advantage of increases in vessel values without the charterers' agreement. 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. We recorded an impairment charge of \$97.7 million in the year ended December 31, 2014, as compared to an impairment charge of \$103.7 million in the year ended December 31, 2013 (\$32.0 million, including \$27.3 million recorded in discontinued operations, in the year ended December 31, 2012). It is possible that the market value of our vessels will continue to decline in the future and could adversely affect our ability to comply with current or future financial covenants contained in our loan agreements or other financing arrangements. Any impairment charges incurred as a result of declines in charter rates and other market deterioration could negatively affect our business, financial condition, operating results or the trading price of our ordinary shares.

Conversely, if vessel values are elevated at a time when we wish to acquire additional vessels, the cost of acquisition may increase and this could adversely affect our business, results of operations, cash flow and financial condition.

We may be unable to successfully compete with other vessel operators for charters, which could adversely affect our results of operations and financial position

The operation of tankers and transportation of crude and petroleum products is extremely competitive. Through our operating subsidiaries we compete with other vessel 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 we could not obtain suitable employment for our vessels, which could adversely affect our results of operations and financial position.

Our time charters may limit our ability to benefit from any improvement in charter rates, and at the same time, our revenues may be adversely affected if we do not successfully employ our vessels on the expiration of our charters

As of December 31, 2014, one of our vessels was on time charter and four of our vessels have been contractually committed to time charters in 2015. While our 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. By the same token, we cannot assure you that we will be able to successfully employ our vessels in the future at rates sufficient to allow us to operate our business profitably or meet our obligations. A decline in charter or spot rates or a failure to successfully charter our vessels could have a material adverse effect on our business, financial condition, results of operation and ability to pay dividends.

We may be unable to locate suitable vessels for acquisition which would adversely affect our ability to expand our fleet

Changing market and regulatory conditions may limit the availability of suitable vessels because of customer preferences or because they are not or will not be compliant with existing or future rules, regulations and conventions. Additional vessels of the age and quality we desire may not be available for purchase at prices we are prepared to pay or at delivery times acceptable to us, and we may not be able to dispose of vessels at reasonable prices, if at all. If we are unable to purchase and dispose of vessels at reasonable prices in response to changing market and regulatory conditions, our business may be adversely affected.

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

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

Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and cause disruption of our business

International shipping is subject to security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. Under the MTSA, 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. These security procedures can result in delays in the loading, offloading or trans-shipment and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, carriers. Future changes to the existing security procedures may be implemented that could affect the tanker sector. These changes have the potential to impose additional financial and legal obligations on carriers and, in certain cases, to render the shipment of certain types of goods uneconomical or impractical. These additional costs could reduce the volume of goods shipped, resulting in a decreased demand for vessels and have a negative effect on our business, revenues and customer relations.

Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties and an adverse effect on our business

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt

Practices Act of 1977. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

#### Risks Related to Our Company

We cannot assure you that we will be able to repay our convertible bond loan, which matures in April 2015

While the Company believes it will be able to repay all of the outstanding borrowings under its convertible bond loan when they are due in April 2015 from cash on hand and committed bridge financing against shares in Frontline 2012, which were val

ued at approximately \$75 million as of March 6, 2015, the Company cannot assure you that it will be able to do so and cannot assure you that it will not be necessary to consider other financing alternatives to cover the convertible bond repayment, such as raising equity. These financing alternatives could adversely affect our business, results of operations, cash flow and financial condition.

We cannot assure you that we will be able to raise equity sufficient to meet our future capital and operating needs, and investors may experience significant dilution as a result of the ATM offering and future offerings

As of December 31, 2014, 15,013,184 of our ordinary shares have been sold for gross proceeds of \$60.4 million pursuant to the equity distribution agreement entered into in connection with the at-the-market, or ATM offering. In January 2015 and February 2015, the Company issued 10,009,703 and 902,744 ordinary shares, respectively, pursuant to its equity distribution agreement generating gross proceeds on \$37.2 million. Accordingly, we have the ability to raise an additional \$52.4 million through sales under our ATM program. Based on an assumed offering price of \$2.49 per share, which was the last reported closing price of our ordinary shares on the NYSE on March 6, 2015, we could offer an additional 21,044,177 ordinary shares, which as of December 31, 2014 represents an increase of approximately 28% in our issued and outstanding ordinary shares. Because the sales of the shares offered hereby will be made directly into the market or in negotiated transactions, the prices at which we sell these shares will vary and these variations may be significant. Purchasers of the shares we sell, as well as our existing shareholders, will experience significant dilution if we sell shares at prices significantly below the price at which they invested. In addition, we may offer additional ordinary shares in the future, which may result in additional significant dilution.

Furthermore, even if we raise the net proceeds discussed above, we cannot assure you that such proceeds will be sufficient to meet our ongoing capital and operating needs.

#### Incurrence of expenses or liabilities may reduce or eliminate distributions

Our policy is to make distributions to shareholders based on earnings and cash flow, and our dividends have fluctuated based on such factors. In 2014, we made no dividend distributions and we have not paid a dividend since the third quarter of 2011. The amount and timing of dividends will depend on our earnings, financial condition, cash position, Bermuda law affecting the payment of distributions and other factors. However, we could incur other expenses or contingent liabilities that would reduce or eliminate the cash available for distribution by us as dividends. In addition, the timing and amount of dividends, if any, is at the discretion of our Board of Directors, or Board. We cannot assure you that we will pay dividends.

#### We may not be able to finance our future capital commitments

We cannot guarantee that we will be able to obtain financing at all or on terms acceptable to us. If adequate funds are not available, we may have to reduce expenditures for investments in new and existing projects, which could hinder our growth and prevent us from realizing potential revenues from prior investments which will have a negative impact on our cash flows and results of operations.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. The average age of our tanker fleet is approximately 13.5 years. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to



our vessels and may restrict the type of activities in which our vessels may engage. As our vessels age, market conditions might not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

If we do not set aside funds and are unable to borrow or raise funds for vessel replacement at the end of a vessel's useful life our revenue will decline, which would adversely affect our business, results of operations, financial condition and ability to pay dividends

If we do not set aside funds and are unable to borrow or raise funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, results of operations, financial condition and ability to pay dividends would be adversely affected. Any funds set aside for vessel replacement will not be available for dividends.

Hemen may be able to exercise significant influence over us and may have conflicts of interest with our other shareholders

As of March 6, 2015, Hemen Holding Ltd, or Hemen, a Cyprus holding company, which is indirectly controlled by trusts established by our Chairman and Chief Executive Officer, Mr. Fredriksen, for the benefit of his immediate family, owns approximately 21% of our outstanding ordinary shares. For so long as Hemen owns a significant percentage of our outstanding ordinary shares, it may be able to exercise significant influence over us and will be able to strongly influence the outcome of shareholder votes on other matters, including the adoption or amendment of provisions in our articles of incorporation or bye-laws and approval of possible mergers, amalgamations, control transactions and other significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, merger, amalgamations, consolidation, takeover or other business combination. This concentration of ownership could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our ordinary shares. Hemen, may not necessarily act in accordance with the best interests of other shareholders. The interests of Hemen may not coincide with the interests of other holders of our ordinary shares. To the extent that conflicts of interests may arise, Hemen may vote in a manner adverse to us or to you or other holders of our securities.

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

If labor interruptions are not resolved in a timely manner, they could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash

As of December 31, 2014, we employed approximately 118 people in our offices in Bermuda, London, Oslo, Singapore, India and the Philippines. We contract with independent ship managers to manage and operate our vessels, including the crewing of those vessels. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out as we expect and could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.

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. 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 will be adequately insured against all risks and we cannot guarantee that any particular claim will be paid.

Although we do not anticipate any difficulty in having our technical manager initially obtain insurance policies for us, we cannot assure you that we will be able to obtain adequate insurance coverage for our vessels in the future or renew such policies on the same or commercially reasonable terms, or at all. For example, more stringent environmental regulations have in the past led to increased costs for, and in the future may result in the lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm our business, results of operations, cash flows, financial condition and ability to pay

dividends. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our vessels failing to maintain certification with applicable maritime self-regulatory organizations. Further, we cannot assure you that our insurance policies will cover all losses that we incur, or that disputes over insurance claims will not arise with our insurance carriers. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. In addition, our insurance policies may be subject to limitations and exclusions, which may increase our costs or lower our revenues, which may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We may be subject to calls because we obtain some of our insurance through protection and indemnity associations

We may be subject to increased premium payments, or calls, if the value of our claim records, the claim records of our fleet managers, and/or the claim records of other members of the protection and indemnity associations through which we receive insurance coverage for tort liability (including pollution-related liability) significantly exceed projected claims. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these

calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Because we are a foreign corporation, you may not have the same rights that a shareholder in a United States corporation may have

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

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

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

United States tax authorities could treat the Company as a "passive foreign investment company," which could have adverse United States federal income tax consequences to United States shareholders

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for United States federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." United States shareholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current and proposed method of operation, we do not believe that we are, have been or will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering and voyage chartering activities as services income, rather than rental income. Accordingly, we believe that our income from these activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute assets that produce, or are held for the production of, "passive income."

Although there is no direct legal authority under the PFIC rules addressing our method of operation there is substantial legal authority supporting our position consisting of case law and United States Internal Revenue Service, or the IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be

given that the IRS or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States shareholders will face adverse United States federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the United States Internal Revenue Code of 1986, as amended, or the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Taxation-United States Federal Income Tax Considerations"), such shareholders would be liable to pay United States federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our ordinary shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our ordinary shares. See "Taxation-United States Federal Income Tax Considerations-Passive Foreign Investment Company Status and Significant Tax Consequences" for a more comprehensive discussion of the United States federal income tax consequences to United States shareholders if we are treated as a PFIC.

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

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

We expect that we and each of our subsidiaries will qualify for this statutory tax exemption and we intend to 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 become subject to United States federal income tax on our United States source shipping income. For example, we would no longer qualify for exemption under Section 883 of the Code for a particular taxable year if certain non-qualified shareholders with a 5% or greater interest in our ordinary shares owned, in the aggregate, 50% or more of our outstanding ordinary shares for more than half the days during the taxable year. Due to the factual nature of the issues involved, there can be no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to exemption under Section 883 of the Code for any taxable year, we, or our subsidiaries, could be subject during those years to an effective 2% United States federal income tax on gross shipping income derived during such a year that is attributable to the transport of cargoes to or from the United States. The imposition of this tax would have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

Our ordinary share price may be highly volatile and future sales of our ordinary shares could cause the market price of our ordinary shares to decline

Our ordinary shares commenced trading on the New York Stock Exchange in August 2001. We cannot assure you that an active and liquid public market for our ordinary shares will continue. The market price of our ordinary shares has historically fluctuated over a wide range and may continue to fluctuate significantly in response to many factors, such as actual or anticipated fluctuations in our operating results, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Since 2008, the stock market has experienced extreme price and volume fluctuations. If the volatility in the market continues or worsens, it could have an adverse effect on the market price of our ordinary shares and impact a potential sale price if holders of our ordinary shares decide to sell their shares.

#### ITEM 4. INFORMATION ON THE COMPANY

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

###### The Company

We are Frontline Ltd., an international shipping company incorporated in Bermuda as an exempted company under the Bermuda Companies Law of 1981 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 at that address is +(1) 441 295 6935.

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

We have our origin in Frontline AB, which was founded in 1985, and which was listed on the Stockholm Stock Exchange from 1989 to 1997. In May 1997, Frontline AB was redomiciled from Sweden to Bermuda and its shares were listed on the Oslo Stock Exchange under the symbol "FRO". The change of domicile was executed through a share-for-share exchange offer from the then-newly formed Bermuda company, Frontline Ltd, or Old Frontline. In September 1997, Old Frontline initiated an amalgamation with London & Overseas Freighters Limited, or 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 de-listed from the NASDAQ National Market on August 3, 2001. The Company's ordinary shares began trading on the New York Stock Exchange on August 6, 2001 under the symbol "FRO".

#### Ship Finance

In October 2003, the Company established Ship Finance International Limited, or 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 these vessels back on long-term charters. Between May 2004 and March 2007, the Company distributed all of its shareholding in Ship Finance to its shareholders except for 73,383 shares, which represents 0.01% of Ship Finance's total shares.

#### Frontline 2012

On December 16, 2011, Frontline 2012 Ltd, or Frontline 2012, completed a private placement of 100,000,000 new ordinary shares of par value \$2.00 per share at a subscription price of \$2.85, raising \$285.0 million in gross proceeds, subject to certain closing conditions. These conditions were subsequently fulfilled and Frontline 2012 was registered on the Norwegian over-the-counter market, or NOTC, in Oslo on December 30, 2011. The Company was allocated 8,771,000 shares, representing approximately 8.8% of the share capital of Frontline 2012 for which it paid consideration of \$25.0 million. The Company has accounted for its investment in Frontline 2012 under the equity method. There are no discontinued operations associated with this transaction.

The Company is managing Frontline 2012 through its wholly owned subsidiary, Frontline Management (Bermuda) Ltd.

In May 2012, the Company paid \$13.3 million for 3,546,000 shares in a private placement by Frontline 2012 of 56 million new ordinary shares at a subscription price of \$3.75 per share.

In January 2013, the Company paid \$6.0 million for 1,143,000 shares in a private placement by Frontline 2012 of 59 million new ordinary shares at a subscription price of \$5.25 per share. Following the private placement, the Company's ownership in Frontline 2012 was 6.3%.

In September 2013, Frontline 2012 completed a private placement of 34.1 million new ordinary shares of \$2.00 par value at a subscription price of \$6.60. The Company did not buy any of the shares and its ownership decreased from 6.3% to 5.4%. The Company's ownership in Frontline 2012 has subsequently increased to 5.6% following Frontline 2012's purchase of own shares during 2014.

#### 2011 Restructuring

On December 31, 2011, in conjunction with a Board approved restructuring plan to meet the challenges created by a very weak tanker market, the Company completed the sale of 15 wholly-owned special purpose companies, or SPCs, to Frontline 2012. These SPCs owned six VLCCs (Front Kathrine, Front Queen, Front Eminence, Front Endurance, Front Cecilie and Front Signe, one of which was on time charter), four Suezmax tankers (Front Thor, Front Odin, Naticina and Front Njord) and five VLCC newbuilding contracts. The SPCs were sold at fair market value of \$1,120.7 million, which was the average of three independent broker valuations. As part of the transaction, Frontline 2012 assumed the obligation to pay \$666.3 million in bank debt and \$325.5 million in remaining commitments to the yard under the newbuilding contracts. The sale of these SPCs resulted in a loss of \$307.0 million, which was recorded in



2011.

Following the Restructuring, the Company's operating fleet was reduced from 58 vessels to 48 vessels, including the nine vessels owned through ITCL (described below). In addition, newbuilding commitments were reduced from \$437.9 million to \$112.4 million relating to two Suezmax tanker newbuilding contracts. Bank debt was eliminated following a prepayment of a \$12.9 million loan associated with a vessel, which was not part of the transaction with Frontline 2012, and the prepayment of ITCL's \$33.0 million bank loan.

As part of the Restructuring, the Company obtained agreements with its major counterparties to reduce the gross charter payment commitments under the then existing chartering arrangements by approximately \$293 million for the period from January 1, 2012 to December 31, 2015. The Company will compensate the counterparties with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates. Some of the counterparties will receive additional compensation for earnings achieved above the original contract rates.

19

---

As of the date of this annual report, our tanker fleet consisted of 23 vessels and was comprised of 14 VLCCs and nine Suezmax tankers, of which two Suezmax tankers are owned and the remaining 21 vessels are chartered in. We also had nine VLCCs, six Suezmax tankers and one Aframax tanker under commercial management.

#### ITCL

Independent Tankers Corporation Limited, or ITCL, owned, directly or indirectly, subsidiaries that formed the Windsor group, the CalPetro group and the Golden State group and was engaged primarily in the ownership and operation of oil tankers. ITCL was incorporated in early 2008 in Bermuda by the Company. In February 2008, the Company sold all of its shares in its wholly owned subsidiary, Independent Tankers Corporation, or ITC, which was incorporated in the Cayman Islands, to ITCL for a consideration of \$22.8 million, which was satisfied by the issuance of 74,825,166 shares with a par value of \$0.30 totalling \$22.5 million and an interest free sellers credit of \$0.3 million.

In February 2008, the Company spun off 17.53% of its holding in ITCL, to Frontline shareholders in conjunction with the listing of ITCL on the Norwegian over-the-counter ("NOTC") market.

#### The Windsor Group

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, or the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing. The Windsor group emerged from Chapter 11 in January 2015, at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders. The Company was appointed as commercial manager in January 2015 for the vessels that were owned by the Windsor group prior to its bankruptcy filing and this will be the Company's only ongoing involvement with the Windsor group.

#### The CalPetro group

CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited, or together the CalPetro group, were incorporated in 1994 for the purpose of acquiring three oil tankers from Chevron Transport Corporation, or Chevron, and these vessels were concurrently chartered back to Chevron on long-term bare boat charter agreements, which gave Chevron the option to buy each of the vessels for \$1 at the expiry of the leases in April 2015.

Up to October 1, 2014, the Company had determined it was not the primary beneficiary of these variable interest entities due to the fixed rate, bare boat charters and the bargain purchase options held by Chevron, and had accounted for these entities under the equity method. Pursuant to an early termination agreement between the CalPetro group and Chevron: (i) the bareboat charters for the Altair Voyager, Cygnus Voyager and Sirius Voyager were terminated as of October 1, 2014; (ii) the charter hire payments paid in connection with the early termination agreement were used to redeem the remaining outstanding debt related to these vessels; and (iii) the three vessels were sold. The Company determined it was the primary beneficiary of the CalPetro group following the execution of the early termination agreement at which time they were consolidated by the Company and cash of \$1.3 million became available to the Company, of which \$0.7 million had been held in restricted cash. There were no other assets or liabilities.

#### The Golden State group

Golden State Holdings I, Limited, Golden State Petroleum Transport Corporation, Golden State Petro (IOM I-A) PLC and Golden State Petro (IOM I-B) PLC (together, the “Golden State group”) were incorporated on December 5, 1996 for the purpose of issuing serial and term notes, which were non-recourse to the Company, and using the proceeds of the notes to finance the construction and acquisition of two VLCCs. The serial notes were fully repaid on February 1, 2006. The term notes were repaid in part on June 9, 2014 following the sale of the first VLCC (the Ulysses ex-Phoenix Voyager) and the remaining outstanding term notes were repaid on January 20, 2015 following the sale of the second VLCC (the Ulriken ex-Antares Voyager).

#### Vessel Acquisitions, Disposals, Redeliveries and Newbuilding Contracts

##### Acquisitions, Disposals and Redeliveries

We redelivered the VLCC Front Crown, which had been on time charter-in to us under an operating lease, on January 11, 2012.

In March 2012, we sold the Suezmax Front Alfa to an unrelated third party and recognized a loss of \$2.1 million in the first quarter of 2012. An impairment loss for this vessel of \$24.8 million was recorded in the third quarter of 2011.

In April 2012, the chartered-in VLCC Hampstead was redelivered to its owner.

In June 2012, we agreed with Ship Finance to terminate the long-term charter party for the OBO carrier Front Rider and Ship Finance simultaneously sold the vessel. The termination of the charter party took place in the third quarter of 2012. The Company recorded an impairment loss of \$4.9 million in the second quarter of 2012.

In August 2012, we agreed with Ship Finance to terminate the long-term charter party for the OBO carrier Front Climber and Ship Finance simultaneously sold the vessel. The termination of the charter party took place in the fourth quarter of 2012. The Company recorded an impairment loss of \$4.2 million in the second quarter of 2012.

In September 2012, we agreed with Nordic American Tankers Ltd that our nine Suezmax vessels would leave the Orion Tankers pool due to our wish to be more flexible in the operation of our vessels. All of our vessels left the pool during the fourth quarter of 2012.

In October 2012, we agreed with Ship Finance to terminate the long term charter party for the OBO carrier Front Driver and Ship Finance simultaneously sold the vessel. The termination of the charter party took place in the fourth quarter of 2012. The Company recorded an impairment loss of \$4.0 million in the second quarter and a loss of \$0.8 million in gain (loss) of sale of assets and amortization of deferred gains in the fourth quarter of 2012.

Also in October 2012, we terminated the bareboat charters on the two single hull VLCCs Ticen Ocean and Titan Aries and the vessels were delivered to the buyers in November 2012 and January 2013, respectively.

We redelivered the Suezmax vessels Front Odin and Front Njord in October 2012 and November 2012, respectively, to Frontline 2012. These vessels had been operating in the Orion Tankers pool and had been chartered-in on floating rate time charters whereby the charter hire expense was equal to the pool earnings.

In December 2012, the chartered-in VLCC Gulf Eyadah was redelivered to its owner.

Also in December 2012, we agreed to an early termination of the time charter out contracts on the two OBO carriers, Front Viewer and Front Guider, and received a compensation payment in December 2012 from the charterers for loss of hire due to the early termination of \$35.0 million. We also agreed with Ship Finance to terminate the long term charter parties for these two OBO carriers. The charter party for Front Viewer terminated in December 2012. The charter party for the Front Guider was terminated and the vessel was sold in March 2013. The Company paid \$23.5 million to Ship Finance as compensation for the early termination of the charters and the estimated loss of contingent rentals relating to the two vessels. We recorded a loss of \$16.5 million in the fourth quarter of 2012 on the termination of the lease for Front Viewer and a vessel impairment loss of \$14.2 million on the expected loss on termination of the lease on Front Guider in March 2013.

In January 2013, the charterer of the VLCC British Progress (a vessel owned by the Windsor group) gave twelve months notice of its intention to terminate the bareboat charter for the vessel. The termination was expected to take effect on February 2, 2014 and was subsequently delayed to March 12, 2014 at which time the vessel commenced trading in the spot market.

In February 2013, we agreed with Ship Finance to terminate the long term charter party for the Suezmax tanker Front Pride and Ship Finance simultaneously sold the vessel. The termination of the charter party took place in the first

quarter of 2013. We made a compensation payment to Ship Finance of \$2.1 million for the early termination of the charter. We recorded an impairment loss of \$4.7 million in the fourth quarter of 2012.

In March 2013, the VLCC Ulysses (ex-Phoenix Voyager) was redelivered from its bareboat charter and commenced trading in the spot market.

In May 2013, we redelivered the chartered-in VLCC DHT Eagle to its owners.

In November 2013, we agreed with Ship Finance to terminate the long term charter parties for the 1998 and 1999 built VLCCs Front Champion and Golden Victory and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties were terminated in November 2013 upon the redelivery of the vessels to Ship Finance. We recorded an impairment loss of \$88.1 million in 2013 and a net gain of \$13.8 million on the termination of the leases in the fourth quarter of 2013. We agreed to a compensation payment to Ship Finance of \$89.9 million for the early termination of the charter parties, of which \$10.9 million

was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations, with reduced rates until 2015 and full rates from 2016. Front Champion and Golden Victory had the highest charter rates among the vessels we chartered in from Ship Finance and the level of compensation is a reflection of this.

In March 2014, a subsidiary of ITCL entered into an agreement to sell the VLCC Ulysses (ex-Phoenix Voyager) to an unrelated third party. The vessel was delivered to the buyer on March 11, 2014 and we recorded a loss of \$15.7 million in the first quarter of 2014. This transaction was cash neutral to the Company as all of the net proceeds were used to repay debt, which is non-recourse to the Company.

In May 2014, the Company took delivery of its first Suezmax newbuilding, Front Ull.

In July 2014, the Company agreed with Ship Finance to terminate the long term charter parties for the 1999 built VLCCs Front Commerce, Front Comanche and Front Opalia and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties for the Front Commerce, Front Comanche and Front Opalia terminated on November 4, 2014, November 12, 2014, and November 19, 2014, respectively. The Company agreed an aggregate compensation payment to Ship Finance of \$58.8 million for the early termination of the charter parties, of which \$10.5 million was paid in November upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations, which were due to expire in the period from June 2022 to November 2023, with reduced rates until December 2015 and full rates from 2016. The Company had an aggregate lease obligation for these three vessels of \$99.5 million at the lease termination date.

In September 2014, a subsidiary of ITCL agreed to sell the VLCC Ulriken (ex Antares Voyager) to an unrelated third party and we recorded an impairment loss of \$12.4 million in the third quarter. The vessel was delivered to the new owners in October 2014. The related debt in the amount of \$36.7 million, which is non-recourse to the Company, was repaid in full in January 2015 from the net proceeds and restricted cash.

#### Newbuilding Contracts

As of December 31, 2012 and 2013, the Company's newbuilding program was comprised of two Suezmax tankers. In April 2014, the Company agreed with Rongsheng shipyard to swap its two Suezmax newbuildings on order with two similar Suezmax vessels from the same shipyard at a lower contract price. Installments paid to date were allocated to the new vessels. The first vessel, the Front Ull, was delivered in May 2014 and the second vessel, the Front Idun, a sister vessel of Front Ull, was delivered in January 2015.

## B. BUSINESS OVERVIEW

As of December 31, 2014, our tanker fleet consisted of 22 vessels and comprised 14 VLCCs (excluding the four vessels in the Windsor group) and eight Suezmax tankers, of which one Suezmax, Front Ull, is owned and the remaining 21 are chartered in. We also had one Suezmax newbuilding, Front Idun, a sister vessel of Front Ull, on order and had nine VLCCs, six Suezmax tankers and one Aframax tanker under commercial management. As of December 31, 2014, our tanker fleet had total tonnage of approximately 9.2 million dwt, including 3.8 million dwt under our commercial management, and an average age of approximately 13.5 years.

Although there has been a trend towards consolidation over the past 15 years, the tanker market remains highly fragmented. We estimate, based on available industry data that we currently own or operate approximately 3.4% of the world VLCC fleet and 2.5% of the world Suezmax tanker fleet based on dwt.

We operate in the tanker market as an international provider of seaborne transportation of crude oil. Following the termination of the lease on our final OBO carrier in March 2013, the results of our OBO carriers have been recorded as discontinued operations. An analysis of revenues (excluding other income) from continuing operations is as follows:

(in thousands of \$)	2014	2013	2012
Total operating revenues – tanker market	521,913	491,436	552,576

Our vessels operate worldwide and therefore management does not evaluate performance by geographical region as this information is not meaningful.

We own various vessel owning and operating subsidiaries. Our operations take place substantially outside of the United States. Our subsidiaries, therefore, own and operate vessels that may be affected by changes in foreign governments and other economic and political conditions. We are engaged in transporting crude oil and our vessels operate in the spot and time charter markets. 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, Middle East and Southeast Asia.

In October 2014, we formed VLCC Chartering Ltd., or VLCC Chartering, a 50/50 joint venture company with Tankers International LLC ("TI"), to (i) create a larger fleet with more flexibility and more options for cargo owners and a single point of contact to access these benefits, (ii) reduce voyage related expenses and thereby improve the net earnings of the VLCCs operated by both owning companies through optimization of voyages, and (iii) reduce carbon emissions as a direct consequence of using less fuel for cargo movements through fleet optimization. VLCC Chartering will serve as manager for our VLCCs and the VLCC fleet of TI.

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

The tanker industry is highly cyclical, experiencing volatility in profitability, vessel values and freight rates. Freight rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation. Refer to Item 5, "Operating and Financial Review and Prospects-Overview" for a discussion of the tanker market in 2013 and 2014.

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

In August 2009, the Company established SeaTeam Management, a ship management company in Singapore. SeaTeam Management is a complement to the external ship management companies currently offering services to the Company and is not a change in the Company's outsourcing strategy. However, we would like to strengthen our position towards our service providers to enhance and secure delivery of high quality service at low cost in the future. SeaTeam Management was certified and received its ISM Document of Compliance by Det Norske Veritas on February 3, 2010 and is an approved ship management company. In addition, the Company opened a crewing company in Chennai, India, in January 2010 and an office was opened in the Philippines in October 2013.

## Strategy

Our principal focus is the transportation of crude oil and its related refined dirty petroleum cargoes for major oil companies and major oil trading companies. We seek to optimize our income and adjust our exposure through actively pursuing charter opportunities whether through time charters, bareboat charters, sale and leasebacks, straight sales and purchases of vessels, newbuilding contracts and acquisitions.

We presently operate VLCCs and Suezmax tankers in the tanker market. Our preferred strategy is to have some fixed charter income coverage for our fleet, predominantly through time charters, and trade the balance of the fleet on the spot market. Due to the very limited availability of time charter contracts, however, our fleet is mainly trading in the



spot market. We focus on minimizing time spent on ballast by "cross trading" our vessels, typically with voyages loading in the Persian Gulf discharging in Northern Europe, followed by a trans-Atlantic voyage to the U.S. Gulf of Mexico and, finally, a voyage from either the Caribbean or West Africa to the Far East/Indian Ocean. We believe that operating a certain number of vessels in the spot market, enables us to capitalize on a potentially stronger spot market as well as to serve our main customers on a regular non term basis. We believe that the size of our fleet is important in negotiating terms with our major clients and charterers. We also believe that our large VLCC and Suezmax fleet enhances our ability to obtain competitive terms from suppliers, ship repairers and builders and to produce cost savings in chartering and operations.

Our business strategy is primarily based upon the following principles:

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

We have a strategy of extensive outsourcing, which includes the outsourcing of management, crewing and accounting services to 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 us. 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 ship-owning subsidiaries are also provided by the ship managers.

#### 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, has become 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. This is most apparent from the higher seasonal demand during the summer months due to energy requirements for air conditioning and motor vehicles.

#### Customers

During the year ended December 31, 2014, one customer represented 14% of consolidated operating revenues and one customer represented 10% of consolidated operating revenues (2013: no customer represented more than 10% of our consolidated operating revenues and 2012: one customer represented 18% 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 are generally provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent ship-owner fleets. In addition, several owners and operators pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned-and-operated fleets. Many major oil companies and other oil trading companies, the primary charterers of the vessels owned or controlled by us, also operate their own vessels and use such vessels not only to transport their own crude oil but also to transport crude oil for third-party charterers in direct competition with independent owners and operators in the tanker charter market. Competition for charters is intense and is based upon price, location, size, age, condition and acceptability of the vessel and its manager. Competition is also affected by the availability of other size vessels to compete in the trades in which the Company engages. Charters are, to a large extent, brokered through international independent brokerage houses that specialize in finding the optimal ship for any particular cargo based on the aforementioned criteria. Brokers may be appointed by the cargo shipper or the ship owner.

## Environmental and Other Regulations

Government regulations and laws significantly affect the ownership and operation of our vessels. We are subject to international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered and compliance with such laws, regulations and other requirements may entail significant expense.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of government, quasi-governmental and private organizations including local port authorities, national authorities, harbor masters or equivalents, classification societies, flag state administrations (countries of registry) and charterers. Our failure to maintain permits, licenses, certificates or other approvals required by some of these entities could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

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 vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards. We believe that the operation of our vessels is 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 with certainty the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 BP plc Deepwater Horizon oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

#### International Maritime Organization

The International Maritime Organization, or the IMO, is the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted several international conventions that regulate the international shipping industry, including but not limited to the International Convention on Civil Liability for Oil Pollution Damage of 1969, amended and replaced by the 1992 protocol, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, and the International Convention for the Prevention of Pollution from Ships of 1973, or the MARPOL Convention. The MARPOL Convention is broken into six Annexes, each of which establishes environmental standards relating to different sources of pollution: Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI relates to air emissions.

The operation of our vessels is also affected by 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 under the International Convention for the Safety of Life at Sea of 1974, or SOLAS. 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 our appointed ship managers have developed.

Noncompliance with the ISM Code or with other IMO regulations may subject a 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 including United States and European Union ports.

