

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC. 20549

FORM 20-F

(Mark One)

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

**OR**

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

*For the fiscal year ended*     *December 31, 2017*

**OR**

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

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

**OR**

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

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

*Commission file number*     001-16601

**Frontline Ltd.**

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Bermuda

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Georgina Sousa, Telephone: (1) 441 295 6935, Facsimile: (1) 441 295 3494,  
Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda

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

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

*Title of each class*

*Name of each exchange on which registered*

Ordinary Shares, Par Value \$1.00 Per Share

New York Stock Exchange

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

None

(Title of Class)

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

Ordinary Shares, Par Value \$1.00 Per Share

(Title of Class)

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

169,809,324 Ordinary Shares, Par Value \$1.00 Per Share

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

Yes ☐

No ☒

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

Yes ☐

No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

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

Yes ☒

No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act. ☐

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

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

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐

Item 18 ☐

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

Yes ☐

No ☒

## INDEX TO REPORT ON FORM 20-F

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

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

## **PART I**

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

Not applicable.

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

Not applicable.

### **ITEM 3. KEY INFORMATION**

*Throughout this annual report, the "Company," "we," "us" and "our" all refer to Frontline Ltd. and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. The Company operates oil tankers of two sizes: very large crude carriers, or VLCCs, which are between 200,000 and 320,000 deadweight tons, or dwt, and Suezmax tankers, which are vessels between 120,000 and 170,000 dwt. The Company also operates LR2/Aframax tankers, which are clean product tankers and range in size from 111,000 to 115,000 dwt. Unless otherwise indicated, all references to "USD", "US\$" and "\$" in this annual report are U.S. dollars.*

#### **A. SELECTED FINANCIAL DATA**

On July 1, 2015, the Company, Frontline Acquisition Ltd, or Frontline Acquisition, a newly formed and wholly-owned subsidiary of the Company, and Frontline 2012 Ltd, or Frontline 2012, entered into an agreement and plan of merger, (as amended from time to time, the "Merger Agreement") pursuant to which Frontline Acquisition and Frontline 2012 agreed to enter into a merger transaction, or the Merger, with Frontline 2012 as the surviving legal entity and thus becoming a wholly-owned subsidiary of the Company. For accounting purposes, the Merger with Frontline 2012 has been treated as a reverse business acquisition. Because this transaction is accounted for as a reverse business acquisition, the financial statements included in this annual report on Form 20-F for the period through November 30, 2015 are those of Frontline 2012. The financial statements reflect the reverse business acquisition of the Company by Frontline 2012 for the period since November 30, 2015.

The selected statement of operations data of the Company with respect to the fiscal years ended December 31, 2017, 2016 and 2015 and the selected balance sheet data of the Company as of December 31, 2017 and 2016, have been derived from the Company's consolidated financial statements included herein and should be read in conjunction with such statements and the notes thereto. The selected balance sheet data as of December 31, 2015 have been derived from consolidated financial statements of the Company not included herein. The selected statement of operations data with respect to the fiscal year ended December 31, 2014 and 2013, and the selected balance sheet data as of December 31, 2014 and 2013 have been derived from consolidated financial statements of Frontline 2012 not included herein.

The following table should also be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's consolidated financial statements and notes thereto included herein. The Company's accounts are maintained in U.S. dollars.

