FRONTLINE LTD /
Form 6-K
September 04, 2018

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 six months ended June 30, 2018

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 to this Report on Form 6-K are the unaudited condensed consolidated interim financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations of Frontline Ltd. (the "Company") for the six months ended June 30, 2018.

This Report on Form 6-K is hereby incorporated by reference into the Company's Registration Statements on Form F-3, filed with the Commission on June 11, 2015 (File No. 333-204884) and on April 10, 2017 (File No. 333-217238).

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.
(registrant)

Dated: September 4, 2018 By: /s/ Inger M. Klemp
Name: Inger M. Klemp
Title: Principal Financial Officer

EXHIBIT 1

FRONTLINE LTD.

As used herein, "we," "us," "our", "Frontline" and "the Company" all refer to Frontline Ltd.. This management's discussion and analysis of financial condition and results of operations should be read together with the discussion included in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2017.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2018

General

As of June 30, 2018, the Company’s fleet consisted of 63 vessels, with an aggregate capacity of approximately 12.2 million DWT:

(i) 46 vessels owned by the Company (12 VLCCs, 16 Suezmax tankers, 18 LR2/Aframax tankers);
(ii) eight VLCCs that are under capital leases;
(iii) one VLCC that is recorded as an investment in finance lease;
(iv) two VLCCs chartered in from an unrelated third party;
(v) six vessels that are under the Company’s commercial management (two Suezmax tankers, two LR2 tankers and two Aframax oil tankers)

Furthermore, the Company has two VLCC newbuildings under construction.

As of June 30, 2018, the Company had entered into a time charter-out contract for one LR2 tanker with expiry in Q1 2019 at an average rate of $17,300 per day.

In April 2018, the Company took delivery of two VLCCs, chartered in from an unrelated third party for two years, at $21,250 per day, with an option for a third year at $23,750 per day.

Fleet changes

	Six months ended June 30, 2018	Six months ended June 30, 2017	Year ended December 31, 2017
VLCCs			
At start of period	20	21	21
Other acquisitions/newbuilding deliveries	2	1	3
Disposal/lease termination	(1)	(2)	(2)
Chartered-in/ redelivered	1	(2)	(2)
At end of period	22	18	20
Suezmax tankers			
At start of period	16	14	14
Other acquisitions/newbuilding deliveries	—	5	6
Disposal/lease termination	—	(1)	(2)
Chartered-in/ redelivered	—	(2)	(2)
At end of period	16	16	16
LR2/Aframax tankers			
At start of period	17	11	11
Other acquisitions/newbuilding deliveries	1	4	6
Disposal/lease termination	—	—	—
Chartered-in/ redelivered	—	—	—
At end of period	18	15	17
MR tankers			
At start of period	—	3	3
Other acquisitions/newbuilding deliveries	—	—	—
Disposal/lease termination	—	—	—
Chartered-in/ redelivered	—	(2)	(3)
At end of period	—	1	—
Total			
At start of period	53	49	49
Other acquisitions/newbuilding deliveries	3	10	15
Disposal/lease termination	(1)	(3)	(4)
Chartered-in/ redelivered	1	(6)	(7)
At end of period	56	50	53

(1) The table above excludes vessels commercially managed on behalf of third parties and related parties and also the vessel recorded as an investment in finance lease.

Results of Operations

Amounts included in the following discussion are derived from our unaudited condensed consolidated financial statements for the six months ended June 30, 2018 and June 30, 2017.

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Total operating revenues and voyage expenses and commissions

(in thousands of $)	2018	2017
Time charter revenues	15,452	64,619
Voyage charter revenues	308,710	252,314
Finance lease interest income	701	933
Other income	11,579	9,409
Total operating revenues	336,442	327,275
Voyage expenses and commissions	183,500	115,339

Time charter revenues decreased by $49.2 million in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the redelivery of vessels from time charters back on to voyage charters and a small reduction as a result of a lower rate achieved on one vessel refixed in the period. This was offset by a small increase in time charter revenues as a result of a small number of short term charters entered into in the six months ended June 30, 2018.

Voyage charter revenues increased by $56.4 million in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the delivery of 18 newbuildings since January 1, 2017 and the net movement in vessels trading on time charters. These factors were partially offset by a decrease in the market rates, the redelivery of five vessels chartered in under long-term leases from Ship Finance and the net reduction in vessels chartered in under operating leases.

The finance lease interest income in the six months ended June 30, 2018 relates to the investment in finance lease, which was acquired upon the merger in 2015 with Frontline 2012 Ltd ("the Merger").

Other income in the six month period ended June 30, 2017 primarily comprises the income earned from the commercial management of related party and third party vessels and newbuilding supervision fees derived from related parties and third parties. The increase in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 was primarily due to a loss of $1.0 million booked on a commercial management profit share arrangement in the six months ended June 30, 2017.

Voyage expenses and commissions increased by $68.2 million in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the delivery of 18 newbuildings since January 1, 2017, the net reduction in vessels trading under time charters and an increase in bunker prices. These factors were partially offset by a decrease due to the termination of the long-term charters on five vessels leased from Ship Finance and the net reduction in vessels chartered in under operating leases.

Other operating gains (losses)

(in thousands of $)	2018	2017
Gain (loss) on termination of vessel leases	(5,819)	8,327
(Loss) gain on pool arrangements	(851)	—
Other operating (losses) gains	(6,670)	8,327

In March 2017, the lease with Ship Finance for the 1998-built VLCC Front Century was terminated. The Company recorded a gain on this lease termination of $20.6 million in the first quarter of 2017.

In May and June 2017, the lease with Ship Finance for the Suezmax Front Brabant and the VLCC Front Scilla were terminated. The Company recorded a loss on the Front Brabant lease termination of $4.9 million, and a loss on the

Front Scilla lease termination of $7.3 million in the second quarter of 2017.

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In February 2018, the Company agreed with Ship Finance to terminate the long-term charter for the 1998-built VLCC Front Circassia upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in February and the charter counter party Frontline Shipping Limited ("FSL"); a non recourse subsidiary of Frontline; has agreed to pay a compensation of approximately $8.9 million for the termination of the charter to Ship Finance, which has been recorded as an interest-bearing note payable by FSL. The Company has recorded a loss on termination, including this termination payment, of $5.8 million in the six months ended June 30, 2018.

In the six months ended June 30, 2018 a loss on pool arrangements of $0.9 million was recognized.

Contingent rental income

(in thousands of $)	2018	2017
Contingent rental income	(13,145)	(12,456)

Contingent rental income in the six months ended June 30, 2018 relates to the eight charter party contracts with Ship Finance and is due to the fact that the actual profit share payable in the six months ended June 30, 2018 of nil was $13.1 million less than the amount accrued in the lease obligation payable when the leases were recorded at fair value at the time of the Merger. In the six months ended June 30, 2017 the actual profit share payable of $5.6 million was $12.5 million less than the amount accrued in the lease obligation payable when the leases were recorded at fair value at the time of the Merger. The increase in contingent rental income is due to a decrease in the amount payable to Ship Finance as a result of the decrease in market rates from 2017 to 2018, partially offset by a reduction in the number of vessels leased in from Ship Finance. These amounts are treated as non-cash items in the Consolidated Statement of Cash Flows for the six months ended June 30, 2018 and June 30, 2017.