#### United States

The U.S. Oil Pollution Act of 1990 and the Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all "owners and operators" whose vessels trade with the 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. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Accordingly, both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators 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. OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. OPA limits the liability of responsible parties with respect to tankers over 3,000 gross tons to the greater of \$2,000 per gross ton or \$17.088 million per double hull tanker, and with respect to non-tank vessels, the greater of \$1,000 per gross ton or \$854,000 for any non-tank vessel, respectively. These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsible party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. Some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters, however, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. For example, effective October 22, 2012, the U.S. Bureau of Safety and Environment Enforcement (BSEE) implemented a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refuses to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA have no effect on the availability of 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 and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. Under OPA and CERCLA, 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 liability. 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.

#### Other U.S. Environmental Initiatives

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many 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 United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. On March 28, 2013, EPA re-issued the VGP for another five years; this 2013 VGP took effect December 19, 2013. The 2013 VGP contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

Compliance with the VGP could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other disposal arrangements, and/or otherwise restrict our vessels from entering United States waters. In addition, certain states have enacted more stringent discharge standards as conditions to their required certification of the VGP. We submit NOIs for our vessels where required and do not believe that the costs associated with obtaining and complying with the VGP have a material impact on our operations.

U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters, which require the installation of equipment to treat ballast water before it is discharged in U.S. waters or, in the alternative, the implementation of other port facility disposal arrangements or procedures. Vessels not complying with these regulations are restricted from entering U.S. waters. The U.S. Coast Guard must approve any technology before it is placed on a vessel, but has not yet approved the technology necessary for vessels to meet these standards. Until U.S. authorities establish approval procedures for ballast water treatment technology, we believe the U.S. Coast Guard will continue to issue waivers based on flag state approvals of ballast treatment equipment.

At the international level, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004, or the BWM Convention. The BWM Convention provides for a phased introduction of mandatory ballast water exchange requirements, 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. To date, there has not been sufficient adoption of this standard for it to take force. Many of the implementation dates in the BWM Convention have already passed, so that once the BWM Convention enters into force, the period of installation of mandatory ballast water exchange requirements would be short, with several thousand ships a year needing to install ballast water management systems (BWMS). For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of the BWM Convention so that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This, in effect, makes all vessels constructed before the entry into force date "existing vessels" and allows for the installation of a BWMS on such vessels at the first renewal survey following entry into force of the convention. Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of such compliance would be material, it is difficult to predict the overall impact of such a requirement on our operations.

The U.S. Clean Air Act, or the CAA, requires the 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 each State. Although state-specific, SIPs may include regulations concerning 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 existing requirements.

Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

#### European Union

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.



The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

#### Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from ships are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions.

As of January 1, 2013, all ships must comply with mandatory requirements adopted by the MEPC in July 2011 relating to greenhouse gas emissions. Currently operating ships are now required to develop and implement Ship Energy Efficiency Management Plans (SEEMPs) and the new ships to be designed in compliance with minimum energy efficiency levels per capacity mile as defined by the Energy Efficiency Design Index (EEDI). These requirements could cause us to incur additional compliance costs. The IMO is also considering the implementation of market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Parliament and Council of Ministers are expected to endorse regulations that would require the monitoring and reporting of greenhouse gas emissions from marine vessels in 2015. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. The EPA enforces both the CAA and the international standards found in Annex VI of MARPOL concerning marine diesel engines, their emissions, and the sulphur content in marine fuel. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels, which we cannot predict with certainty at this time.

#### International Labor Organization

The International Labor Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. On August 20, 2012, the required number of countries met and MLC 2006 entered into force on August 20, 2013. All our vessels are in compliance with, and are certified, to meet MLC 2006.

#### 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 the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the EPA.

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. Amendments to SOLAS Chapter VII, made mandatory in 2004, apply to vessels transporting dangerous goods and require those vessels be in compliance with the International Maritime Dangerous Goods Code.

To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized organization (RO) approved by the vessel's flag state. Among the various requirements are:

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

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

- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history, including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

A ship operating without a valid certificate, may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

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 believe that our fleet is currently in compliance with applicable security requirements.

#### Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. 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.

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

#### Risk of Loss and Insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism and other circumstances or events. In addition, the transportation of crude oil is subject to the risk of spills, and business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. OPA has made liability insurance more expensive for ship owners and operators imposing potentially unlimited liability upon owners, operators and bareboat charterers for oil pollution incidents in the territorial waters of the United States. We believe that our current insurance coverage is adequate to protect us against the principal accident-related risks that we face in the conduct of our business.

Our protection and indemnity insurance, or P&I insurance, covers third-party liabilities and other related expenses from, among other things, injury or death of crew, passengers and other third parties, claims arising from collisions, damage to cargo and other third-party property and pollution arising from oil or other substances. Our current P&I insurance coverage for pollution is the maximum commercially available amount of \$1.0 billion per tanker per incident and is provided by mutual protection and indemnity associations. Each of the vessels currently in our fleet is entered in a protection and indemnity association which is a member of the International Group of Protection and Indemnity Mutual Assurance Associations. The 13 protection and indemnity associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to re-insure each association's liabilities. The pool provides a mechanism for sharing all claims in excess of \$9 million up to, currently, \$1.0 billion. As a member of protection and indemnity associations, which are, in turn, members of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of protection and indemnity associations comprising the International Group.

Our hull and machinery insurance covers actual or constructive total loss from covered risks of collision, fire, heavy weather, grounding and engine failure or damages from same. Our war risks insurance covers risks of confiscation, seizure, capture, vandalism, terrorism, sabotage and other war-related risks. Our loss-of-hire insurance covers loss of revenue for not less than \$20,000 per day for Suezmax tankers and \$25,000 per day for VLCCs for not less than 180 days resulting from an accident covered by the terms of our hull and machinery insurance for each of our vessels, with a 60 day deductible for all Suezmax tankers and VLCCs.

#### C. ORGANIZATIONAL STRUCTURE

See Exhibit 8.1 to this Form 20-F for a list of our significant subsidiaries.

D. PROPERTY, PLANTS AND EQUIPMENT

The Company's Vessels

The following table sets forth certain information regarding the fleet that we operated as of December 31, 2014 (including contracted newbuildings not yet delivered):

29

---

Vessel	Built	Approximate Dwt.	Construction	Flag	Type of Employment
Tonnage Owned Directly					
Suezmax Tankers					
Front Ull	2014	157,000	Double-hull	MI	Spot market
Newbuilding (tbn Front Idun) (1)	2015	157,000	Double-hull	n/a	n/a
Tonnage Chartered in from					
Ship Finance					
VLCCs					
Front Vanguard (2)	1998	300,000	Double-hull	MI	Spot market
Front Century (3)	1998	311,000	Double-hull	MI	Spot market
Front Circassia (4)	1999	306,000	Double-hull	MI	Spot market
Front Scilla	2000	303,000	Double-hull	MI	Spot market
Front Ariake	2001	299,000	Double-hull	BA	Spot market
Front Serenade	2002	299,000	Double-hull	LIB	Spot market
Front Hakata	2002	298,000	Double-hull	BA	Spot market
Front Stratus	2002	299,000	Double-hull	LIB	Spot market
Front Falcon (5)	2002	309,000	Double-hull	BA	Spot market
Front Page	2002	299,000	Double-hull	LIB	Spot market
Front Energy	2004	305,000	Double-hull	MI	Spot market
Front Force	2004	305,000	Double-hull	MI	Spot market
Suezmax Tankers					
Front Glory	1995	150,000	Double-hull	MI	Spot market
Front Splendour	1995	150,000	Double-hull	MI	Spot market
Front Ardenne	1997	150,000	Double-hull	MI	Time charter
Front Brabant	1998	150,000	Double-hull	MI	Spot market
Mindanao	1998	150,000	Double-hull	SG	Spot market
Tonnage Chartered in from					
Third Parties					
VLCCs					
Front Tina (6)	2000	299,000	Double-hull	LIB	Spot market
Front Commodore (6)	2000	299,000	Double-hull	LIB	Spot market
Suezmax Tankers					
Front Melody (6)	2001	150,000	Double-hull	LIB	Spot market
Front Symphony (6)	2001	150,000	Double-hull	LIB	Spot market

## Tonnage under Commercial Management

## VLCCs

Front Kathrine	2009	297,974	Double-hull	MI	Spot market
Front Queen	2009	297,000	Double-hull	MI	Spot market
Front Eminence	2009	321,300	Double-hull	MI	Time charter
Front Endurance	2009	321,300	Double-hull	MI	Spot market
Front Cecilie	2010	297,000	Double-hull	HK	Spot market
Front Signe	2010	297,000	Double-hull	HK	Spot market
Pioneer	1999	307,000	Double-hull	IoM	Spot market
Progress	2000	307,000	Double-hull	IoM	Spot market
Pride	2000	307,000	Double-hull	IoM	Spot market

## Suezmax Tankers

Front Thor	2010	156,000	Double-hull	MI	Spot related time charter
Naticina	2010	156,000	Double-hull	MI	Spot related time charter
Front Odin	2010	156,000	Double-hull	MI	Spot market
Front Njord	2010	156,000	Double-hull	HK	Spot market
Glorycrown	2009	156,000	Double-hull	HK	Spot market
Everbright	2010	156,000	Double-hull	HK	Spot market

## Aframax Tankers

Front Lion	2014	115,000	Double-hull	MI	Spot market
------------	------	---------	-------------	----	-------------

(1) This vessel was delivered to the Company in January 2015 at which time it commenced trading in the spot market under the flag of the Republic of the Marshall Islands.

(2) This vessel commenced a fixed rate, time charter in February 2015 with earliest possible re-delivery in May 2016

(3) This vessel commenced a fixed rate, time charter in February 2015 with earliest possible re-delivery in April 2016.

(4) This vessel commenced a fixed rate, time charter in February 2015 with earliest possible re-delivery in March 2016.

(5) This vessel commenced a fixed rate, time charter in January 2015 with earliest possible re-delivery in July 2015.

(6) The lessor has a fixed price option to sell this vessel to us at the end of the lease on December 31, 2015.

Our chartered in fleet is contracted to us under leasing arrangements with fixed terms of between two and fifteen years.

## Key to Flags:

BA – Bahamas, IoM – Isle of Man, LIB - Liberia, SG - Singapore, MI – Marshall Islands, HK – Hong Kong.

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

## ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

31

---



## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## A. OPERATING RESULTS

## 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.

As of December 31, 2014, our tanker fleet consisted of 22 vessels and comprised 14 VLCCs (excluding the four vessels in the Windsor group, which were not consolidated at December 31, 2014) and eight Suezmax tankers, of which one Suezmax, Front Ull, is owned and the remaining 21 are chartered in. We also had one Suezmax newbuilding, Front Idun, a sister vessel of Front Ull, on order and had nine VLCCs, six Suezmax tankers and one Aframax tanker under commercial management. As of December 31, 2014, our tanker fleet had total tonnage of approximately 9.2 million dwt, including 3.8 million dwt under our commercial management, and an average age of approximately 13.5 years.

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, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
<b>VLCCs</b>			
At start of period	23	27	31
Acquisitions	—	—	—
Dispositions	(9	) (2	) (2
Chartered in	—	(2	) (2
At end of period	14	23	27
<b>Suezmax</b>			
At start of period	10	11	12
Acquisitions	1	—	—
Dispositions	(3	) (1	) (1
Chartered in	—	—	—
At end of period	8	10	11
<b>Suezmax OBOs</b>			
At start of period	—	1	5
Acquisitions	—	—	—
Dispositions	—	(1	) (4
Chartered in	—	—	—
At end of period	—	—	1



Total fleet						
At start of period	33		39		48	
Acquisitions	1		—		—	
Dispositions	(12	)	(4	)	(7	)
Chartered in	—		(2	)	(2	)
At end of period	22		33		39	

### Summary of Fleet Employment

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

	As of December 31,		2013		2012			
	2014							
	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet		
<b>VLCCs</b>								
Spot or pool	14	100	% 20	87	% 21	78	%	
Time charter	—	—	—	—	1	4	%	
Bareboat charter	—	—	3	13	% 5	18	%	
Total	14	100	% 23	100	% 27	100	%	
<b>Suezmax</b>								
Spot or pool	7	88	% 7	70	% 7	64	%	
Time charter	1	12	% —	—	—	—	%	
Spot related time charter	—	—	—	—	1	9	%	
Bareboat charter	—	—	3	30	% 3	27	%	
Total	8	100	% 10	100	% 11	100	%	
<b>Suezmax OBOs</b>								
Spot or pool	—	—	—	—	1	100	%	
Total	—	—	—	—	1	100	%	
<b>Total fleet</b>								
Spot or pool	21	95	% 27	82	% 29	74	%	
Spot related time charter	—	—	—	—	1	3	%	
Time charter	1	5	% —	—	1	3	%	
Bareboat charter	—	—	6	18	% 8	20	%	
Total	22	100	% 33	100	% 39	100	%	

### Market Overview and Trend Information

The market rate for a VLCC trading on a standard 'TD3' voyage between the Arabian Gulf and Japan in the fourth quarter of 2014 was WS 52, representing an increase of WS 7 points from the third quarter of 2014 and WS 1 point lower than the fourth quarter of 2013. The flat rate decreased by 6.7 percent from 2013 to 2014.

The market rate for a Suezmax trading on a standard 'TD5' voyage between West Africa and Philadelphia in the fourth quarter of 2014 was WS 87, representing an increase of WS 16 points from the third quarter of 2014 and an increase of WS 21 points from the fourth quarter of 2013. The flat rate decreased by 6 percent from 2013 to 2014.

Bunkers at Fujairah averaged \$447/mt in the fourth quarter of 2014 compared to \$598/mt in the third quarter of 2014. Bunker prices varied between a high of \$568/mt on October 1 and a low of \$320/mt on December 19.



The International Energy Agency's, or the IEA, February 2015 report stated an OPEC crude production of 30.5 million barrels per day (mb/d) in the fourth quarter of 2014. This was unchanged from third quarter of 2014.

The IEA estimates that world oil demand averaged 93.5 mb/d in the fourth quarter of 2014, which is an increase of 0.4 mb/d compared to the previous quarter. IEA estimates that world oil demand in 2015 will be 93.4 mb/d, representing an increase of 1.1 percent or 1 mb/d from 2014.

The VLCC fleet totaled 638 vessels at the end of the fourth quarter of 2014 compared with 623 vessels at the end of 2013. The order book counted 82 vessels at the end of the fourth quarter, which represents approximately 13 percent of the VLCC fleet.

The Suezmax fleet totaled 450 vessels at the end of the fourth quarter of 2014 compared with 446 vessels at the end of 2013. The order book counted 63 vessels at the end of the fourth quarter, which represents approximately 14 percent of the Suezmax fleet.

### Critical Accounting Policies and Estimates

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

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

### Revenue and expense recognition

Revenues and expenses are recognized on the accruals basis. Revenues are generated from voyage charter, time charter and bareboat charter hires. Voyage revenues are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. Voyage expenses are recognized as incurred. 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 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 recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. However, the Company does not recognize revenue if a charter has not been contractually committed 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.

Profit share expense represents amounts due to Ship Finance based on 20% (increased to 25% with effect from January 1, 2012) of the excess of vessel revenues earned by the Company over the base hire paid to Ship Finance for chartering in the vessels.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula on the basis of the number of days a vessel operates in the pool. The pools are responsible for paying voyage expenses and distribute net pool revenues to the participants. Pool revenues are reported net of voyage expenses as voyage charter revenue for all periods presented.

## 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 vessels is 25 years. Other equipment is depreciated over its estimated remaining useful life, which approximates five years. The residual value for owned vessels is calculated by multiplying the lightweight tonnage of the vessel by the market price of scrap per tonne. The market price of scrap per tonne is calculated as the 10 year average, up to the date of delivery of the vessel, across the three main recycling markets (Far East, Indian sub continent and Bangladesh). Residual values are reviewed annually.

## Vessel Impairment

The carrying values of the Company's vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Historically, both charter rates and vessel values tend to be cyclical. The carrying amounts of vessels held and used by the Company and newbuildings are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel may not be fully recoverable. Such indicators may include depressed spot rates and depressed second hand tanker values. In such instances, an impairment charge would be recognized if the estimate of the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount. The impairment charge is measured as the amount by which the carrying value exceeds the estimated fair value. This assessment is made at the individual vessel level as separately identifiable cash flow information for each vessel is available.

In developing estimates of future cash flows, the Company must make assumptions about future performance, with significant assumptions being related to charter rates, ship operating expenses, utilization, drydocking requirements, residual value, the estimated remaining useful lives of the vessels and the probability of lease terminations for vessels held under capital lease. These assumptions are based on historical trends as well as future expectations. Specifically, in estimating future charter rates, management takes into consideration rates currently in effect for existing time charters and estimated daily time charter equivalent rates for each vessel class for the unfixed days over the estimated remaining lives of each of the vessels. The estimated daily time charter equivalent rates used for unfixed days are based on a combination of (i) time charter forecasts, and (ii) the trailing 20-year historical average rates, based on quarterly average rates published by an independent third party maritime research service. Recognizing that the transportation of crude oil is cyclical and subject to significant volatility based on factors beyond the Company's control, management believes the use of estimates based on the combination of internally forecast rates and 20-year historical average rates calculated as of the reporting date to be reasonable.

Estimated outflows for operating expenses and drydocking requirements are based on historical and budgeted costs and are adjusted for assumed inflation. Finally, utilization is based on historical levels achieved and estimates of a residual value are consistent with the pattern of scrap rates used in management's evaluation of salvage value.

The more significant factors that could impact management's assumptions regarding time charter equivalent rates include (i) loss or reduction in business from significant customers, (ii) unanticipated changes in demand for transportation of crude oil and dry bulk cargoes, (iii) changes in production of or demand for oil, generally or in particular regions, (iv) greater than anticipated levels of tanker newbuilding orders or lower than anticipated levels of tanker scrappings, and (v) changes in rules and regulations applicable to the tanker industry, including legislation adopted by international organizations such as IMO and the EU or by individual countries. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate at the time they were made, such assumptions are highly subjective and likely to change, possibly materially, in the future. There can be no assurance as to how long charter rates and vessel values will remain at their current low levels or whether they will improve by a significant degree. If charter rates were to remain at depressed levels future assessments of vessel impairment would be adversely affected.

The Company did not prepare undiscounted cash flow forecasts at December 31, 2014 for the purposes of impairment testing as the Company determined that no trigger events had occurred. During 2014, the Company identified three vessels held under capital lease and one owned vessel, where the future estimated cash flows for each vessel were less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$97.7 million in 2014. This loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Front Opalia (\$27.8 million), Front Commerce (\$26.7 million) and Front Comanche (\$30.7 million) and one vessel owned by a wholly-owned subsidiary of ITCL - Ulriken (ex Antares Voyager) (\$12.4 million). The impairment loss

recorded on the vessels held under capital lease vessel is equal to the difference between the asset's carrying value and estimated fair value. In July 2014, it was agreed that the leases on these vessels would be terminated, with expected termination in the fourth quarter of 2014 subject to normal closing conditions, and a 100% lease termination probability was assigned to these three vessels as of September 30, 2014. The leases on these three vessels were terminated in the fourth quarter of 2014. In September 2014, Golden State Petroleum Corporation, or Golden State, a wholly-owned subsidiary of ITCL, entered into an agreement to sell the Ulriken to an unrelated third party and the vessel was delivered in October 2014. The Company recorded an impairment loss of \$12.4 million in the nine months ended September 30, 2014 equal to the difference between the vessel's carrying value and the net sales price of \$26.0 million.



During 2013, the Company identified three vessels held under capital lease where the future estimated cash flows for each vessel were less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$103.7 million in 2013. The loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Golden Victory (\$45.6 million), Front Champion (\$42.5 million) and Front Century (\$15.6 million). The impairment loss recorded on each vessel was equal to the difference between the asset's carrying value and estimated fair value. The leases on Front Champion and Golden Victory were terminated in November 2013 and a 100% lease termination probability was assigned to these two vessels as of September 30, 2013. The fair value of Front Century was determined using expected future cash flows from the leased vessel.

#### Our Fleet – Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels

In "Critical Accounting Policies – Vessel Impairment" we discuss our policy for impairing the carrying values of our vessels. During the past few years, the market values of vessels have experienced particular volatility, with substantial declines in many vessel classes. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below those vessels' carrying value, even though we did not impair those vessels' carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts.

Our estimates of basic market value assume that our vessels are all in good and seaworthy condition without need for repair and, if inspected, would be certified in class without notations of any kind. Our estimates are based on the estimated market values for our vessels that we have received from independent ship brokers and are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future basic market value of our vessels or prices that we could achieve if we were to sell them.

The table set forth below indicates the carrying value of each of our owned vessels and vessels held under capital lease as of December 31, 2014 and 2013. As of December 31, 2014, 2013 and the date of this annual report, we were not holding any of the vessels listed in the table below as held for sale. We believe that the future undiscounted cash flows expected to be earned by those vessels, which have experienced a decline in charter-free market value below such vessels' carrying value, over their operating lives would exceed such vessels' carrying values as of December 31, 2014, and accordingly, have not recorded an impairment charge.

			Carrying Value at Dec 31	
	Built	Approximate Dwt.	2014	2013
Owned Vessel				
VLCC				
Ulriken	1998	310,000	—	40.6
Ulysses (ex-Phoenix Voyager )	1999	308,500	—	41.7
Pioneer	1999	307,000	—	43.6
British Progress	2000	307,000	—	45.2
British Pride	2000	307,000	—	46.6
British Purpose	2000	307,000	—	45.7
			—	263.4
Suezmax tanker				
Front Ull	2014	157,000	55.8	—
			55.8	—
Vessel held under capital lease				
VLCC				
Front Vanguard*	1998	300,000	23.0	26.6
Front Century*	1998	311,000	21.1	24.2
Front Circassia*	1999	306,000	24.0	27.5
Front Scilla*	2000	303,000	29.5	33.1
Front Ariake*	2001	299,000	30.5	34.0
Front Serenade*	2002	299,000	34.2	37.6
Front Hakata	2002	298,000	34.5	37.9
Front Stratus*	2002	299,000	35.2	38.7
Front Falcon*	2002	309,000	35.1	38.4
Front Page*	2002	299,000	35.0	38.4
Front Energy*	2004	305,000	73.3	78.6
Front Force*	2004	305,000	72.8	78.1
Front Tina	2000	299,000	10.3	11.2
Front Commodore	2000	299,000	10.3	11.2
Front Comanche	1999	300,000	—	32.6
Front Commerce	1999	300,000	—	28.7
Front Opalia	1999	302,000	—	29.8
			468.8	606.6
Suezmax tanker				
Front Glory*	1995	150,000	8.0	10.2
Front Splendour*	1995	150,000	8.9	11.0
Front Ardenne*	1997	150,000	13.0	15.2
Front Brabant*	1998	150,000	14.0	16.3
Mindanao*	1998	150,000	15.0	17.3
Front Melody	2001	150,000	11.3	14.1
Front Symphony	2001	150,000	11.3	14.1
			81.5	98.2

\* We believe the basic charter-free market value at December 31, 2014 for each vessel marked with an asterisk in the table above is lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately \$94 million. We refer you to the risk factor entitled "Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels which may adversely affect our earnings, or could cause us to incur impairment charges".

#### Vessels and equipment under capital lease

The Company charters in certain vessels and equipment under leasing agreements. Leases of vessels and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period.

When the terms of a lease are modified, other than by renewing the lease or extending its term, the lease is reassessed as if the new terms were in place at inception of the lease. If this results in a different classification of the lease then the modification is considered a new agreement and accounted for as such from the date the modification came into effect. If the provisions of a capital lease are changed in a way that changes the amount of the remaining minimum lease payments, the present balances of the asset and the obligation are adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised or new agreement (computed using the interest rate used to recognize the lease initially) and the present balance of the obligation.

Where the provisions of a capital lease contain a floating rate element, such as an index linked rate of hire, then the minimum lease payments are assumed to equal the index at inception of the lease. Any variations in the index, and therefore the payments made, are accounted for as contingent rental income or expense and are taken to the statement of operations in the period in which they become realizable and recorded within 'Contingent rental expense (income)'.

Depreciation of vessels and equipment under capital lease is included within "depreciation" in the consolidated statement of operations. Vessels and equipment 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.

#### Factors Affecting our Results

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

- the earnings of our vessels;
- gains and losses from the sale of assets and amortization of deferred gains;
- vessel operating expenses;
- impairment losses on vessels;
- contingent rental expense (income);
- administrative expenses;
- depreciation;
- interest expense;
- equity gains (losses) of unconsolidated subsidiaries and associated companies;
- debt conversion expense.

We have derived our earnings from bareboat charters, time charters, voyage charters and pool arrangements. As of December 31, 2014, 2013 and 2012, 21 of our 22 vessels, 27 of our 33 vessels and 29 of our 39 vessels, respectively, operated in the voyage charter market. The tanker industry has historically been highly cyclical, experiencing volatility in profitability, vessel values and freight rates. In particular, freight and charter rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation services.

Gains and losses from the sale of assets and amortization of deferred gains includes gains or losses from the sale of vessels, sale of subsidiaries, gains and losses from the termination of leases, and the amortization of deferred gains.

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.

An impairment loss on a vessel, equal to the difference between the vessel's carrying value and fair value, is recognized when the estimated future net undiscounted cash flows are less than the carrying value of the vessel.

The contingent rental expense (income) represents amounts accrued following changes to certain charter parties. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under long-term leases for a four year period that commenced on January 1, 2012. The Company will compensate Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates. In December 2011, the Company agreed to a rate reduction on four vessels leased from German KG companies whereby the Company will pay a reduced rate and an additional amount dependent on the actual index rate. Contingent rental (income) expense represents amounts accrued following changes to these charter parties.

Administrative expenses are comprised 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.

Equity gains (losses) of unconsolidated subsidiaries and associated companies includes the Company's share of the investees' earnings or losses and gains arising on the dilution of the Company's shareholding in such companies.

Debt conversion expense in 2014 relates to the conversion of \$45.5 million of the Company's convertible bonds into shares and cash. As the conversion was agreed at more favorable terms than the original bond, this was treated as an inducement and the Company recognized a debt conversion expense.

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

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

#### Lack of Historical Operating Data for Vessels before their Acquisition

Consistent with shipping industry practice, other than inspection of the physical condition of the vessels and examinations of classification society records, there is no historical financial due diligence process when we acquire vessels. Accordingly, we do not obtain the historical operating data for the vessels from the sellers because that information is not material to our decision to make acquisitions, nor do we believe it would be helpful to potential investors in our Ordinary Shares in assessing our business or profitability. Most vessels are sold under a standardized agreement, which, among other things, provides the buyer with the right to inspect the vessel and the vessel's classification society records. The standard agreement does not give the buyer the right to inspect, or receive copies of, the historical operating data of the vessel. Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records, including past financial records and accounts related to the vessel. In addition, the technical management agreement between the seller's technical manager and the seller is automatically terminated and the vessel's trading certificates are revoked by its flag state following a change in ownership.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we have agreed to acquire (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer's entering into a separate direct agreement with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter, because it is a separate service agreement between the vessel owner and the charterer. When we purchase a vessel and assume a related time charter, we must take the following steps before the vessel will be ready to commence operations:

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;

- arrange for a new crew for the vessel;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;
- implement a new planned maintenance program for the vessel; and
- ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

#### 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. It is anticipated that insurance costs, which have risen over the last three years, may well continue to rise moderately 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, 2014 compared with the year ended December 31, 2013

#### Total operating revenues and voyage expenses and commission

(in thousands of \$)	2014	2013	Change	
			\$	%
Voyage charter revenues	497,023	440,584	56,439	12.8
Time charter revenues	15,601	26,843	(11,242)	(41.9)
Bareboat charter revenues	9,289	24,009	(14,720)	(61.3)
Other income	37,775	25,754	12,021	46.7
Total operating revenues	559,688	517,190	42,498	8.2
Voyage expenses and commissions	286,367	299,741	(13,374)	(4.5)

Voyage charter revenues increased in 2014 as compared to 2013 primarily due to the following reasons:

- An increase of \$57.9 million due to an increase in market rates.
- An increase of \$20.0 million due to a decrease in off-hire and waiting days.
- An increase of \$12.1 million due to the redelivery of one Suezmax tanker from time charter in June 2013.
- An increase of \$7.9 million due to the redelivery of one VLCC from a bareboat charter in March 2013 and one VLCC from a bareboat charter in March 2014.
- An increase of \$8.9 million due to the delivery of one Suezmax newbuilding in May 2014.
- An increase of \$1.4 million due to the redelivery of one VLCC from short-term time charter in December 2013.

These factors were partially offset by:

- The redelivery by the Company of five VLCCs, which were chartered-in under capital lease (two VLCCs in November 2013 and three in November 2014) resulting in a decrease in revenues of \$22.3 million.
- The sale of one VLCC in March 2014 and one VLCC in October 2014 resulting in a decrease of voyage revenues of \$13.5 million

• The de-consolidation of the Windsor group in July 2014, resulting in a decrease in revenues of \$8.8 million.

• The redelivery by the Company of one VLCC, which was chartered in under operating lease, in May 2013, resulting in a decrease in revenues of \$5.4 million.

- The redelivery by the Company of one Suezmax tanker, which was chartered in under capital lease, in February 2013, resulting in a decrease in revenues of \$1.9 million.

Time charter revenues decreased in 2014 as compared to 2013 primarily due to:



A decrease of \$11.7 million due to the redelivery of one VLCC from long-term time charter in September 2013 (this vessel was chartered-in by the Company and the long term charter party was terminated in November 2013) and one VLCC from short-term time charter in December 2013.

▲ A decrease of \$1.7 million due to the redelivery of one Suezmax tanker from time charter in June 2013.

These factors were partially offset by an increase in time charter revenues as a result of the delivery of two Suezmax tankers onto time charters in August 2014, resulting in an increase of \$2.5 million.

Bareboat charter revenues decreased in 2014 as compared to 2013 primarily due to the following:

● A decrease of \$8.0 million due to the termination of one VLCC bareboat charter in March 2013 and one VLCC bareboat charter in March 2014.

▲ A decrease of \$6.8 million due to the de-consolidation of the Windsor group in July 2014.

The increase in other income in 2014 as compared to 2013 is primarily due to an increase in income earned from the commercial management of related party and third party vessels and an increase in administrative revenues derived from related parties and third parties.

Voyage expenses and commissions decreased in 2014 as compared to 2013 primarily due to the following reasons:

● The redelivery of five VLCCs chartered in under capital leases (two VLCCs in November 2013 and three in November 2014), resulting in a decrease in voyage expenses of \$16.2 million.

● The sale of one VLCC in March 2014 and one VLCC in October 2014 resulting in a decrease in voyage expenses of \$9.5 million.

▲ A decrease of \$5.9 million due to the de-consolidation of the Windsor group in July 2014

● The redelivery of one VLCC chartered in under operating lease in May 2013, resulting in a decrease in voyage expenses of \$3.6 million.

● The redelivery of one Suezmax tanker chartered in under capital lease in February 2013, resulting in a decrease in voyage expenses of \$1.0 million.

These factors were partially offset by:

▲ An increase of \$6.6 million due to the redelivery of one Suezmax tanker from time charter in June 2013.

An increase of \$5.8 million in costs due to the reduction in off-hire and waiting days, an increase in consumption due to an increase in vessel speed, plus additional commissions as a result of higher charter rates, offset by lower bunker costs.

● An increase of \$4.7 million due to the redelivery of one VLCC from a bareboat charter in March 2013 and one VLCC from a bareboat charter in March 2014.

▲ An increase of \$3.5 million due to the delivery of one Suezmax newbuilding in May 2014.

▲ An increase of \$2.1 million due to the redelivery of one VLCC from short-term time charter in December 2013

Gain on sale of assets and amortization of deferred gains

(in thousands of \$)			Change	
	2014	2013	\$	%
Net gain on lease terminations	40,382	21,237	19,145	90.1
Net loss on sale of vessels	(15,762)	—	(15,762)	—
Amortization of deferred gains	—	2,321	(2,321)	(100.0)
	24,620	23,558	1,062	4.5

The net gain on lease terminations in 2014 comprises gains of \$15.0 million, \$13.0 million and \$12.4 million resulting from the termination of the long-term charter parties for the Front Comanche, Front Commerce and Front Opalia, respectively. The net gain on lease terminations in 2013 comprises gains of \$7.6 million, \$5.8 million and \$8.0 million resulting from the termination of the long-term charter parties for the Edinburgh (ex Titan Aries), Golden Victory and Front Champion, respectively, and a loss of \$0.2 million resulting from the termination of the long-term charter party for the Front Pride.