	Fiscal year ended December 31,				
	2017	2016	2015	2014	2013
<i>(in thousands of \$, except ordinary shares, per share data and ratios)</i>					
<b>Statement of Operations Data (1):</b>					
Total operating revenues	<b>646,326</b>	754,306	458,934	241,826	133,900
Total operating expenses	<b>844,978</b>	574,142	280,639	190,103	125,416
Net operating (loss) income	<b>(196,271)</b>	177,481	287,218	120,712	65,755
Net (loss) income from continuing operations	<b>(264,322)</b>	117,514	255,386	137,414	69,499
Net (loss) income from discontinued operations after non-controlling interest	—	—	(100,701)	12,055	—
Net (loss) income attributable to the Company	<b>(264,861)</b>	117,010	154,624	149,469	69,499
Basic and diluted (loss) earnings per share attributable to the Company from continuing operations (2)	\$ <b>(1.56)</b>	\$ <b>0.75</b>	\$ 2.13	\$ 1.10	\$ 0.61
Basic and diluted (loss) earnings per share attributable to the Company from discontinued operations (2)	\$ —	\$ —	\$ (0.84)	\$ 0.10	\$ —
Basic and diluted (loss) earnings per share attributable to the Company (2)	\$ <b>(1.56)</b>	\$ <b>0.75</b>	\$ 1.29	\$ 1.19	\$ 0.61
Dividends per share declared (2) (3)	\$ <b>0.30</b>	\$ <b>1.05</b>	\$ 0.25	\$ 4.46	\$ 0.64

	Fiscal year ended December 31,				
	2017	2016	2015	2014	2013
<i>(in thousands of \$, except ordinary shares and ratios)</i>					
<b>Balance Sheet Data (at end of year) (1):</b>					
Cash and cash equivalents	<b>104,145</b>	202,402	264,524	235,801	347,749
Newbuildings	<b>79,602</b>	308,324	266,233	227,050	252,753
Vessels and equipment, net	<b>2,342,130</b>	1,477,395	1,189,198	861,919	703,061
Vessels and equipment under capital lease, net	<b>251,698</b>	536,433	694,226	—	—
Investment in associated company	—	—	—	59,448	90,724
Total assets	<b>3,133,728</b>	2,966,317	2,883,468	2,497,005	1,671,680
Short-term debt and current portion of long-term debt	<b>113,078</b>	67,365	57,575	44,052	90,492
Current portion of obligations under capital leases	<b>43,316</b>	56,505	89,798	—	—
Long-term debt (7)	<b>1,467,074</b>	914,592	745,695	468,760	499,671
Obligations under capital leases	<b>255,700</b>	366,095	446,553	—	—
Share capital	<b>169,809</b>	169,809	781,938	635,205	635,205
Total equity attributable to the Company	<b>1,187,308</b>	1,499,601	1,446,282	1,123,580	1,063,157
Ordinary shares outstanding (000s) (2)	<b>169,809</b>	169,809	156,387	116,712	127,041
Weighted average ordinary shares outstanding (000s) (2)	<b>169,809</b>	156,973	120,082	125,189	114,377
<b>Other Financial Data:</b>					
Equity to assets ratio (percentage) (4)	<b>37.9%</b>	50.6%	50.2%	45.0%	63.6%
Debt to equity ratio (5)	<b>1.6</b>	0.9	0.9	0.5	0.6
Price earnings ratio (6)	<b>(2.9)</b>	9.5	11.6	8.8	26.2
Time charter equivalent revenue (8)	<b>365,059</b>	566,701	342,773	136,503	70,462

Notes:

1. Frontline 2012 determined that the stock dividend of 75.4 million of its shares in Golden Ocean Group Limited (formerly Knightsbridge Shipping Limited, NASDAQ: VLCCF), or Golden Ocean, in June 2015 represented a significant strategic shift in its business and, therefore, recorded the results of its dry bulk operations as discontinued operations in the years ended December 31, 2015 and 2014. The balance sheet at December 31, 2014 has also been presented on a discontinued operations basis.
2. Earnings and dividends per share amounts, the number of ordinary shares outstanding and the weighted average ordinary shares outstanding have been restated to reflect the effect of the reverse business acquisition on November 30, 2015 and the 1-for-5 reverse share split that was effected on February 3, 2016.
3. In June 2015, Frontline 2012 paid a stock dividend consisting of 75.4 million Golden Ocean shares. In March 2015, Frontline 2012 paid a stock dividend consisting of 4.1 million shares of Avance Gas Holding Limited, or Avance Gas. In October 2013, Frontline 2012 declared the distribution of a dividend consisting of 12.5% of the capital stock of Avance Gas.
4. Equity-to-assets ratio is calculated as total equity attributable to the Company divided by total assets.
5. Debt-to-equity ratio is calculated as total interest bearing current and long-term liabilities, including obligations under capital leases, divided by total equity attributable to the Company.
6. Price earnings ratio is calculated by dividing the closing year end share price by basic earnings per share attributable to the Company. For 2014 and 2013 the price earnings ratio has been calculated by dividing the closing year end share price for Frontline 2012 by basic earnings per share attributable to the Company. Each year end share price has been adjusted for the 1-for-5 reverse share split in February 2016 and the share prices at the end of 2014 and 2013 have been adjusted for the share exchange ratio in the Merger.
7. The Company has recorded debt issuance costs (i.e. deferred charges) as a direct deduction from the carrying amount of the related debt rather than as an asset following its adoption of Accounting Standards Update 2015-03 and has applied this on a retrospective basis for all periods presented.
8. A reconciliation of time charter equivalent revenues to total operating revenues as reflected in the Consolidated Statements of Operations is as follows:

<i>(in thousands of \$)</i>	<b>2017</b>	2016	2015	2014	2013
Total operating revenues	<b>646,326</b>	754,306	458,934	241,826	133,900
Less:					
Finance lease interest income	<b>(1,748)</b>	(2,194)	(577)	—	—
Other income	<b>(20,185)</b>	(23,770)	(5,878)	(1,615)	—
Voyage expenses and commissions	<b>(259,334)</b>	(161,641)	(109,706)	(103,708)	(63,438)
Time charter equivalent revenue	<b>365,059</b>	566,701	342,773	136,503	70,462

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

## **B. CAPITALIZATION AND INDEBTEDNESS**



Not applicable.

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

Not applicable.

## **D. RISK FACTORS**

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

### **Risks Related to Our Industry**

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

Historically, the tanker industry has been highly cyclical, with volatility in profitability, charter rates and asset values resulting from changes in the supply of, and demand for, tanker capacity. Fluctuations in charter rates and tanker values result from changes in the supply of and demand for tanker capacity and changes in the supply of and demand for oil and oil products. These factors may adversely affect the rates payable and the amounts we receive in respect of our vessels. Our ability to re-charter our vessels on the expiration or termination of their current spot and time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the tanker market and we cannot guarantee that any renewal or replacement charters we enter into will be sufficient to allow us to operate our vessels profitably.

The factors that influence demand for tanker capacity include:

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

The factors that influence the supply of tanker capacity include:

- current and expected purchase orders for tankers;
- the number of tanker newbuilding deliveries;
- any potential delays in the delivery of newbuilding vessels and/or cancellations of newbuilding orders;
- the scrapping rate of older tankers;

- technological advances in tanker design and capacity;
- tanker freight rates, which are affected by factors that may affect the rate of newbuilding, swapping and laying up of tankers;
- port and canal congestion;
- price of steel and vessel equipment;
- conversion of tankers to other uses or conversion of other vessels to tankers;
- the number of tankers that are out of service; and
- changes in environmental and other regulations that may limit the useful lives of tankers.

The factors affecting the supply and demand for tankers have been volatile and are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable, including those discussed above. Market conditions were volatile in 2017 and continued volatility may reduce demand for transportation of oil over longer distances and increase supply of tankers to carry that oil, which may have a material adverse effect on our business, financial condition, results of operations, cash flows, ability to pay dividends and existing contractual obligations.

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

The demand for our oil tankers derives primarily from demand for Arabian Gulf, West African, North Sea and Caribbean crude oil, which, in turn, primarily depends on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, social and other factors can significantly affect the strength of the world's industrial economies and their demand for crude oil from the mentioned geographical areas. Any decrease in shipments of crude oil from the above mentioned geographical areas would have a material adverse effect on our financial performance. Among the factors which could lead to such a decrease are:

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

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

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

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

***A shift in consumer demand from oil towards other energy sources or changes to trade patterns for crude oil or refined oil products may have a material adverse effect on our business.***

A significant portion of our earnings are related to the oil industry. A shift in the consumer demand from oil towards other energy resources such as wind energy, solar energy, or water energy will potentially affect the demand for our tankers. This could have a material adverse effect on our future performance, results of operations, cash flows and financial position.

