FRONTLINE LTD /
Form 6-K
December 08, 2016

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

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13A-16 OR 15D-16 UNDER THE SECURITIES
EXCHANGE ACT OF 1934

For the month of December 2016

Commission File Number: 001-16601

FRONTLINE LTD.
(Translation of registrant's name into English)

Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F [X]   Form 40-F [   ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________.

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________.

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS FORM 6-K REPORT

Attached hereto as Exhibit 1 is the Unaudited Pro Forma Condensed Combined Financial Information of Frontline Ltd. for the fiscal year ended December 31, 2015.

Attached hereto as Exhibit 2 is the Consolidated Balance Sheet for the fiscal year ended December 31, 2014 and December 31, 2013 of Frontline Ltd., and the related consolidated statements of operations, consolidated statement of cash flows and consolidated statement of changes in equity for the years ended December 31, 2014, December 31, 2013 and December 31, 2012.

Cautionary Statement Regarding Forward-Looking Statements

Matters discussed in this Form 6-K 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. We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement in connection with this safe harbor legislation.

This Form 6-K 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," "may," "should," "expect" and similar expressions identify forward-looking statements. The forward looking statements in this Form 6-K 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. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 6-K might not occur, and our actual results could differ materially from those anticipated in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement contained in this Form 6-K, whether as a result of new information, future events or otherwise, except as required by law.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	FRONTLINE LTD.	
	By:	/s/ Inger M. Klemp
Date: December 8, 2016	Name:	Inger M. Klemp
	Title:	Principal Financial Officer

Exhibit 1

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
(Amounts presented in thousands of U.S. dollars unless otherwise stated, except per share amounts)
Introduction
The following unaudited pro forma condensed combined financial information is presented to illustrate the combination of Frontline Ltd., or Frontline, and Frontline 2012 Ltd., or Frontline 2012, together the Combined Company, which was completed on November 30, 2015, or the Combination. The Combination was accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805, with Frontline 2012 selected as the accounting acquirer under this guidance. The unaudited pro forma condensed combined statement of income for the year ended December 31, 2015 is based upon, derived from, and should be read in conjunction with the audited financial statements of Frontline for the year ended December 31, 2015, which are available in Frontline's Annual Report on Form 20-F for the year ended December 31, 2015, which was filed with the Securities and Exchange Commission, or the Commission, on March 21, 2016. Frontline's audited financial statements were prepared in accordance with U.S. GAAP and presented in thousands of U.S. dollars. Frontline 2012's unaudited financial information derived from the company's financial records was prepared in accordance with U.S. GAAP and presented in thousands of U.S. dollars. The accompanying unaudited pro forma condensed combined financial information gives effect to adjustments that are (i) directly attributable to the Combination, (ii) factually supportable, and (iii) are expected to have a continuing impact on the consolidated results. The unaudited condensed combined statement of income gives effect to the Combination as if it happened on January 1, 2015.
The Combination of Frontline and Frontline 2012 was accounted for as a business combination using the acquisition method of accounting under the provisions of Accounting Standards Codification 805, "Business Combinations", with Frontline 2012 selected as the accounting acquirer under this guidance.
The pro forma adjustments are based upon available information and certain assumptions which management believes are reasonable under the circumstances and which are described in the accompanying notes to the unaudited pro forma condensed combined financial information.
The unaudited pro forma condensed combined financial information has been prepared by management in accordance with the regulations of the Commission and is not necessarily indicative of the results of operations that would have been realized had the Combination occurred as of the date indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the Combined Company will experience after the Combination. In addition, the accompanying unaudited pro forma condensed combined statement of income does not include the impact of any non-recurring activity.
This unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes and assumptions as well as the above referenced financial statements of Frontline.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year ended December 31, 2015

(in USD thousands)	Frontline, full year 2015 as reported	Historic Frontline, eleven months ended Nov 30, 2015	Pro Forma Adjs.	Note 2	Pro Forma Combined
Operating revenue					
Time charter revenue	121,091	75,413	(773)	(1)	195,731
Voyage charter revenue	331,388	377,347			708,735
Finance lease interest income	577		2,194	(1)	2,771
Other income	5,878	39,567	(9,586)	(2)	35,859
Total operating revenue	458,934	492,327	(8,165)		943,096
Gain on cancellation and sale of newbuilding contracts	108,923	2,917			111,840
Operating expenses					
Voyage expenses and commissions	109,706	125,790			235,496
Ship operating expenses	64,357	86,225	(1,787)	(2)	148,795
Charter hire expense	43,387				43,387
Contingent rental expense		78,832			78,832
Administrative expenses	10,582	40,559	(7,799)	(2)	43,342
Depreciation	52,607	58,343	38,826	(1)	149,776
Total operating expenses	280,639	389,749	29,240		699,628
Net operating income	287,218	105,495	(37,405)		355,308
Interest income	47	55			102
Interest expense	(17,621)	(41,673)	(7,343)	(1)	(66,637)
Loss on derivatives financial instruments	(6,782)	(1,714)			(8,496)
Share of results from associated company and gain on equity interest	2,727	9,361	(9,361)	(1)	2,727
Impairment loss on shares	(10,507)				(10,507)
Foreign currency exchange gain (loss)	134	(200)			(66)
Other non-operating items	320	2,385			2,705
Income before income taxes and non-controlling interest	255,536	73,709	(54,109)		275,136
Income tax expense	(150)	(103)			(253)
Income from continuing operations	255,386	73,606	(54,109)		274,883
Income from continuing operations attributable to non-controlling interest	(61)	(364)			(425)
Income from continuing operations attributable to common shareholders	255,325	73,242	(54,109)		274,458
Weighted-average number of common shares outstanding (000s)					
Basic and diluted	120,082				156,387
Income from continuing operations attributable to common shareholders ($)					
Basic and diluted	2.13				1.75