The loss on sale of assets in 2014 is attributable to the sale of the VLCC Ulysses (ex Phoenix Voyager) in March 2014.

The amortization of deferred gains in 2013 represents the amortization of the deferred gain resulting from the sale and lease back of the Front Eagle (renamed DHT Eagle).

#### Ship operating expenses

(in thousands of \$)			Change	
	2014	2013	\$	%
VLCC	67,437	84,181	(16,744 )	(19.9 )
Suezmax	22,237	25,691	(3,454 )	(13.4 )
Total ship operating expenses	89,674	109,872	(20,198 )	(18.4 )

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

VLCC operating costs decreased in 2014 as compared to 2013 primarily due to the following reasons:

- A decrease of \$7.5 million due to the termination of the long term charter parties in November 2013 of two vessels, which had been chartered-in under capital leases.

- A decrease in drydocking costs of \$5.3 million due to lower costs on the three vessels which docked in 2014, compared to the three vessels that docked in 2013.

- A decrease of \$2.5 million due to the disposal of two vessels in March 2014 and October 2014.

- A decrease of \$1.2 million due to the de-consolidation of the Windsor group in July 2014, removing the operating expenses of two vessels.

- A decrease of \$1.3 million due to a general decrease in operating expenses.

- A decrease of \$0.9 million due to the redelivery of two vessels chartered in under operating lease

These factors were partially offset by an increase of \$1.7 million due to the redelivery to the Company of two VLCCs, which had been chartered out on bareboat contracts, one of which was subsequently sold in March 2014 and one of which was de-consolidated as part of the Windsor group in July 2014.

Suezmax operating costs decreased in 2014 as compared to 2013 primarily due the following reasons:

- A \$4.0 million reduction in drydocking costs as no vessels were dry docked in 2014 compared to three in 2013.

- The redelivery of one vessel chartered in under capital lease, resulting in a decrease of \$0.5 million.

- A decrease of \$0.5 million due to a general decrease in operating expenses.

These factors were partially offset by an increase of \$1.5 million due to the delivery of one newbuilding in May 2014.

#### Contingent rental expense (income)

(in thousands of \$)			Change	
	2014	2013	\$	%
Contingent rental expense (income)	36,900	(7,761 )	44,661	(575.5 )

The contingent rental expense (income) represents amounts accrued following changes to certain charter parties. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under long-term leases for a four year period that commenced on January 1, 2012. The Company compensates Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates. In December 2011, the Company also agreed to a rate reduction on four vessels leased from German KG companies whereby the Company will pay a reduced rate and an additional amount dependent on

the actual index rate.

In the year ended December 31, 2014, there was an expense of \$4.2 million relating to the four vessels leased from German KG companies and the contingent rental expense relating to the Ship Finance vessels was \$32.7 million. The increase in contingent rental expense in 2014 as compared to 2013 is due to an increase in market rates.

42

---

In the year ended December 31, 2013, there was income of \$7.8 million relating to the four vessels leased from the German KG companies as the amounts paid were lower than the index that was used to record the leases when they were amended in December 2011. \$4.0 million of this amount relates to the year ended December 31, 2013 and \$3.8 million relates to the year ended December 31, 2012. The contingent rental expense relating to the Ship Finance vessels was nil.

#### Charter hire expenses

(in thousands of \$)	2014	2013	Change	
			\$	%
Charter hire expense	—	4,176	(4,176	) (100.0

The charter hire expense in 2013 was attributable to one double-hull VLCC. This agreement was terminated in May 2013.

#### Administrative expenses

(in thousands of \$)	2014	2013	Change	
			\$	%
Administrative expenses	40,787	31,628	9,159	29.0

Administrative expenses increased in 2014 as compared to 2013 primarily due to an increase in employee related expenses of \$5.3 million, all of which is recharged to related parties, and an increase in newbuilding supervision costs of \$3.5 million, all of which is recharged to related parties. Amounts recharged to related parties are recorded as Other Income.

#### Impairment loss and depreciation

(in thousands of \$)	2014	2013	Change	
			\$	%
Depreciation	81,471	99,802	(18,331	) (18.4
Impairment loss	97,709	103,724	(6,015	) (5.8

Depreciation expense decreased in 2014 as compared to 2013 primarily due to the following reasons:

- A decrease of \$6.5 million due to redelivery of five VLCCs (two in November 2013 and three in November 2014) and one Suezmax in February 2013, all of which had been chartered in by the Company and accounted for as vessels held under capital leases.
- A decrease of \$5.4 million due to the de-consolidation of Windsor group in July 2014.
- A decrease of \$4.5 million due to due to an impairment charge that was recorded on three VLCCs in 2014, and one VLCC in 2013.
- A decrease of \$3.1 million due to the sale of one VLCC in March 2014 and one VLCC in October 2014.

These factors were partially offset by an increase of \$1.2 million due to the delivery of one Suezmax tanker newbuilding in May 2014.

During 2014, the Company identified three vessels held under capital lease and one owned vessel, where the future estimated cash flows for each vessel was less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$97.7 million in 2014. This loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Front Opalia (\$27.8 million), Front Commerce (\$26.7 million) and Front Comanche (\$30.7 million) and one vessel owned by a wholly-owned subsidiary of ITCL - Ulriken (ex Antares Voyager) (\$12.4 million). The impairment loss recorded on the vessels held under capital lease vessel is equal

to the difference between the asset's carrying value and estimated fair value. In July 2014, it was agreed that the leases on these vessels would be terminated, with expected termination in the fourth quarter of 2014 subject to normal closing conditions, and a 100% lease termination probability was assigned to these three vessels as of September 30, 2014. The leases on these three vessels were terminated in the fourth quarter of 2014. In September 2014, Golden State entered into an agreement to sell the Ulriken to an unrelated third party and the vessel was delivered in October 2014. The Company recorded an impairment loss of \$12.4 million in the nine months ended September 30, 2014 equal to the difference between the vessel's carrying value and the net sales price of \$26.0 million.

During 2013, the Company identified three vessels held under capital lease where the future estimated cash flows for each vessel were less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$103.7 million in 2013. The loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Golden Victory (\$45.6 million), Front Champion (\$42.5 million) and Front Century (\$15.6 million). The impairment loss recorded on each vessel was equal to the difference between the asset's carrying value and estimated fair value. The leases on Front Champion and Golden Victory were terminated in November 2013 and a 100% lease termination probability was assigned to these two vessels as of September 30, 2013. The fair value of Front Century was determined using expected future cash flows from the leased vessel

Interest income

(in thousands of \$)	2014	2013	Change	
			\$	%
Interest income	47	83	(36	) (43.4

Interest income 2014 and 2013 relates solely to interest received on bank deposits.

Interest expense

(in thousands of \$)	2014	2013	Change	
			\$	%
Interest expense	(75,825	) (90,718	) 14,893	16.4

Interest expense decreased in 2014 as compared to 2013 primarily due to the following reasons:

A decrease in finance lease interest expense of \$10.4 million due the redelivery of two VLCCs in November 2013 and three VLCCs in November 2014 and the reduction of lease obligations as a result of payments made during 2013 and 2014.

A decrease of \$6.8 million in loan interest expense as a result of the de-consolidation of the Windsor group in July 2014.

A decrease of \$2.4 million due to repayment of debt on the 8.04% First Preferred Mortgage Term Notes as a result of the sale of the VLCC Ulysses (ex Phoenix Voyager) in March 2014 and the VLCC Ulriken (es Antares Voyager) in October 2014.

A decrease of \$1.3 million due to the debt for equity exchanges of \$25.0 million in October 2013, \$23.0 million in October 2014 and \$22.5 million in December 2014, concerning the Company's convertible bond loan with maturity in April 2015.

These factors were partially offset by:

A \$5.2 million increase as a result of the interest charged on the notes payable to Ship Finance, which were issued following the early termination of the leases on Front Champion and Golden Victory in November 2013 and the Front Comanche, Front Commerce and Front Opalia in November 2014.

An increase in loan interest expense of \$0.7 million due to the draw down of financing on one Suezmax tanker.

Equity gains of unconsolidated subsidiaries and associated companies

(in thousands of \$)	2014	2013	Change	
			\$	%
Share of results of associated companies	3,866	13,539	(9,673	) 71.4

As of December 31, 2014, the Company accounted for two investees (December 31, 2013: four investees) under the equity method.

Share of results from associated companies in the year ended December 31, 2014 includes earnings from Frontline 2012 of \$4.6 million and losses of \$0.7 million from the CalPetro group.

In 2013, the Company recognized gains of \$5.2 million and \$4.7 million in the first and third quarters, respectively, on the dilution of its ownership in Frontline 2012 following private placements by Frontline 2012 in January 2013 and September 2013, respectively. The Company also recognized earnings from associated companies of \$3.6 million (net), of which \$4.2 million were from Frontline 2012.



## Other income (expenses)

(in thousands of \$)	2014	2013	Change	
			\$	%
Foreign currency exchange losses	(179	) (92	) (87	) 94.6
Mark to market loss on derivatives	—	(585	) 585	100.0
Gain on redemption of debt	1,486	—	1,486	(100.0
Debt conversion expense	(41,067	) (12,654	) (28,413	) 224.5
Loss from de-consolidation of subsidiaries	(12,415	) —	(12,415	) —
Dividends received, net	296	86	210	244.2
Other non-operating items, net	1,190	1,181	9	0.8

The mark to market loss on derivatives in 2013 relates to the Company's trading in freight forward agreements ("FFAs"). The Company ceased trading FFAs in March 2013.

The gain on redemption of debt resulted from the Company's purchase of \$17.8 million notional value of its convertible bonds for a purchase price of \$16.3 million in October 2014 .

In October 2014 and December 2014, the Company entered into private agreements to exchange \$45.5 million of the outstanding principal amount of its convertible bonds for an aggregate of 12,996,476 shares and a cash payment of \$19.6 million plus accrued interest. As the conversions were agreed at more favorable terms than the original bond, they were treated as inducements and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense of \$41.1 million in 2014.

The debt conversion expense in 2013 resulted from the Company's exchange of \$25.0 million of the outstanding principal amount of its convertible bonds for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million in October 2013. As the conversion was agreed at more favorable terms than the original bond, this was treated as an inducement and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense of \$12.7 million in 2013.

The loss from de-consolidation of subsidiaries in 2014 resulted from the de-consolidation of the Windsor group. On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing and recorded a loss of \$12.4 million in the third quarter of 2014. The loss comprises the net investment in the Windsor group at the time of de-consolidation and \$8.8 million relating to the accelerated amortization of the debt discount on the 7.84% First Preferred Mortgage Term Notes. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders. The Company was appointed as commercial manager in January 2015 for the vessels that were owned by the Windsor group prior to its bankruptcy filing and this will be the Company's only ongoing involvement with the Windsor group.

Other non-operating items, net in 2014 and 2013 mainly comprises of the amortization of deferred gains.

## Net loss from discontinued operations

(in thousands of \$)	2014	2013	Change	
			\$	%
Net loss from discontinued operations	—	(1,204	) 1,204	100.0

Net loss from discontinued operations in 2013 relates to the operations of the Company's OBO carriers. The loss relates primarily to the Front Guider and includes a loss on the termination of the lease in March 2013 of \$0.8 million.

Net loss attributable to noncontrolling interest

45

---

(in thousands of \$)	2014	2013	Change \$	%
Net loss attributable to noncontrolling interest	8,722	2,573	6,149	239.0

Net loss attributable to noncontrolling interest has increased in 2014 primarily due to the increase in the net loss of ITCL in 2014.

Year ended December 31, 2013 compared with the year ended December 31, 2012

Total operating revenues and voyage expenses and commission

(in thousands of \$)	2013	2012	Change \$	%
Voyage charter revenues	440,584	452,890	(12,306)	(2.7)
Time charter revenues	26,843	66,313	(39,470)	(59.5)
Bareboat charter revenues	24,009	33,373	(9,364)	(28.1)
Other income	25,754	25,785	(31)	(0.1)
Total operating revenues	517,190	578,361	(61,171)	(10.6)
Voyage expenses and commissions	299,741	269,845	29,896	11.1

Voyage charter revenues decreased in 2013 as compared to 2012 primarily due to the following reasons:

- four VLCCs and three Suezmax tankers, which were chartered-in, were redelivered by the Company between January 2012 and May 2013, resulting in a decrease in revenues of \$58.8 million,
- a reduction in market rates, resulting in a decrease in revenues from the Company's VLCCs of \$41.6 million,
- an increase in off-hire and waiting days, resulting in a decrease in revenues of \$19.8 million, and
- one Suezmax tanker was sold to an unrelated third party, resulting in a decrease in revenues of \$1.2 million.

These factors were partially offset by:

- nine VLCCs and two Suezmax tankers, which commenced trading in the spot market upon redelivery to the Company from time charter contracts between March 2012 and September 2013, resulting in an increase in revenues of \$64.8 million,
- one VLCC, which commenced trading in the spot market in March 2013 upon redelivery to the Company from a bareboat contract, resulting in an increase in revenues of \$11.4 million, and
- a \$32.1 million increase in revenues due to the redelivery of six Suezmax tankers from pooling arrangements under which revenues were received net of voyage expenses in 2012 and are now recognized gross.

Time charter revenues decreased in 2013 as compared to 2012 primarily due to the following reasons:

- nine VLCCs and two Suezmax tankers commenced trading in the spot market upon redelivery to the Company from time charter contracts between March 2012 and September 2013, resulting in a decrease in revenues of \$38.7 million, and
- a decrease of \$1.7 million on a floating rate time charter contract as a result of a reduction in market rates.

Bareboat charter revenues decreased in 2013 as compared to 2012 primarily due to the termination of the bareboat contract on one VLCC in March 2013 resulting in a decrease in revenues of \$8.3 million. The vessel commenced trading in the spot market in March 2013.

Voyage expenses and commissions increased in 2013 as compared to 2012 primarily due to the following reasons:

eleven VLCCs and two Suezmax tankers, which commenced trading in the spot market between March 2012 and September 2013 upon redelivery from time charter and bareboat charter contracts, resulting in an increase in voyage costs of \$60.1 million, and

a \$34.9 million increase in voyage costs due to the redelivery of six Suezmax tankers from pooling arrangements under which voyage costs were netted against voyage revenues in 2012 and are now recognized gross.

These factors were partially offset by:

a \$34.9 million decrease in voyage expenses due to the impact of slower steaming and increases in both waiting time and off-hire days on bunker consumption, and the redelivery by the Company of four VLCCs chartered-in under operating leases between January 2012 and May 2013, leading to a decrease in voyage expenses of \$27.3 million.

Gain on sale of assets and amortization of deferred gains

(in thousands of \$)	2013	2012	Change		
			\$	%	
Net gain on lease terminations	21,237	21,806	(569	) (2.6	)
Net loss on sale of assets	—	(2,109	) 2,109	(100.0	)
Amortization of deferred gains	2,321	15,062	(12,741	) (84.6	)
	23,558	34,759	(11,201	) 32.2	

The net gain on lease terminations in each period presented relates to the termination of leases for vessels that were leased in by the Company. The net gain on lease terminations in 2013 comprises (i) a gain of \$7.6 million resulting from the termination of the long-term charter party for the Edinburgh (ex Titan Aries), (ii) a gain of \$5.8 million resulting from the termination of the long-term charter party for the Golden Victory, (iii) a gain of \$8.0 million resulting from the termination of the long-term charter party for the Front Champion, and (iv) a loss of \$0.2 million resulting from the termination of the long-term charter party for the Front Pride. The net gain on lease terminations in 2012 resulted from the termination of the long-term charter party agreements for Titan Orion (ex-Front Duke) and Ticen Ocean (ex-Front Lady).

The loss on sale of assets 2012 represents the loss from the sale of the Front Alfa.

The amortization of deferred gains in 2013 and 2012 represents the amortization of the deferred gains resulting from the sales and lease back of the Front Shanghai (renamed Gulf Eyadah) and the Front Eagle (renamed DHT Eagle). There were no unamortized gains as of December 31, 2013.

Ship operating expenses

(in thousands of \$)	2013	2012	Change		
			\$	%	
VLCC	84,181	89,027	(4,846	) (5.4	)
Suezmax	25,691	29,354	(3,663	) (12.5	)
Total ship operating expenses	109,872	118,381	(8,509	) (7.2	)

VLCC operating costs decreased 2013 as compared to 2012 primarily due to the following reasons:

• A decrease of \$3.6 million due to lower drydocking expenses as only three vessels docked in 2013, compared to eight in 2012.

• A decrease of \$0.9 million due to the termination of the long-term time charters on two chartered-in vessels

• A decrease in repairs and maintenance costs of \$1.1 million

• A decrease in crew costs of \$0.6 million

• A decrease in other operating expenses of \$0.6 million

These factors were partially offset by an increase of \$2.0 million due to the redelivery of one double hull VLCC and two single hull VLCCs from bareboat charter between December 2012 and March 2013.

Suezmax operating costs decreased in 2013 as compared to 2012 primarily due to a \$2.6 million decrease due to the termination of the lease on one vessel in February 2013 and a \$0.8 million decrease due to the sale of one vessel in March 2012.

Contingent rental (income) expense

47

---

(in thousands of \$)	2013	2012	Change	
			\$	%
Contingent rental (income) expense	(7,761	) 22,456	(30,217	) (134.6

The contingent rental (income) expense represents amounts accrued following changes to certain charter parties. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under long-term leases for a four year period that commenced on January 1, 2012. The Company compensates Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates. In December 2011, the Company also agreed to a rate reduction on four vessels leased from German KG companies whereby the Company will pay a reduced rate and an additional amount dependent on the actual index rate.

In the year ended December 31, 2013, there was income of \$7.8 million relating to the four vessels leased from the German KG companies as the amounts paid were lower than the index that was used to record the leases when they were amended in December 2011. \$4.0 million of this amount relates to the year ended December 31, 2013 and \$3.8 million relates to the year ended December 31, 2012. The contingent rental expense relating to the Ship Finance vessels was nil.

In the year ended December 31, 2012 the contingent rental expense relating to the four German KG vessels and the Ship Finance vessels was \$2.4 million and \$20.1 million, respectively.

#### Charter hire expenses

(in thousands of \$)	2013	2012	Change	
			\$	%
Charter hire expense	4,176	37,461	(33,285	) (88.9

Charter hire expense decreased in 2013 as compared to 2012 primarily due to the redelivery by the Company of four double-hull VLCCs between January 2012 and May 2013, three single-hull VLCCs between March 2012 and January 2013 and two Suezmax tankers in October and November 2012.

#### Administrative expenses

(in thousands of \$)	2013	2012	Change	
			\$	%
Administrative expenses	31,628	33,906	(2,278	) (6.7

Administrative expenses have decreased in 2013 as compared with 2012 primarily due to a decrease in staff related costs.

#### Impairment loss and depreciation

(in thousands of \$)	2013	2012	Change	
			\$	%
Depreciation	99,802	107,437	(7,635	) (7.1
Impairment loss	103,724	4,726	98,998	2,094.8

Depreciation decreased in 2013 as compared to 2012 primarily due to a decrease of \$4.7 million due to the termination of the leases on the two VLCCs in November 2013, one Suezmax tanker in February 2013 and the sale of one Suezmax tanker in March 2012, and a decrease of \$2.9 million due to the impairment charge recorded on three VLCCs in 2013.

The vessel impairment loss of \$103.7 million in 2013 relates to three vessels leased from Ship Finance (Front Century, Front Champion and Golden Victory). All vessels are recorded as vessels under capital lease. The leases on Front Champion and Golden Victory were terminated in November 2013 and a 100% lease termination probability was assigned to these two vessels as of September 30, 2013. The fair value of Front Century was determined using discounted expected future cash flows from the leased vessel. The impairment loss in 2012 relates to one Suezmax tanker (Front Pride).

Interest income

48

---



(in thousands of \$)	2013	2012	Change		
			\$	%	
Interest income	83	130	(47	)	(36.2 )

Interest income in 2013 and 2012 relates solely to interest received on bank deposits.

#### Interest expense

(in thousands of \$)	2013	2012	Change		
			\$	%	
Interest expense	(90,718	) (94,089	) 3,371		(3.6 )

Interest expense decreased in 2013 as compared with 2012 primarily due to the following reasons;

- a \$3.2 million decrease in capital lease interest expense as a result of lower capital lease obligations,
- a \$1.5 million decrease in capital lease interest expense as a result of the termination of long-term charter parties on two VLCCs in November 2013 and one Suezmax tanker in March 2013, and
- a \$0.7 million decrease in loan interest expense as a result of an increase in capitalized interest.

These factors were partially offset by:

- a \$1.8 million charge for the amortization of the debt discount on the 7.84% First Preferred Mortgage Term Notes, and
- a \$0.7 million interest charge on the notes payable to Ship Finance, which were issued following the early termination of the leases on Front Champion and Golden Victory.

#### Equity losses of unconsolidated subsidiaries and associated companies

(in thousands of \$)	2013	2012	Change		
			\$	%	
Share of results of associated companies	13,539	(4	) 13,543		—

As of December 31, 2013, the Company accounted for four investees (December 31, 2012: five investees) under the equity method.

In 2013, the Company recognized gains of \$5.2 million and \$4.7 million in the first and third quarters, respectively, on the dilution of its ownership in Frontline 2012 following private placements by Frontline 2012 in January 2013 and September 2013, respectively. The Company also recognized earnings from associated companies of \$3.6 million (net), of which \$4.2 million were from Frontline 2012.

#### Other income (expenses)

(in thousands of \$)	2013	2012	Change		
			\$	%	
Foreign currency exchange losses	(92	) 84	(176	)	(209.5 )
Mark to market loss on derivatives	(585	) (1,725	) 1,140		66.1
Debt conversion expense	(12,654	) —	(12,654	)	—
Gain on redemption of debt	—	4,600	(4,600	)	(100.0 )
Dividends received, net	86	134	(48	)	(35.8 )
Other non-operating items, net	1,181	1,110	71		6.4

The mark to market loss on derivatives in 2013 and 2012 relates to the Company's trading in FFAs. The Company ceased trading FFAs in March 2013.

The gain on redemption of debt resulted from the Company's purchase of \$10.0 million notional value of its convertible bonds for a purchase price of \$5.4 million in 2012.

The debt conversion expense resulted from the Company's exchange of \$25.0 million of the outstanding principal amount of the Company's 4.5% convertible bond issue for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million in October 2013. As the conversion was agreed at more favorable terms than the original bond, this was treated as an inducement and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense in 2013.

Other non-operating items, net in 2013 and 2012 mainly comprises of the amortization of deferred gains.

#### Net loss from discontinued operations

(in thousands of \$)	2013	2012	Change	
			\$	%
Net loss from discontinued operations	(1,204	) (12,544	) 11,340	90.4

Net loss from discontinued operations in 2013 and 2012 relate to the operations of the Company's OBO carriers.

The net loss in 2013 relates primarily to the Front Guider and includes a loss on the termination of the lease in March 2013 of \$0.8 million. The net loss in 2012 relates to five OBO carriers: Front Climber, Front Driver, Front Guider, Front Rider and Front Viewer.

#### Net loss attributable to noncontrolling interest

(in thousands of \$)	2013	2012	Change	
			\$	%
Net loss attributable to noncontrolling interest	2,573	1,021	1,552	152.0

Net loss attributable to noncontrolling interest has increased in 2013 primarily due to the increase in the net loss of ITCL in 2013.

#### Recent accounting pronouncements

Accounting Standards Update No. 2014-08-Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360). The amendments in this Update address the issues that (i) too many disposals of small groups of assets that are recurring in nature qualify for discontinued operations presentation under Subtopic 205-20, and (ii) some of the guidance on reporting discontinued operations results in higher costs for preparers because it can be complex and difficult to apply, by changing the criteria for reporting discontinued operations and enhancing convergence of the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) reporting requirements for discontinued operations. The Company is required to apply the amendments in this Update prospectively to (i) all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, and (ii) all businesses or non-profit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company is currently considering the impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2014-09-Revenue from Contracts with Customers (Topic 606). The FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers. The amendments in this Update are effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently considering the

impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2014-15-Presentation of Financial Statements-Going Concern (Subtopic 205-40). The amendments in this Update provide guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently considering the impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2015-02-Consolidation (Topic 810). The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in certain legal entities. The amendments in this Update are effective for the Company for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company is currently considering the impact of these amendments on its consolidated financial statements.

## B. 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. Historically, market rates for charters of our vessels have been volatile. 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 increase 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 Pounds, Euros, Norwegian Kroner and Singapore dollars.

Our short-term liquidity requirements relate to payment of operating costs (including drydocking), lease payments for our chartered in fleet, funding working capital requirements, repayment of the convertible bond, repayment of bridge financing (if utilized), funding any payments we may be required to make due to lessor put options on certain vessels we charter-in, which are described in footnote 1 of the table contained in "Item 5.F - Tabular Disclosure of Contractual Obligations," funding the payment of contingent rental expense, which is described in footnote 2 of the aforementioned table, 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. We believe we can repay the convertible bond loan from cash on hand and committed bridge financing against our shares in Frontline 2012.

Our medium and long-term liquidity requirements include funding the equity portion of investments in new or replacement vessels and repayment of bank loans and loan notes. Additional sources of funding for our medium and long-term liquidity requirements include new loans, refinancing of existing arrangements, equity issues (see ATM Offering below), public and private debt offerings, vessel sales, sale and leaseback arrangements, asset sales and derivative arrangements.

Net cash provided by operating activities in 2014 was \$53.4 million compared with net cash used in operations of \$42.7 million in 2013. No contingent rental expense was paid in 2014 compared with \$52.2 million paid in 2013. The Company's reliance on the spot market contributes to fluctuations in cash flows from operating activities as a result of its exposure to highly cyclical tanker rates. Any increase or decrease in the average TCE rates earned by the Company's vessels in periods subsequent to December 31, 2014, compared with the actual TCE rates achieved during

2014, will have a positive or negative comparative impact, respectively, on the amount of cash provided by operating activities. We estimate average total cash cost breakeven rates for 2015 on a TCE basis for VLCCs and Suezmax tankers of approximately \$26,400 and \$19,400, respectively. These are the daily rates our vessels must earn to cover budgeted operating costs, estimated interest expenses and scheduled loan principal repayments, bareboat hire and corporate overhead costs in 2015. These rates do not take into account capital expenditures, repayment of the convertible bond in April 2015 and contingent rental expense.

As of December 31, 2014, 2013 and 2012, we had cash and cash equivalents of \$64.1 million, \$53.8 million and \$137.6 million, respectively. As of December 31, 2014, 2013 and 2012, we had restricted cash balances of \$42.1 million, \$68.4 million and \$87.5 million, respectively. Restricted cash balances at December 31, 2014, include \$41.1 million (2013: \$66.2 million) held by ITCL and these 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 and may also be used to fund the operating expenses of certain vessels in accordance with contractual arrangements. The decrease in the ITCL restricted cash deposits is primarily due to principal and interest payments to the note holders and the de-consolidation of the Windsor group.

Please see “Item 4. Information on the Company” for additional information on the Company’s liquidity during 2012, 2013 and 2014.

## Equity Issues

### ATM Offering

In June 2013, we entered into an equity distribution agreement with Morgan Stanley & Co. LLC, (“Morgan Stanley”) under which we may, at any time and from time to time, offer and sell new ordinary shares having aggregate sales proceeds of up to \$40.0 million through Morgan Stanley in an ATM offering. In January 2014, we increased the amount that may be raised under the ATM offering to up to \$100.0 million. In January 2015, we increased the amount that may be raised from the ATM offering from up to \$100.0 million to up to \$150.0 million.

We issued 2,178,384 new ordinary shares under the ATM offering in 2013 generating \$6.2 million in gross proceeds and we issued 12,834,800 new ordinary shares under the ATM program in 2014 generating gross proceeds of \$54.2 million. As of the date of this report, we have issued 10,912,447 new ordinary shares under the ATM offering in 2015 generating \$37.2 million in gross proceeds. In total, we have issued 25,925,631 ordinary shares generating gross proceeds of \$97.6 million.

### Borrowing activities

#### 7.84% First Preferred Mortgage Term Notes

On July 15, 2014, the Company de-consolidated the Windsor group and the outstanding balance on the term notes of \$179.8 million was removed from the balance sheet. These term notes are non-recourse to the Company.

### Term Loan Facilities

In June 2014, the Company entered into a \$60.0 million term loan facility to part finance its two Suezmax newbuildings, Front Ull and Front Idun. The Company drew down \$30.0 million in the third quarter for the vessel delivered in the second quarter (Front Ull) and drew down \$30.0 million in January 2015 upon delivery of the second newbuilding (Front Idun). Repayments are made on a quarterly basis, each in an amount equaling 1/60th of the amount drawn, with a balloon payment on the final maturity date in June 2017. The loan bears interest at LIBOR plus a margin. The loan agreement contains a loan-to-value clause, which could require the Company to post collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing the borrowings decrease below a required level. In addition, the loan agreement requires the vessel owning subsidiaries to maintain a certain level of free cash and maintain positive working capital and it contains a cross default provision regarding the Company's convertible loan. Failure to comply with any of the covenants could result in a default, which would permit the lender to accelerate the maturity of the debt and to foreclose upon any collateral securing the debt. The Company was in compliance with all of the financial and other covenants as of December 31, 2014. As of December 31, 2014, the outstanding balance under this facility was \$29.5 million.

The Company was in compliance with all of the financial and other covenants as of December 31, 2014.

### Convertible Bonds

On March 26, 2010, we announced the private placement of \$225 million of convertible bonds and the offering of the bonds closed on April 14, 2010. The senior, unsecured convertible bonds have an annual coupon of 4.50%, which is paid quarterly in arrears and had a conversion price of \$39.00. The bonds may be converted into our Ordinary Shares

by the holders at anytime up to ten banking days prior to April 14, 2015. The applicable USD/NOK exchange rate has been set at 6.0448. We declared a dividend of \$0.75 per share on May 21, 2010. The conversion price was adjusted from \$39.00 to \$38.0895 effective June 2, 2010 which was the date the shares traded ex-dividend. We declared a dividend of \$0.75 per share on August 27, 2010. The conversion price was adjusted from \$38.0895 to \$37.0483 per share effective September 8, 2010, which was the ex-dividend date. There was no adjustment to the conversion price for the dividend of \$0.25 per share, which was paid on December 21, 2010. There is no adjustment to the conversion price where such adjustment would be less than 1% of the conversion price then in effect and any adjustment not required to be made shall be carried forward and taken into account in any subsequent adjustment. On February 22, 2011, we announced a dividend of \$0.10 per share. The conversion price was adjusted from \$37.0483 to \$36.5567 per share effective March 7, 2011, which was the ex-dividend date. The bonds will be redeemed at 100% of their principal amount and will, unless previously redeemed, converted or purchased and cancelled, mature on April 14, 2015.



We have a right to redeem the bonds at par plus accrued interest at any time during the term of the loan, provided that 90% or more of the bonds issued shall have been redeemed or converted to shares. 3,465,849 new shares would be issued at December 31, 2014, if the bonds were converted at the current price of \$36.5567.

In March 2012, we purchased \$10.0 million notional value of these convertible bonds for a purchase price of \$5.4 million.

In October 2013, we entered into a private agreement to exchange \$25.0 million of the convertible bonds for an aggregate of 6,474,827 ordinary shares and a cash payment of \$2.25 million.