Seaborne trading and distribution patterns are primarily influenced by the relative advantage of the various sources of production, locations of consumption, pricing differentials and seasonality. Changes to the trade patterns of crude oil or refined oil products may have a significant negative or positive impact on the ton-mile and therefore the demand for our tankers. This could have a material adverse effect on our future performance, results of operations, cash flows and financial position.

***The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.***

We expect that our vessels will call in ports where smugglers attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face governmental or other regulatory claims which could have an adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

***Technological innovation could reduce our charterhire income and the value of our vessels.***

The charterhire rates and the value and operational life of a vessel are determined by a number of factors including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to load and discharge cargo quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. The length of a vessel's physical life is related to its original design and construction, its maintenance and the impact of the stress of operations. If new tankers are built that are more efficient or more flexible or have longer physical lives than our vessels, competition from these more technologically advanced vessels could adversely affect the amount of charterhire payments we receive for our vessels and the resale value of our vessels could significantly decrease. As a result, our available cash could be adversely affected.

***We rely on our information systems to conduct our business, and failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.***

The efficient operation of our business, including processing, transmitting and storing electronic and financial information, is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. We rely on industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased operating costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our business and results of operations.

## **Risks Related to Shipping Generally**

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

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

- a marine disaster;
- terrorism;

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

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

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

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

The European Union continues to experience relatively slow growth. Since the beginning of the financial crisis in 2008, the credit markets in Europe have experienced significant contraction, de-leveraging and reduced liquidity. While credit conditions are beginning to stabilize, global financial markets have been, and continue to be, disrupted and volatile.

Continued economic slowdown in the Asia Pacific region, especially in China, may exacerbate the effect on us of the recent slowdown in the rest of the world. In recent history, China has had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP for the year ended December 31, 2017, however, is estimated to be around 6.9%, which is above the 26-year low of 6.7% in 2016, but still slow. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Our financial condition and results of operations, as well as our future prospects, would likely be impeded by a continuing or worsening economic downturn in any of these countries.

***If economic conditions throughout the world deteriorate or become more volatile, it could impede our operations.***

Our ability to secure funding is dependent on well-functioning capital markets and on an appetite to provide funding to the shipping industry. At present, capital markets are well-functioning and funding is available for the shipping industry. However, if global economic conditions worsen or lenders for any reason decide not to provide debt financing to us, we may not be able to secure additional financing to the extent required, on acceptable terms or at all. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due, or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

The world economy faces a number of challenges, including the effects of volatile oil prices, continuing turmoil and hostilities in the Middle East, the Korean Peninsula, North Africa and other geographic areas and countries. If one or more of the major national or regional economies should weaken, there is a substantial risk that such a downturn will impact the world economy. There has historically been a strong link between the development of the world economy and demand for energy, including oil and gas.

In Europe, large sovereign debts and fiscal deficits, low growth prospects and high unemployment rates in a number of countries have contributed to the rise of Eurosceptic parties, which would like their countries to leave the Euro. The exit of the United Kingdom from the European Union and potential new trade policies in the United States further increase the risk of additional trade protectionism.

In China, a transformation of the Chinese economy is underway, as China transforms from a production-driven economy towards a service or consumer-driven economy. The Chinese economic transition implies that we do not expect the Chinese economy to return to double digit GDP growth rates in the near term. According to the International Monetary Fund, the growth rate of China's GDP is expected to decrease to 6.8% for the year ending December 31, 2017. Furthermore, there is a rising threat of a Chinese financial crisis resulting from massive personal and corporate indebtedness.

While the recent developments in Europe and China have been without significant immediate impact on our charter rates, an extended period of deterioration in the world economy could reduce the overall demand for our services. Such changes could adversely affect our future performance, results of operations, cash flows and financial position.