Ship operating expenses

(in thousands of $)	2018	2017
Ship operating expenses	66,849	68,176

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

Ship operating expenses decreased in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to a reduction in the number of vessels drydocking, from five in the six months ended June 30, 2017 to one in the same period in 2018. Furthermore the dry docking expense on the one vessel docked in 2018 was offset by the release of a $2.1 million accrual carried since the time of the merger. This accrual related to the one dry docking that occurred in the period. Additionally the termination of the long-term charters on five vessels leased from Ship Finance since January 1, 2017 further reduced operating expenses. These factors were partially offset by an increase in costs due to the delivery of 18 newbuildings since January 1, 2017.

Charter hire expenses

(in thousands of $)	2018	2017
Charter hire expenses	8,490	14,611

Charter hire expense decreased in the six months ended June 30, 2018 as compared with the six months ended June 30, 2017 primarily due to the reduction in the number of vessels chartered in under operating leases and back-to-back charters.

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Impairment loss on vessels

(in thousands of $)	2018	2017
Impairment loss on vessels	—	21,247

In the six months ended June 30, 2017, the company recorded a non-cash impairment loss for $21.2 million in relation to two Suezmax tankers (Front Ardenne and Front Brabant) and two VLCC tankers (Front Scilla and Front Circassia). No impairments were recorded for the corresponding period in 2018.

Administrative expenses

(in thousands of $)	2018	2017
Administrative expenses	18,769	19,167

Administrative expenses for the six months ended June 30, 2018 were comparable to the six months ended June 30, 2017.

Depreciation

(in thousands of $)	2018	2017
Depreciation	63,546	70,139

Depreciation expense decreased in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the termination of the long-term charters since January 1, 2017 on five vessels chartered in from Ship Finance, plus a general reduction in depreciation expenses on all vessels chartered from Ship Finance due to an impairment loss recorded in the fourth quarter of 2017 which reduced the net book values of all of these vessels. These factors were offset by an increase in depreciation expense of approximately $14.0 million due to the delivery of 18 newbuildings since January 1, 2017.

Interest income

(in thousands of $)	2018	2017
Interest income	396	268

Interest income in the six months ended June 30, 2018 and the six months ended June 30, 2017 relates solely to interest received on bank deposits.

Interest expense

(in thousands of $)	2018	2017
Interest expense	(45,712)	(31,000)

Interest expense increased in the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the draw down of loans in relation to the delivery of 18 newbuildings since January 1, 2017, including an increase in expense due to the movements in interest rates. This is partially offset by a decrease in finance lease interest expense as a result of the termination of the long-term charters of five vessels leased from Ship Finance.

Gain on sale of securities

(in thousands of $)	2018	2017
Gain on sale of securities	1,026	1,246

In the six months ended June 30, 2018, the Company sold its remaining 4.7 million shares of DHT Holdings Inc., recognizing a gain on sale of $1.0 million in the income statement.

In the six months ended June 30, 2017 the Company sold 4.9 million shares in DHT for proceeds of $21.7 million, recognizing a gain on sale of $1.2 million in the income statement.

Unrealized gain on marketable securities

(in thousands of $)	2018	2017
Unrealized gain (loss) on marketable securities	491	—

On January 1, 2018, the Company adopted the targeted improvements to ASC 825 Recognition and Measurement of Financial Assets and Liabilities. The Company has adopted the new guidance using the modified retrospective method, with no changes recognized in the prior year comparatives and a cumulative catch up adjustment recognized in the opening retained deficit. As a result of the adoption of this guidance the Company is required to recognize the movement in the fair value of Marketable Securities in the Consolidated Statement of Operations. The Company has recognized a decrease in the retained deficit of $2.9 million upon adoption, and has recognized a mark to market gain of $0.5 million in the Consolidated Statement of Operations in relation to the movement in the fair value of its Marketable Securities in the six months ended June 30, 2018.

Gain (loss) on derivatives

(in thousands of $)	2018	2017
Gain (loss) on derivatives	6,954	(3,285)

The gain on derivatives in the six months ended June 30, 2018 and the loss in the six months ended June 30, 2017 primarily relates to interest rate swap agreements as a result of movements in interest rates.

Other non-operating items

(in thousands of $)	2018	2017
Other non-operating items	94	1,065

Other non-operating items primarily comprise bank charges and dividends received on marketable securities.

Net (income) loss attributable to non-controlling interest

(in thousands of $)	2018	2017
Net (income) loss attributable to non-controlling interest	(276)	(209)

Net income attributable to non-controlling interest in the six months ended June 30, 2018 and June 30, 2017 is primarily attributable to the non-controlling interests in the results of Seateam Management Pte. Ltd ("Seateam").

Critical Accounting Policies and Estimates

Impairment Assessment of Goodwill

We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Our future operating performance may be affected by potential impairment charges related to goodwill. Goodwill is not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. Impairment of goodwill in excess of amounts allocable to identifiable

assets

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and liabilities is determined using a two-step approach, initially based on a comparison of the fair value of the reporting unit to the book value of its net assets; if the fair value of the reporting unit is lower than the book value of its net assets, then the second step compares the implied fair value of the Company's goodwill with its carrying value to measure the amount of the impairment. The Company has one reporting unit for the purpose of assessing potential goodwill impairment and has selected September 30 as its annual goodwill impairment testing date. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis.

Our test for potential goodwill impairment is a two-step approach. We estimate the fair value of the Company based on its market capitalization plus a control premium and compare this to the carrying value of its net assets. Control premium assumptions require judgment and actual results may differ from assumed or estimated amounts. If the carrying value of the Company's net assets exceeds its estimated fair value, the second step of the goodwill impairment analysis requires us to measure the amount of the impairment loss. An impairment loss is calculated by comparing the implied fair value of the goodwill to its carrying amount. The implied fair value of goodwill is calculated in the same manner as the goodwill recognized in a business combination. That is, the Company determines the fair value of assets and liabilities of the reporting unit (including any unrecognized intangible assets excluding goodwill) as if the reporting unit had been acquired in a business combination. The excess of the fair value of a reporting unit over the amounts determined for its assets and liabilities is the implied fair value of goodwill.

At June 30, 2018 the Company's share price had increased by $1.25 per share from its December 31, 2017 share price. However,the market capitalization of the company remained below its net book value. As such the Company concluded that the requirement to complete the first step of the goodwill impairment analysis was triggered. The Company's market capitalization at June 30, 2018 was $991.7 million (based on a share price of $5.84) and the Company has calculated the fair value of the Company to be approximately $1,289.2 million, based on a control premium of 30%, compared to its carrying value of approximately $1,136.0 million. As the fair value of the Company was above the carrying value, the Company concluded that it was not required to complete the second step of the goodwill impairment analysis and there was no requirement for an impairment.