In October 2014, the Company bought \$17.8 million notional principal of its convertible bond issue at a purchase price of 91.654%. This transaction resulted in a non-cash gain of \$1.5 million in the fourth quarter of 2014. In October 2014, the Company also entered into a private agreement to exchange \$23.0 million of the outstanding principal amount of its convertible bond issue for an aggregate of 8,251,724 shares and a cash payment of \$10.0 million plus accrued interest.

In December 2014, the Company entered into a private agreement to exchange \$22.5 million of the outstanding principal amount of its convertible bond issue for an aggregate of 4,744,752 shares and a cash payment of \$9.6 million plus accrued interest. This transaction and the bond exchange in October 2014 resulted in a non-cash loss of \$41.1 million in the fourth quarter of 2014.

In February 2015, the Company bought \$33.3 million notional principal of its convertible bond at a purchase price of 99%.

In the fourth quarter of 2014 and in the first quarter of 2015, the Company reduced the outstanding balance on its convertible bond loan, which matures in April 2015, from \$190.0 million at September 30, 2014 to \$93.4 million as of the date of this annual report through bond buy backs and debt/equity swaps. While there is a risk that the Company maybe unable to repay its convertible bond (See Item 3D, Risk Factors - We cannot assure you that we will be able to repay our convertible bond loan, which matures in April 2015), the Company believes it will be able to do so from cash on hand and committed bridge financing against our shares in Frontline 2012.

The loan associated with our convertible bonds imposes operating and negative covenants on us and our subsidiaries. A violation of these covenants constitutes an event of default under our convertible bonds, which would, unless waived by our bondholders, provide our bondholders with the right to require the principal amounts under the convertible bonds including accrued interest and expenses due for immediate payment and accelerate our indebtedness, which would impair our ability to continue to conduct our business. The Company was in compliance with all of the covenants as of December 31, 2014.

#### Bridge Financing Transaction

In January 2015, the Company obtained a binding commitment from one of its lenders to purchase, at the Company's request, up to 13,460,000 shares of Frontline 2012 owned by the Company at the prevailing market price at the time of the Company's request until April 15, 2015. At the same time, the Company is obligated to enter into a forward contract, with maximum maturity of six months, which requires the Company to buy back those shares. The commitment is subject to standard terms and conditions for transactions of this kind including the requirement for the Company to fund any unrealized losses on the forward contract and to maintain a cash collateral deposit in a pledged account equal to at least 20% of the market value of the forward contract. The value of the Company's shares in Frontline 2012 was approximately \$75 million based on the closing share price on March 6, 2015.

Windsor Petroleum Transport Corporation Term Notes

In July and August 2008, ITCL purchased three tranches of the Windsor Petroleum Transport Corporation 7.84% term notes on the open market. In 2013, ITCL sold its full holding of the term notes, for net proceeds of \$19.8 million.

In our opinion, we believe that cash on hand, internally generated cash flow and borrowings under our credit facilities will be sufficient to fund our working capital for, at least, the 12 months from December 31, 2014.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We do not undertake any significant expenditures on research and development, and have no significant interests in patents or licenses.

## D. TREND INFORMATION

The oil tanker industry has been highly cyclical, experiencing volatility in charter hire rates and vessel values resulting from changes in the supply of and demand for crude oil and tanker capacity. See "Item 5, Operating and Financial Review and Prospects – A. Operating Results".

## E. OFF-BALANCE SHEET ARRANGEMENTS

We are committed to make rental payments under operating leases for office premises. The future minimum rental payments under our non-cancellable operating leases are disclosed below in "Tabular disclosure of contractual obligations".

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

At December 31, 2014, we had the following contractual obligations and commitments:

(In thousands of \$)	Payment due by period				Total
	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years	
Fixed rate debt	163,357	—	—	—	163,357
Floating rate debt	2,000	27,500	—	—	29,500
Operating lease obligations	1,848	1,187	794	1,837	5,666
Capital lease obligations (1)	78,989	143,689	139,974	281,029	643,681
Capital repayments on loan notes	11,032	29,177	33,563	47,211	120,983
Contingent rental expense (2)	35,672	—	—	—	35,672
Newbuilding commitments (3)	40,866	—	—	—	40,866
Interest on fixed rate debt	4,408	—	—	—	4,408
Interest on floating rate debt (4)	797	1,093	—	—	1,890
Interest on fixed rate loan notes	8,491	14,014	8,817	3,614	34,936
Interest on capital lease obligations	39,412	62,017	44,008	49,037	194,474
Total	386,872	278,677	227,156	382,728	1,275,433

As of December 31, 2014, the Company held 21 vessels under capital leases, of which 17 are leased from Ship Finance. Four are leased from a third party and the lessor has options to put the vessels on the Company at the end of the lease terms in December 2015 at which time the Company would be required to pay an aggregate amount of \$36.0 million. This amount is included in the less than 1 year amount of \$79.0 million.

Contingent rental expense of \$35.7 million is contractually payable as of December 31, 2014 and represents the amount earned in 2014. Additional contingent rental expense maybe come payable for amounts earned subsequent to December 31, 2014.

The newbuilding commitments as of December 31, 2014 consist of one Suezmax tanker.

Interest on floating rate debt has been calculated using three month U.S. dollar libor, plus agreed margin, as of December 31, 2014 and outstanding borrowings as of that date.

The table above does not reflect the Company's profit sharing arrangement with Ship Finance. See "Item 5, Operating and Financial Review and Prospects – A. Operating Results-Revenue and expense recognition".

## G. SAFE HARBOR

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

The following table sets forth information regarding our executive officers and directors and certain key officers of our wholly owned subsidiary, Frontline Management AS, who are responsible for overseeing our management.

Name	Age	Position
John Fredriksen	70	Chairman, Chief Executive Officer, President and Director
Kate Blankenship	50	Director and Audit Committee Chairman
Georgina Sousa	65	Director
Jens Martin Jensen	51	Director
Robert Hivde Macleod	36	Chief Executive Officer of Frontline Management AS
Inger M. Klemp	51	Chief Financial Officer of Frontline Management AS

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

John Fredriksen has served as Chairman of the Board, Chief Executive Officer, President and a director of the Company since November 3, 1997. Mr. Fredriksen has established trusts for the benefit of his immediate family which indirectly control Hemen, our largest shareholder. Mr. Fredriksen is Chairman, President and a director of a related party Seadrill Limited, a Bermuda company listed on the Oslo Stock Exchange and New York Stock Exchange. He is also Chairman, President and a director of a related party Golden Ocean Group Limited, a Bermuda company listed on the Oslo Stock Exchange whose principal shareholder is Hemen and a director of a related party Frontline 2012 Ltd., a Bermuda company listed on the NOTC, whose principal shareholder is Hemen.

Kate Blankenship has been a director of the Company 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 a Director of Ship Finance International Limited since October 2003. Mrs. Blankenship has served as a director of Golar LNG Limited since July 2003, Golden Ocean Group Limited since November 2004, Seadrill Limited since May 2005, Archer Limited since August 2007, Golar LNG Partners LP since September 2007, Independent Tankers Corporation Limited since February 2008, Frontline 2012 Ltd. since December 2011, Seadrill Partners LLC since June 2012 and Avance Gas Holdings Limited, or Avance Gas, since October 2013. She is a member of the Institute of Chartered Accountants in England and Wales.

Georgina E. Sousa has been a director of the Company since April 2013 and has been employed by the Company since February 2007. Mrs. Sousa is also a director of Frontline 2012 Ltd., Golar LNG Limited and Golden Ocean and has served as Secretary of Knightsbridge Shipping Limited since March 2007. Prior to joining the Company, Mrs. Sousa was Vice-President-Corporate Services of Consolidated Services Limited, a Bermuda management company having joined that firm in 1993 as Manager of Corporate Administration. From 1976 to 1982, she was employed by the Bermuda law firm of Appleby, Spurling & Kempe as a Company Secretary and from 1982 to 1993 she was employed by the Bermuda law firm of Cox & Wilkinson as Senior Company Secretary.

Jens Martin Jensen joined us in September 2004 as Commercial Director. Mr. Jensen served as acting Chief Executive Officer of Frontline Management AS from April 2008 to May 2009 and served as Chief Executive Officer from May 2009 to November 2014. Mr. Jensen was appointed a director of the Company in September 2014 and was appointed a director of FLEX LNG Limited in October 2014. From August 1996 to September 2004, Mr. Jensen was a partner in Island Shipbrokers in Singapore. From April 1985 to August 1996, Mr. Jensen worked in the A.P. Moller Group with postings to Singapore, Tokyo, Mexico and Denmark. Mr. Jensen completed the A.P. Moller training program in 1987.

Robert Hvide Macleod has served as Chief Executive Officer of Frontline Management AS since November 2014. Mr. Macleod was employed by the A.P. Moller Group from 2002 to 2004 and Glencore-ST Shipping from 2004 to

2011. He is the founder of Highlander Tankers AS. Mr Macleod holds a Maritime Business (Hons) degree from Plymouth University.

Inger M. Klemp has served as Chief Financial Officer of Frontline Management AS since June 1, 2006. Mrs. Klemp has served as a director of Independent Tankers Corporation Limited since February 2008 and has served as Chief Financial Officer of Knightsbridge Shipping Limited since September 2007. Mrs. Klemp 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. Prior to joining the Company, Mrs. Klemp was Assistant Director Finance in Color Group ASA and Group Financial Manager in Color Line ASA, a OSE listed company and before that was Assistant Vice President in Nordea Bank Norge ASA handling structuring and syndication of loan facilities in the international banking market and a lending officer of Fokus Bank ASA.

## B. COMPENSATION

During the year ended December 31, 2014, we paid to our directors and executive officers (six persons) aggregate cash compensation of approximately \$1.6 million and an aggregate amount of approximately \$0.07 million for pension and retirement benefits. In addition to cash compensation, during 2014 we also recognized stock compensation expense of approximately \$0.01 million in respect of options granted under our Share Option Scheme.

## 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 our 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. In 2014, our audit committee comprised of Mrs. Kate 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 see Item 16G or visit the corporate governance section of our website at [www.frontline.bm](http://www.frontline.bm).

## D. EMPLOYEES

As of December 31, 2014, we employed approximately 118 people in our offices in Bermuda, London, Oslo, Singapore, India and the Philippines, compared to 96 employees in 2013 and 88 employees in 2012. We contract with independent ship managers to manage and operate our vessels.

E. SHARE OWNERSHIP

As of March 6, 2015, the beneficial interests of our Directors and officers in our Ordinary Shares were as follows:

56

---



Director or Officer	Ordinary Shares of \$1.00 each	Options to acquire Ordinary Shares which have vested	Percentage of Ordinary Shares Outstanding
John Fredriksen*	*	—	*
Kate Blankenship	2,000	—	**
Jens Martin Jensen	14,000	20,000	**
Inger M. Klemp	16,000	20,000	**

\* Hemen is a Cyprus holding company, which is indirectly controlled by trusts established by Mr. Fredriksen, the Company's Chairman and Chief Executive Officer, for the benefit of his immediate family. Mr. Fredriksen disclaims beneficial ownership of the 26,304,053 Ordinary Shares held by Hemen, except to the extent of his voting and dispositive interest in such shares of common stock. Mr. Fredriksen has no pecuniary interest in the shares held by Hemen.

\*\* Less than 1%.

#### Share Option Scheme

In November 2006, the Company's board of directors approved a share option plan, which was cancelled in 2009 and replaced it with the Frontline Ltd. Share Option Scheme (the "Frontline Scheme"). The Frontline Scheme permits the board of directors, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The subscription price for all options granted under the scheme is reduced by the amount of all dividends declared by the Company in the period from the date of grant until the date the option is exercised, provided the subscription price is never reduced below the par value of the share. The options granted under the plan vest equally over three years and have a five year term. There is no maximum number of shares authorized for awards of equity share options and authorized, un-issued or treasury shares of the Company may be used to satisfy exercised options.

In April 2011, the Company granted 145,000 share options to directors and employees. No options have been granted since then. See Note 25 to our audited Consolidated Financial Statements included herein for more details on the Frontline Scheme.

Details of options to acquire our Ordinary Shares by our Directors and officers as of March 6, 2015, were as follows:

Director or Officer	Number of options		Exercise price	Expiration Date
	Total	Vested		
Jens Martin Jensen	20,000	20,000	NOK 130.46	April 2016
Inger M. Klemp	20,000	20,000	NOK 130.46	April 2016

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table presents certain information as of March 6, 2015, regarding the ownership of our Ordinary Shares with respect to each shareholder whom we know to beneficially own more than 5% of our outstanding Ordinary Shares.

Owner	Ordinary Shares Amount	%	
Hemen Holding Ltd.	26,304,053	21.3	%

As of March 6, 2015, 57,648,241 of our Ordinary Shares were listed for trading on the New York Stock Exchange.

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 the Company.

## B. RELATED PARTY TRANSACTIONS

The majority of the Company's leased vessels are leased from Ship Finance and Ship Finance is entitled to a profit share of the Company's earnings on these vessels under a Charter Ancillary Agreement. This profit share was increased from 20% to 25% with effect from January 1, 2012. A summary of leasing transactions with Ship Finance during the years ended December 31, 2014, 2013 and 2012 is as follows:

(in thousands of \$)	2014	2013	2012
Charter hire paid (principal and interest): continuing operations	123,225	150,891	161,840
Charter hire paid (principal and interest): discontinued operations	—	434	14,492
Lease termination fees (expense) income: continuing operations	—	(5,204	) 22,766
Lease termination fees expense: discontinued operations	—	—	(24,543
Contingent rental expense: continuing operations	32,663	—	20,020
Contingent rental expense: discontinued operations	—	—	32,156
Remaining lease obligation	593,998	726,717	875,670

A summary of net amounts earned (incurred) from related parties, excluding the Ship Finance lease related balances above, for the years ended December 31, 2014, 2013 and 2012 are as follows:

(in thousands of \$)	2014	2013	2012
Seatankers Management Co. Ltd	2,320	1,416	1,009
Golar LNG Limited	1,631	2,119	1,820
Ship Finance International Limited	6,281	5,094	4,261
Golden Ocean Group Limited	5,393	3,166	5,566
Bryggegata AS	(2,013	) (1,982	) (1,455
Arcadia Petroleum Limited	646	7,962	5,423
Seadrill Limited	2,348	1,475	2,574
Archer Limited	466	410	390
Deep Sea Supply Plc	149	69	41
Aktiv Kapital ASA	—	40	21
Orion Tankers Ltd	—	—	343
Frontline 2012 Ltd	10,102	7,410	(4,004
North Atlantic Drilling Ltd	1,128	60	—
CalPetro Tankers (Bahamas I) Limited	80	54	51
CalPetro Tankers (Bahamas II) Limited	80	54	51
CalPetro Tankers (IOM) Limited	80	54	51
Windsor group	287	—	—
Knightsbridge Shipping Limited	2,341	—	—

Net amounts earned from other related parties comprise charter hire, office rental income, technical and commercial management fees, newbuilding supervision fees, freights, corporate and administrative services income and interest income. Amounts paid to related parties comprise primarily rental for office space. In addition, the Company chartered in two vessels from Frontline 2012 on floating rate time charters during 2012 under which the charter hire expense was equal to the time charter equivalent earnings of the vessels. Both charters were terminated in December 2012.

A summary of short term balances due from related parties as at December 31, 2014 and 2013 is as follows:

(in thousands of \$)	2014	2013
Receivables		
Ship Finance International Limited	3,444	2,272
Seatankers Management Co. Ltd	320	394
Archer Ltd	100	8
Golar LNG Limited	—	942
Northern Offshore Ltd	13	13
Golden Ocean Group Limited	1,490	1,219
Seadrill Limited	557	1,478
Frontline 2012 Ltd	3,672	2,860
CalPetro Tankers (Bahamas I) Limited	—	14
CalPetro Tankers (Bahamas II) Limited	—	14
CalPetro Tankers (IOM) Limited	—	14
Deep Sea Supply Plc	61	4
Aktiv Kapital Ltd	—	6
Arcadia Petroleum Limited	124	174
North Atlantic Drilling Ltd	817	75
Knightsbridge Shipping Limited	2,039	—
	12,637	9,487

A summary of short term balances due to related parties as at December 31, 2014 and 2013 is as follows:

(in thousands of \$)	2014	2013
Payables		
Ship Finance International Limited	(45,244	) (8,528
Seatankers Management Co. Ltd	(343	) (506
Golar LNG Limited	—	(155
Golden Ocean Group Limited	(914	) (1,047
Frontline 2012 Ltd	(3,048	) (1,183
Knightsbridge Shipping Limited	(320	) —
Windsor group	(5,844	) —
	(55,713	) (11,419

Receivables and payables with related parties comprise unpaid management, technical advisory, newbuilding supervision and technical management, administrative service and rental charges and charter hire payments. In addition, certain payables and receivables arise when the Company pays an invoice, or receives a supplier rebate, on behalf of a related party and vice versa. The payable with Ship Finance at December 31, 2014 includes unpaid contingent rental expense. Receivables and payables with related parties are generally settled quarterly in arrears with the exception of profit share due to Ship Finance which is settled annually.

The long term related party balance is due to Ship Finance and is the remaining termination fee payable for Front Champion, Golden Victory, Front Commerce, Front Comanche and Front Opalia the balance is being repaid using similar repayment terms to the original lease and incurs interest at 7.250%. Interest expense of \$5.9 million has been recorded in 2014.

In July 2014, the Company agreed with Ship Finance to terminate the long term charter parties for the 1999 VLCCs Front Commerce, Front Comanche and Front Opalia with Ship Finance simultaneously selling the vessels to unrelated third parties. The charter parties were terminated in November 2014 upon the redelivery of the vessels to Ship Finance. The Company recorded an impairment loss of \$85.3 million in the third quarter of 2014 and a net gain of \$40.4 million in the fourth quarter of 2014 on the termination of these leases. The Company agreed to a compensation

payment to Ship Finance of \$58.8 million for the early termination of the charter parties, of which \$10.5 million was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations. The long term related party balance at December 31, 2014 is as follows:

59

---

(in thousands of \$)	
7.254% loan note payable due 2021 and 2022	78,616
7.25% loan note payable due 2022 and 2023	48,385
Loan note repayments	(6,018 )
Total loan note	120,983
Less: current portion of loan note (included in short term related party balance)	(11,031 )
	109,952

The note balance at December 31, 2014 is repayable as follows:

(in thousands of \$)	
Year ending December 31,	
2015	11,031
2016	14,070
2017	15,107
2018	16,197
2019	17,366
Thereafter	47,212
	120,983

We transact business with the following related parties, being companies in which Hemen and companies associated with Hemen have a significant interest: Ship Finance International Limited, Northern Offshore Ltd, Seadrill Limited, Bryggegata AS, Golden Ocean Group Limited, Arcadia Petroleum Limited ("Arcadia"), Deep Sea Supply Plc ("Deep Sea"), Aktiv Kapital ASA, Archer Limited, Farahead Holdings Limited ("Farahead"), Seatankers Management Co. Ltd, North Atlantic Drilling Ltd, Frontline 2012 Ltd, CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited, CalPetro Tankers (IOM) Limited and Knightsbridge. Frontline 2012 Ltd was equity accounted for during the full period. CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited were equity accounted up to October 1, 2014 and consolidated from that date. Golar LNG Limited ceased to be a related party in September 2014.

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders.

The Company earned freights on chartering vessels to Arcadia in the year ended December 31, 2013 of \$7.5 million.

In January 2013, the Company received termination payments from Ship Finance in the aggregate amount of \$7.8 million in respect of the lease terminations for Titan Aries (now renamed Edinburgh) and recorded a gain on \$7.6 million in the first quarter of 2013.

In January 2013, the Company paid \$6.0 million for 1,143,000 shares in a private placement by Frontline 2012 of 59 million new ordinary shares at a subscription price of \$5.25 per share. Following the private placement, the Company's ownership in Frontline 2012 was reduced from 7.9% to 6.3%. The Company recognized a gain on the dilution of its ownership of \$5.2 million in the first quarter of 2013.

In February 2013, the Company agreed with Ship Finance to terminate the long term charter party for the Suezmax tanker Front Pride and the charter party terminated on February 15, 2013. The Company made a compensation

payment to Ship Finance of \$2.1 million in March 2013 for the early termination of the charter and recorded a loss on the termination of the lease of \$0.2 million in the first quarter of 2013.

In September 2013, Frontline 2012 completed a private placement of 34.1 million new ordinary shares of \$2.00 par value at a subscription price of \$6.60. The Company did not buy any of the shares and its ownership decreased from 6.3% to 5.4%. The

60

---

Company recognized a gain on the dilution of its ownership of \$4.7 million in the third quarter of 2013.

In October 2013, Frontline 2012 paid a stock dividend of one share in Avance Gas for every 124.55 shares held in Frontline 2012. The Company received 108,069 shares valued at \$1.3 million, which was credited against the investment and recorded as a marketable security in the fourth quarter of 2013.

In October 2013, the Company agreed with Ship Finance, to terminate the long term charter parties for the VLCCs Front Champion and Golden Victory, and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties were terminated in November 2013 upon the redelivery of the vessels to Ship Finance. The Company recorded an impairment loss of \$88.1 million in 2013 and a net gain of \$13.8 million in the fourth quarter of 2013 on the termination of these leases. The Company agreed to a compensation payment to Ship Finance of \$89.9 million for the early termination of the charter parties, of which \$10.9 million was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations, with reduced rates until 2015 and full rates from 2016. Front Champion and Golden Victory had the highest charter rates among the vessels chartered in from Ship Finance and the level of compensation is a reflection of this.

In 2012, the Company received termination payments from Ship Finance in the aggregate amount of \$22.2 million in respect of the lease terminations for Titan Orion (ex-Front Duke) and Ticen Ocean (now renamed Front Lady). The Company made lease termination payments to Ship Finance in 2012 in the aggregate amount of \$32.6 million in respect of the lease terminations for the OBO vessels Front Striver, Front Rider, Front Climber, Front Viewer and Front Guider which have been included in discontinued operations.

In May 2012, the Company paid \$13.3 million for 3,546,000 shares in a private placement by Frontline 2012 of 56 million new ordinary shares at a subscription price of \$3.75 per share. Following the private placement, the Company's ownership in Frontline 2012 was reduced from 8.8% to 7.9%. The Company recognized a gain on the dilution of its ownership of \$0.7 million in the second quarter of 2012.

#### C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

#### ITEM 8. FINANCIAL INFORMATION

##### 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.

##### Dividend Policy

The timing and amount of dividends, if any, is at the discretion of our Board of Directors. The level of dividend will be guided by present earnings, market prospects, current capital expenditure programs as well as investment opportunities. We have not paid any cash dividends since the third quarter in 2011. We can give no assurance that



dividends will be paid in the future or the amount of such dividends.

**B. SIGNIFICANT CHANGES**

None.

**ITEM 9. THE OFFER AND LISTING**

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

61

---

The New York Stock Exchange is the Company's "primary listing". As an overseas company with secondary listings on the OSE and LSE, the Company is not required to comply with certain listing rules applicable to companies with a primary listing on the OSE or LSE. The Company's Ordinary Shares have been thinly traded on the London Stock Exchange since 1999 and as a result, historical LSE trading information is not provided below.

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,				
2014	\$5.18	\$1.18	NOK 34.20	NOK 7.50
2013	\$4.05	\$1.71	NOK 25.00	NOK 9.90
2012	\$9.47	\$3.02	NOK 48.50	NOK 17.24
2011	\$27.76	\$2.52	NOK 169.50	NOK 14.76
2010	\$38.85	\$24.98	NOK 236.70	NOK 146.40

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

	NYSE		OSE	
	High	Low	High	Low
Fiscal year ended December 31, 2014				
First quarter	\$5.18	\$3.47	NOK 34.20	NOK 21.40
Second quarter	\$4.13	\$2.22	NOK 25.10	NOK 13.30
Third quarter	\$3.05	\$1.18	NOK 18.70	NOK 7.50
Fourth quarter	\$2.95	\$1.19	NOK 21.00	NOK 8.00
	NYSE		OSE	
	High	Low	High	Low
Fiscal year ended December 31, 2013				
First quarter	\$3.77	\$1.81	NOK 20.60	NOK 10.95
Second quarter	\$2.55	\$1.71	NOK 14.65	NOK 9.90
Third quarter	\$3.17	\$1.78	NOK 17.80	NOK 10.60
Fourth quarter	\$4.05	\$2.03	NOK 25.00	NOK 12.25

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
March 2015 (through March 6)	\$2.64	\$2.45	NOK 20.80	NOK 18.40
February 2015	\$3.08	\$2.36	NOK 22.80	NOK 17.50
January 2015	\$5.05	\$2.29	NOK 38.80	NOK 17.50
December 2014	\$2.95	\$1.33	NOK 21.00	NOK 8.90
November 2014	\$1.48	\$1.19	NOK 10.70	NOK 8.15
October 2014	\$1.79	\$1.28	NOK 11.50	NOK 8.00

## ITEM 10. ADDITIONAL INFORMATION

### A. SHARE CAPITAL

A resolution was approved at the Company's Special General Meeting on May 8, 2013 such that the issued and paid-up share

62

---

capital of the Company be reduced from \$194,646,255 to \$77,858,502, with effect from May 14, 2013, by cancelling the paid-up capital of \$1.50 on each of the ordinary shares in issue so that each of the 77,858,502 shares of par value \$2.50 shall have a par value of \$1.00. It was also resolved that the amount of credit arising be credited to the additional paid in capital account of the Company and that the authorized share capital of the Company be maintained at \$312,500,000 comprising 312,500,000 shares of \$1.00 each.

A resolution was approved at the Company's Annual General Meeting on September 19, 2014, to increase the Company's authorized share capital from \$312,500,000 divided into 312,500,000 common shares of \$1.00 par value each to \$1,000,000,000 divided into 1,000,000,000 common shares of \$1.00 par value each.

## 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-3, (Registration No. 333-185193) filed with the Securities and Exchange Commission on November 29, 2012, and is hereby incorporated by reference into this Annual Report.

At the 2007 Annual General Meeting of the Company, our shareholders voted to amend the Company's Bye-laws to ensure conformity with recent revisions to the Bermuda Companies Act 1981, as amended. These amended Bye-laws of the Company as adopted on September 28, 2007, are incorporated by reference in Exhibit 1.2 to this Annual Report.

The purposes and powers of the Company are set forth in Items 7(2)-(4) and 8(2)-(4) 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 acting as a group holding company, 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.

**Shareholder Meetings.** Under our Bye-laws, annual shareholder meetings will be held in accordance with the Companies Act at a time and place (other than Norway) selected by our board of directors. The quorum at any annual or general meeting is equal to one or more shareholders, either present in person or represented by proxy, holding in the aggregate shares carrying 33 1/3% of the exercisable voting rights. The meetings may be held at any place, in or outside of Bermuda that is not a jurisdiction which applies a controlled foreign company tax legislation or similar regime. Special meetings may be called at the discretion of the board of directors and at the request of shareholders holding at least one-tenth of all outstanding shares entitled to vote at a meeting. Annual shareholder meetings and special meetings must be called by not less than seven days' prior written notice specifying the place, day and time of the meeting. The board of directors may fix any date as the record date for determining those shareholders eligible to receive notice of and to vote at the meeting.

The Companies Act provides that a company must have a general meeting of its shareholders in each calendar year. The Companies Act does not impose any general requirements regarding the number of voting shares which must be present or represented at a general meeting in order for the business transacted at the general meeting to be valid. The Companies Act generally leaves the quorum for shareholders meeting to the company to determine in its Bye-laws. The Companies Act specifically imposes special quorum requirements where the shareholders are being asked to approve the modification of rights attaching to a particular class of shares (33.33%) or an amalgamation or merger transaction (more than 33.33%) unless in either case the Bye-laws provide otherwise. The Company's Bye-laws do not provide for a quorum requirement other than 33.33%.

The key powers of our shareholders include the power to alter the terms of the Company's memorandum of association and to approve and thereby make effective any alterations to the Company's Bye-laws made by the directors. Dissenting shareholders holding 20% of the Company's shares may apply to the Court to annul or vary an alteration to the Company's memorandum of association. A majority vote against an alteration to the Company's Bye-laws made by the directors will prevent the alteration from becoming effective. Other key powers are to approve the alteration of the Company's capital including a reduction in share capital, to approve the removal of a director, to resolve that the Company be wound up or discontinued from Bermuda to another jurisdiction or to enter into an amalgamation or winding up. Under the Companies Act, all of the foregoing corporate actions require approval by an ordinary resolution (a simple majority of votes cast). The Company's Bye-laws only require an ordinary resolution to approve an amalgamation whether or not the Company is the surviving company. In addition, the Company's Bye-laws confer express power on the board to reduce its issued share capital selectively with the authority of an ordinary resolution.

The Companies Act provides shareholders holding 10% of the Company's voting shares the ability to request that the board of directors shall convene a meeting of shareholders to consider any business which the shareholders wish to be discussed by the shareholders including (as noted below) the removal of any director. However the shareholders are not permitted to pass any resolutions relating to the management of the Company's business affairs unless there is a pre-existing provision in the Company's Bye-Laws which confers such rights on the shareholders. Subject to compliance with the time limits prescribed by the Companies Act, shareholders holding 20% of the voting shares (or alternatively, 100 shareholders) may also require the directors to circulate a written statement not exceeding 1,000 words relating to any resolution or other matter proposed to be put before, or dealt with at, the annual general meeting of the Company.

Majority shareholders do not generally owe any duties to other shareholders to refrain from exercising all of the votes attached to their shares. There are no deadlines in the Companies Act relating to the time when votes must be exercised.

The Companies Act provides that a company shall not be bound to take notice of any trust or other interest in its shares. There is a presumption that all the rights attaching to shares are held by, and are exercisable by, the registered holder, by virtue of being registered as a member of the company. The company's relationship is with the registered holder of its shares. If the registered holder of the shares holds the shares for someone else (the beneficial owner) then if the beneficial owner is entitled to the shares, the beneficial owner may give instructions to the registered holder on how to vote the shares. The Companies Act provides that the registered holder may appoint more than one proxy to attend a shareholder meeting, and consequently where rights to shares are held in a chain the registered holder may appoint the beneficial owner as the registered holder's proxy.

Directors. The Companies Act provides that the directors shall be elected or appointed by the shareholders. A director may be elected by a simple majority vote of shareholders, at a meeting where shareholders holding not less than 33.33% of the voting shares are present in person or by proxy. A person holding 50% or more of the voting shares of the Company will be able to elect all of the directors, and to prevent the election of any person whom such shareholder does not wish to be elected. There are no provisions for cumulative voting in the Companies Act or the Bye-Laws and the Company's Bye-Laws do not contain any super-majority voting requirements.

There are also procedures for the removal of one or more of the directors by the shareholders before the expiration of his term of office. Shareholders holding 10% or more of the voting shares of the Company may require the board of directors to convene a shareholder meeting to consider a resolution for the removal of a director. At least 14 days written notice of a resolution to remove a director must be given to the director affected, and that director must be permitted to speak at the shareholder meeting at which the resolution for his removal is considered by the shareholders.

The Companies Act stipulates that an undischarged bankruptcy of a director (in any country) shall prohibit that director from acting as a director, directly or indirectly, and taking part in or being concerned with the management of a company, except with leave of the court. The Company's Bye-Laws are more restrictive in that they stipulate that the office of a director shall be vacated upon the happening of any of the following events (in addition to the director's resignation or removal from office by the shareholders):

• If that director becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health and the Board resolves that such director shall be removed from office;

¶ If that director becomes bankrupt or compounds with his creditors;

¶ If that director is prohibited by law from being a director; or

If that director ceases to be a director by virtue of the Companies Act.