Credit markets in the United States and Europe have in the past experienced significant contraction, de-leveraging and reduced liquidity, and there is a risk that U.S. federal government and state governments and European authorities continue to implement a broad variety of governmental action and/or new regulation of the financial markets. Global financial markets and economic conditions have been, and continue to be, volatile.

We face risks attendant to changes in economic environments, changes in interest rates and instability in the banking and securities markets around the world, among other factors. We cannot predict how long the current market conditions will last. These recent and developing economic and governmental factors may have a material adverse effect on our results of operations and financial condition and may cause the price of our common shares to decline.

Prospective investors should consider the potential impact, uncertainty and risk associated with the development in the wider global economy. Further economic downturn in any of these countries could have a material effect on our future performance, results of operations, cash flows and financial position.

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

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

#### ***World events could affect our operations and financial results***

Past terrorist attacks, as well as the threat of future terrorist attacks around the world, continue to cause uncertainty in the world's financial markets and may affect our business, operating results and financial condition. Continuing conflicts, instability and other recent developments in the Middle East and elsewhere, and the presence of U.S. or other armed forces in Afghanistan and Syria, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. Any of these occurrences could have a material adverse impact on our business, financial condition and results of operations.

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

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, such as Iran, Sudan and Syria. In the past, certain of our vessels have made port calls to Iran and eight of our vessels made 13 port calls in total to Iran during 2017. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. With effect from July 1, 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies, such as ours, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, on May 1, 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

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

On July 14, 2015, the P5+1 and the EU announced that they reached a landmark agreement with Iran titled the Joint Comprehensive Plan of Action Regarding the Islamic Republic of Iran's Nuclear Program (the "JCPOA"), which is intended to significantly restrict Iran's ability to develop and produce nuclear weapons for 10 years while simultaneously easing sanctions directed toward non-U.S. persons for conduct involving Iran, but taking place outside of U.S. jurisdiction and does not involve U.S. persons. On January 16, 2016 ("Implementation Day"), the United States joined the EU and the UN in lifting a significant number of their nuclear-related sanctions on Iran following an announcement by the International Atomic Energy Agency ("IAEA") that Iran had satisfied its respective obligations under the JCPOA.

U.S. sanctions prohibiting certain conduct that is now permitted under the JCPOA have not actually been repealed or permanently terminated at this time. Rather, the U.S. government has implemented changes to the sanctions regime by: (1) issuing waivers of certain statutory sanctions provisions; (2) committing to refrain from exercising certain discretionary sanctions authorities; (3) removing certain individuals and entities from OFAC's sanctions lists; and (4) revoking certain Executive Orders and specified sections of Executive Orders. These sanctions will not be permanently "lifted" until the earlier of "Transition Day," set to occur on October 20, 2023, or upon a report from the IAEA stating that all nuclear material in Iran is being used for peaceful activities. On October 13, 2017, the U.S. President announced that he would not certify Iran's compliance with the JCPOA. This did not withdraw the U.S. from the JCPOA or reinstate any sanctions. However, the U.S.

President must periodically renew sanctions waivers and his refusal to do so could result in the reinstatement of certain sanctions currently suspended under the JCPOA.

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

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

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

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

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

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

Our operations will be subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, European Union regulations, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Clean Air Act, the U.S. Clean Water Act, the International Maritime Organization, or IMO, International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the IMO International Convention on Civil Liability for Bunker Oil Pollution Damage, the IMO International Convention for the Prevention of Pollution from Ships of 1973, generally referred to as MARPOL, the IMO International Convention for the Safety of Life at Sea of 1974, generally referred to as SOLAS, the IMO International Convention on Load Lines of 1966 and the U.S. Maritime Transportation Security Act of 2002, or the MTSA. Compliance with such laws and regulations, where applicable, may require installation of costly equipment or

operational changes and may affect the resale value or useful lives of our vessels. Compliance with such laws and regulations may require us to obtain certain permits or authorizations prior to commencing operations. Failure to obtain such permits or authorizations could materially impact our business results of operations, financial conditions and ability to pay dividends by delaying or limiting our ability to accept charterers. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. Additionally, we cannot predict the cost of compliance with any new regulations that may be promulgated as a result of the 2010 BP plc *Deepwater Horizon* oil spill in the Gulf of Mexico or other similar incidents in the future. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention was adopted by the required number of states and entered into force on September 8, 2017. Details about the BWM Convention are further discussed in the Environmental and Other Regulations section.