If our stock price declines, or if our control premium declines, without a corresponding decline in the fair value of underlying assets and liabilities the implied value of goodwill might decrease even further which could result in impairments of some or all of the $112.5 million of goodwill. A share price of $5.14 per share at the end of the second quarter would have required the Company complete the second step of the goodwill impairment test. Control premium assumptions require judgment and actual results may differ from assumed or estimated amounts. The Company believes that the control premium may be attributable, in part or in whole, to the expected synergies from combining the operations of the Company and an acquirer, particularly in respect of the benefits of operating an enlarged oil tanker fleet and assembled workforce as well as being able to take advantage of an expected reduction in costs from an expansion in scale. Events or circumstances may occur that could negatively impact our stock price, including changes in our anticipated revenues and profits and our ability to execute on our strategies. An impairment could have a material effect on our consolidated balance sheet and results of operations.

Liquidity and Capital Resources

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 and product 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), funding working capital requirements, repayment of debt financing, payment of newbuilding instalments, lease payments for our chartered-in fleet, contingent rental expense and maintaining cash reserves against fluctuations in operating cash flows. Sources of short-term liquidity include cash balances, short-term investments and receipts from our customers. Revenues from time charters are generally received monthly or fortnightly in advance while revenues from voyage charters are received upon completion of the voyage.

As of June 30, 2018, and December 31, 2017, we had cash and cash equivalents of $116.1 million, and $104.1 million, respectively. As of June 30, 2018, and December 31, 2017, we had restricted cash balances of $1.7 million, and $0.7 million, respectively. Restricted cash does not include cash balances of $78.5 million (December 2017: $74.0 million), which are required to be maintained by the financial covenants in our loan facilities. Furthermore, Frontline Shipping Limited, a wholly owned subsidiary of the Company and the chartering counterparty with Ship Finance with respect to the remaining eight VLCCs leased from them, has agreed to certain dividend restrictions as a result of the amendment of the terms of the long term charter agreements in May 2015. In order to make or pay any dividend or other distribution to the Company, Frontline Shipping Limited shall demonstrate a cash buffer of $2.0 million per vessel both prior to and following such payment, and following payment of the next monthly hire due plus any profit share accrued under the agreement. As at June 30, 2018, the cash held by Frontline Shipping Limited of $3.9 million (December 31, 2017: $8.9 million), may solely be used for vessel operations, payment of hire to Ship Finance or other amounts incurred under the charters and Charter Ancillary Agreement, including the settlement of interest and principal due on any notes payable and any other amounts incurred in the ordinary course of business. These amounts are included in "Cash and cash equivalents".

Our medium and long-term liquidity requirements include payment of newbuilding instalments, funding the equity portion of investments in new or replacement vessels and repayment of bank loans. Additional sources of funding for our medium and long-term liquidity requirements include new loans, refinancing of existing arrangements, equity issues, public and private debt offerings, vessel sales, sale and leaseback arrangements and asset sales.

As of June 30, 2018, the remaining commitments for our two VLCC newbuilding contracts amounted to $112.5 million, of which $56.9 million is due in 2018 and $55.6 million is due in 2019. As of June 30, 2018 Frontline has committed bank financing in place to finance delivery of the Company’s remaining newbuildings and estimates loan amounts of $55.3 million to be drawn in 2018 and $55.3 million to be drawn in 2019, respectively

In June 2018, the Company entered into memorandum of agreement (“MOA”) to acquire a 20% ownership interest in Feen Marine Scrubbers Inc. ("FMSI"), a leading manufacturer of exhaust gas cleaning systems ("EGCS”). As of June 30, 2018, the Company has committed to the installation of EGCS on 14 vessels, including eight vessels owned by related parties which are to be ordered separately by those companies, with a combined financial commitment of $18.9 million. The combined commitment includes orders for EGCS on six vessels owned by the Company, with a financial commitment of $9.0 million. Furthermore under the terms of the share acquisition agreement with FMSI, the Company committed to the provision of a working capital loan of $6.0 million to FMSI, which was subsequently issued in July. The loan bears no interest and repayment is due as and when the finances of FMSI permit.

In the six months ended June 30, 2018, the Company drew down $100.0 million from its senior unsecured revolving credit facility of up to $275.0 million with an affiliate of Hemen Holding Ltd. In February 2018 the Company extended the terms of the facility by 12 months. Following the extension, the facility is repayable in November 2019. $85.0 million remains available and undrawn as at June 30, 2018. In August 2018, the Company repaid $39.0 million of this facility. The amount can be redrawn at any time should the Company require. $124.0 million remains available and undrawn as at September 4, 2018 and so the liquidity position of the Company is unchanged as a result of this repayment.

In the six months ended June 30, 2018, the Company drew down $32.0 million from its facility of up to $321.6 million, provided by China Exim Bank in connection with one LR2/Aframax tanker delivered in the period. The facility is fully drawn down as of June 30, 2018.

In the six months ended June 30, 2018, the Company drew down $54.9 million and $54.9 million respectively from its two senior secured term loan facilities in amounts of up to $110.5 million with Credit Suisse. The facilities were used to partially finance two of our VLCCs delivered in the period.

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In July, the Company announced it had entered into an Equity Distribution Agreement dated July 24, 2018, with Morgan Stanley & Co. LLC for the offer and sale of up to $100.0 million of common shares of Frontline through an at-the-market offering ("ATM"). The filing of the ATM is an opportunistic move from the Company. We have not sold any shares under the ATM.

Cash Flows

The following summarizes our cash flows from operating, investing and financing activities for the six months ended June 30, 2018.

Net cash provided by operating activities

Net cash provided by operating activities in the six months ended June 30, 2018 was $13.2 million compared with $109.4 million in the six months ended June 30, 2017. Our 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 our vessels in periods subsequent to June 30, 2018, compared with the actual TCE rates achieved during the six months ended June 30, 2018, will have a positive or negative comparative impact, respectively, on the amount of cash provided by operating activities. We estimate that average daily total cash cost break even TCE rates for the remainder of 2018 will be approximately $22,500, $18,500 and $16,200 for our owned and leased VLCCs, Suezmax tankers, and LR2/Aframax tankers, 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. These rates do not take into account capital expenditures and contingent rental expense.

Net cash used in investing activities

Net cash used in investing activities of $183.0 million in the six months ended June 30, 2018 comprised mainly of additions to newbuildings of $203.2 million, in respect of five newbuilding contracts, three of which were delivered during the period. This amount was partially offset by the following:

- $17.8 million of received from the sale of the remaining 4.7 million shares of DHT and;
- finance lease payments received of $2.5 million in respect of the investment in finance lease.

Net cash provided by financing activities

Net cash provided by financing activities in the six months ended June 30, 2018 of $182.7 million was primarily a result of loan drawdowns of $243.3 million. This was partially offset by:

- debt repayments of $54.0 million;
- capital lease repayments of $6.2 million and;
- dividends paid to minority interests of $0.4 million.

Debt restrictions

The Company's loan agreements contain loan-to-value clauses, which could require the Company to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below required levels. In addition, the loan agreements contains certain financial covenants, including the requirement to maintain a certain level of free cash, positive working capital and a value adjusted equity covenant. Restricted cash does not include cash balances of $78.5 million (December 2017: $74.0 million), which are required to be maintained by the financial covenants in our loan facilities, and these amounts are included in "Cash and cash equivalents". Failure to comply with any of the covenants in the loan agreements 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. Under those circumstances, the Company might not have sufficient funds or other resources to satisfy its obligations.