Under the Company's Bye-laws, the minimum number of directors comprising the board of directors at any time shall be two. The board of directors currently consists of four directors. The minimum and maximum number of directors comprising the board of directors from time to time shall be determined by way of an ordinary resolution of the shareholders of the Company. The shareholders may, at the annual general meeting by ordinary resolution, determine that one or more vacancies in the board of directors be deemed casual vacancies. The board of directors, so long as a quorum remains in office, shall have the power to fill such casual vacancies. Each director will hold office until the next annual general meeting or until his successor is appointed or elected. The shareholders may call a Special General Meeting for the purpose of removing a director, provided notice is served upon the concerned director 14 days prior to the meeting and he is entitled to be heard. Any vacancy created by such a removal may be filled at the meeting by the election of another person by the shareholders or in the absence of such election, by the board of directors.

Bermuda law permits the Bye-laws of a Bermuda company to contain provisions excluding personal liability of a director, alternate director, officer, member of a committee authorized under Bye-law 104, resident representative or their respective heirs, executors or administrators 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, alternate directors and officers of the Company and any members of a committee authorized under Bye-law 96, resident representatives or their respective heirs, executors or administrators 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, alternate director or officer of the Company or member of a committee authorized under Bye-law 96, resident representative or their respective heirs, executors or administrators or was serving in a similar capacity for another entity at the company's request.

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 Act 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 tortious 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 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.

**Dividends.** Holders of common shares are entitled to receive dividend and distribution payments, pro rata based on the number of common shares held, when, as and if declared by the board of directors, in its sole discretion. Any future dividends declared will be at the discretion of the board of directors and will depend upon our financial condition, earnings and other factors.

As a Bermuda exempted company, we are subject to Bermuda law relating to the payment of dividends. We may not pay any dividends if, at the time the dividend is declared or at the time the dividend is paid, there are reasonable grounds for believing that, after giving effect to that payment;



• we will not be able to pay our liabilities as they fall due; or

• the realizable value of our assets, is less than our liabilities.

In addition, since we are a holding company with no material assets, and conduct our operations through subsidiaries, our ability to pay any dividends to shareholders will depend on our subsidiaries' distributing to us their earnings and cash flow. Some of our loan agreements currently limit or prohibit our subsidiaries' ability to make distributions to us and our ability to make distributions to our shareholders.

Oslo Stock Exchange. 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. 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 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.

Shares and preemptive rights. Subject to certain balance sheet restrictions, the Companies Act permits a company to purchase its own shares if it is able to do so without becoming cash flow insolvent as a result. The restrictions are that the par value of the share must be charged against the company's issued share capital account or a company fund which is available for dividend or distribution or be paid for out of the proceeds of a fresh issue of shares. Any premium paid on the repurchase of shares must be charged to the company's current share premium account or charged to a company fund which is available for dividend or distribution. The Companies Act does not impose any requirement that the directors shall make a general offer to all shareholders to purchase their shares pro rata to their respective shareholdings. The Company's Bye-Laws do not contain any specific rules regarding the procedures to be followed by the Company when purchasing its own shares, and consequently the primary source of the Company's obligations to shareholders when the Company tenders for its shares will be the rules of the listing exchanges on which the Company's shares are listed.

The Companies Act and our Bye-Laws do not confer any 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.

Bye-Law 6 specifically provides that the issuance of more shares ranking pari passu with the shares in issue shall not constitute a variation of class rights, unless the rights attached to shares in issue state that the issuance of further shares shall constitute a variation of class rights. Bye-Law 7 confers on the directors the right to dispose of any number of unissued shares forming part of the authorized share capital of the Company without any requirement for shareholder approval. Bye-law 81 contains certain stipulations regarding the Company's (or any of its subsidiaries') transactions with any of its Principal Shareholders (or any Associate of a Principal Shareholder). When Bye-law 81 applies, the Company is required to send to each shareholder a disclosure statement containing information about the proposed transaction. However, this Bye-Law provision specifically exempts from this requirement the issuance of new shares to a Principal Shareholder for cash.

Liquidation. 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.

## C. MATERIAL CONTRACTS

### Ship Finance

#### Charter Ancillary Agreement

The Company has entered into charter ancillary agreements with Ship Finance in connection with the leased vessels whereby the Company agrees to pay Ship Finance a profit sharing payment equal to 20% of the charter revenues earned by the Company in excess of the daily base charter hire paid to Ship Finance. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under

long-term leases for a four year period that commenced on January 1, 2012. The Company paid Ship Finance up front compensation of \$106.0 million on December 30, 2011, of which \$50.0 million was a non-refundable prepayment of profit share and \$56.0 million was a release of restricted cash serving as security for charter payments. The Company will compensate Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates (contingent rental expense). At December 31, 2014, the contingent rental expense due to Ship Finance is \$32.7 million (2013: nil). In addition, the profit share above the original threshold rates was increased from 20% to 25%. As a result of this, obligations under capital leases and vessels under capital leases have been reduced by \$126.5 million at December 31, 2011. Obligations under capital leases have also been reduced by the \$106.0 million compensation payment to Ship Finance. In the year ended December 31, 2014, total profit share due to Ship Finance was nil and so the \$50.0 million non-refundable prepayment of profit share in December 2011 remains unchanged at December 31, 2014. Profit share will only be recognized in the financial statements when the accrued profit share is more than the non-refundable prepayment of profit share.

#### Debt Conversion

## Exchange Agreements

On October 11, 2013 the Company entered into an Exchange Agreement for the exchange of \$25.0 million of the outstanding principal amount of the Company's 4.5% convertible bond issue for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million. As the conversion was agreed at more favorable terms than the original bond, this was treated as an inducement and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense in 2013.

On October 28, 2014 the Company entered into an Exchange Agreement for the exchange of \$23.0 million of the outstanding principal amount of the Company's 4.5% convertible bond issue for an aggregate of 8,251,724 shares and a cash payment of \$10.0 million plus accrued interest. On December 16, 2014 the Company entered into an Exchange Agreement for the exchange of \$22.5 million of the outstanding principal amount of the Company's 4.5% convertible bond issue for an aggregate of 4,744,752 shares and a cash payment of \$9.6 million plus accrued interest. As these conversions were agreed at more favorable terms than the original bond, they were treated as inducements and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense in 2014.

We also refer you to "Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources" and "Item 7. Major Shareholders and Related Party Transactions-B. Related Party Transactions" for a discussion of our material agreements that we have entered into outside the ordinary course of our business during the two-year period immediately preceding the date of this annual report.

## D. EXCHANGE CONTROLS

The Bermuda Monetary Authority (the "BMA") must give permission for all issuances and transfers of securities of a Bermuda exempted company like ours, unless the proposed transaction is exempted by the BMA's written general permissions. We have received general permission from the BMA to issue any unissued Ordinary Shares and for the free transferability of our Ordinary Shares as long as our Ordinary Shares are listed on an "appointed stock exchange". Our Ordinary Shares are listed on the New York, Oslo and London Stock Exchanges. The New York Stock Exchange, which is an "appointed stock exchange" is the Company's "primary listing". Our Ordinary Shares may therefore be freely transferred among persons who are residents and non-residents of Bermuda.

Although we are incorporated in Bermuda, we are classified as a non-resident of Bermuda for exchange control purposes by the BMA. Other than transferring Bermuda Dollars out of Bermuda, there are no restrictions on our ability to transfer funds into and out of Bermuda or to pay dividends to U.S. residents who are holders of Ordinary Shares or other nonresidents of Bermuda who are holders of our Ordinary Shares in currency other than Bermuda Dollars.

In accordance with Bermuda law, share certificates may be issued only in the names of corporations, individuals or legal persons. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, we are not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

We will take no notice of any trust applicable to any of our shares or other securities whether or not we had notice of such trust.

As an "exempted company", we are exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, we may not participate in certain business transactions including: (i) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Business Development and Tourism of Bermuda; (iii) the acquisition of any bonds or debentures secured on any land in Bermuda except bonds or debentures issued by the Government of Bermuda or by a public authority in Bermuda; or (iv) the carrying on of business of any kind in Bermuda, except in so far as may be necessary for the carrying on of its business outside Bermuda or under a license granted under the Companies Act.

The Bermuda government actively encourages foreign investment in "exempted" entities like us that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, we are subject neither to taxes on our income or dividends nor to any exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by us, as required, without limitation. There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income other than applicable to insurance enterprises.

## E. TAXATION

The following discussion summarizes the material United States federal income tax and Bermuda tax consequences to United States Holders, in each case as defined below, of the purchase, ownership and disposition of ordinary shares. This summary does not purport to deal with all aspects of United States federal income taxation and Bermuda taxation that may be relevant to an investor's decision to purchase ordinary shares, nor any tax consequences arising under the laws of any state, locality or other foreign jurisdiction.

### United States Federal Income Tax Considerations

In the opinion of Seward & Kissel LLP, our United States counsel, the following are the material United States federal income tax consequences to us of our activities and to United States Holders of our ordinary shares. The following discussion of U.S. federal income tax matters is based on the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all of which are subject to change, possibly with retroactive effect. Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within 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, charter hire 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 is not permitted by law to engage in transportation that gives rise to 100% United States source income.

Shipping income attributable to transportation exclusively between non-United States 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 United States federal income tax.

Based upon the Company's current and anticipated shipping operations, the Company's vessels will operate in various parts of the world, including to or from United States ports. Unless exempt from United States federal income taxation under Section 883 of the Code, or Section 883, the Company will be subject to United States 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 Section 883

Under the relevant provisions of Section 883, the Company will be exempt from United States federal income taxation on its United States source shipping income if:

It is organized in a "qualified foreign country" which is one that grants an equivalent exemption from taxation to (i) corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883, and which the Company refers to as the "country of organization requirement"; and

(ii) It can satisfy any one of the following two ownership requirements for more than half the days during the taxable year:

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

more than 50% of the Company's stock, in terms of value, is beneficially owned by any combination of one or more qualified shareholders which, as defined, includes individuals who are residents of a qualified foreign country or foreign corporations that satisfy the country of organization requirement and the Publicly-Traded Test.

The United States 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 United States Treasury Department has recognized Liberia, the Isle of Man and Bahamas, the countries of incorporation of certain of the Company's vessel-owning subsidiaries, as qualified foreign countries. Accordingly, the Company and its vessel owning subsidiaries satisfy the country of organization requirement.

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

Under the Treasury Regulations, stock of a foreign corporation is considered "primarily traded" on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. The Company's ordinary shares, which is the sole class of issued and outstanding stock, was "primarily traded" on the New York Stock Exchange, or "NYSE", during the 2014 taxable year.

Under the Treasury Regulations, the Company's ordinary shares will be considered to be "regularly traded" on the NYSE if: (1) more than 50% of its ordinary shares, by voting power and total value, is listed on the NYSE, referred to as the "Listing Threshold", (2) its ordinary shares are traded on the NYSE, other than in minimal quantities, on at least 60 days during the taxable year (or one-sixth of the days during a short taxable year), which is referred to as the "Trading Frequency Test"; and (3) the aggregate number of its ordinary shares traded on the NYSE during the taxable year are at least 10% of the average number of its ordinary shares outstanding during such taxable year (as appropriately adjusted in the case of a short taxable year), which is referred to as the "Trading Volume Test". The Trading Frequency Test and Trading Volume Test are deemed to be satisfied under the Treasury Regulations if the Company's ordinary shares are regularly quoted by dealers making a market in the ordinary shares.

The Company believes that its ordinary shares have satisfied the Listing Threshold, as well as the Trading Frequency Test and Trading Volume Tests, during the 2014 taxable year.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that stock of a foreign corporation will not be considered to be "regularly traded" on an established securities market for any taxable year during which 50% or more of such stock is owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons, or "5% Shareholders", who each own 5% or more of the vote and value of such stock, which is referred to as the "5% Override Rule." For purposes of determining the persons who are 5% Shareholders, a foreign corporation may rely on Schedules 13D and 13G filings with the U.S. Securities and Exchange Commission.

During the 2014 taxable year, 5% Shareholders did not, individually or collectively, own 50% or more of the Company's ordinary shares for more than half the number of days. Therefore, the Company is not subject to the 5% Override Rule, and therefore the Company believes that it has satisfied the Publicly-Traded Test for the 2014 taxable year. However, there is no assurance that the Company will continue to satisfy the Publicly-Traded Test in future taxable years. For example, the Company could be subject to the 5% Override Rule if another 5% Shareholder in combination with the Company's existing 5% Shareholders were to own 50% or more of the Company's ordinary shares. In such a case, the Company would be subject to the 5% Override Rule unless it could establish that, among the ordinary shares owned by the 5% Shareholders, sufficient shares are owned by qualified shareholders, for purposes of Section 883 of the Code, to preclude non-qualified shareholders from owning 50% or more of the Company's ordinary shares for more than half the number of days during the taxable year. The requirements of establishing this exception to the 5% Override Rule are onerous and there is no assurance the Company will be able to satisfy them.





### Taxation in Absence of Section 883 Exemption

To the extent the benefits of Section 883 are unavailable with respect to any item of United States source income, the Company's United States 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, which the Company refers to as the "4% gross basis tax regime". Since under the sourcing rules described above, no more than 50% of the Company's shipping income would be treated as being derived from United States sources, the maximum effective rate of United States 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 the Company qualifies for exemption under Section 883, the Company will not be subject to United States federal income taxation with respect to gain realized 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 the Company will be considered to occur outside of the United States.

### Taxation of United States Holders

The following is a discussion of the material United States federal income tax considerations relevant to an investment decision by a United States Holder, as defined below, with respect to the ordinary shares. This summary is not intended to be applicable to all categories of investors, such as dealers in securities, traders in securities that elect the mark-to-market method of accounting, banks, thrifts or other financial institutions, insurance companies, regulated investment companies, tax-exempt organizations, United States expatriates, persons that hold ordinary shares as part of a straddle, conversion transaction or hedge, persons who own 10% or more of our outstanding stock, persons deemed to sell ordinary shares under the constructive sale provisions of the Code, United States Holders whose "functional currency" is other than the United States dollar, or holders subject to the alternative minimum tax, each of which may be subject to special rules. In addition, this discussion is limited to persons who hold ordinary shares as "capital assets" (generally, property held for investment) within the meaning of Code Section 1221. This summary does not contain a detailed description of all the United States federal income tax consequences to United States Holders in light of their particular circumstances and does not address the Medicare tax on net investment income, or the effects of any state, local or non-United States tax laws. 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 ordinary shares.

As used herein, the term "United States Holder" means a beneficial owner of ordinary shares that is (i) a United States citizen or resident, (ii) a United States corporation or other United States entity taxable as a corporation, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) 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 United States persons have the authority to control all substantial decisions of the trust.

If a partnership holds ordinary shares, 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 ordinary shares, you are encouraged to consult your own tax advisor regarding the United States federal income tax consequences of owning an interest in a partnership that holds ordinary shares.

### Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to ordinary shares to a United States Holder will generally constitute foreign source dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of the Company's current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of the Company's earnings and profits will be treated first as a non-taxable return of capital to the extent of the United States Holder's tax basis in its ordinary shares on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a United States corporation, United States Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from the Company.

Dividends paid on ordinary shares to a United States Holder which is an individual, trust or estate (a "United States Non-Corporate Holder") will generally be treated as "qualified dividend income" that is taxable to such shareholder at preferential United States federal income tax rates provided that (1) the ordinary shares are readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which the ordinary shares are listed); (2) the Company is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which the Company does not believe it is, has been or will be); and (3) the United States Non-Corporate Holder has owned the ordinary shares for more than 60 days in the 121-day period beginning 60 days before the date on which the ordinary shares become ex-dividend.

Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a United States Holder.

#### Sale, Exchange or other Disposition of Our Ordinary Shares

Assuming the Company does not constitute a passive foreign investment company for any taxable year, a United States Holder generally will recognize taxable gain or loss from U.S. sources upon a sale, exchange or other disposition of the Company's ordinary shares in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder's tax basis in the ordinary shares. Such gain or loss will be capital gain or loss and will be treated as long-term capital gain or loss if the United States Holder's holding period in the ordinary shares is greater than one year at the time of the sale, exchange or other disposition. Long-term capital gains of a United States Non-Corporate Holder are taxable at preferential United States federal income tax rates. A United States 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 United States 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, the Company will be treated as a PFIC with respect to a United States Holder if, for any taxable year in which such holder held the Company's ordinary shares, either:

• at least 75% of the Company's 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

• at least 50% of the average value of the assets held by the Company during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether the Company is a PFIC, the Company will be treated as earning and owning its proportionate share of the income and assets, respectively, of any of its subsidiary corporations in which it owns at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by the Company in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless the Company is treated under specific rules as deriving its rental income in the active conduct of a trade or business.

Based on the Company's current operations and future projections, the Company does not believe that it is, or that it has been, nor does it expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, the Company's belief is based principally on the position that, for purposes of determining whether the Company is a PFIC, the gross income the Company derives or is deemed to derive from the time chartering and voyage chartering activities should constitute services income, rather than rental income. Correspondingly, the

Company believes that such income does not constitute passive income, and the assets that the Company or its wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute assets that produce, or are held for the production of, passive income for purposes of determining whether the Company is a PFIC.

Although there is no direct legal authority under the PFIC rules, the Company believes there is substantial legal authority supporting its position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, in the absence of any legal authority specifically relating to the Code provisions governing PFICs, the IRS or a court could disagree with our position. In addition, although the Company intends to conduct its affairs in such a manner as to avoid being classified as a PFIC with respect to any taxable year, there can be no assurance that the nature of its operations will not change in the future.

As discussed more fully below, if the Company were to be treated as a PFIC for any taxable year, a United States Holder would be subject to different taxation rules depending on whether the United States Holder makes an election to treat the Company as a "Qualified Electing Fund," which the Company refers to as a "QEF election." As an alternative to making a QEF election, a United States Holder should be able to elect to mark-to-market the Company's ordinary shares, which the Company refers to as a "Mark-to-Market election" as discussed below.

#### Taxation of United States Holders Making a Timely QEF Election

If a United States Holder makes a timely QEF election, which United States Holder is referred to by the Company as an "Electing United States Holder," the Electing United States Holder must report each year for United States federal income tax purposes its pro rata share of the Company's ordinary earnings and its net capital gain, if any, for the Company's taxable year that ends with or within the taxable year of the Electing United States Holder, regardless of whether or not distributions were received from the Company by the Electing United States Holder. The Electing United States Holder's adjusted tax basis in the ordinary shares 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 ordinary shares and will not be taxed again once distributed. An Electing United States Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the ordinary shares. A United States Holder will be eligible to make a QEF election with respect to its ordinary shares only if the Company provides the United States Holder with annual tax information relating to the Company. There can be no assurance that the Company will provide such tax information on an annual basis.

#### Taxation of United States Holders Making a "Mark-to-Market" Election

Alternatively, if the Company were to be treated as a PFIC for any taxable year and, as anticipated, the ordinary shares are treated as "marketable stock," a United States Holder would be allowed to make a Mark-to-Market election with respect to the Company's ordinary shares. If that election is made, the United States Holder generally would include as ordinary income in each taxable year that the Company is a PFIC the excess, if any, of the fair market value of the ordinary shares at the end of the taxable year over such holder's adjusted tax basis in the ordinary shares. The United States Holder would also be permitted an ordinary loss for each such taxable year in respect of the excess, if any, of the United States Holder's adjusted tax basis in the ordinary shares over their 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 United States Holder's tax basis in its ordinary shares would be adjusted to reflect any such income or loss amount. In any taxable year that the Company is a PFIC, gain realized on the sale, exchange or other disposition of the ordinary shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the ordinary shares 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 United States Holder.

#### Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election

Finally, if the Company were to be treated as a PFIC for any taxable year, a United States Holder who does not make either a QEF election or a Mark-to-Market election for that year, who is referred to as a "Non-Electing United States 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 United States Holder on the ordinary shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing United States Holder in the three preceding taxable years, or, if shorter, the Non-Electing United States Holder's holding period for the ordinary shares), and (2) any gain realized on the sale, exchange or other disposition of the ordinary shares. Under these special rules:

• the excess distribution or gain would be allocated ratably over the Non-Electing United States Holders' aggregate holding period for the ordinary shares;

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

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 tax 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 the ordinary shares. If a Non-Electing United States Holder who is an individual dies while owning the ordinary shares, the successor of such deceased Non-Electing United States Holder generally would not receive a step-up in tax basis with respect to such stock.

#### PFIC Annual Filing Requirements

If the Company were to be treated as a PFIC for any taxable year, a United States Holder will generally be required to file an information return on an IRS Form 8621 with respect to its ownership of the Company's ordinary shares.

#### Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to a holder of ordinary shares will be subject to information reporting requirements. Such payments will also be subject to "backup withholding" if paid to a non-corporate United States Holder who:

- fails to provide an accurate taxpayer identification number;

- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his United States federal income tax returns; or

- in certain circumstances, fails to comply with applicable certification requirements.

If a holder sells his ordinary shares to or through a United States office of a broker, the payment of the proceeds is subject to both United States information reporting and backup withholding unless the holder establishes an exemption. If a holder sells his ordinary shares through a non-United States office of a non-United States broker and the sales proceeds are paid to the holder outside the United States then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, including a payment made to a holder outside the United States, if the holder sells his ordinary shares through a non-United States office of a broker that is a United States person or has some other contacts with the United States, unless the broker has documentary evidence in its records that the holder is not a United States person and certain other conditions are met, or the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, a taxpayer generally may obtain a refund of any amounts withheld under backup withholding rules that exceed the taxpayer's income tax liability by filing a refund claim with the IRS.

#### Other U.S. Information Reporting Obligations

Individuals who are United States Holders (and to the extent specified in applicable Treasury Regulations, certain United States entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, the ordinary shares, unless the ordinary shares are held through an account maintained with a United States financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual United States Holder (and to the extent specified in applicable Treasury Regulations a United



States entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of United States federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. United States Holders (including United States entities) are encouraged consult their own tax advisors regarding their reporting obligations under this legislation.

## Bermuda Taxation

As of the date of this annual report, we are not subject to taxation under the laws of Bermuda and distributions to us by our subsidiaries also are not subject to any Bermuda tax. As of the date of this document, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by non-residents of Bermuda in respect of capital gains realized on a disposition of our ordinary shares or in respect of distributions by us with respect to our ordinary shares. This does not, however, apply to the taxation of persons ordinarily resident in Bermuda. Bermuda holders should consult their own tax advisors regarding possible Bermuda taxes with respect to dispositions of, and distributions on, our ordinary shares.

The Minister of Finance in Bermuda has granted the Company a tax exempt status until March 31, 2035, under which no income taxes or other taxes (other than duty on goods imported into Bermuda and payroll tax in respect of any Bermuda-resident employees) are payable by the Company in Bermuda. If the Minister of Finance in Bermuda does not grant a new exemption or extend the current tax exemption, and if the Bermudian Parliament passes legislation imposing taxes on exempted companies, the Company may become subject to taxation in Bermuda after March 31, 2035.

Currently, there are no withholding taxes payable in Bermuda on dividends distributed by the Company to its shareholders.

## 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 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, spot market rates for vessels and foreign currency fluctuations. We may enter into Forward Freight Agreements, or FFAs, 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. We did not enter into any FFAs in 2014. In 2013 and 2012, we entered a limited number of FFAs for speculative trading purposes. As of December 31, 2014, the Company had no contracts outstanding (2013: no contracts, 2012: 24 contracts). We recognized a loss of \$0.6 million as 'mark to market on derivatives' in 2013 compared with a loss of \$1.7 million in 2012. 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. Following the restructuring described in "Item 4. Information on the Company-A. History and Development of the Company," we no longer have any floating rate debt and are no longer exposed to interest rate risk.

As of December 31, 2014, the fair market value of our fixed rate debt was \$147.5 million (2013: \$340.4 million). If interest rates were to increase or decrease by 1% with all other variables remaining constant, we estimate that the market value of our fixed rate debt would have decreased or increased by approximately \$1.4 million and \$1.5 million, respectively (2013: decrease by \$8.7 million and increase by \$9.0 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, Norwegian Kroner or Singapore Dollars and risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have an effect on the value of 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.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

75

---

## 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, 2014. 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:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- 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 and expenditures are being made only in accordance with authorizations of Company's management and directors; and
- 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) in its report entitled Internal Control-Integrated Framework (2013).

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, 2014. Based upon that evaluation, our management with the participation of our principal executive officer and principal financial officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2014.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers AS, an independent registered public accounting firm, as stated in their report which appears herein.

c) Attestation Report of Independent Registered Public Accounting Firm

The independent registered public accounting firm that audited the consolidated financial statements, PricewaterhouseCoopers AS, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, appearing under Item 18, and such report is incorporated herein by reference.

d) 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 affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mrs. Kate Blankenship is an independent director and audit committee financial expert.

ITEM 16B. 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. 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 our code of ethics upon written request to our registered office.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our principal accountant for 2014 and 2013 was PricewaterhouseCoopers AS. The 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 \$)	2014	2013
Audit Fees (a)	1,324	1,359
Audit-Related Fees (b)	—	—
Tax Fees (c)	—	—
All Other Fees (d)	—	—
Total	1,324	1,359

(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. The amount in 2014 includes \$131,000 (2013: \$198,000) for costs incurred in connection with the ATM offering.

(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.

77

---



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 2014 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

None.

#### ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

#### ITEM 16G. CORPORATE GOVERNANCE

Pursuant to an exception under the NYSE listing standards available to foreign private issuers, we are not required to comply with all of the corporate governance practices followed by U.S. companies under the NYSE listing standards, which are available at [www.nyse.com](http://www.nyse.com). Pursuant to Section 303.A.11 of the NYSE Listed Company Manual, we are required to list the significant differences between our corporate governance practices and the NYSE standards applicable to listed U.S. companies. Set forth below is a list of those differences:

**Independence of Directors.** The NYSE requires that a U.S. listed company maintain a majority of independent directors. As permitted under Bermuda law and our bye-laws, one member of our board of directors, Ms. Kate Blankenship, is independent according to the NYSE's standards for independence applicable to a foreign private issuer.

**Executive Sessions.** The NYSE requires that non-management directors meet regularly in executive sessions without management. The NYSE also requires that all independent directors meet in an executive session at least once a year. As permitted under Bermuda law and our bye-laws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.

**Nominating/Corporate Governance Committee.** The NYSE requires that a listed U.S. company have a nominating/corporate governance committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Bermuda law and our bye-laws, we do not currently have a nominating or corporate governance committee.

**Audit Committee.** The NYSE requires, among other things, that a listed U.S. company have an audit committee with a minimum of three members, all of whom are independent. As permitted by Rule 10A-3 under the Securities Exchange Act of 1934, our audit committee consists of one independent member of our Board, Mrs. Kate Blankenship.

**Corporate Governance Guidelines.** The NYSE requires U.S. companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing

education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Bermuda law and we have not adopted such guidelines.

We believe that our established corporate governance practices satisfy the NYSE listing standards.

ITEM 16H. MINE SAFETY DISCLOSURES

Not applicable.

78

---

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-45 are filed as part of this annual report:

Consolidated Financial Statements of Frontline Ltd.

Index to Consolidated Financial Statements of Frontline Ltd. F -1

Report of Independent Registered Public Accounting Firm F -2

Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012 F -3

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012 F -4

Consolidated Balance Sheets at December 31, 2014 and 2013 F -5

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 F -7

Consolidated Statements of Changes in (Deficit) Equity for the years ended December 31, 2014, 2013 and 2012 F -9

Notes to Consolidated Financial Statements F -10

Schedule I F -41

79

---

ITEM 19. EXHIBITS

No.	Description of Exhibit
1.1*	Memorandum of Association of the Company, incorporated by reference to Exhibit 1.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013.
1.2*	Amended and Restated Bye-Laws of the Company as adopted by shareholders on September 28, 2007 incorporated by reference to Exhibit 1.2 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.
1.3	Certificate of Deposit of Memorandum of Increase of Share Capital.
2.1*	Form of Ordinary Share Certificate, incorporated by reference to Exhibit 2.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013.
4.1*	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.
4.2*	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.
4.3*	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.
4.4*	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.

80

---

- 4.5\* Frontline Ltd Share Option Scheme dated September 25, 2009. Incorporated by reference to Exhibit 4.16 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2010.
- 4.6\* Addendum No. 3 to Charter Ancillary Agreement between Frontline Ltd, Ship Finance International Limited and Frontline Shipping Ltd, dated August 21, 2007 incorporated by reference to Exhibit 4.18 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.
- 4.7\* Addendum No. 1 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated August 21, 2007 incorporated by reference to Exhibit 4.19 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.
- 4.8\* Addendum No. 2 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated March 25, 2010 incorporated by reference to Exhibit 4.21 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2010.
- 4.9\* Addendum No. 7 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping Ltd., dated December 22, 2011, incorporated by reference to Exhibit 4.17 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011.
- 4.10\* Addendum No. 3 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated December 22, 2011, incorporated by reference to Exhibit 4.18 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011.
- 4.11\* Acquisition Agreement between Frontline Ltd., Frontline 2012 Ltd. and Frontfleet Ltd., dated December 23, 2011, incorporated by reference to Exhibit 4.19 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011.
- 4.20\* Exchange Agreement dated October 11, 2013, incorporated by reference to Exhibit 4.20 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013.
- 4.21 Exchange Agreement dated October 28, 2014.
- 4.22 Exchange Agreement dated December 16, 2014.
- 8.1 Subsidiaries of the Company.
- 12.1 Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 12.2 Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 13.1 Certification of the Principal Executive Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of the Principal Financial Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of Independent Registered Public Accounting Firm

\* Incorporated herein by reference.

101.	INS*	XBRL	Instance Document
101.	SCH*	XBRL	Taxonomy Extension Schema
101.	CAL*	XBRL	Taxonomy Extension Schema Calculation Linkbase
101.	DEF*	XBRL	Taxonomy Extension Schema Definition Linkbase
101.	LAB*	XBRL	Taxonomy Extension Schema Label Linkbase
101.	PRE*	XBRL	Taxonomy Extension Schema Presentation Linkbase

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.  
(Registrant)

Date: March 16, 2015

By: /s/ Inger M. Klemp  
Name: Inger M. Klemp  
Title: Principal Financial Officer

Index to Consolidated Financial Statements of Frontline Ltd.