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

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

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

***Regulations relating to ballast water discharge coming into effect during September 2019 may adversely effect our revenues and profitability.***

The IMO has imposed updated guideline of ballast water management systems specifying the maximum amount of viable organisms allowed to be discharged from a vessel's ballast water. Depending on the date of the IOPP (as defined below) renewal survey, existing vessels must comply with the updated D-2 standard on or after September 8, 2019. For most vessels, compliance with the D-2 standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. We currently have 23 vessels that do not comply with the updated guideline and costs of compliance may be substantial and adversely affect our revenues and profitability.



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

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

In addition, in jurisdictions where the "sister ship" theory of liability applies, such as South Africa, a claimant may arrest the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

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

A government of a vessel's registry could requisition for title or seize one or more of our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition one or more of our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

**Risks Related to Our Business**

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

As of December 31, 2017, we had \$1,592.4 million of outstanding debt. Our outstanding debt requires us or our subsidiaries to maintain the following financial covenants; value-adjusted equity, positive working capital, and a certain level of free cash.

Because some of these ratios are dependent on the market value of vessels, should charter rates or vessel values materially decline in the future, we may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet any such financial ratios and satisfy any such financial covenants. Events beyond our control, including changes in the economic and business conditions in the shipping markets in which we operate, may affect our ability to comply with these covenants. We cannot assure you that we will meet these ratios or satisfy our financial or other covenants or that our lenders will waive any failure to do so.

These financial and other covenants may adversely affect our ability to finance future operations or limit our ability to pursue certain business opportunities or take certain corporate actions. The covenants may also restrict our flexibility in planning for changes in our business and the industry and make us more vulnerable to economic downturns and adverse developments. A breach of any of the covenants in, or our inability to maintain the required financial ratios under the credit facilities would prevent us from borrowing additional money under our credit facilities and could result in a default under our credit facilities. If a default occurs under our credit facilities, the lenders could elect to declare the issued and outstanding debt, together with accrued interest and other fees, to be immediately due and payable and foreclose on the collateral securing that debt, which could constitute all or substantially all of our assets.

***Delays or defaults by the shipyards in the construction of our newbuildings could increase our expenses and diminish our net income and cash flows***

As of December 31, 2017, we had contracts for 5 newbuilding vessels. These vessels are scheduled to be delivered to us through April 2019. Vessel construction projects are generally subject to risks of delay that are inherent in any large

construction project, which may be caused by numerous factors, including shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment or shipyard construction, failure of equipment to meet quality and/or performance standards, financial or operating difficulties experienced by equipment vendors or the shipyard, unanticipated actual or purported change orders, inability to obtain required permits or approvals, design or engineering changes and work stoppages and other labor disputes, adverse weather conditions or any other events of force majeure. Significant delays could adversely affect our financial position, results of operations and cash flows. Additionally, failure to complete a project on time may result in the delay of revenue from that vessel, and we will continue to incur costs and expenses related to delayed vessels, such as supervision expense and interest expense for the issued and outstanding debt.

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

As of December 31, 2017, 47 of the 53 vessels, which are owned, leased or chartered-in by us, were employed in the spot market and we are therefore exposed to fluctuations in spot market charter rates. Historically, the tanker market has been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. The spot market may fluctuate significantly based upon supply and demand of vessels and cargoes. The successful operation of our vessels in the competitive spot market depends upon, among other things, obtaining profitable charters and minimizing, to the extent possible, time spent waiting for charters and time spent in ballast. The spot market is very volatile, and, in the past, there have been periods when spot rates have declined below the operating cost of vessels. If future spot market rates decline, then we may be unable to operate our vessels trading in the spot market profitably, meet our obligations, including payments on indebtedness, or to pay dividends in the future. Furthermore, as charter rates in the spot market are fixed for a single voyage, which may last up to several weeks, during periods in which charter rates are rising, we will generally experience delays in realizing the benefits from such increases.