We believe that cash on hand and borrowings under our current and expected credit facilities will be sufficient to fund our requirements for, at least, the twelve months from the date of this interim report.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk
The Company is exposed to the impact of interest rate changes primarily through its floating-rate borrowings that require the Company to make interest payments based on LIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and ability to service debt. The Company uses interest rate swaps to reduce its exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with its floating-rate debt. The Company is exposed to the risk of credit loss in the event of non-performance by the counterparty to the interest rate swap agreements.

As of June 30, 2018, $1,580.5 million of the Company's outstanding debt was at variable interest rates and the outstanding debt, net of the amount subject to interest rate swap agreements, was $1,398.3 million. Based on this, a one percentage point increase in annual LIBOR interest rates would increase its annual interest expense by approximately $14.0 million, excluding the effects of capitalization of interest.

Currency Risk
The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, its functional currency. Certain of its subsidiaries report in Norwegian Kroner, Singapore Dollars or British Pounds 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 cash flows; and a translation risk, which is the impact of currency fluctuations in the translation of foreign operations and foreign assets and liabilities into U.S. dollars in the consolidated financial statements.

Inflation
Inflation has only a moderate effect on the Company's expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase operating, voyage, general and administrative, and financing costs.

Interest Rate Swap Agreements
In February 2013, Frontline 2012 entered into six interest rate swaps with Nordea Bank whereby the floating interest rate on an original principal amount of $260 million of the then anticipated debt on 12 MR product tanker newbuildings was switched to fixed rate. These newbuildings were subsequently financed from the $466.5 million term loan facility. In February 2016, the Company entered into an interest rate swap with DNB whereby the floating interest on notional debt of $150.0 million was switched to fixed rate. The fair value of these swaps at June 30, 2018 was a receivable of $11.0 million (December 2017: receivable of $4.5 million). Credit risk exists to the extent that the counterparty is unable to perform under the contracts, but this risk is considered remote as the counterparty is a bank, which participates in the loan facility to which the interest rate swaps are related. The Company recorded a gain on these interest swaps of $7.0 million in the six months ended June 30, 2018 (six months ended June 30, 2017: loss of $3.3 million).

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, and are not intended to give any assurance as to future results. When used in this documents, the words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions, terms or phrases may 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 the Company's Annual Report on Form 20-F for the year ended December 31, 2017, filed with the Commission on March 19, 2018 for a more complete discussion of these and other risks and uncertainties.

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FRONTLINE LTD.
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Frontline Ltd.
Condensed Consolidated Statements of Operations for the six months ended June 30, 2018 and June 30, 2017
(in thousands of $, except per share data)

	2018	2017
Operating revenues		
Time charter revenues	15,452	64,619
Voyage charter revenues	308,710	252,314
Finance lease interest income	701	933
Other income	11,579	9,409
Total operating revenues	336,442	327,275
Other operating gains (losses)	(6,670)	8,327
Voyages expenses and commissions	183,500	115,339
Contingent rental income	(13,145)	(12,456)
Ship operating expenses	66,849	68,176
Charter hire expense	8,490	14,611
Impairment loss on vessels	—	21,247
Administrative expenses	18,769	19,167
Depreciation	63,546	70,139
Total operating expenses	328,009	296,223
Net operating income	1,763	39,379
Other income (expenses)		
Interest income	396	268
Interest expense	(45,712)	(31,000)
Gain on sale of securities	1,026	1,246
Foreign currency exchange gain (loss)	(1,164)	270
Unrealized gain (loss) on marketable securities	491	—
Gain (loss) on derivatives	6,954	(3,285)
Other non-operating items	94	1,065
Net other expenses	(37,915)	(31,436)
Net income (loss) before income taxes and non-controlling interest	(36,152)	7,943
Income tax expense	(73)	(93)
Net income (loss)	(36,225)	7,850
Net (income) loss attributable to non-controlling interest	(276)	(209)
Net income (loss) attributable to the Company	(36,501)	7,641
Basic and diluted earnings (loss) per share attributable to the Company ($)	(0.21)	0.04
Cash dividends per share declared ($)	—	0.15

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Frontline Ltd.
Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2018 and June 30, 2017
(in thousands of $)

	2018	2017
Comprehensive income		
Net income (loss)	(36,225)	7,850
Unrealized gain (loss) from marketable securities	—	1,718
Foreign currency translation income	889	98
Other comprehensive income	889	1,816
Comprehensive income (loss)	(35,336)	9,666
Comprehensive income (loss) attributable to non-controlling interest	276	209
Comprehensive income (loss) attributable to the Company	(35,612)	9,457
Comprehensive income (loss)	(35,336)	9,666

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Frontline Ltd.
Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017
(in thousands of $)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	116,057	104,145
Restricted cash	1,744	741
Marketable securities	1,097	19,231
Marketable securities pledged to creditors	12,148	10,272
Trade accounts receivable, net	36,731	49,585
Related party receivables	9,005	5,068
Other receivables	12,552	17,294
Inventories	69,834	61,715
Voyages in progress	39,355	38,254
Prepaid expenses and accrued income	6,858	6,170
Investment in finance lease	9,343	9,126
Other current assets	4,730	13
Total current assets	319,454	321,614
Long term assets		
Newbuildings	50,537	79,602
Vessels and equipment, net	2,526,707	2,342,130
Vessels and equipment under capital lease, net	218,371	251,698
Investment in finance lease	16,567	21,782
Goodwill	112,452	112,452
Long-term derivative instruments receivable	11,030	4,450
Total assets	3,255,118	3,133,728
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	122,240	113,078
Current portion of obligations under capital leases	37,098	43,316
Related party payables	16,201	8,921
Trade accounts payable	27,583	11,809
Accrued expenses	31,567	38,809
Other current liabilities	3,728	6,067
Total current liabilities	238,417	222,000
Long-term liabilities		
Long-term debt	1,657,396	1,467,074
Obligations under capital leases	222,019	255,700
Other long-term liabilities	1,334	1,325
Total liabilities	2,119,166	1,946,099
Commitments and contingencies		
Equity		
Share capital (169,809,324 shares, par value $1.00)	169,809	169,809
Additional paid in capital	198,075	197,399

Contributed surplus	1,090,376	1,090,376
Accumulated other comprehensive income	220	2,227
Retained deficit	(322,739)	(272,503)
Total equity attributable to the Company	1,135,741	1,187,308
Non-controlling interest	211	321
Total equity	1,135,952	1,187,629
Total liabilities and equity	3,255,118	3,133,728

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Frontline Ltd.
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and June 30, 2017
(in thousands of $)

	2018	2017
Net cash provided by operating activities	13,245	109,436
Additions to newbuildings, vessels and equipment	(203,243)	(454,031)
Purchase of shares	—	(46,100)
Finance lease payments received	2,471	4,766
Proceeds from sale of shares	17,757	21,739
Net cash used in investing activities	(183,015)	(473,626)
Proceeds from issuance of debt	243,236	420,138
Repayment of long-term debt	(54,002)	(36,357)
Repayment of capital leases	(6,163)	(25,798)
Debt fees paid	—	(1,818)
Dividends paid	(386)	(51,400)
Lease termination payments	—	(14,218)
Net cash provided by financing activities	182,685	290,547
Net change in cash and cash equivalents and restricted cash	12,915	(73,643)
Cash and cash equivalents and restricted cash at start of period	104,886	203,079
Cash and cash equivalents and restricted cash at end of period	117,801	129,436