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F -2</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>	<u>F -3</u>
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012</u>	<u>F -4</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>F -5</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	<u>F -7</u>
<u>Consolidated Statements of Changes in (Deficit) Equity for the years ended December 31, 2014, 2013 and 2012</u>	<u>F -9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F -10</u>
<u>Schedule I</u>	<u>F -41</u>

F -1

---



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Frontline Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in (deficit) equity present fairly, in all material respects, the financial position of Frontline Ltd. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the accompanying financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Controls Over Financial Reporting appearing under item 15(b) of Frontline Ltd.'s Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

/s/PricewaterhouseCoopers AS

PricewaterhouseCoopers AS  
Oslo, Norway  
March 16, 2015

F -2

---

## Frontline Ltd.

Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012  
(in thousands of \$, except per share data)

	2014	2013	2012
Operating revenues			
Time charter revenues	15,601	26,843	66,313
Bareboat charter revenues	9,289	24,009	33,373
Voyage charter revenues	497,023	440,584	452,890
Other income	37,775	25,754	25,785
Total operating revenues	559,688	517,190	578,361
Gain on sale of assets and amortization of deferred gains	24,620	23,558	34,759
Operating expenses			
Voyage expenses and commission	286,367	299,741	269,845
Ship operating expenses	89,674	109,872	118,381
Contingent rental expense (income)	36,900	(7,761)	) 22,456
Charter hire expenses	—	4,176	37,461
Administrative expenses	40,787	31,628	33,906
Impairment loss on vessels	97,709	103,724	4,726
Depreciation	81,471	99,802	107,437
Total operating expenses	632,908	641,182	594,212
Net operating (loss) income	(48,600)	) (100,434)	) 18,908
Other income (expenses)			
Interest income	47	83	130
Interest expense	(75,825)	) (90,718)	) (94,089)
Equity results of unconsolidated subsidiaries and associated companies	3,866	13,539	(4)
Foreign currency exchange (loss) gain	(179)	) (92)	) 84
Mark to market loss on derivatives	—	(585)	) (1,725)
Gain on redemption of debt	1,486	—	4,600
Debt conversion expense	(41,067)	) (12,654)	) —
Loss from de-consolidation of subsidiaries	(12,415)	) —	—
Dividends received, net	296	86	134
Other non-operating items, net	1,190	1,181	1,110
Net other expenses	(122,601)	) (89,160)	) (89,760)
Net loss before income taxes and noncontrolling interest	(171,201)	) (189,594)	) (70,852)
Income tax expense	(459)	) (284)	) (379)
Net loss from continuing operations	(171,660)	) (189,878)	) (71,231)
Net loss from discontinued operations	—	(1,204)	) (12,544)
Net loss	(171,660)	) (191,082)	) (83,775)
Net loss attributable to noncontrolling interest	8,722	2,573	1,021
Net loss attributable to Frontline Ltd.	(162,938)	) (188,509)	) (82,754)
Loss per share attributable to Frontline Ltd. stockholders:			
Basic and diluted loss per share from continuing operations, excluding loss attributable to noncontrolling interest (\$)	\$(1.63)	\$(2.35)	\$(0.90)
Basic and diluted loss per share from discontinued operations (\$)	—	\$(0.01)	\$(0.16)
Basic and diluted loss per share attributable to Frontline Ltd. (\$)	\$(1.63)	\$(2.36)	\$(1.06)
Weighted average shares outstanding, basic and diluted (in 000's)	99,939	79,751	77,859
Cash dividends per share declared (\$)	—	—	—

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

F -3

---

## Frontline Ltd.

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012  
(in thousands of \$)

	2014	2013	2012
Comprehensive loss, net of tax			
Net loss	(171,660	) (191,082	) (83,775
Unrealized (losses) gains from marketable securities	(980	) 915	527
Foreign currency translation gains (losses)	25	(63	) 97
Other comprehensive (loss) income, net of tax	(955	) 852	624
Comprehensive loss	(172,615	) (190,230	) (83,151
Comprehensive loss attributable to noncontrolling interest	(8,722	) (2,573	) (1,021
Comprehensive loss attributable to stockholders of Frontline Ltd.	(163,893	) (187,657	) (82,130
Comprehensive loss	(172,615	) (190,230	) (83,151

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

## Frontline Ltd.

## Consolidated Balance Sheets as of December 31, 2014 and 2013

(in thousands of \$)

	2014	2013
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	64,080	53,759
Restricted cash and investments	42,074	68,363
Marketable securities	2,624	3,479
Trade accounts receivable, net	18,943	11,828
Related party receivables	12,637	9,487
Other receivables	16,703	16,180
Inventories	28,920	44,532
Voyages in progress	40,373	46,112
Prepaid expenses and accrued income	3,861	3,858
Investment in finance lease	3,028	2,555
Total current assets	233,243	260,153
Long-term assets		
Newbuildings	15,469	29,668
Vessels and equipment, net	56,624	264,804
Vessels and equipment under capital lease, net	550,345	704,808
Investment in unconsolidated subsidiaries and associated companies	60,000	58,658
Deferred charges	696	695
Other long term assets	12	—
Investment in finance lease	45,790	48,819
Total assets	962,179	1,367,605
<b>LIABILITIES AND DEFICIT</b>		
Current liabilities		
Short-term debt and current portion of long-term debt	165,357	22,706
Current portion of obligations under capital leases	78,989	46,930
Related party payables	55,713	11,419
Trade accounts payable	3,098	13,302
Accrued expenses	22,445	33,401
Deferred charter revenue	490	98
Other current liabilities	2,496	2,916
Total current liabilities	328,588	130,772
Long-term liabilities		
Long-term debt	27,500	436,372
Related party payables	109,952	72,598
Obligations under capital leases	564,692	742,418
Deferred gains on sales of vessels	—	1,288
Other long-term liabilities	2,096	2,208
Total liabilities	1,032,828	1,385,656
Commitments and contingencies		
Deficit		
Share capital (2014: 112,342,989 shares outstanding, par value \$1.00. 2013: 86,511,713 shares outstanding, par value \$1.00)	112,343	86,512



Additional paid in capital	244,018	149,985
Contributed surplus	474,129	474,129
Accumulated other comprehensive loss	(4,258	) (3,303
Retained deficit	(897,213	) (734,275
Total deficit attributable to Frontline Ltd.	(70,981	) (26,952
Noncontrolling interest	332	8,901
Total deficit	(70,649	) (18,051
Total liabilities and deficit	962,179	1,367,605

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

F -6

---



## Frontline Ltd.

## Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

(in thousands of \$)

	2014	2013	2012
Net loss	(171,660	) (191,082	) (83,775
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	81,471	99,823	114,845
Amortization of deferred charges	627	542	543
Amortization of debt discount	1,629	1,820	—
Contingent rental expense (income)	4,237	(8,726	) —
Debt conversion expense	41,067	12,654	—
Loss from de-consolidation of subsidiaries	12,415	—	—
Gain from sale of assets (including securities)	(24,620	) (22,711	) (16,813
Equity (gains) losses of unconsolidated subsidiaries and associated companies, net of dividends received	(1,847	) (13,539	) 4
Impairment losses on vessels	97,709	103,724	32,042
Unrealized foreign exchange loss (gain)	113	20	(3
Gain on repurchase of convertible bond debt	(1,486	) —	(4,600
Provision for doubtful debts	68	55	5,370
Other, net	(1,375	) (529	) 168
Changes in operating assets and liabilities:			
Trade accounts receivable	(12,462	) 11,820	13,557
Other receivables	(623	) (567	) (816
Inventories	10,736	8,809	(20,107
Voyages in progress	5,739	7,985	(29,648
Prepaid expenses and accrued income	(473	) 449	1,430
Trade accounts payable	(10,204	) 7,327	1,819
Accrued expenses	(1,733	) (11,058	) (6,632
Deferred charter revenue and other current liabilities	(37	) (4,844	) (548
Related party balances	26,241	(48,839	) 58,397
Other, net	(119	) 4,183	3,341
Net cash provided by (used in) operating activities	55,413	(42,684	) 68,574
Investing activities			
Change in restricted cash	8,396	19,143	13,060
Additions to newbuildings, vessels and equipment	(44,990	) (2,504	) (14,503
Proceeds from sale of vessels and equipment	53,087	—	10,174
Loans from (to) associated companies	—	250	(250
Investment in associated companies	—	(6,001	) (13,298
Proceeds from sale of investment in associated companies	—	242	—
Receipts from finance leases and loans receivable	2,555	2,156	1,824
Impact of re-consolidation of subsidiaries	638	—	—
Proceeds from sale of shares in subsidiaries	49	—	—
Net cash provided by (used in) investing activities	19,735	13,286	(2,993
Financing activities			
Net proceeds from issuance of shares	52,934	4,802	—
Proceeds from long-term debt	30,000	19,798	—



Repayments of long-term debt, convertible bond buy backs and cash payments of debt conversion	(90,612	) (23,781	) (24,921	)
Payment of obligations under finance leases	(39,918	) (50,345	) (64,068	)
Lease termination (payments) receipts, net	(10,500	) (4,518	) 445	
Payment of related party loan note	(6,103	) (402	) —	
Debt fees paid	(628	) —	) —	
Net cash used in financing activities	(64,827	) (54,446	) (88,544	)
Net change in cash and cash equivalents	10,321	(83,844	) (22,963	)
Cash and cash equivalents at beginning of year	53,759	137,603	160,566	
Cash and cash equivalents at end of year	64,080	53,759	137,603	
Supplemental disclosure of cash flow information:				
Interest paid, net of interest capitalized	76,614	91,120	98,991	
Income taxes paid	370	493	518	

Details of non-cash investing and financing activities in the years ended December 31, 2014, 2013 and 2012 are given in Note 30.

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

## Frontline Ltd.

Consolidated Statements of Changes in (Deficit) Equity for the years ended December 31, 2014, 2013 and 2012  
(in thousands of \$, except number of shares)

	2014	2013	2012
Number of shares outstanding			
Balance at the beginning of the year	86,511,713	77,858,502	77,858,502
Shares issued	25,831,276	8,653,211	—
Balance at the end of the year	112,342,989	86,511,713	77,858,502
Share capital			
Balance at the beginning of the year	86,512	194,646	194,646
Capital reorganization	—	(116,788)	—
Shares issued	25,831	8,654	—
Balance at the end of the year	112,343	86,512	194,646
Additional paid in capital			
Balance at the beginning of year	149,985	821	225,769
Capital reorganization	—	116,788	—
Shares issued	40,091	3,285	—
Debt-for-Equity exchange	54,008	28,930	—
Stock option expense	37	161	821
Loss on sale of subsidiary	(103)	—	—
Transfer to contributed surplus	—	—	(225,769)
Balance at the end of year	244,018	149,985	821
Contributed surplus			
Balance at the beginning of year	474,129	474,129	248,360
Transfer from additional paid in capital	—	—	225,769
Balance at the end of year	474,129	474,129	474,129
Accumulated other comprehensive loss			
Balance at the beginning of year	(3,303)	(4,155)	(4,779)
Other comprehensive (loss) income	(955)	852	624
Balance at the end of year	(4,258)	(3,303)	(4,155)
Retained deficit			
Balance at the beginning of year	(734,275)	(545,766)	(463,012)
Net loss	(162,938)	(188,509)	(82,754)
Balance at the end of year	(897,213)	(734,275)	(545,766)
Total (deficit) equity attributable to Frontline Ltd.	(70,981)	(26,952)	119,675
Noncontrolling interest			
Balance at the beginning of year	8,901	11,474	12,495
Impact of sale of shares in subsidiary	153	—	—
Net loss	(8,722)	(2,573)	(1,021)
Balance at the end of year	332	8,901	11,474

Total (deficit) equity (70,649 ) (18,051 ) 131,149

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

F -9

---

Frontline Ltd.

Notes to the Consolidated Financial Statements

## 1. GENERAL

Frontline Ltd. (the "Company" or "Frontline") is an international shipping company incorporated in Bermuda as an exempted company under the Bermuda Companies Law of 1981 on June 12, 1992. Up to February 2013, the Company was engaged primarily in the operation of oil tankers and oil/bulk/ore, or OBO carriers, which were configured to carry dry cargo. The Company owns and leases these vessels. As of December 31, 2012, all of the Company's OBO capital lease assets have been disposed of except for one OBO capital lease asset which was terminated in March 2013. The Company operates oil tankers of two sizes: VLCCs, which are between 200,000 and 320,000 dwt, and Suezmax tankers, which are vessels between 120,000 and 170,000 dwt. The Company operates through subsidiaries and partnerships located in the Bahamas, Bermuda, the Cayman Islands, India, the Philippines, the Isle of Man, Liberia, Norway, the United Kingdom and Singapore. 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 under the symbol of "FRO".

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 these vessels back on long-term charters. Between May 2004 and March 2007, the Company distributed all of its shareholding in Ship Finance to its shareholders except for 73,383 shares, which represents 0.01% of Ship Finance's total shares.

In February 2008, the Company spun off 17.53% of its holding in its subsidiary Independent Tankers Corporation Limited ("ITCL") to Frontline shareholders in conjunction with the listing of ITCL on the Norwegian over-the-counter ("NOTC") market.

The Company completed a restructuring of its business in December 2011. The restructuring included the sale of 15 wholly-owned special purpose companies ("SPCs"), which together owned five VLCC newbuilding contracts, six VLCCs, including one on time charter, and four Suezmax tankers to Frontline 2012 Limited ("Frontline 2012"). The sale of these SPCs resulted in a loss of \$307.0 million, which was recorded in 2011. In addition, the Company obtained agreements with its major counterparts whereby the gross charter payment commitment under existing chartering arrangements on 32 vessels was reduced.

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group (the "Windsor group"), which owned four VLCCs, and was itself owned by ITCL, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders. The Company was appointed as commercial manager in January 2015 for the vessels that were owned by the Windsor group prior to its bankruptcy filing and this will be the Company's only ongoing involvement with the Windsor group.

As of December 31, 2014, our tanker fleet consisted of 22 vessels and comprised of 14 VLCCs (excluding the four vessels in the Windsor group) and eight Suezmax tankers, which were either owned or chartered in. We also had one

Suezmax newbuilding on order, nine VLCCs, six Suezmax tankers and one Aframax tanker under commercial management.

## 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.

F -10

---

A variable interest entity is defined by the accounting standard as a legal entity where either (a) the total equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated support; (b) equity interest holders as a group lack either i) the power to direct the activities of the entity that most significantly impact on its economic success, ii) the obligation to absorb the expected losses of the entity, or iii) the right to receive the expected residual returns of the entity; or (c) the voting rights of some investors in the entity are not proportional to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The accounting standard requires a variable interest entity to be consolidated by its primary beneficiary, being the interest holder, if any, which has both (1) the power to direct the activities of the entity which most significantly impact on the entity's economic performance, and (2) the right to receive benefits or the obligation to absorb losses from the entity which could potentially be significant to the entity.

We evaluate our subsidiaries, and any other entities in which we hold a variable interest, in order to determine whether we are the primary beneficiary of the entity, and where it is determined that we are the primary beneficiary we fully consolidate the entity. We had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as we lost control of the group as a consequence of its Chapter 11 filing. This resulted in a Loss from de-consolidation of subsidiaries.

The Company accounts for all business combinations by the purchase method. The Company assesses whether it has purchased a business or a group of assets. The Company ascertains the cost of the asset (or net asset) group and allocates that cost to the individual assets (or individual assets and liabilities) that make up the group in accordance with this guidance. For transactions deemed to be a purchase of group of assets, the total cost for the group of assets purchased is allocated to each individual asset based on each asset's relative portion of fair value.

Investments in companies over which the Company has the ability to exercise significant influence but does not control are accounted for using the equity method. The Company records its investments in equity-method investees in the consolidated balance sheets as "Investment in unconsolidated subsidiaries and associated companies" and its share of the investees' earnings or losses in the consolidated statements of operations as "Share in results of unconsolidated subsidiaries and 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 unconsolidated subsidiaries and associated companies".

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.

#### Discontinued operations

The Company has determined that an individual vessel within a vessel class is not a component (as defined by accounting standards) as the Company does not believe that the operations of an individual vessel can be clearly distinguished. Generally, the Company believes that all of the vessels in a vessel class represent a component as defined for the purpose of discontinued operations and has presented the operations of the OBOs as discontinued operations since the last remaining lease was terminated during 2013.

#### Contingent rental expense (income)

The contingent rental expense (income) represents amounts accrued following changes to certain charter parties. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under long-term leases for a four year period that commenced on January 1, 2012. The Company



will compensate Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates. In December 2011, the Company also agreed to a rate reduction on four vessels leased from the German KG companies whereby the Company will pay a reduced rate and an additional amount dependent on the actual market rate. The contingent rental expense (income) represents the additional amounts accrued as a result of these charter party amendments.

#### Cash and cash equivalents

For the purposes of the consolidated balance sheet and the consolidated statement 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 and investments

Restricted cash consists mainly of bank deposits in ITCL, which must be maintained in accordance with contractual arrangements and which may only be used to settle certain pre-arranged loan or lease payments, minimum deposits, management fees and vessel operating costs.

F -11

---

#### 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. Any resulting unrealized gains and losses, net of deferred taxes if any, are recorded as a separate component of other comprehensive income in equity unless the securities are considered to be other than temporarily impaired, in which case unrealized losses are recorded in the income statement.

#### 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.

#### 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 vessels is 25 years. Other equipment is depreciated over its estimated remaining useful life, which approximates five years. The residual value for owned vessels is calculated by multiplying the lightweight tonnage of the vessel by the market price of scrap per tonne. The market price of scrap per tonne is calculated as the ten year average, up to the date of delivery of the vessel, across the three main recycling markets (Far East, Indian sub continent and Bangladesh). Residual values are reviewed annually.

#### Vessels and equipment under capital lease

The Company charters in certain vessels and equipment under leasing agreements. Leases of vessels and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between liability and finance charges to achieve a constant rate on the capital balance outstanding. The interest element of the capital cost is charged to the income statement over the lease period.

When the terms of a lease are modified, other than by renewing the lease or extending its term, the lease is reassessed as if the new terms were in place at inception of the lease. If this results in a different classification of the lease then the modification is considered a new agreement and accounted for as such from the date the modification came into effect. If the provisions of a capital lease are changed in a way that changes the amount of the remaining minimum lease payments, the present balances of the asset and the obligation are adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised or new agreement (computed using the interest rate used to recognize the lease initially) and the present balance of the obligation.

Where the provisions of a capital lease contain a floating rate element, such as an index linked rate of hire, then the minimum lease payments are assumed to equal the index at inception of the lease. Any variations in the index, and therefore the payments made, are accounted for as contingent rental income or expense and are taken to the statement of operations in the period in which they become realizable and recorded within 'Contingent rental expense (income)'.

Depreciation of vessels and equipment under capital lease is included within "Depreciation" in the consolidated statement of operations. Vessels and equipment 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

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 installments and other capital expenditures together with capitalized interest and associated finance costs. No charge for depreciation is made until the vessel is available for use.

Interest expense

Interest costs are expensed as incurred except for interest costs that are capitalized. Interest expenses are capitalized during construction of newbuildings based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period shall be determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

F -12

---

If the Company's financing plans associate a specific new borrowing with a qualifying asset, the Company uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the Company.

#### Discount on the issuance of debt

Up to July 2014, the Company's term notes are presented net of the discount on the issuance. The discount is being amortized using the effective interest method over the period to maturity of the respective debt. The amortization of the discount is included in interest expense.

#### Impairment of long-lived assets

The carrying values of long-lived assets held and used by the Company and newbuildings are reviewed whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Such indicators may include depressed spot rates and depressed second hand tanker values. The Company assesses recoverability of the carrying value of each asset or newbuilding on an individual basis by estimating the future net cash flows expected to result from the asset, including eventual disposal. In developing estimates of future cash flows, the Company must make assumptions about future performance, with significant assumptions being related to charter rates, ship operating expenses, utilization, drydocking requirements, residual values, the estimated remaining useful lives of the vessels and the probability of lease terminations for the vessels held under capital lease. These assumptions are based on historical trends as well as future expectations. If the future net undiscounted cash flows are less than the carrying value of the asset, or the current carrying value plus future newbuilding commitments, an impairment loss is recorded equal to the difference between the asset's or newbuildings carrying value and fair value. In 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 capitalized and amortized on a straight-line basis over the term of the relevant loan. The straight line basis of amortization approximates the effective interest method in the Company's consolidated statement of operations. Amortization of loan costs is included in interest expense. If a loan is repaid early, any unamortized portion of the related deferred charges is charged against income in the period in which the loan is repaid.

#### Trade accounts receivable

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

#### Revenue and expense recognition

Revenues and expenses are recognized on the accruals basis. Revenues are generated from voyage charter, time charter and bareboat charter hires. Voyage revenues are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. Voyage expenses are recognized as incurred. 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 recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. However, the Company does not recognize revenue if a charter has not been contractually committed 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.

Profit share expense represents amounts due to Ship Finance based on 20% (increased to 25% with effect from January 1, 2012) of the excess of vessel revenues earned by the Company over the base hire paid to Ship Finance for chartering in the vessels.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula on the basis of the number of days a vessel operates in the pool. The pools are responsible for paying voyage expenses and distribute net pool revenues to the participants. Pool revenues are reported net of voyage expenses as voyage charter revenues for all periods presented

Gain on sale of assets and amortization of deferred gains

Gain on sale of assets and amortization of deferred gains includes losses from the sale of vessels, gains from the termination of leases for vessels which are chartered in and the amortization of deferred gains. Gains (losses) from the sale of assets are recognized when the vessel has been delivered and all risks have been transferred and are determined by comparing the proceeds received with the carrying value of the vessel. Gains (losses) from the termination of leases for vessels which are chartered in are recognized when the lease is effectively terminated and the vessel has been redelivered to the owner.

F -13

---

A deferred gain will arise when the Company enters into a sale-leaseback transaction regarding a vessel and the Company does not relinquish the right to substantially all of the remaining use of the vessel. This deferred gain will be amortized in proportion to the gross rental payments over the minimum term of the lease.

#### Drydocking

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

#### Derivatives

Changes in the fair values of forward freight agreements, which are entered into for speculative purposes, are recognized in "mark to market on derivatives" in the consolidated statements of operations.

#### 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 realized.

#### Foreign currencies

The functional currency of the Company and the majority of its subsidiaries is the U.S. dollar as the majority of revenues and expenditures are denominated in U.S. dollars. The Company's reporting currency is also U.S. dollars. 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 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.

#### Share-based payments

In accordance with the guidance on "Share Based Payments", the Company is required to expense the fair value of stock options issued to employees over the period the options vests. The Company amortizes stock-based compensation for awards on a straight-line basis over which the employee is required to provide service in exchange for the reward - the requisite service (vesting) period. No compensation cost is recognized for stock options for which employees do not render the requisite service.

#### Earnings per share

Basic 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.

#### Investment in finance leases

For capital leases that are sales-type leases, the difference between the gross investment in the lease and the sum of the present values of lease payments and residual value is recorded as unearned lease interest income. The discount rate used in determining the present values is the interest rate implicit in the lease. The present value of the minimum lease

payments, computed using the interest rate implicit in the lease, is recorded as the sales price, from which the carrying value of the vessel at the commencement of the lease is deducted in order to determine the profit or loss on sale. The unearned lease interest income is amortized to income over the period of the lease so as to produce a constant periodic rate of return on the net investment in the lease.

#### Convertible debt

Convertible bond loans issued by the Company include both a loan component (host contract) and an option to convert the loan to shares (embedded derivative).

An embedded derivative, such as a conversion option, may be separated from its host contract and accounted for separately if certain criteria are met including if the contract that embodies both the embedded derivative and the host contract is not measured at fair value, the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract and if a separate instrument with the same terms as the embedded instrument would be a derivative.

F -14

---

If an embedded derivative instrument is separated from its host contract, the host contract shall be accounted for based on generally accepted accounting principles applicable to instruments of that type which do not contain embedded derivative instruments.

A conversion of the bonds at more favorable terms than the original bond is treated as an inducement and the Company recognizes a debt conversion expense equal to the fair value of all securities and other consideration transferred in the transaction in excess of the fair value of securities issuable pursuant to the original conversion terms.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update No. 2014-08-Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360). The amendments in this Update address the issues that (i) too many disposals of small groups of assets that are recurring in nature qualify for discontinued operations presentation under Subtopic 205-20, and (ii) some of the guidance on reporting discontinued operations results in higher costs for preparers because it can be complex and difficult to apply, by changing the criteria for reporting discontinued operations and enhancing convergence of the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) reporting requirements for discontinued operations. The Company is required to apply the amendments in this Update prospectively to (i) all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, and (ii) all businesses or non-profit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company is currently considering the impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2014-09-Revenue from Contracts with Customers (Topic 606). The FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers. The amendments in this Update are effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently considering the impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2014-15-Presentation of Financial Statements-Going Concern (Subtopic 205-40). The amendments in this Update provide guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently considering the impact of these amendments on its consolidated financial statements.

Accounting Standards Update No. 2015-02-Consolidation (Topic 810). The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in certain legal entities. The amendments in this Update are effective for the Company for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company is currently considering the impact of these amendments on its consolidated financial statements.



#### 4. DISCONTINUED OPERATIONS

In December 2012, the Company agreed to an early termination of the time charter out contracts on the two OBO carriers, Front Viewer and Front Guider. The Company also agreed with Ship Finance to terminate the long term charter parties for these two OBO carriers. The charter party for Front Viewer terminated in December 2012 and the charter party for the Front Guider terminated in March 2013. Following the termination of the lease on the Front Guider, the last of the Company's carriers, the results of the OBO carriers have been recorded as discontinued operations. Amounts included in the consolidated statement of operations for the year ended December 31, 2012 have been reclassified in order to conform to the presentation resulting from discontinued operations.

Amounts recorded in respect of discontinued operations in the year ended December 31, 2014, 2013 and 2012 are as follows;

F -15

---

(in thousands of \$)	2014	2013	2012
Operating revenues	—	1,840	89,747
Loss on sale of assets	—	(847	) (17,946
Contingent rental expense	—	—	32,156
Impairment loss on vessels	—	—	27,316
Net loss from discontinued operations	—	(1,204	) (12,544

The Company recorded an impairment loss of \$27.3 million in 2012. This loss relates to four OBO carriers held under capital lease – Front Rider (\$4.9 million), Front Climber (\$4.2 million), Front Driver (\$4.0 million) and Front Guider (\$14.2 million). The impairment loss recorded on each vessel is equal to the difference between the asset's carrying value and estimated fair value. Three of these leases were terminated during 2012 and one lease was terminated during 2013.

#### 5. LOSS ON DE-CONSOLIDATION OF SUBSIDIARIES

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing and recorded a loss of \$12.4 million in the third quarter of 2014. The loss comprises the net investment in the Windsor group at the time of de-consolidation and \$8.8 million relating to the accelerated amortization of the debt discount on the 7.84% First Preferred Mortgage Term Notes. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders. The Company was appointed as commercial manager in January 2015 for the vessels that were owned by the Windsor group prior to its bankruptcy filing and this will be the Company's only ongoing involvement with the Windsor group.

#### 6. SEGMENT INFORMATION

The Company and the chief operating decision maker ("CODM") measure performance based on the Company's overall return to shareholders based on consolidated net income. The CODM does not review a measure of operating result at a lower level than the consolidated group. Consequently, the Company has only one reportable segment: crude oil tankers.

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

The Company operated in two markets up to the termination in March 2013 of the lease for Front Guider, being the last OBO carrier chartered in by the Company. We currently operate in the tanker market as an international provider of seaborne transportation of crude oil cargoes only.

During the year ended December 31, 2014, one customer represented 14% of consolidated operating revenues and one customer represented 10% of our consolidated operating revenues (2013: no customer represented more than 10% of our consolidated operating revenues and 2012: one customer represented 18% of our consolidated operating revenues).

#### 7. IMPAIRMENT OF LONG-TERM ASSETS

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of each of its vessels and equipment may not be recoverable.

During 2014, the Company identified three vessels held under capital lease and one owned vessel, where the future estimated cash flows for each vessel were less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$97.7 million in 2014. This loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Front Opalia (\$27.8 million), Front Commerce (\$26.7 million) and Front Comanche (\$30.7 million) and one vessel owned by a wholly-owned subsidiary of ITCL - Ulriken (ex Antares Voyager) (\$12.4 million). The impairment loss recorded on the vessels held under capital lease vessel is equal to the difference between the asset's carrying value and estimated fair value. In July 2014, it was agreed that the leases on these vessels would be terminated, with expected termination in the fourth quarter of 2014 subject to normal closing conditions, and a 100% lease termination probability was assigned to these three vessels as of September 30,

F -16

---

2014. The leases on these three vessels were terminated in the fourth quarter of 2014. In September 2014, Golden State Petroleum Corporation, or Golden State, a wholly-owned subsidiary of ITCL, entered into an agreement to sell the Ulriken to an unrelated third party and the vessel was delivered in October 2014. The Company recorded an impairment loss of \$12.4 million in the nine months end September 30, 2014 equal to the difference between the vessel's carrying value and the net sales price of \$26.0 million.

During 2013, the Company identified three vessels held under capital lease where the future estimated cash flows for each vessel were less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$103.7 million in 2013. The loss relates to three vessels leased from Ship Finance and recorded as vessels under capital lease - Golden Victory (\$45.6 million), Front Champion (\$42.5 million) and Front Century (\$15.6 million). The impairment loss recorded on each vessel was equal to the difference between the asset's carrying value and estimated fair value. The leases on Front Champion and Golden Victory were terminated in November 2013 and a 100% lease termination probability was assigned to these two vessels as of September 30, 2013. The fair value of Front Century was determined using discounted expected future cash flows from the leased vessel. The Company recorded a net gain of \$13.8 million on the termination of the leases in the fourth quarter of 2013.

During 2012, the Company identified five vessels held under capital lease where they believed that future cash flows for each vessel was less than the carrying value and, therefore, not fully recoverable. The Company recorded an impairment loss of \$32.0 million in 2012. This loss relates to four OBO carriers – Front Rider (\$4.9 million), Front Climber (\$4.2 million), Front Driver (\$4.0 million), Front Guider (\$14.2 million) and one Suezmax tanker Front Pride (\$4.7 million). The impairment loss recorded on each vessel is equal to the difference between the asset's carrying value and estimated fair value. three of these leases were terminated during 2012. The leases on Front Guider and Front Pride were terminated during 2013. The impairment loss in respect of OBO carriers is included in discontinued operations.

## 8. INCOME TAXES

### 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 March 31, 2035.

### United States

The Company does not accrue U.S. income taxes as 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, India and the United Kingdom are subject to income tax in their respective jurisdictions. The tax paid by subsidiaries of the Company that are subject to income tax is not material.

The Company does not have any unrecognized tax benefits, material accrued interest or penalties relating to income taxes.

9. EARNINGS PER SHARE

The computation of basic EPS is based on the weighted average number of shares outstanding during the year and net income attributable to Frontline Ltd.. The exercise of stock options using the treasury stock method was anti-dilutive for 2014, 2013 and 2012 as the exercise price was higher than the share price at December 31, 2014, 2013 and 2012, therefore, 125,000, 670,900 and 629,233 shares, respectively, were excluded from the denominator in each calculation. The convertible bonds using the if-converted method were anti dilutive for the years ended December 31, 2014, 2013 and 2012, therefore, 3,465,849, 5,197,406 and 5,881,275 shares, respectively, were excluded from the denominator in each calculation.

The components of the numerator for the calculation of basic EPS and diluted EPS for net loss from continuing operations, net loss from discontinued operations and net loss attributable to Frontline Ltd. are as follows:

F -17

---

(in thousands of \$)	2014	2013	2012
Net loss from continuing operations, excluding loss attributable to noncontrolling interest	(162,938 )	(187,305 )	(70,210 )
Net loss from discontinued operations	—	(1,204 )	(12,544 )
Net loss attributable to Frontline Ltd.	(162,938 )	(188,509 )	(82,754 )

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

(in thousands)	2014	2013	2012
Weighted average number of ordinary shares	99,939	79,751	77,859

#### 10. GAIN ON SALE OF ASSETS AND AMORTIZATION OF DEFERRED GAINS

Gain on sale of assets and amortization of deferred gains in each of the three years ended December 31, may be summarized as follows;

(in thousands of \$)	2014	2013	2012
Net gain on lease terminations	40,382	21,237	21,806
Net loss on sale of vessels	(15,762 )	—	(2,109 )
Amortization of deferred gains	—	2,321	15,062
	24,620	23,558	34,759

#### 11. LEASES

As of December 31, 2014, the Company leased in 21 vessels on long-term time charters from third parties and related parties. All of these long-term charters are classified as capital leases.

##### Rental expense

The Company is committed to make rental payments under operating leases for office premises. The future minimum rental payments under the Company's non-cancelable operating leases are as follows:

(in thousands of \$)	
Year ending December 31,	
2015	1,908
2016	642
2017	508
2018	350
2019	334
Thereafter	1,586
Total minimum lease payments	5,328

Total rental expense for operating leases was \$2.2 million, \$6.6 million and \$40.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In January 2011, the Company sold the VLCC Front Shanghai and chartered the vessel, which was renamed the Gulf Eyadah, in on a two year time charter at a rate of \$35,000 a day. A deferred gain of nil, nil and \$7.9 million was recognized in 2014, 2013 and 2012, respectively. In addition, a gain on sale of \$6.4 million was recorded in 2011. The vessel was redelivered to its owner in December 2012. In March 2011, the VLCC Front Eagle, which had been classified as a vessel under a capital lease, was purchased and then sold to a third party with delivery in the second quarter of 2011. The Company chartered back this vessel, which was renamed the DHT Eagle, on a two year time charter at a rate of \$32,500 per day. A deferred gain of nil, \$2.3 million and \$7.2 million was recognized in 2014, 2013 and 2012, respectively. In addition, a gain on sale of \$3.2 million was recorded in 2011. The VLCC Hampstead

was redelivered to its owner in April 2012.