1. Description of Transaction

Please refer to Note 4 of Frontline's consolidated financial statements for the year ended December 31, 2015, included in Frontline's Annual Report on Form 20-F for the year ended December 31, 2015, which was filed with the Commission on March 21, 2016.

2. Unaudited Pro Forma Condensed Combined Statement of Operations Adjustments for the Year Ended December 31, 2015

The following notes describe the pro forma adjustments made to Frontline's audited financial statements and the elimination of historical transactions between Frontline and Frontline 2012.

in USD thousands	Pro Forma Adjustments[1]		Eliminations[2]	Total
Operating revenue				
Time charter revenue	(773	)(a)		(773)
Finance lease interest income	2,194	(b)		2,194
Other income			(9,586)	(9,586)
Total operating revenue	1,421		(9,586)	(8,165)
Operating expenses				
Ship operating expenses			(1,787)	(1,787)
Administrative expenses			(7,799)	(7,799)
Depreciation	38,826	(c)		38,826
Total operating expenses	38,826		(9,586)	(29,240)
Net operating income	(37,405	)		(37,405)
Interest expense	(7,343	)(d)		(7,343)
Share of results from associated companies	(9,361	)(e)		(9,361)
Income before income taxes and non-controlling interest	(54,109	)		(54,109)

(1) Pro Forma adjustments

a) Time charter revenues – The adjustment comprises three elements:

(i) The amortization of unfavorable time charter contracts, which increased revenues by $6.8 million;

(ii) A reduction in time charter revenues of $5.4 million as a consequence of the fair value adjustment to the investment in the finance lease since the discount rate used to estimate the fair value is lower than the historical implicit interest rate. The interest revenue related to the investment in capital lease has been recognized as time charter revenue in Frontline's financial statements; and

(iii) A reclassification of $2.2 million for finance lease interest income recorded in time charter revenue by Frontline.

b) Finance lease interest income - finance lease interest income of $2.2 million was recorded in time charter revenue by historic Frontline.

c) Depreciation – This adjustment comprises two elements:

(i) The depreciation expense for owned vessels for the period has been increased by $0.9 million as a consequence of the fair value adjustment to the carrying balance of two vessels for which the remaining estimated useful lives are 24 years and 24.5 years, as part of the preliminary purchase price allocation, and

(ii) The depreciation expense related to vessels held under capital lease from Ship Finance International Ltd. ("Ship Finance") has been increased by $37.9 million as a consequence of the fair value adjustment to the carrying balance of vessels held under capital lease as part of the preliminary purchase price allocation. The estimated useful lives of the capital lease assets range from approximately one to 12 years.

d) Interest expense –This adjustment comprises two elements:

(i) Interest expense has been reduced by $0.5 million to reflect the fair value of nil assigned to deferred finance cost. As such, there will be no amortization charge.

(ii) Interest expense related to vessels held under capital lease from Ship Finance has been increased by $7.8 million as a consequence of the fair value adjustment to the obligations under capital lease as part of the preliminary purchase price allocation.

e) Share of results from associated companies - This adjustment relates to the shares in Frontline 2012 held by Frontline, which are cancelled as a result of the merger and as such no share of results will be recognized.

(2) Pro Forma Eliminations

These eliminations relate to administrative costs, newbuilding supervision fees and technical management fees, which are charged by Frontline to Frontline 2012, and will be considered intercompany transactions once the merger is consummated.

3. Earnings per Share

The unaudited pro forma condensed combined earnings per share calculation is based on the consolidated weighted average shares of the Combined Company. The pro forma weighted average number of shares outstanding is assumed to be the same as the issued share capital of the Combined Company, giving effect to the Combination as if it happened on January 1, 2015.

Exhibit 2

Index to Consolidated Financial Statements of Frontline Ltd.

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

/s/PricewaterhouseCoopers AS

PricewaterhouseCoopers AS
Oslo, Norway
March 16, 2015
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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.

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
ASSETS		
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
LIABILITIES AND DEFICIT		
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.

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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	—

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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

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.

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 is 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 assets 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.

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.
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.
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.
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;

(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			