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Frontline Ltd.
Condensed Consolidated Statements of Changes in Equity for the six months ended June 30, 2018 and June 30, 2017
(in thousands of $, except number of shares)

	2018	2017
Number of shares outstanding		
Balance at beginning of the period	169,809,324	169,809,324
Balance at end of the period	169,809,324	169,809,324
Share capital		
Balance at beginning of the period	169,809	169,809
Balance at end of the period	169,809	169,809
Additional paid in capital		
Balance at beginning of the period	197,399	195,304
Stock compensation expense	676	1,418
Balance at end of the period	198,075	196,722
Contributed surplus		
Balance at beginning of the period	1,090,376	1,099,680
Cash dividend	—	(9,304)
Balance at end of the period	1,090,376	1,090,376
Accumulated other comprehensive income (loss)		
Balance at beginning of the period	2,227	739
Other comprehensive income (loss)	889	1,816
Adjustment on adoption of changes in ASC 825	(2,896)	—
Balance at end of the period	220	2,555
Retained earnings (deficit)		
Balance at beginning of the period	(272,503)	34,069
Net income (loss)	(36,501)	7,641
Adjustment on adoption of ASC 606	(16,631)	—
Adjustment on adoption of changes in ASC 825	2,896	—
Cash dividend	—	(41,710)
Balance at end of the period	(322,739)	—
Total equity attributable to the Company	1,135,741	1,459,462
Non-controlling interest		
Balance at beginning of the period	321	168
Net income (loss)	276	209
Dividend paid to non-controlling interest	(386)	(386)
Balance at end of the period	211	(9)
Total equity	1,135,952	1,459,453

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Frontline Ltd.
Notes to the Unaudited Condensed Consolidated Financial Statements

1. INTERIM FINANCIAL DATA

The unaudited condensed interim financial statements of Frontline Ltd. (“Frontline” or the “Company”) have been prepared on the same basis as the Company’s audited financial statements, except as noted below in Note 2, and, in the opinion of management, include all material adjustments, consisting only of normal recurring adjustments considered necessary for a fair statement of the Company's financial statements, in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements and notes included in the Annual Report on Form 20-F for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 19, 2018. The unaudited condensed interim financial statements do not include all the disclosures required by US GAAP. The results of operations for the interim period ended June 30, 2018 are not necessarily indicative of the results for the year ending December 31, 2018. The year-end consolidated balance sheet was derived from audited financial information, but does not include all disclosures required by US GAAP.

2. ACCOUNTING POLICIES

Basis of accounting
The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The condensed consolidated financial statements include the assets and liabilities of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

The condensed consolidated financial statements are prepared in accordance with the accounting policies, which are described in the Company's Annual Report on Form 20-F for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission on March 19, 2018, with the exception of certain changes noted below.

Adoption of ASC 606 Revenue from Contracts with Customers
Effective from January 1, 2018, we adopted the new accounting standard ASC 606 Revenue from Contracts with Customers using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

For vessels operating on spot charterers that qualify for accounting under the new guidance, voyage revenues are recognized ratably over the estimated length of each voyage, calculated on a load-to-discharge basis. The Company considers the transport of cargo to be a single performance obligation in a spot charter contract, this performance obligation is satisfied as the service is performed. Voyage charter parties generally include a "demurrage" clause. Under this clause, the charterer reimburses the Company for any potential delays caused by a failure to load or discharge the vessel within the time agreed under the contract. Estimates and judgments are therefore required in ascertaining the most likely outcome of a particular voyage and actual outcomes may differ from estimates.

Certain voyage expenses, primarily bunker fuel expenses, are capitalized between the previous discharge port, or contract date if later, and the next load port if they qualify as fulfillment costs under ASC 340 Deferred Costs and Other Assets. To recognize costs incurred to fulfill a contract as an asset, the following criteria shall be met: (i) the costs relate directly to the contract, (ii) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future and (iii) the costs are expected to be recovered. Costs incurred to obtain a contract, such as commissions, are also deferred and expensed over the same period.

Time charters and any other contracts which are considered to be leases continue to be accounted as operating leases in accordance with ASC 840 Leases and related interpretations and the implementation of the new revenue standard therefore did not have an effect on income recognition on the lease component from such contracts.

Other income primarily comprises income earned from the commercial management of related party and third party vessels and newbuilding supervision fees derived from related parties and third parties. Other income is recognized on an accruals basis as the services are provided and performance obligations are met and as such there has been no change in the pattern of revenue recognition under ASC 606.

Contract assets with regards to voyage revenues are reported as "Voyages in progress" as the performance obligation is satisfied over time. Voyage revenues typically become billable and due for payment on completion of the voyage and discharge of the cargo, at which point the receivable is recognized as "Trade accounts receivable, net".

ASC 606 has been applied to those contracts that were not completed at the date of initial application. The cumulative effect of the adjustments made to our condensed consolidated statement of financial position at January 1, 2018 from the adoption of ASC 606 Revenue from Contracts with Customers was as follows:

Condensed Consolidated Statement of Financial Position

(in thousands of $)	December 31, 2017	Adjustments for ASC 606	January 1, 2018
Assets			
Voyages in progress	38,254	(20,303)	17,951
Other current assets	13	3,071	3,084
Liabilities			
Accrued expenses	38,809	(601)	38,208
Equity			
Accumulated deficit	(272,503)	(16,631)	(289,134)

The impact of the adoption of ASC 606 Revenues from Contracts with Customers on our condensed consolidated statement of financial position, condensed consolidated income statement and condensed consolidated statement of cash flow for the six month period ending June 30, 2018 were as follows:

Condensed Consolidated Statement of Financial Position

	Balance at June 30, 2018		
(in thousands of $)	As reported	Adjustments for ASC 606	Balance without ASC 606
Assets			
Voyages in progress	39,355	(18,721)	58,076
Other current assets	4,730	4,428	302
Liabilities			
Accrued expenses	31,567	(562)	32,129
Equity			
Accumulated deficit	(322,739)	(13,731)	(309,008)

Condensed Consolidated Income Statement

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(in thousands of $)	For the period ended June 30, 2018 As reported	Adjustments for ASC 606	Balance without ASC 606
Voyage charter revenues	308,710	1,582	307,128
Voyage expenses and commissions	(183,500)	1,318	(184,818)
Net (loss) income	(36,225)	2,900	(39,125)
Basic and diluted loss per share attributable to the Company	(0.21)	0.02	(0.23)

Condensed Consolidated Statement of Cash Flows

(in thousands of $)	For the period ended June 30, 2018 As reported	Adjustments for ASC 606	Balance without ASC 606
Net (loss)	(36,225)	2,900	(39,125)
Change in operating assets and liabilities	(2,438)	(2,900)	462
Net cash provided by operating activities	13,245	—	13,245

Certain voyage expenses are capitalized between the previous discharge port, or contract date if later, and the next load port and amortized between load port and discharge port. $7.1 million of contract assets were capitalized during the six months ended June 30, 2018 as "Other current assets", of which $2.7 million was amortized up to June 30, 2018, leaving a remaining balance of $4.5 million. $3.1 million of contract assets were amortized in the six months ended June 30, 2018 in relation to voyages in progress at the end of December 31, 2017. No impairment losses were recognized in the period.