F -18

---

During 2011 and January 2012, the Company redelivered four vessels which had been chartered in under operating leases from special purpose lessor entities which were established and are owned by independent third parties who provide financing through debt and equity participation. Charter hire expenses for these operating leases were nil, nil and \$0.04 million for the years ended December 31, 2014, 2013 and 2012, respectively.

#### Rental income

The minimum future revenues to be received on time charter, which are accounted for as operating leases and other contractually committed income as of December 31, 2014 are as follows:

(in thousands of \$)

2015	4,435
2016	—
2017	—
2018	—
2019	—
Thereafter	—
Total minimum lease payments	4,435

The cost and accumulated depreciation of the vessels leased to third parties as of December 31, 2014 were approximately \$46.2 million and \$33.2 million, respectively, and as of December 31, 2013 were approximately \$166.3 million and \$28.8 million, respectively.

## 12. INVESTMENT IN FINANCE LEASE

As of December 31, 2014, one of the Company's vessels was accounted for as a sales-type lease (2013: one). The following lists the components of the investment in sales-type lease as at December 31.

(in thousands of \$)	2014	2013
Net minimum lease payments receivable	67,145	78,452
Estimated residual values of leased property (unguaranteed)	20,320	20,320
Less: unearned income	(38,647	) (47,398
Total investment in sales-type lease	48,818	51,374
Current portion	3,028	2,555
Long-term portion	45,790	48,819
	48,818	51,374

The minimum future gross revenues to be received under the Company's non-cancelable sales-type lease as of December 31, 2014 are as follows:

(in thousands of \$)

2015	11,307
2016	11,338
2017	11,307
2018	11,307
2019	11,307
Thereafter	10,579
Total minimum lease revenues	67,145

The counterparty to the lease is a state-owned oil company which the Company has deemed to have a low credit risk.





## 13. MARKETABLE SECURITIES

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

(in thousands of \$)	2014	2013
Cost	2,830	2,707
Accumulated net unrealized (loss) gain	(206	) 772
Fair value	2,624	3,479

During 2013, the Company received 108,069 shares in Avance Gas Holdings Limited ("Avance Gas") as a stock dividend from its investment in Frontline 2012.

During 2014, the Company received 12,374 shares in Knightsbridge Shipping Limited ("Knightsbridge") as partial settlement of Restricted Stock Units ("RSU") granted by Knightsbridge to ICB Shipping (Bermuda) Limited in its capacity as Manager. During 2013, the Company received 8,766 shares as partial settlement of RSUs. No payment was given for these shares and \$0.01 million and \$0.06 million was recorded in "Other income" in 2014 and 2013, respectively.

The net unrealized loss on marketable securities included in comprehensive income is \$0.2 million (2013: \$0.8 million gain).

The cost of sale of available-for-sale marketable securities is calculated on an average cost basis. Realized gains and losses are recorded as gain on sale of securities in the consolidated statement of operations.

## 14. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are presented net of allowance for doubtful accounts relating to freight and demurrage claims. Movements in the allowance for doubtful accounts in the three years ended December 31, 2014 may be summarized as follows;

(in thousands of \$)		
Balance at December 31, 2011	(4,487	)
Additions charged to income	(6,033	)
Deductions credited to income	663	
Balance at December 31, 2012	(9,857	)
Additions charged to income	(55	)
Balance at December 31, 2013	(9,912	)
Additions charged to income	(68	)
Balance at December 31, 2014	(9,980	)

## 15. OTHER RECEIVABLES

(in thousands of \$)	2014	2013
Agent receivables	4,440	5,065
Claims receivables	7,553	4,938
Other receivables	4,710	6,177
	16,703	16,180

Other receivables are presented net of allowances for doubtful accounts amounting to nil and nil as of December 31, 2014 and 2013.

F -20

---

## 16. NEWBUILDINGS

The carrying value of newbuildings represents the accumulated costs which the Company has paid by way of purchase installments and other capital expenditures together with capitalized loan interest. Movements in the three years ended December 31, 2014 may be summarized as follows:

(in thousands of \$)

Balance at December 31, 2011	13,049
Installments and newbuilding supervision fees paid	12,936
Interest capitalized	928
Balance at December 31, 2012	26,913
Installments and newbuilding supervision fees paid	572
Interest capitalized	2,183
Balance at December 31, 2013	29,668
Installments and newbuilding supervision fees paid	42,130
Interest capitalized	411
Transfers to Vessels and Equipment	(56,740 )
Balance at December 31, 2014	15,469

In April 2014, the Company agreed with Rongsheng shipyard to swap its two Suezmax newbuildings on order with two similar Suezmax vessels from the same shipyard at a lower contract price. Installments paid to date have been allocated to the new vessels.

On May 19, 2014, the Company took delivery of the first Suezmax newbuildings, Front Ull.

## 17. VESSELS AND EQUIPMENT

Movements in the three years ended December 31, 2014 may be summarized as follows:

(in thousands of \$)	Cost	Accumulated Depreciation	Net Carrying Value
Balance at December 31, 2011	459,312	(147,020 )	312,292
Purchase of vessels and equipment	730	—	
Disposal of vessels and equipment	(51,960 )	40,290	
Other movements	443	(341 )	
Depreciation	—	(18,508 )	
Balance at December 31, 2012	408,525	(125,579 )	282,946
Purchase of vessels and equipment	374	—	
Other movements	(531 )	449	
Depreciation	—	(18,434 )	
Balance at December 31, 2013	408,368	(143,564 )	264,804
Purchase of vessels and equipment	542	—	
Transfers from Newbuildings	56,740	—	
Effect of de-consolidation of subsidiaries	(224,602 )	49,803	
Other movements	(936 )	854	
Depreciation	—	(11,082 )	
Impairment loss	(62,153 )	49,728	
Disposals	(117,297 )	50,223	
Balance at December 31, 2014	60,662	(4,038 )	56,624

F -21

---

At December 31, 2014, the Company owned one vessel (2013: nine vessels, including three vessels owned by subsidiaries accounted for under the equity method).

In March 2014, a subsidiary of ITCL entered into an agreement to sell the VLCC Ulysses (ex-Phoenix Voyager) to an unrelated third party. The vessel was delivered to the buyer on March 11, 2014 and we recorded a loss of \$15.7 million in the first quarter of 2014.

In May 2014, the Company took delivery of its first Suezmax newbuilding, Front Ull.

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing.

In September 2014, the Company agreed to sell the VLCC Ulriken (ex Antares Voyager) to an unrelated third party and recorded an impairment loss of \$12.4 million in the third quarter. The vessel was delivered to the new owners in October 2014.

Pursuant to an early termination agreement between three of the Company's subsidiaries, which were accounted for under the equity method: (i) the bareboat charters for the Altair Voyager, Cygnus Voyager and Sirius Voyager were terminated as of October 1, 2014; (ii) the charter hire payments paid in connection with the early termination agreement were used to redeem the remaining outstanding debt related to these vessels; and (iii) the three vessels were sold.

In March 2012, the Company sold its 1993-built double hull Suezmax tanker, Front Alfa, to an unrelated third party and recognized a loss of \$2.1 million in the first quarter of 2012. An impairment loss for this vessel of \$24.8 million was recorded in the third quarter of 2011.

#### 18. VESSELS UNDER CAPITAL LEASE, NET

Movements in the three years ended December 31, 2014 may be summarized as follows:

(in thousands of \$)	Cost	Accumulated Depreciation	Net Carrying Value
Balance at December 31, 2011	2,073,779	(1,051,607)	) 1,022,172
Disposals	(110,625)	) 100,806	
Impairment loss	(32,042)	)—	
Lease modification	9,115	—	
Depreciation	—	(96,337)	)
Balance at December 31, 2012	1,940,227	(1,047,138)	) 893,089
Disposals	(159,016)	) 155,848	
Impairment loss	(153,508)	) 49,784	
Depreciation	—	(81,389)	)
Balance at December 31, 2013	1,627,703	(922,895)	) 704,808
Impairment loss	(204,260)	) 118,976	
Additions	1,210	—	
Depreciation	—	(70,389)	)
Balance at December 31, 2014	1,424,653	(874,308)	) 550,345

The outstanding obligations under capital leases are payable as follows:

F -22

---

(in thousands of \$)

Year ending December 31,	
2015	82,402
2016	139,256
2017	102,451
2018	96,292
2019	87,690
Thereafter	330,064
Minimum lease payments	838,155
Less: imputed interest	(194,474 )
Present value of obligations under capital leases	643,681

As of December 31, 2014, the Company held 21 vessels under capital leases (2013: 24 vessels), of which 17 (2013: 20 vessels) are leased from Ship Finance. These leases are for initial terms that range from 12 to 22 years. The remaining periods on these leases at December 31, 2014 range from 1 to 12 years.

Four of these vessels (2013: four) are leased by the Company 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 ASC 810, these special purpose entities were not consolidated by the Company. The Company has determined that 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. As of December 31, 2014, the original cost to the lessor of the assets under such arrangements was \$258.0 million (2013: \$258.0 million). The lessor has options to put these vessels to the Company at the end of the lease term. As of December 31, 2014 and 2013, the Company's residual value guarantees associated with these leases, which represent the maximum exposure to loss, are \$36.0 million. These remaining lease obligations, and with the residual value guarantees, are recorded as short-term as at December 31, 2014.

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 amortized so that the remaining balance at the date the put option becomes exercisable is equal to the put option amount. An additional liability is recognized 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, 2014, no such additional liability had arisen. On December 30, 2011, the Company agreed to a rate reduction on all these vessels whereby the Company will pay a reduced rate and an additional amount (contingent rental expense) dependent on the actual market rate. The contingent rental expense recorded on these vessels arises when the actual rate paid by the Company fluctuates from the minimum lease rentals. Annual renewals which were at the owners option were replaced with a fixed term of January 1, 2012 to December 31, 2015 and the purchase options that the Company had previously held were removed. A profit share payment will be due at the end of the lease based on 25% of the excess of the aggregate of market index rates over the aggregate of the original rates. In 2014, 2013 and 2012 a total profit share of nil was recorded. The following table discloses information about the Company's activity with these non-consolidated lessor entities in the three year period ended December 31, 2014:

(in thousands of \$)	2014	2013	2012
Repayments of principal obligations under capital leases	12,948	12,260	11,665
Contingent rental expense (income)	4,237	(7,761 )	2,436
Interest expense for capital leases	4,429	5,389	6,301
Deferred lease obligation	—	—	3,795



F -23

---

In March 2011, the Company exercised its option to purchase the VLCC Front Eagle and simultaneously sold the vessel for \$67.0 million, with delivery in the second quarter of 2011, and leased back the vessel under a two year operating lease. The transaction was accounted for as a sale and leaseback transaction. Deferred gains of nil, \$2.3 million and \$7.2 million were recognized in 2014, 2013 and 2012, respectively. In addition, a gain on sale of \$3.2 million was recorded in 2011. There was no unamortized deferred gain at December 31, 2014.

At December 31, 2014, the Company has five double hull Suezmax tankers and 12 double hull VLCCs on long-term fixed rate leases with Ship Finance which expire from 2018-2027 dependent upon the age of the vessels. The leases contain no optional termination periods, purchase options or put options. In November 2014, the Company terminated the leases on three vessels, Front Comanche, Front Commerce and Front Opalia. The Company recorded an impairment loss of \$85.3 million in 2014 in respect of these three vessels.

In 2013, the Company recorded an impairment loss of \$103.7 million in respect of three VLCCs. The leases on two vessels, Front Champion and Golden Victory, were terminated in November 2013. The lease on one Suezmax tanker, Front Pride, was terminated in March 2013 and an impairment charge of \$4.7 million was recognized in 2012 in respect of this vessel.

In 2012, the Company recorded an impairment loss of \$32.0 million, of which \$27.3 million was recorded in discontinued operations. This loss was in respect of four OBO vessels and one double hull Suezmax, three of these OBO vessels had been disposed of by December 31, 2012. In December 2012, Ship Finance and the Company agreed to terminate the lease of the OBO vessel Front Guider at the end of its then current voyage. This was treated as a lease modification in 2012. The lease was reassessed and remained a capital lease and capital lease obligations increased by \$9.1 million, with a corresponding increase in vessels under capital lease. A lease termination payment of \$10.8 million was paid on December 27, 2012. An impairment loss of \$14.2 million was recorded in respect of Front Guider and this amount is included in the total impairment loss recorded in 2012 of \$32.0 million.

The Company has entered into charter ancillary agreements with Ship Finance in connection with the leased vessels whereby the Company agrees to pay Ship Finance a profit sharing payment equal to 20% of the charter revenues earned by the Company in excess of the daily base charter hire paid to Ship Finance. In December 2011, the Company and Ship Finance agreed to a rate reduction of \$6,500 per day for all vessels leased from Ship Finance under long-term leases for a four year period that commenced on January 1, 2012. The Company paid Ship Finance up front compensation of \$106.0 million on December 30, 2011, of which \$50.0 million was a non-refundable prepayment of profit share and \$56.0 million was a release of restricted cash serving as security for charter payments. The Company will compensate Ship Finance with 100% of any difference between the renegotiated rates and the average vessel earnings up to the original contract rates (contingent rental expense). At December 31, 2014, the contingent rental expense due to Ship Finance is \$32.7 million (2013: nil). In addition, the profit share above the original threshold rates was increased from 20% to 25%. As a result of this, obligations under capital leases and vessels under capital leases have been reduced by \$126.5 million at December 31, 2011. Obligations under capital leases have also been reduced by the \$106.0 million compensation payment to Ship Finance. In the year ended December 31, 2014, total profit share due to Ship Finance was nil and so the \$50.0 million non-refundable prepayment of profit share in December 2011 remains unchanged at December 31, 2014. Profit share will only be recognized in the financial statements when the accrued profit share is more than the non-refundable prepayment of profit share.

## 19. EQUITY METHOD INVESTMENTS

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

	2014	2013	
CalPetro Tankers (Bahamas I) Limited	—	% 100	%

Edgar Filing: FRONTLINE LTD / - Form 20-F

CalPetro Tankers (Bahamas II) Limited	—	% 100	%
CalPetro Tankers (IOM) Limited	—	% 100	%
VLCC Chartering Ltd	50	% —	%
Frontline 2012 Ltd.	5.6	% 5.4	%

In October 2014, we formed VLCC Chartering Ltd. ("VLCC Chartering"), a 50/50 joint venture company with Tankers International LLC ("TI"). Our investment in VLCC Chartering is \$200.

F -24

---

CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited (together the "CalPetro group") were incorporated in 1994 for the purpose of acquiring three oil tankers from Chevron Transport Corporation ("Chevron") and these vessels were concurrently chartered back to Chevron on long-term bare boat charter agreements, which gave Chevron the option to buy each of the vessels for \$1 at the expiry of the leases in April 2015. Up to October 1, 2014, the Company had determined it was not the primary beneficiary of these variable interest entities due to the fixed rate, bare boat charters and the bargain purchase options held by Chevron, and had accounted for these entities under the equity method. Pursuant to an early termination agreement between the CalPetro group and Chevron: (i) the bareboat charters for the Altair Voyager, Cygnus Voyager and Sirius Voyager were terminated as of October 1, 2014; (ii) the charter hire payments paid in connection with the early termination agreement were used to redeem the remaining outstanding debt related to these vessels; and (iii) the three vessels were sold. The Company determined it was the primary beneficiary of the CalPetro group following the execution of the early termination agreement at which time they were consolidated by the Company and cash of \$1.3 million became available to the Company, of which \$0.7 million had been held in restricted cash. There were no other assets or liabilities.

In 2014, Frontline 2012 purchased 6.8 million of its own shares and holds them as treasury stock. This increased the Company's ownership from 5.4% to 5.6%.

In January 2013, the Company sold its 50% shareholding in Orion Tankers Ltd for book value of \$242,000.

In January 2013, the Company paid \$6.0 million for 1,143,000 shares in a private placement by Frontline 2012 of 59 million new ordinary shares at a subscription price of \$5.25 per share. Following the private placement, the Company's ownership in Frontline 2012 was reduced from 7.9% to 6.3%. The Company recognized a gain on the dilution of its ownership of \$5.2 million in the first quarter of 2013, which is recognized in 'Equity gains (losses) of unconsolidated subsidiaries and associated companies'.

In September 2013, Frontline 2012 completed a private placement of 34.1 million new ordinary shares of \$2.00 par value at a subscription price of \$6.60. The Company did not participate in this private placement and its ownership decreased from 6.3% to 5.4%. The Company recognized a gain on the dilution of its ownership of \$4.7 million in the third quarter of 2013.

In October 2013, Frontline 2012 paid a stock dividend of one share in Avance Gas for every 124.55 shares held in Frontline 2012. The Company received 108,069 shares valued at \$1.3 million, which was credited against the investment and recorded in marketable securities.

At December 31, 2014, the quoted value of the Company's investment in Frontline 2012 was \$71.3 million (2013: \$109.9 million). The amount of retained earnings at December 31, 2014 that represents undistributed earnings of Frontline 2012 is \$15.7 million (2013: \$13.1 million).

Summarized financial statements of Frontline 2012 are as follows:

(in thousands of \$)		2014	2013
Current assets		417,985	480,177
Non current assets		2,083,783	1,193,803
Current liabilities		232,877	108,852
Non current liabilities		821,541	501,971
(in thousands of \$)	2014	2013	2012
Operating revenues	275,258	133,900	140,849
Net operating income	46,731	65,755	25,673

Net income	84,511	69,499	8,055
------------	--------	--------	-------

Cash dividends of \$2.0 million were received from equity method investees in 2014 (2013: nil, 2012: nil). No stock dividends were received in 2014 (2013: \$1.3 million, 2012: nil).

Summarized financial statements of investees of which the Company has determined it is not the primary beneficiary and accounts for under the equity method as of December 31, is as follows:

F -25

---

(in thousands of \$)		2014		2013
Current assets		—		15,457
Non current assets		—		5,132
Current liabilities		—		9,981
Non current liabilities		—		9,525

(in thousands of \$)	2014	2013	2012
Net operating revenues	931	1,651	2,473
Net operating income	691	1,353	2,155
Net loss	(585	) (538	) (544

## 20. DEFERRED CHARGES

(in thousands of \$)		2014		2013
Debt arrangement fees		12,464		11,836
Accumulated amortization		(11,768	) (11,141	)
		696		695

## 21. ACCRUED EXPENSES

(in thousands of \$)		2014		2013
Voyage expenses		10,092		11,027
Ship operating expenses		4,689		5,614
Administrative expenses		1,493		1,297
Interest expense		2,556		12,429
Taxes		491		325
Contingent rental expense		3,009		2,615
Other		115		94
		22,445		33,401

## 22. DEBT

(in thousands of \$)		2014		2013
U.S. dollar denominated floating rate debt		29,500		—
U.S. dollar denominated fixed rate debt:				
4.5% convertible bond due 2015		126,700		190,000
8.04% First Preferred Mortgage Term Notes		36,657		83,240
7.84% First Preferred Mortgage Term Notes		—		196,240
Unamortized discount on issuance of 7.84% First Preferred Mortgage Term Notes		—		(10,402
Total debt		192,857		459,078
Current portion of long-term debt		(165,357	) (22,706	)
Long term portion of debt		27,500		436,372

Movements in debt in each of the three years ended December 31, 2014, maybe summarized as follows:

(in thousands of \$)	
Balance at December 31, 2011	513,513
4.5% convertible bond - buy-back	(10,000 )
Loan repayments	(19,521 )
Balance at December 31, 2012	483,992
4.5% convertible bond - debt-for-equity swap	(25,000 )
Loan repayments	(21,531 )
Issuance of 7.84% First Preferred Mortgage Term Notes	32,019
Discount on issuance of 7.84% First Preferred Mortgage Term Notes	(12,222 )
Amortization of discount on issuance of 7.84% First Preferred Mortgage Term Notes	1,820
Balance at December 31, 2013	459,078
4.5% convertible bond - buy-back	(17,800 )
4.5% convertible bond - debt-for-equity swaps	(45,500 )
Loan repayments	(54,732 )
Loan draw downs	30,000
Effect of de-consolidation of subsidiaries - 7.84% First Preferred Mortgage Term Notes	(179,818 )
Amortization of discount on issuance of 7.84% First Preferred Mortgage Term Notes	1,629
Balance at December 31, 2014	192,857

The weighted average interest rate for floating rate debt denominated in U.S. dollars was 2.8% as of December 31, 2014. The Company had no floating rate debt at December 31, 2013.

#### U.S. DOLLAR DENOMINATED FIXED RATE DEBT

##### 4.5% Convertible Bonds due 2015

In March 2012, the Company purchased \$10.0 million notional value of its convertible bonds for a purchase price of \$5.4 million. The Company recognized a gain of \$4.6 million, included in Other non-operating items, in the first quarter of 2012. After the purchase, the Company held 4.4% of the convertible bonds outstanding. The convertible bonds have been presented net of the bonds owned.

In October 2013, the Company exchanged \$25.0 million notional value of its convertible bonds for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million. As the conversion was agreed at more favorable terms than the original bond and there was a time constraint, this was treated as an inducement and the Company recognized \$12.7 million, being the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt conversion expense in 2013.

In October 2014, the Company purchased \$17.8 million notional value of its convertible bonds for a purchase price of \$16.3 million. The Company recognized a gain of \$1.5 million, included in Other non-operating items, in the final quarter of 2014. After the purchase, the Company held 23.5% of the convertible bonds outstanding. The convertible bonds have been presented net of bonds owned.

In October 2014, the Company exchanged \$23.0 million of the outstanding principal amount of the Company's convertible bonds for an aggregate of 8,251,724 shares, at a price of \$1.45 per share, and a cash payment of \$10.0 million plus accrued interest. In December 2014, the Company exchanged \$22.5 million of the outstanding principal amount of the Company's convertible bonds for an aggregate of 4,744,752 shares, at a price of \$2.62 per share, and a cash payment of \$9.6 million plus accrued interest. The conversion price of the convertible bonds at the time of both transactions was \$36.5567. As the conversions were agreed at more favorable terms than the original bond and there were time constraints, they were treated as inducements and the Company recognized the difference between the fair value of the original conversion rights compared with the fair value of the induced conversion terms, as a debt

conversion expense of \$41.1 million in 2014.

**7.84% First Preferred Mortgage Term Notes**

In July and August 2008, ITCL purchased three tranches of the Windsor Petroleum Transport Corporation 7.84% term notes on the open market. In 2013, ITCL sold its full holding of the term notes for net proceeds of \$19.8 million. The difference of \$12.2 million between the outstanding principal balance of \$32.0 million and the net proceeds is recorded as a discount on issuance of

F -27

---



debt. This discount is being amortized over the period of the term notes and \$1.6 million was recorded as interest expense in 2014. The effective interest rate of the debt discount is 7.84%.

On July 15, 2014, the Company de-consolidated the Windsor group (see Note 5) and the outstanding balance on the term notes of \$179.8 million was removed from the balance sheet. These term notes are non-recourse to the Company.

#### U.S. DOLLAR DENOMINATED FLOATING RATE DEBT

##### \$60.0 million term loan facility

In June 2014, the Company entered into a \$60.0 million term loan facility to part finance its two Suezmax newbuildings. The Company drew down \$30.0 million in the third quarter for the vessel delivered in the second quarter and drew down \$30.0 million in January 2015 upon delivery of the second newbuilding. Repayments are made on a quarterly basis, each in an amount equaling 1/60th of the amount drawn, with a balloon payment on the final maturity date in June 2017. The interest rate, based on LIBOR plus a margin, was 2.8% as of December 31, 2014. The loan agreement contains a loan-to-value clause, which could require the Company to post collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing the borrowings decrease below a required level. In addition, the loan agreement requires the vessel owning subsidiaries to maintain a certain level of free cash and maintain positive working capital and it contains a cross default provision regarding the Company's convertible loan. Failure to comply with any of the covenants could result in a default, which would permit the lender to accelerate the maturity of the debt and to foreclose upon any collateral securing the debt. The Company was in compliance with all of the financial and other covenants as of December 31, 2014.

The outstanding debt as of December 31, 2014 is repayable as follows:

(in thousands of \$)

Year ending December 31,	
2015	165,357
2016	2,000
2017	25,500
2018	—
2019	—
Thereafter	—
	192,857

#### U.S. DOLLAR DENOMINATED FIXED RATE DEBT

##### 4.5% Convertible Bonds due 2015

On March 26, 2010, the Company announced the private placement of \$225 million of convertible bonds and the offering of the bonds closed on April 14, 2010. The senior, unsecured convertible bonds have an annual coupon of 4.50%, which is paid quarterly in arrears and had a conversion price of \$39.00. The bonds may be converted to the Company's Ordinary Shares by the holders at anytime up to 10 banking days prior to April 14, 2015. The applicable USD/NOK exchange rate has been set at 6.0448. The Company declared a dividend of \$0.75 per share on May 21, 2010. The conversion price was adjusted from \$39.00 to \$38.0895 effective June 2, 2010 which was the date the shares traded ex-dividend. The Company declared a dividend of \$0.75 per share on August 27, 2010. The conversion price was adjusted from \$38.0895 to \$37.0483 per share effective September 8, 2010, which was the ex-dividend date. There was no adjustment to the conversion price for the dividend of \$0.25 per share, which was paid on December 21, 2010. There is no adjustment to the conversion price where such adjustment would be less than 1% of the conversion price then in effect and any adjustment not required to be made shall be carried forward and taken into account in any subsequent adjustment. On February 22, 2011 the Company announced a dividend of \$0.10 per share. The conversion price was adjusted from \$37.0483 to \$36.5567 per share effective March 7, 2011, which was the ex-dividend date.

The company declared a dividend of \$0.10 per share and \$0.02 per share on May 24 and August 25, 2011 respectively. The bonds are required to be redeemed at 100% of their principal amount and will, unless previously redeemed, converted or purchased and canceled, mature on April 14, 2015. The conversion price of the Company's convertible bonds at December 31, 2014 and 2013 was \$36.5567.

The Company has a right to redeem the bonds at par plus accrued interest at any time during the term of the loan, provided that 90% or more of the bonds issued shall have been redeemed or converted to shares. 3,465,849 new shares would be issued, if the bonds were converted at the current price of \$36.5567.

The loan associated with our convertible bonds imposes operating and negative covenants on us and our subsidiaries. A violation of these covenants constitutes an event of default under our convertible bonds, which would, unless waived by our bondholders, provide our bondholders with the right to require the principal amounts under the convertible bonds including accrued interest and expenses due for immediate payment and accelerate our indebtedness, which would impair our ability to continue to conduct our business. The Company was in compliance with all of the covenants as of December 31, 2014.

#### 8.04% First Preferred Mortgage Term Notes

The 8.04% First Preferred Mortgage Term Notes due 2019 are 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 is 100% of the principal amount of Term Notes being redeemed, together with accrued and unpaid interest to the date fixed for redemption.

In January 2015, a wholly-owned subsidiary of the Company repaid the full outstanding balance of \$36.7 million following the sale of the Ulriken. Repayment was made from the net sale proceeds and restricted cash held by subsidiaries of ITCL.

Assets pledged (in thousands of \$)	2014	2013
Vessels, net,	55,812	263,367
Restricted cash and investments	38,560	66,249

At December 31, 2014, one vessel was pledged as security for the \$60.0 million term loan facility and restricted cash and investments were pledged as security for the 8.04% First Preferred Mortgage Term Notes.

At December 31, 2013, six vessels and restricted cash and investments were pledged as security for the 7.84% and 8.04% First Preferred Mortgage Term Notes.

### 23. SHARE CAPITAL

#### Authorized share capital:

(in thousands of \$, except share data)	2014	2013
1,000,000,000 ordinary shares of \$1.00 each (2013: 312,500,000 ordinary shares of \$1.00 each)	1,000,000	312,500

#### Issued and fully paid share capital:

(in thousands of \$, except per share data)	2014	2013
112,342,989 ordinary shares of \$1.00 each (2013: 86,511,713 ordinary shares of \$1.00 each)	112,343	86,512

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

In January 2014, the Company increased the amount that may be raised from its ATM offering from up to \$40.0 million to up to \$100.0 million. During 2014, the company issued 12,834,800 new ordinary shares under the program for gross proceeds of \$54.2 million.

A resolution was approved at the Company's Annual General Meeting on September 19, 2014, to increase the Company's authorized share capital from \$312,500,000 divided into 312,500,000 common shares of \$1.00 par value each to \$1,000,000,000 divided into 1,000,000,000 common shares of \$1.00 par value each.

In October 2014, the Company exchanged \$23.0 million of the outstanding principal amount of the Company's convertible bonds for an aggregate of 8,251,724 shares and a cash payment of \$10.0 million plus accrued interest. This resulted in an increase in additional paid in capital of \$25.4 million.

In December 2014, the Company exchanged \$22.5 million of the outstanding principal amount of the Company's convertible bonds for an aggregate of 4,744,752 shares and a cash payment of \$9.6 million plus accrued interest. This resulted in an increase in additional paid in capital of \$28.6 million.

A resolution was approved at the Company's Special General Meeting on May 8, 2013, such that the issued and paid-up share

F -29

---

capital of the Company be reduced from \$194,646,255 to \$77,858,502, with effect from May 14, 2013, by canceling the paid-up capital of \$1.50 on each of the ordinary shares in issue so that each of the 77,858,502 shares of par value \$2.50 shall have a par value of \$1.00. It was also resolved that the amount of credit arising be credited to the additional paid in capital account of the Company and that the authorized share capital of the Company be maintained at \$312,500,000 comprising 312,500,000 shares of \$1.00 each.

In June 2013, the Company entered into an equity distribution agreement with Morgan Stanley & Co. LLC, ("Morgan Stanley") under which the Company may, at any time and from time to time, offer and sell new ordinary shares having aggregate sales proceeds of up to \$40.0 million through Morgan Stanley in an at-the-market ("ATM") offering. During 2013, the Company issued 2,178,384 new ordinary shares under the program for gross proceeds of \$6.2 million.

In October 2013, the Company exchanged \$25.0 million of the outstanding principal amount of the Company's convertible bonds for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million. This resulted in an increase in additional paid in capital of \$28.9 million.

#### 24. ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in Accumulated Other Comprehensive Loss is summarized as follows:

(in thousands of \$)	Unrealized investment gains (losses)	Translation adjustments	Total
Balance at December 31, 2011	(668	) (4,111	) (4,779 )
Translation adjustment	—	97	97
Net unrealized gains on marketable securities	527	—	527
Balance at December 31, 2012	(141	) (4,014	) (4,155 )
Translation adjustment	—	(63	) (63 )
Net unrealized gains on marketable securities	915	—	915
Balance at December 31, 2013	774	(4,077	) (3,303 )
Translation adjustment	—	25	25
Net unrealized losses on marketable securities	(980	) —	(980 )
Balance at December 31, 2014	(206	) (4,052	) (4,258 )

#### 25. SHARE OPTION PLANS

In November 2006, the Company's board of directors approved a share option plan, which was cancelled in 2009 and replaced with the Frontline Ltd. Share Option Scheme (the "Frontline Scheme"). The Frontline Scheme permits the board of directors, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The subscription price for all options granted under the scheme is reduced by the amount of all dividends declared by the Company in the period from the date of grant until the date the option is exercised, provided the subscription price is never reduced below the par value of the share. The options granted under the plan vest equally over three years and have a five year term. There is no maximum number of shares authorized for awards of equity share options and authorized, un-issued or treasury shares of the Company may be used to satisfy exercised options.

In April 2011, the Company granted 145,000 share options to directors and employees. No options have been granted since then. The fair value of the newly granted option awards is estimated on the date of grant using a Black-Scholes option valuation model with the following assumptions:

Risk free interest rate	2011 1.35	%
-------------------------	--------------	---

Expected life (years)	3.5	
Expected volatility	62.27	%
Expected dividend yield	0.00	%

F -30

---

The risk-free interest rate was estimated using the interest rate on three-year U.S. 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 was assumed that 95% of all options granted in 2011 will vest.