In accordance with ASC 606, the Company has applied the practical expedient not to disclose the remaining performance obligations of a contract given that the original expected contract duration is less than one year.

In accordance with ASC 606, the Company has applied the available exemptions not to disclose the nature of performance obligations and the remaining duration of performance obligations.

Adoption of targeted improvements to ASC 825

On January 1, 2018, the Company adopted the targeted improvements to ASC 825-10 Recognition and Measurement of Financial Assets and Liabilities. The Company has adopted the new guidance using the modified retrospective method, with no changes recognized in the prior year comparatives and a cumulative catch up adjustment recognized in the opening retained deficit. As a result of the adoption of this guidance the Company is required to recognize the movement in the fair value of Marketable Securities in the Consolidated Statement of Operations. The Company has recognized a decrease in the retained deficit of $2.9 million upon adoption, and has recognized a mark to market gain of $0.5 million in the Consolidated Statement of Operations in relation to the movement in the fair value of its Marketable Securities in the six months ended June 30, 2018.

Adoption of targeted improvements to ASC 230

On January 1, 2018, the Company adopted ASU No. 2016-18, Statement of cash flows: Restricted Cash. The new standard requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted the amendments of the standard using a retrospective transition method to each period presented. As a result, amounts generally described as restricted cash in prior periods are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04 Intangibles - Goodwill and other (Topic 350), which simplifies the test for goodwill impairment. This Update eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of the assets acquired and liabilities assumed in a business combination. Instead an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

4. EARNINGS PER SHARE

The components of the numerator and the denominator in the calculation of basic and diluted earnings per share are as follows:

(in thousands of $)	2018	2017
Net income (loss) attributable to the Company	(36,501)	7,641

	2018	2017
Weighted average number of shares (000s)	169,809	169,809

Share options issued by the Company did not have an impact on the calculation of earnings per share as they were non-dilutive.

5. OTHER OPERATING GAINS & LOSSES

(in thousands of $)	2018	2017
(Loss) gain on lease termination	(5,819)	8,327
(Loss) gain on pool arrangements	(851)	—
Other operating (losses) gains	(6,670)	8,327

In February 2018, the Company agreed with Ship Finance International Limited ("Ship Finance") to terminate the long-term charter for the 1998-built VLCC Front Circassia upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in February and the charter counter party Frontline Shipping Limited (“FSL”); a non recourse subsidiary of Frontline; has agreed to pay a compensation of approximately $8.9 million for the termination of the charter to Ship Finance, which has been recorded as an interest-bearing note payable by FSL. The termination has reduced obligations under capital leases by $20.6 million. The Company has recorded a loss on termination, including this termination payment, of $5.8 million in the first quarter of 2018.

6. RESTRICTED CASH

Restricted cash consists of cash, which may only be used for certain purposes and is held under a contractual arrangement.

Restricted cash does not include cash balances of $78.5 million (2017: $74.0 million), which are required to be maintained by the financial covenants in our loan facilities. Furthermore, Frontline Shipping Limited, a wholly owned subsidiary of the Company and the chartering counterparty with Ship Finance with respect to the remaining eight VLCCs leased from them, has agreed to certain dividend restrictions as a result of the amendment of the terms of the long term charter agreements in May 2015. In order to make or pay any dividend or other distribution to the Company, Frontline Shipping Limited shall demonstrate a cash buffer of $2.0 million per vessel both prior to and following such payment, and following payment of the next monthly hire due plus any profit share accrued under the agreement. As at June 30, 2018, the cash held by Frontline Shipping Limited of $3.9 million (December 31, 2017: $8.9 million), may solely be used for vessel operations, payment of hire to Ship Finance or other amounts incurred under the charters and Charter Ancillary Agreement, including the settlement of interest and principal due on any notes payable and any other amounts incurred in the ordinary course of business.

7. MARKETABLE SECURITIES

(in thousands of $)	2018	2017
Balance at start of period	19,231	8,428
Shares acquired	—	46,100
Shares disposed of	(16,749)	(26,351)
Unrealized gain (loss) on marketable securities	491	—
Unrealized gain recorded in other comprehensive income	—	1,326
Repurchase of securities pledged to creditors	10,272	—
Marketable securities pledged to creditors	(12,148)	(10,272)
Balance at end of period	1,097	19,231

Avance Gas

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In the six months ended June 30, 2018, the Company recognized a mark to market loss of $0.2 million in relation to the 0.4 million shares held in Avance Gas Holdings Ltd.

As of June 30, 2018 and December 31, 2017 the 442,384 shares in Avance Gas were held as collateral against secured borrowings.

Ship Finance

In the six months ended June 30, 2017, the Company recognized a mark to market loss of $0.04 million in relation to the 0.1 million shares held in Ship Finance International Ltd.

Golden Ocean

In December 2017, the Company sold 1,260,358 shares in Golden Ocean for proceeds of $10.1 million. At the same time the Company entered into a forward contract to repurchase 1.3 million shares in Golden Ocean in March 2018 for $10.3 million.

In March 2018, the Company repurchased these shares and subsequently sold them for proceeds of $10.4 million. At the same time the Company entered into a forward contract to repurchase 1.3 million shares in GOGL in June 2018 for $10.4 million. The transaction has been accounted for as a secured borrowing, with the shares retained in marketable securities and a liability recorded within debt for $10.3 million.

In June 2018, the Company repurchased these shares and subsequently sold them for proceeds of $11.2 million. At the same time the Company entered into a forward contract to repurchase 1.3 million shares in GOGL in September 2018 for $11.4 million. The transaction has been accounted for as a secured borrowing, with the shares retained in marketable securities and a liability recorded within debt for $11.2 million. These transactions have been reported on a net basis in the Consolidated Statement of Cash Flows

As of June 30, 2018 the Company reports a total of 1,270,657 shares in Golden Ocean, of which 1,260,358 as marketable securities pledged to creditors.

In the six months ended June 30, 2018, the Company recognized a mark to market gain of $0.7m in relation to the 1.3 million shares held in the income statement.

DHT

In the six months ended June 30, 2018, the Company sold its remaining 4.7 million shares of DHT Holdings Inc., recognizing a gain on disposal of $1.0 million in the income statement.

8. NEWBUILDINGS

Movements in the six months ended June 30, 2018 may be summarized as follows;

(in thousands of $)	
Balance at December 31, 2017	79,602
Additions, net	202,220
Interest capitalized	576
Transfer to Vessels and Equipment, net	(231,861)
Balance at June 30, 2018	50,537

In the first quarter of 2018, the Company took delivery of the VLCC newbuildings, Front Empire and Front Princess, and the LR2/Aframax tanker newbuilding, Front Polaris.

As of June 30, 2018, the Company's newbuilding program comprised two VLCC newbuildings.

9. VESSELS AND EQUIPMENT, NET

Movements in the six months ended June 30, 2018 may be summarized as follows;

(in thousands of $)	Cost	Accumulated Depreciation	Net Carrying Value
Balance at December 31, 2017	2,577,293	(235,163)	2,342,130
Depreciation	—	(47,719)	
Purchase of vessels and equipment	435	—	
Transfers from Newbuildings	231,861	—	
Balance at June 30, 2018	2,809,589	(282,882)	2,526,707

In the six months ended June 30, 2018, the Company took delivery of the two VLCC newbuildings, Front Empire and Front Princess, and the LR2/Aframax tanker newbuilding, Front Polaris.

10. VESSELS UNDER CAPITAL LEASE, NET

(in thousands of $)	Cost	Accumulated Depreciation	Net Carrying Value
Balance at December 31, 2017	358,995	(107,297)	251,698
Lease termination	(22,443)	4,943	
Depreciation		(15,827)	
Balance at June 30, 2018	336,552	(118,181)	218,371

In February 2018, the Company agreed with Ship Finance International Limited ("Ship Finance") to terminate the long-term charter for the 1998-built VLCC Front Circassia upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in February and the charter counter-party Frontline Shipping Limited (“FSL”); a non-recourse subsidiary of Frontline; has agreed to pay a compensation of approximately $8.9 million for the termination of the charter to Ship Finance. The termination has reduced obligations under capital leases by approx. $20.6 million. The Company has recorded a loss on termination, including this termination payment, of $5.8 million in the six months ended June 30, 2018.

11. DEBT

The Company drew down $32.0 million in the six months ended June 30, 2018 from its $321.6 million term loan facility with China Exim Bank in connection with one LR2/Aframax tanker delivered in the period.

The Company drew down $54.9 million in the six months ended June 30, 2018 from its $110.5 million term loan facility with Credit Suisse in connection with one VLCC delivered in the period.

The Company drew down $54.9 million in the six months ended June 30, 2018 from its second $110.5 million term loan facility with Credit Suisse in connection with one VLCC delivered in the period.

The Company drew down $100.0 million in the six months ended June 30, 2018 from its senior unsecured revolving credit facility of up to $275.0 million with an affiliate of Hemen Holding Ltd. In February 2018 the Company extended the terms of the facility by 12 months. The facility continues to carry interest of 6.25%, and there are no financial covenants. Following the extension, the facility is repayable in November 2019. $85.0 million remains available and undrawn as at June 30, 2018.

$8.9 million in relation to the promissory note payable to Ship Finance, following the termination of the lease on Front Circassia, is included within long-term debt. The note carries interest of 7.5% and is repayable in full in December 2021 by FSL.

The Company has recorded debt issuance costs (i.e. deferred charges) of $11.0 million at June 30, 2018 (December 2017: $12.3 million) as a direct deduction from the carrying amount of the related debt.

Assets pledged

(in thousands of $)	2018	2017
Vessels and equipment, net,	2,525,495	2,341,069

12. SHARE CAPITAL

The authorized share capital of the Company as at June 30, 2018 is $500,000,000 divided into 500,000,000 shares of $1.00 par value each, of which 169,809,324 shares (December 31, 2017:169,809,324 shares) of $1.00 par value each are in issue and fully paid or credited as fully paid.

13. FINANCIAL INSTRUMENTS

Interest rate swap agreements

In February 2013, Frontline 2012 entered into six interest rate swaps with Nordea Bank whereby the floating interest rate on an original principal amount of $260.0 million of the then anticipated debt on 12 MR product tanker newbuildings was switched to fixed rate. Six of these newbuildings were subsequently financed from the $466.5 million term loan facility. In February 2016, the Company entered into an interest rate swap with DNB whereby the floating interest on notional debt of $150 million was switched to a fixed rate. The contract has a forward start date of February 2019.

At June 30, 2017, the Company held an asset of $11.0 million (December 31, 2017: $4.5 million) in relation to these agreements. The Company recorded a gain on interest swaps of $7.0 million in the six months ended June 30, 2018 (six months ended June 30, 2017: loss of $3.3 million).

The interest rate swaps are not designated as hedges and are summarized as at June 30, 2018 as follows:

Notional Amount ($000s)	Inception Date	Maturity Date	Fixed Interest Rate	
15,167	June 2013	June 2020	1.4025	%
45,154	September 2013	September 2020	1.5035	%
76,586	December 2013	December 2020	1.6015	%
14,748	March 2014	March 2021	1.6998	%
15,091	June 2014	June 2021	1.7995	%
15,434	September 2014	September 2021	1.9070	%
150,000	February 2016	February 2026	2.1970	%
332,180				

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Fair Values

The carrying value and estimated fair value of the Company's financial assets and liabilities as of June 30, 2018 and December 31, 2017 are as follows:

	2018		2017	
(in thousands of $)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	116,057	116,057	104,145	104,145
Restricted cash	1,744	1,744	741	741
Liabilities:				
Floating rate debt	1,580,530	1,580,530	1,492,099	1,492,099
Fixed rate debt	210,137	208,108	100,312	99,865

The estimated fair value of financial assets and liabilities at June 30, 2018 are as follows:

(in thousands of $)	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	116,057	116,057	—	—
Restricted cash	1,744	1,744	—	—
Liabilities:				
Floating rate debt	1,580,530	—	1,580,530	—
Fixed rate debt	208,108	—	11,237	196,871

The estimated fair value of financial assets and liabilities at December 31, 2017 are as follows:

(in thousands	Fair Value	Level 1	Level 2	Level 3

(in thousands of $)				
Assets:				
Cash and cash equivalents	104,145	104,145	—	—
Restricted cash	741	741	—	—
Liabilities:				
Floating rate debt	1,492,099	—	1,492,099	—
Fixed rate debt	99,865	—	10,312	89,553

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 fair value.

Restricted cash – the carrying values in the balance sheet approximate fair value.

Floating rate debt - the fair value of floating rate debt has been determined using level 2 inputs and is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

Fixed rate debt - short term debt held with a third party bank has been valued using level two inputs, the remaining fixed rate debt has been determined using level 3 inputs being the discounted expected cash flows of the outstanding debt.

Assets Measured at Fair Value on a Nonrecurring Basis

At December 31, 2017 the eight vessels held under capital lease, all of which are leased from Ship Finance, were measured at a combined fair value of $226.0 million, which was determined using level three inputs being the discounted expected cash flows from the leased vessels at December 31, 2017. These vessels have continued to be depreciated in line with the Company's accounting policy in the six months ended June 30, 2018.
Nonrecurring fair value measurements include a goodwill impairment assessment completed at December 31, 2017. The impairment test used Level 1, Level 2 and Level 3 inputs.

Assets Measured at Fair Value on a Recurring Basis
Marketable securities are listed equity securities considered to be available-for-sale securities for which the fair value as at the balance sheet date is their aggregate market value based on quoted market prices (level 1).

The fair value (level 2) of interest rate agreements is the present value of the estimated future cash flows that the Company would receive or pay to terminate the agreements at the balance sheet date, taking into account, as applicable, fixed interest rates on interest rate swaps, current interest rates, forward rate curves, current and future bunker prices and the credit worthiness of both the Company and the derivative counterparty.

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 AB (publ), or SEB, HSBC, Royal Bank of Scotland, DnB Bank ASA, or DNB and Nordea Bank Norge ASA, 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.