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

(in thousands)	Number of Options	Weighted Average Exercise Price
Options outstanding as of December 31, 2011	739.7	NOK 130.46
Forfeited	(13.7)	) NOK 130.46
Options outstanding as December 31, 2012	726.0	NOK 130.46
Forfeited	(13.3)	) NOK 130.46
Options outstanding as of December 31, 2013	712.7	NOK 130.46
Forfeited	(6.7)	) NOK 130.46
Expired	(581.0)	) NOK130.46
Options outstanding as of December 31, 2014	125.0	NOK 130.46
Exercisable options as at:		
December 31, 2014	125.0	NOK130.46
December 31, 2013	670.9	NOK130.46
December 31, 2012	629.3	NOK130.46

The weighted average remaining contractual term for the options outstanding and exercisable at December 31, 2014, 2013 and 2012, is 1.3 years, 1.5 years and 2.0 years, respectively.

The grant date fair values of share options vested at December 31, 2014, 2013 and 2012 were \$0.5 million, \$0.4 million and \$2.5 million, respectively.

As at December 31, 2014, the intrinsic value of both outstanding and exercisable share options was nil (2013: nil).

As of December 31, 2014, there was nil (2013: \$0.04 million) in unrecognized compensation cost related to non-vested options granted under the Frontline Scheme. Compensation expense recognized in the years ended December 31, 2014, 2013 and 2012 was \$0.04 million, \$0.2 million and \$0.8 million, respectively.

## 26. FINANCIAL INSTRUMENTS

### 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, Singapore dollars and 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;

- a translation risk, that is, 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.

Accordingly, such risk may have an adverse effect on the Company's financial condition and results of operations. The Company has not entered into derivative contracts for either transaction or translation risk.

### Forward freight agreements

We did not enter into any FFAs in 2014. In 2013 and 2012, we entered a limited number of FFAs for speculative trading purposes. As of December 31, 2014, the Company had no contracts outstanding (2013: no contracts, 2012: 24 contracts). The Company recorded a loss on forward freight agreements of nil, \$0.6 million and \$1.7 million in 2014, 2013 and 2012, respectively, in "Mark to market loss on derivatives".

F -31

---



## Fair Values

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2014 and 2013 are as follows:

(in thousands of \$)	2014 Carrying Value	Fair Value	2013 Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	64,080	64,080	53,759	53,759
Restricted cash and investments	42,074	42,074	68,363	68,363
Marketable securities	2,624	2,624	3,479	3,479
Liabilities:				
7.84% First Preferred Mortgage Term Notes	—	—	185,838	129,381
8.04% First Preferred Mortgage Term Notes	36,657	33,143	83,240	70,696
4.5% Convertible Bond	126,700	114,347	190,000	140,315
Floating rate debt	29,500	29,500	—	—

The estimated fair value of financial assets and liabilities are as follows:

(in thousands of \$)	2014 Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	64,080	64,080	—	—
Restricted cash and investments	42,074	42,074	—	—
Marketable securities	2,624	2,624	—	—
Liabilities:				
8.04% First Preferred Mortgage Term Notes	33,143	—	33,143	—
4.5% Convertible Bond	114,347	—	114,347	—
Floating rate debt	29,500	—	29,500	—

(in thousands of \$)	2013 Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	53,759	53,759	—	—
Restricted cash and investments	68,363	68,363	—	—
Marketable securities	3,479	3,479	—	—
Liabilities:				
7.84% First Preferred Mortgage Term Notes	129,381	—	129,381	—
8.04% First Preferred Mortgage Term Notes	70,696	—	70,696	—
4.5% Convertible bond	140,315	—	140,315	—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument;

Cash and cash equivalents – the carrying values in the balance sheet approximate their fair value.

Restricted cash and investments – the balances relate entirely to restricted cash and the carrying values in the balance sheet approximate their fair value.

Marketable securities – the fair values are based on quoted market prices.



First Preferred Mortgage Term Notes - the fair values are based on the quoted market price on the last significant trading of the Term Notes (level two per ASC Topic 820).

Convertible bond – quoted market prices are not available, however the bonds are traded "over the counter" and the fair value of bonds is based on the market price on offer at the year end.

Floating rate debt - the carrying value in the balance sheet approximates the fair value since it bears a variable interest rate, which is reset on a quarterly basis.

#### Assets Measured at Fair Value on a Nonrecurring Basis

At December 31, 2014, the VLCC Front Century was measured at fair value of \$21.1 million (2013: \$24.2 million), which was determined using level three inputs being the discounted expected cash flows from the leased vessel at June 30, 2013 of \$25.8 million, less subsequent depreciation.

#### 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, or SEB, HSBC, Royal Bank of Scotland, DnB Nor Bank ASA, BNY Mellon and Nordea Bank Norge, or Nordea. There is a concentration of credit risk with respect to restricted cash to the extent that substantially all of the amounts are carried with SEB, Nordea, and HSBC. However, the Company believes this risk is remote.

## 27. RELATED PARTY TRANSACTIONS

The majority of the Company's leased vessels are leased from Ship Finance and Ship Finance is entitled to a profit share of the Company's earnings on these vessels under a Charter Ancillary Agreement. This profit share was increased from 20% to 25% with effect from January 1, 2012. A summary of leasing transactions with Ship Finance during the years ended December 31, 2014, 2013 and 2012 is as follows:

(in thousands of \$)	2014	2013	2012	
Charter hire paid (principal and interest): continuing operations	123,225	150,891	161,840	
Charter hire paid (principal and interest): discontinued operations	—	434	14,492	
Lease termination fees (expense) income: continuing operations	—	(5,204	) 22,766	
Lease termination fees expense: discontinued operations	—	—	(24,543	)
Contingent rental expense: continuing operations	32,663	—	20,020	
Contingent rental expense: discontinued operations	—	—	32,156	
Remaining lease obligation	593,998	726,717	875,670	

A summary of net amounts earned (incurred) from related parties, excluding the Ship Finance lease related balances above, for the years ended December 31, 2014, 2013 and 2012 are as follows:

(in thousands of \$)	2014	2013	2012
Seatankers Management Co. Ltd	2,320	1,416	1,009
Golar LNG Limited	1,631	2,119	1,820
Ship Finance International Limited	6,281	5,094	4,261
Golden Ocean Group Limited	5,393	3,166	5,566
Bryggegata AS	(2,013	) (1,982	) (1,455
Arcadia Petroleum Limited	646	7,962	5,423
Seadrill Limited	2,348	1,475	2,574
Archer Limited	466	410	390
Deep Sea Supply Plc	149	69	41
Aktiv Kapital ASA	—	40	21
Orion Tankers Ltd	—	—	343
Frontline 2012 Ltd	10,102	7,410	(4,004
North Atlantic Drilling Ltd	1,128	60	—
CalPetro Tankers (Bahamas I) Limited	80	54	51
CalPetro Tankers (Bahamas II) Limited	80	54	51
CalPetro Tankers (IOM) Limited	80	54	51
Windsor group	287	—	—
Knightsbridge Shipping Limited	2,341	—	—

Net amounts earned from other related parties comprise charter hire, office rental income, technical and commercial management fees, newbuilding supervision fees, freights, corporate and administrative services income and interest income. Amounts paid to related parties comprise primarily rental for office space. In addition, the Company chartered in two vessels from Frontline 2012 on floating rate time charters during 2012 under which the charter hire expense was equal to the time charter equivalent earnings of the vessels. Both charters were terminated in December 2012.

A summary of short term balances due from related parties as at December 31, 2014 and 2013 is as follows:

(in thousands of \$)	2014	2013
Receivables		
Ship Finance International Limited	3,444	2,272
Seatankers Management Co. Ltd	320	394
Archer Ltd	100	8
Golar LNG Limited	—	942
Northern Offshore Ltd	13	13
Golden Ocean Group Limited	1,490	1,219
Seadrill Limited	557	1,478
Frontline 2012 Ltd	3,672	2,860
CalPetro Tankers (Bahamas I) Limited	—	14
CalPetro Tankers (Bahamas II) Limited	—	14
CalPetro Tankers (IOM) Limited	—	14
Deep Sea Supply Plc	61	4
Aktiv Kapital Ltd	—	6
Arcadia Petroleum Limited	124	174
North Atlantic Drilling Ltd	817	75
Knightsbridge Shipping Limited	2,039	—
	12,637	9,487

A summary of short term balances due to related parties as at December 31, 2014 and 2013 is as follows:



(in thousands of \$)	2014	2013
Payables		
Ship Finance International Limited	(45,244	) (8,528
Seatankers Management Co. Ltd	(343	) (506
Golar LNG Limited	—	(155
Golden Ocean Group Limited	(914	) (1,047
Frontline 2012 Ltd	(3,048	) (1,183
Knightsbridge Shipping Limited	(320	) —
Windsor group	(5,844	) —
	(55,713	) (11,419

Receivables and payables with related parties comprise unpaid management, technical advisory, newbuilding supervision and technical management, administrative service and rental charges and charter hire payments. In addition, certain payables and receivables arise when the Company pays an invoice, or receives a supplier rebate, on behalf of a related party and vice versa. The payable with Ship Finance at December 31, 2014 includes unpaid contingent rental expense. Receivables and payables with related parties are generally settled quarterly in arrears with the exception of profit share due to Ship Finance which is settled annually.

The long term related party balance is due to Ship Finance and is the remaining termination fee payable for Front Champion, Golden Victory, Front Commerce, Front Comanche and Front Opalia the balance is being repaid using similar repayment terms to the original lease and incurs interest at 7.250%. Interest expense of \$5.9 million has been recorded in 2014.

In July 2014, the Company agreed with Ship Finance to terminate the long term charter parties for the 1999 VLCCs Front Commerce, Front Comanche and Front Opalia with Ship Finance simultaneously selling the vessels to unrelated third parties. The charter parties were terminated in November 2014 upon the redelivery of the vessels to Ship Finance. The Company recorded an impairment loss of \$85.3 million in the third quarter of 2014 and a net gain of \$40.4 million in the fourth quarter of 2014 on the termination of these leases. The Company agreed to a compensation payment to Ship Finance of \$58.8 million for the early termination of the charter parties, of which \$10.5 million was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations. The long term related party balance at December 31, 2014 is as follows:

(in thousands of \$)	
7.254% loan note payable due 2021 and 2022	78,616
7.25% loan note payable due 2022 and 2023	48,385
Loan note repayments	(6,018
Total loan note	120,983
Less: current portion of loan note (included in short term related party balance)	(11,031
	109,952

The note balance at December 31, 2014 is repayable as follows:

(in thousands of \$)	
Year ending December 31,	
2015	11,031
2016	14,070
2017	15,107
2018	16,197
2019	17,366
Thereafter	47,212
	120,983

F -35

---

We transact business with the following related parties, being companies in which Hemen and companies associated with Hemen have a significant interest: Ship Finance International Limited, Northern Offshore Ltd, Seadrill Limited, Bryggegata AS, Golden Ocean Group Limited, Arcadia Petroleum Limited ("Arcadia"), Deep Sea Supply Plc ("Deep Sea"), Aktiv Kapital ASA, Archer Limited, Farahead Holdings Limited ("Farahead"), Seatankers Management Co. Ltd, North Atlantic Drilling Ltd, Frontline 2012 Ltd, CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited, CalPetro Tankers (IOM) Limited and Knightsbridge. Frontline 2012 Ltd was equity accounted for during the full period. CalPetro Tankers (Bahamas I) Limited, CalPetro Tankers (Bahamas II) Limited and CalPetro Tankers (IOM) Limited were equity accounted up to October 1, 2014 and consolidated from that date. Golar LNG Limited ceased to be a related party in September 2014.

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders.

The Company earned freights on chartering vessels to Arcadia in the year ended December 31, 2013 of \$7.5 million.

In January 2013, the Company received termination payments from Ship Finance in the aggregate amount of \$7.8 million in respect of the lease terminations for Titan Aries (now renamed Edinburgh) and recorded a gain on \$7.6 million in the first quarter of 2013.

In January 2013, the Company paid \$6.0 million for 1,143,000 shares in a private placement by Frontline 2012 of 59 million new ordinary shares at a subscription price of \$5.25 per share. Following the private placement, the Company's ownership in Frontline 2012 was reduced from 7.9% to 6.3%. The Company recognized a gain on the dilution of its ownership of \$5.2 million in the first quarter of 2013.

In February 2013, the Company agreed with Ship Finance to terminate the long term charter party for the Suezmax tanker Front Pride and the charter party terminated on February 15, 2013. The Company made a compensation payment to Ship Finance of \$2.1 million in March 2013 for the early termination of the charter and recorded a loss on the termination of the lease of \$0.2 million in the first quarter of 2013.

In September 2013, Frontline 2012 completed a private placement of 34.1 million new ordinary shares of \$2.00 par value at a subscription price of \$6.60. The Company did not buy any of the shares and its ownership decreased from 6.3% to 5.4%. The Company recognized a gain on the dilution of its ownership of \$4.7 million in the third quarter of 2013.

In October 2013, Frontline 2012 paid a stock dividend of one share in Avance Gas for every 124.55 shares held in Frontline 2012. The Company received 108,069 shares valued at \$1.3 million, which was credited against the investment and recorded as a marketable security in the fourth quarter of 2013.

In October 2013, the Company agreed with Ship Finance, to terminate the long term charter parties for the VLCCs Front Champion and Golden Victory, and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties were terminated in November 2013 upon the redelivery of the vessels to Ship Finance. The Company recorded an impairment loss of \$88.1 million in 2013 and a net gain of \$13.8 million in the fourth quarter of 2013 on the termination of these leases. The Company agreed to a compensation payment to Ship Finance of \$89.9 million for the early termination of the charter parties, of which \$10.9 million was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations, with reduced rates until



2015 and full rates from 2016. Front Champion and Golden Victory had the highest charter rates among the vessels chartered in from Ship Finance and the level of compensation is a reflection of this.

In 2012, the Company received termination payments from Ship Finance in the aggregate amount of \$22.2 million in respect of the lease terminations for Titan Orion (ex-Front Duke) and Ticen Ocean (now renamed Front Lady). The Company made lease termination payments to Ship Finance in 2012 in the aggregate amount of \$32.6 million in respect of the lease terminations for the OBO vessels Front Striver, Front Rider, Front Climber, Front Viewer and Front Guider which have been included in discontinued operations.

In May 2012, the Company paid \$13.3 million for 3,546,000 shares in a private placement by Frontline 2012 of 56 million new ordinary shares at a subscription price of \$3.75 per share. Following the private placement, the Company's ownership in Frontline 2012 was reduced from 8.8% to 7.9%. The Company recognized a gain on the dilution of its ownership of \$0.7 million in the second quarter of 2012.

F -36

---

## 28. DISPOSAL OF ASSETS

In October 2011, Ship Finance sold the OBO carrier Front Striver to a third party and as a result, terminated the Company's long-term lease for the vessel. The Company made a termination payment of \$8.1 million in 2012. A loss on disposal of \$9.2 million was recognized in 2011, a further loss on disposal of \$0.4 million was recognized in the second quarter of 2012 due to the write-off of inventory balances and included in discontinued operations.

In March 2012, the Company sold the Suezmax Front Alfa to an unrelated third party and recognized a loss of \$2.1 million in the first quarter of 2012. An impairment loss for this vessel of \$24.8 million was recorded in the third quarter of 2011.

In March 2012, the Company redelivered the Titan Orion (ex-Front Duke) to Ship Finance and the charter party for the vessel was terminated. The Company recorded a gain of \$10.6 million in the first quarter of 2012, which is included in "Gain on sale of assets and amortization of deferred gains".

In June 2012, the Company agreed with Ship Finance to terminate the long term charter party for the OBO carrier Front Rider and that Ship Finance simultaneously sold the vessel. The charter party terminated on July 22, 2012. The Company recorded an impairment loss of \$4.9 million in the second quarter of 2012 and recognized a loss on disposal of \$0.1 million in the third quarter of 2012 included in discontinued operations.

In August 2012, the Company agreed with Ship Finance to terminate the long term charter party for the OBO carrier Front Climber and that Ship Finance simultaneously sold the vessel. The charter party terminated on October 15, 2012. The Company recorded an impairment loss of \$4.2 million in the second quarter of 2012 and recognized a loss on disposal of \$0.2 million in the fourth quarter of 2012 included in discontinued operations.

In October 2012, the Company agreed with Ship Finance to terminate the long term charter party for the OBO carrier Front Driver and that Ship Finance simultaneously sold the vessel. The charter party terminated on November 28, 2012. The Company recorded an impairment loss of \$4.0 million in the second quarter of 2012 and recognized a loss on disposal of \$0.8 million in the fourth quarter of 2012 included in discontinued operations.

In November 2012, the Company redelivered the Ticen Ocean (ex-Front Lady) to Ship Finance and the charter party for the vessel was terminated. The Company recorded a gain of \$11.2 million in the fourth quarter of 2012, which is included in "Gain on sale of assets and amortization of deferred gains".

In December 2012, the Company agreed with Ship Finance to terminate the long term charter parties for the OBO carriers Front Viewer and Front Guider. The charter party on the Front Viewer terminated on December 18, 2012 and Ship Finance simultaneously sold the vessel. The charter party on the Front Guider terminated on March 13, 2013. As a result, the Company agreed to pay Ship Finance a termination fee of \$23.5 million. The Company allocated \$12.7 million of the termination payment to the Front Viewer and recorded loss of \$16.5 million in discontinued operations in the fourth quarter of 2012. \$10.8 million was allocated to the Front Guider which was included as part of the lease modification. This resulted in a \$9.1 million increase in both the asset value and lease obligation. The Company recorded an impairment loss of \$14.2 million in discontinued operations in the fourth quarter of 2012 in respect of Front Guider.

In January 2013, the Company terminated the charter party for the single hull VLCC Titan Aries (ex-Edinburgh) and recorded a gain of \$7.6 million in the first quarter of 2013 which is included in "Gain on sale of assets and amortization of deferred gains".

In February 2013, the Company agreed with Ship Finance to terminate the long term time charter for the Suezmax tanker Front Pride. The charter party terminated on February 15, 2013 and Ship Finance simultaneously sold the vessel. The Company made a termination payment of \$2.1 million and recorded an impairment loss of \$4.7 million in 2012 and a loss on disposal of \$0.2 million in 2013, which is included in "Gain on sale of assets and amortization of deferred gains".

In November 2013, the Company agreed with Ship Finance, to terminate the long term charter parties for the VLCCs Front Champion and Golden Victory, and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties were terminated in November 2013 upon the redelivery of the vessels to Ship Finance. The Company recorded an impairment loss of \$88.1 million in 2013 and a net gain of \$13.8 million on the termination of the leases in the fourth quarter of 2013. The Company agreed to a compensation payment to Ship Finance of \$89.9 million for the early termination of the charter parties, of which \$10.9 million was paid upon termination and the balance was recorded as notes payable.

F -37

---

In March 2014, the Company sold the VLCC Ulysses (ex-Phoenix Voyager) to an unrelated third party and recorded a loss of \$15.7 million in the first quarter of 2014, which is included in "Gain on sale of assets and amortization of deferred gains".

On July 15, 2014, several of the subsidiaries and related entities in the Windsor group, which owned four VLCCs, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court in Wilmington, Delaware. The Company had been consolidating the Windsor group under the variable interest entity model and de-consolidated the group on July 15, 2014 as it lost control of the group as a consequence of the Chapter 11 filing. The Windsor group emerged from Chapter 11 in January 2015 at which time all of the debt in the Windsor group was converted into equity and ownership was transferred to the then current bondholders. The Company was appointed as commercial manager in January 2015 for the vessels that were owned by the Windsor group prior to its bankruptcy filing and this will be the Company's only ongoing involvement with the Windsor group.

In July 2014, the Company agreed with Ship Finance to terminate the long term charter parties for the 1999 built VLCCs Front Commerce, Front Comanche and Front Opalia and Ship Finance simultaneously sold the vessels to unrelated third parties. The charter parties for the Front Commerce, Front Comanche and Front Opalia terminated on November 4, 2014, November 12, 2014, and November 19, 2014, respectively. The Company agreed an aggregate compensation payment to Ship Finance of \$58.8 million for the early termination of the charter parties, of which \$10.5 million was paid upon termination and the balance was recorded as notes payable, with similar amortization profiles to the current lease obligations, with reduced rates until December 2015 and full rates from 2016. The Company recorded an impairment loss of \$85.3 million in 2014 and a non-cash gain of \$40.4 million on the termination of these leases in the fourth quarter of 2014, which is included in "Gain on sale of assets and amortization of deferred gains".

In September 2014, the Company agreed to sell the VLCC Ulriken (ex Antares Voyager) to an unrelated third party and recorded an impairment loss of \$12.4 million in the third quarter. The vessel was delivered to the new owners in October 2014.

Pursuant to an early termination agreement between three of the Company's subsidiaries, which were accounted for under the equity method: (i) the bareboat charters for the Altair Voyager, Cygnus Voyager and Sirius Voyager were terminated as of October 1, 2014; (ii) the charter hire payments paid in connection with the early termination agreement were used to redeem the remaining outstanding debt related to these vessels; and (iii) the three vessels were sold. This was a cash neutral transaction, except for an amount of \$1.3 million which became available to the Company, of which \$0.7 million had been held in restricted cash.

## 29. COMMITMENTS AND CONTINGENCIES

The Company insures the legal liability risks for its shipping activities with Assurance for eningen SKULD and Assuranceforeningen Gard Gjensidig, both 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.

Following the termination of the Company's P&I insurance relationship with Britannia Steam Ship Insurance Association Limited ("Britannia"), SEB issued a guarantee in April 2013 to Britannia at the Company's request in respect of possible claims on certain ships for any of the insurance years 2009/10, 2010/11, 2011/12 and 2012/13 up to a maximum aggregate liability of \$1.7 million, which was reduced to \$0.4 million during 2014. As of December 31, 2014, the Company has placed \$0.4 million (2013: \$1.7 million) into a restricted bank account at SEB as support for the guarantee. The guarantee expires on December 31, 2015.

As of December 31, 2014, the Company had four (2013: four) 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 have initial periods ranging from eight to twelve and a half years including options on the lessor's side to extend the charters for periods that range up to five years. All of these charters are accounted for as capital leases. The lessor has options to put the vessels on the Company at the end of the lease terms in December 2015 at which time the Company would be required to pay an aggregate amount of \$36.0 million (2013: \$36.0 million).

As of December 31, 2014, the Company was committed to make newbuilding installments of \$40.9 million in 2015.

As part of the Company's restructuring in December 2011, Frontline 2012 has agreed to fully reimburse and indemnify the Company for all payments made under any guarantees issued by the Company to the shipyard in connection with five VLCC newbuilding contracts acquired from the Company and to reimburse the Company for all costs incurred in connection with these guarantees. All of the contracts have been cancelled by Frontline 2012 and Frontline 2012 has received reimbursement of installments paid

F -38

---

and accrued interest on four of these contracts. The remaining contract is in arbitration and the Company has not recorded any liability in respect of its guarantee as the Company does not believe that it will be required to make any payments in relation to it.

The Company is a party, as plaintiff or defendant, to several lawsuits in various jurisdictions for unpaid charterhire, 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 in the year ended December 31, 2014 include (i) a \$99.5 million reduction in capital lease obligations and a \$48.3 million increase in related party payables resulting from the termination payments for Front Comanche, Front Commerce and Front Opalia being converted into a loan note, and (ii) a \$45.5 million reduction of the outstanding principal amount of the Company's 4.5% convertible bond for an aggregate of 12,996,476 shares and a cash payment of \$19.6 million.

On July 15, 2014, the Company de-consolidated the Windsor group (see Note 5) and removed restricted cash balances of \$17.9 million, other current assets of \$28.1 million, vessels of \$174.8 million, other current liabilities of \$28.6 million and debt of \$179.8 million from its balance sheet.

On October 2, 2014, the Company consolidated the CalPetro group (see Note 19) and recorded cash of \$1.3 million, of which \$0.7 million had been held in restricted cash.

Non-cash investing and financing activities in the year ended December 31, 2013 include; (i) a \$105.8 million reduction in capital lease obligations and a \$79.0 million increase in related party payables resulting from the termination payment for Front Champion and Golden Victory being converted into a loan note, (ii) a \$25.0 million reduction of the outstanding principal amount of the Company's 4.5% convertible bond for an aggregate of 6,474,827 shares and a cash payment of \$2.25 million, and (iii) a \$1.3 million increase in marketable securities and \$1.3 million decrease in equity method investments resulting from the receipt of 108,069 shares in Avance Gas as a stock dividend from Frontline 2012.

Non-cash investing and financing activities in the year ended December 31, 2012 consist of a \$9.1 million increase in capital lease obligations and vessels under capital lease resulting from a lease modifications.

### 31. POOL REVENUES

Voyage charter revenues include pool earnings, which have been allocated on a net basis since these pools are responsible for paying voyage expenses and distribute net pool revenues to the participants. Pool earnings of nil, nil and \$35.9 million have been included in voyage charter revenues in the years ended December 31, 2014, 2013 and 2012, respectively.

### 32. SUBSEQUENT EVENTS

In January 2015, the Company took delivery of its second and final Suezmax newbuilding, Front Idun, and drew down the remaining \$30.0 million balance on its \$60.0 million term loan facility in order to part finance this vessel.

In January 2015, the Company increased the amount that may be raised from the ATM offering from up to \$100.0 million to up to \$150.0 million. In January 2015 and February 2015, the Company issued 10,009,703 and 902,744 ordinary shares, respectively, pursuant to its equity distribution agreement generating gross proceeds on \$37.2 million. Following such issuance, the Company has an issued share capital of \$123,255,436 divided into 123,255,436 ordinary shares.

In January 2015, a wholly-owned subsidiary of the Company repaid \$36.7 million of indebtedness in connection with the issuance of term notes by subsidiaries of ITCL following the sale of the Ulriken. Repayment was made from the net sale proceeds and restricted cash held by subsidiaries of ITCL.

In January 2015, the Company obtained a binding commitment from one of its lenders to purchase, at the Company's request, up to 13,460,000 shares of Frontline 2012 owned by the Company at the prevailing market price at the time of the Company's request

F -39

---

until April 15, 2015. At the same time, the Company is obligated to enter into a forward contract, with maximum maturity of six months, which requires the Company to buy back those shares. The commitment is subject to standard terms and conditions for transactions of this kind including the requirement for the Company to fund any unrealized losses on the forward contract and maintain a cash collateral deposit in a pledged account equal to at least 20% of the market value of the forward contract. The value of the Company's shares in Frontline 2012 was approximately \$75 million based on the closing share price on March 6, 2015.

In February 2015, Frontline 2012 announced a stock dividend consisting of 4.1 million Avance Gas shares and the Company expects to receive approximately 222,000 shares in Avance Gas based on its shareholding in Frontline 2012.

In February 2015, the Company bought \$33.3 million notional principal of its convertible bond at a purchase price of 99% and expects to record a gain on redemption of this debt of \$0.3 million in the first quarter of 2015.



Frontline Ltd.

Schedule I - Financial Information of Registrant

Condensed Statements of Operations for the years ended December 31, 2014, 2013 and 2012

(in thousands of \$, except per share data)

	2014	2013	2012
Operating revenues			
Other income	635	590	338
Total operating revenues	635	590	338
Operating expenses			
Administrative expenses	3,125	2,961	3,995
Total operating expenses	3,125	2,961	3,995
Net operating loss	(2,490	) (2,371	) (3,657
Other income (expenses)			
Interest income	169	552	1,009
Interest expense	(14,288	) (10,581	) (10,125
Foreign currency exchange (loss) gain	(434	) 51	249
Debt conversion expense	(41,067	) (12,654	) —
Dividends received, net	786	86	134
Other non-operating items, net	1,458	(28	) (22
Net other expenses	(53,376	) (22,574	) (8,755
Net loss before equity in net loss of subsidiaries	(55,866	) (24,945	) (12,412
Equity in net loss of subsidiaries	(107,072	) (163,564	) (70,342
Net loss	(162,938	) (188,509	) (82,754

See accompanying Notes.

F -41

Frontline Ltd.

Schedule I - Financial Information of Registrant

Condensed Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012  
(in thousands of \$)

	2014	2013	2012
Comprehensive loss, net of tax			
Net loss	(162,938	) (188,509	) (82,754
Unrealized (losses) gains from marketable securities	(980	) 915	527
Foreign currency translation gains (losses)	25	(63	) 97
Other comprehensive (loss) income, net of tax	(955	) 852	624
Comprehensive loss	(163,893	) (187,657	) (82,130

See accompanying Notes.

F -42

---

Frontline Ltd.

Schedule I - Financial Information of Registrant

Condensed Consolidated Balance Sheets as of December 31, 2014 and 2013

(in thousands of \$)

	2014	2013
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	1,669	6,568
Restricted cash and investments	445	1,728
Marketable securities	2,516	3,373
Trade accounts receivable, net	—	18
Related party receivables	—	487
Other receivables	1,635	2,299
Prepaid expenses and accrued income	152	168
Total current assets	6,417	14,641
Long-term assets		
Investments in and loans to affiliates, net	182,651	239,441
Deferred charges	153	696
Total assets	189,221	254,778
<b>LIABILITIES AND DEFICIT</b>		
Current liabilities		
Short-term debt and current portion of long-term debt	136,700	—
Related party payables	11,031	6,017
Trade accounts payable	325	279
Accrued expenses	1,837	2,487
Other current liabilities	196	268
Total current liabilities	150,089	9,051
Long-term liabilities		
Long-term debt	—	200,000
Related party payables	109,952	72,610
Other long-term liabilities	161	69
Total liabilities	260,202	281,730
Commitments and contingencies		
Deficit		
Share capital (2014: 112,342,989 shares outstanding, par value \$1.00. 2013: 86,511,713 shares outstanding, par value \$1.00)	112,343	86,512
Additional paid in capital	244,018	149,985
Contributed surplus	474,129	474,129
Accumulated other comprehensive loss	(4,258	) (3,303
Retained deficit	(897,213	) (734,275
Total deficit attributable to Frontline Ltd.	(70,981	) (26,952
Total liabilities and deficit	189,221	254,778

See accompanying Notes.

Frontline Ltd.

Schedule I - Financial Information of Registrant

Condensed Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

(in thousands of \$)

	2014	2013	2012
Net cash used in operating activities	(17,185	) (19,497	) (39,682
Investing activities			
Change in restricted cash	1,283	(1,578	) —
Loans from (to) associated companies	—	250	(250
Investment in associated companies	—	(6,001	) (13,298
Proceeds from sale of investment in associated companies	—	242	—
Proceeds from sale of shares in subsidiaries	49	—	—
Net cash provided by (used in) investing activities	1,332	(7,087	) (13,548
Financing activities			
Net proceeds from issuance of shares	52,934	4,802	—
Repayments of long-term debt	(35,877	) (2,250	) —
Related party loan note	(6,103	) —	—
Net cash provided by financing activities	10,954	2,552	—
Net change in cash and cash equivalents	(4,899	) (24,032	) (53,230
Cash and cash equivalents at beginning of year	6,568	30,600	83,830
Cash and cash equivalents at end of year	1,669	6,568	30,600
Supplemental disclosure of cash flow information:			
Interest paid	15,124	10,125	10,125
Income taxes paid	—	—	—

See accompanying Notes.

F -44

Frontline Ltd.  
Schedule I - Financial Information of Registrant  
Notes

Note 1—Basis of Presentation

In our financial statements, our investment in subsidiaries is stated at cost plus equity in the undistributed earnings of the subsidiaries. Our share of net loss of our subsidiaries is included in net loss using the equity method of accounting. The financial statements should be read in conjunction with our consolidated financial statements.

Note 2-Other

No cash dividend was paid to the registrant by subsidiaries for the years ended December 31, 2014, 2013 and 2012. The registrant received cash dividends from associated companies of \$2.0 million in the year ended December 31, 2014 (2013: nil, 2012: nil).