14. RELATED PARTY TRANSACTIONS

We transact business with the following related parties, being companies in which Hemen and companies associated with Hemen have a significant interest: Ship Finance, Seadrill Limited, Seatankers Management Norge AS, Golden Ocean Group Limited, Arcadia Petroleum Limited, SolstadFarstad ASA, Seatankers Management Co. Ltd, Archer Limited, North Atlantic Drilling Ltd, Flex LNG Ltd, Sterna Finance Limited and GHL Finance Limited. In November 2014, Highlander Tankers AS, or Highlander Tankers, and Aframar AS became related parties as Robert Hvide Macleod the owner and director of these companies was appointed the Chief Executive Officer of Frontline Management AS.

Ship Finance Transactions
As of June 30, 2018, the Company held eight vessels under capital leases, all of which are leased from Ship Finance. The remaining periods on these leases at June 30, 2018 range from approximately five to nine years.

As the Merger has been accounted for as a reverse business acquisition in which Frontline 2012 is treated as the accounting acquirer, all of the Company's assets and liabilities were recorded at fair value on November 30, 2015 such that estimated profit share over the remaining terms of the leases has been recorded in the balance sheet obligations. Consequently, the Company will only record profit share expense following the Merger when the actual expense is different to that estimated at the date of the Merger.

A summary of leasing transactions with Ship Finance in the six months ended June 30, 2018 and June 30, 2017 are as follows;

(in thousands of $)	2018	2017
Charter hire paid (principal and interest)	29,660	40,530
Lease interest expense	10,069	14,364
Contingent rental income	(13,145)	(12,456)

Remaining lease obligation	259,117	330,332

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In January 2014, Frontline 2012 commenced a pooling arrangement with Ship Finance, between two of its Suezmax tankers Front Odin and Front Njord and two Ship Finance vessels Glorycrown and Everbright. The Company recognized expense of $0.4 million in the six months ended June 30, 2018 in relation to this pooling arrangement (six months ended June 30, 2017: expense of $1.1 million).

In February 2018, the Company agreed with Ship Finance International Limited ("Ship Finance") to terminate the long-term charter for the 1998-built VLCC Front Circassia upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in February and the charter counter party Frontline Shipping Limited (“FSL”); a non recourse subsidiary of Frontline; has agreed to pay a compensation of approximately $8.9 million for the termination of the charter to Ship Finance, which has been recorded as an interest-bearing note payable by FSL within long-term debt. The termination has reduced obligations under capital leases by $20.6 million. The Company has recorded a loss on termination, including this termination payment, of $5.8 million in the six months ended June 30, 2018.

Seatankers Transactions
The Company entered into a Services Agreement with Seatankers Management, effective January 1, 2016, and was charged $0.6 million in the six months ended June 30, 2018 (June 30, 2017: $0.4 million) for the provision of advisory and other support services.

Transactions with other affiliates of Hemen

The Company drew down $100.0 million in the six months ended June 30, 2018 from its senior unsecured revolving credit facility of up to $275.0 million with an affiliate of Hemen Holding Ltd. In February 2018 the Company extended the terms of the facility by 12 months. Following the extension, the facility is repayable in November 2019.

A summary of net amounts earned from related parties in the six months ended June 30, 2018 and June 30, 2017 are as follows:

(in thousands of $)	2018	2017
Seatankers Management Co. Ltd	2,852	1,925
Ship Finance International Limited	727	1,204
Golden Ocean Group Limited	3,587	3,101
Flex LNG Ltd	1,478	2,259
Seatankers Management Norge AS	(938)	370
Seadrill Limited	139	235
Archer Limited	149	125
Deep Sea Supply Plc	8	42
North Atlantic Drilling Ltd	19	19
Northern Drilling Ltd	63	—

Amounts earned from related parties comprise 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.

Related party balances
A summary of balances due from related parties at June 30, 2018 and December 31, 2017 is as follows:

(in thousands of $)	2018	2017
Ship Finance International Limited	6,569	1,239
Seatankers Management Co. Ltd	38	52
Archer Ltd	147	88
VLCC Chartering Limited	83	81
Golden Ocean Group Limited	336	1,953
Seadrill Limited	1,000	489
Flex LNG	508	979
Deep Sea Supply Plc	59	68
Northern Drilling Limited	63	—
North Atlantic Drilling Limited	202	103
Other related parties	—	16
	9,005	5,068

A summary of balances due to related parties at June 30, 2018 and December 31, 2017 is as follows:

(in thousands of $)	2018	2017
Ship Finance International Limited	10,797	6,349
Seatankers Management Co. Ltd	2,047	1,345
Seadrill Limited	—	1,227
Golden Ocean Group Limited	3,357	—
	16,201	8,921

15. COMMITMENTS AND CONTINGENCIES

The Company insures the legal liability risks for its shipping activities with Assuranceforeningen 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.

As of June 30, 2018, the Company's newbuilding program was comprised of two VLCCs. As of June 30, 2018, total installments of $51.1 million had been paid and the remaining commitments amounted to $112.5 million of which $56.9 million is due in 2018 and $55.6 million is due in 2019.

In June 2018, the Company entered into memorandum of agreement (“MOA”) to acquire a 20% ownership interest in Feen Marine Scrubbers Inc. ("FMSI"), a leading manufacturer of exhaust gas cleaning systems ("EGCS”). As of June 30, 2018, the Company has committed to the installation of EGCS on 14 vessels, including eight vessels owned by related parties which are to be ordered separately by those companies, with a combined financial commitment of $18.9 million. The combined commitment includes orders for EGCS on six vessels owned by the Company, with a financial commitment of $9.0 million. Furthermore under the terms of the share acquisition agreement with FMSI, the Company committed to the provision of a working capital loan of $6.0 million to FMSI, which was subsequently issued in July. The loan bears no interest and repayment is due as and when the finances of FMSI permit.

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

16. SUBSEQUENT EVENTS

In June 2018, the Company agreed with Ship Finance International Limited (“Ship Finance”) to terminate the long term charters for three VLCCs; Front Page, Front Serenade and Front Stratus upon the sale and delivery of the vessels by Ship Finance to an unrelated third party. Frontline has agreed to a total compensation payment to Ship Finance of $10.125 million for the termination of these charters, which will be paid by Frontline in the form of three promissory notes of equal value, and Frontline and FSL will be released from all of their other respective obligations in relation to these vessels. The notes are due to be repaid in full in 2025 in relation to Front Page and Front Stratus. On termination of Front Serenade a note will be issued for repayment in 2024. Front Page and Front Stratus have been delivered to their new owners and we expect Front Serenade to be delivered in September 2018. The termination of these leases is expected to reduce obligations under capital leases by approximately $92.1 million, and the Company expects to record a gain of approximately $7.4 million.

In July, the Company issued a loan of $6.0 million to FMSI, see note 15.

In July, the Company announced it had entered into an Equity Distribution Agreement dated July 24, 2018, with Morgan Stanley & Co. LLC for the offer and sale of up to $100.0 million of common shares of Frontline through an at-the-market offering ("ATM"). The filing of the ATM is an opportunistic move from the Company. We have not sold any shares under the ATM.

In August 2018, the Company repaid $39.0 million of its senior unsecured revolving credit facility of up to $275.0 million with an affiliate of Hemen Holding Ltd. The amount can be redrawn at any time should the Company require. $124.0 million remains available and undrawn as at September 4, 2018.