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

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

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

When we enter into a time charter, the rates under that charter are fixed for the term of the charter. If the spot market rates or short-term time charter rates in the tanker industry become significantly lower than the time charter equivalent rates that some of our charterers are obligated to pay us under our existing charters, the charterers may have incentive to default under that charter or attempt to renegotiate the charter. If our charterers fail to pay their obligations, we would have to attempt to re-charter our vessels, which if re-chartered at lower rates, may affect our ability to operate our vessels profitably and may affect our ability to comply with current or future covenants contained in our loan agreements.

Further, if the charterer of a vessel in our fleet that is used as collateral under any loan agreement enters into default on its charter obligations to us, such default may constitute an event of default under such loan agreement, which could allow the bank to exercise remedies under the loan agreement. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our

business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and compliance with current or future covenants in our loan agreements.

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

For vessels on voyage charters, fuel oil, or bunkers, is a significant, if not the largest, expense. Changes in the price of fuel may adversely affect our profitability to the extent we have vessels on voyage charters. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries, or OPEC, and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Any future increase in the cost of fuel may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

***The operation of tankers involve certain unique operational risks***

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

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

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

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

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

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine technology. Governmental

regulations, safety and other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to some of our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. As a result, regulations and standards could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to pay dividends.

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

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

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

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

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

During the period a vessel is subject to a time charter, we will not be permitted to sell it to take advantage of increases in vessel values without the charterers' agreement. If we sell a vessel at a time when ship prices have fallen, the sale may be at less than the vessel's carrying amount on our financial statements, with the result that we could incur a loss and a reduction in earnings. In addition, if we determine at any time that a vessel's future limited useful life and earnings require us to impair its value on our financial statements, that could result in a charge against our earnings and a reduction of our shareholders' equity. We recorded an impairment charge of \$164.2 million in the year ended December 31, 2017, in relation to our leased vessels. It is possible that the market value of our vessels will continue to decline in the future and could adversely affect our ability to comply with current or future financial covenants contained in our loan agreements or other financing arrangements. Any impairment charges incurred as a result of declines in charter rates and other market deterioration could negatively affect our business, financial condition, operating results or the trading price of our ordinary shares.

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

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

The operation of tankers and transportation of crude and petroleum products is extremely competitive. Through our operating subsidiaries we compete with other vessel owners (including major oil companies as well as independent companies), and, to a

lesser extent, owners of other size vessels. The tanker market is highly fragmented. It is possible that we could not obtain suitable employment for our vessels, which could adversely affect our results of operations and financial position.

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

As of December 31, 2017, 6 of the 53 vessels, which are owned, leased or chartered-in by us, were employed on fixed rate time charters. While our fixed rate time charters generally provide reliable revenues, they also limit the portion of our fleet available for spot market voyages during an upswing in the tanker industry cycle, when spot market voyages might be more profitable. By the same token, we cannot assure you that we will be able to successfully employ our vessels in the future at rates sufficient to allow us to operate our business profitably or meet our obligations. A decline in charter or spot rates or a failure to successfully charter our vessels could have a material adverse effect on our business, financial condition, results of operation and ability to pay dividends.

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

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

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

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

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

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

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

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977, or the FCPA. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

### ***Risks Related to Our Company***

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

In December 2015, our Board of Directors, or our Board, approved implementing a dividend policy to distribute quarterly dividends to shareholders equal to or close to earnings per share adjusted for non-recurring items. In 2017, we declared dividends of \$0.15 per share for the fourth quarter of 2016, \$0.15 per share for the first quarter of 2017 and no dividends for the second, third and fourth quarters of 2017. The amount and timing of dividends will depend on our earnings, financial condition, cash position, Bermuda law affecting the payment of distributions and other factors. However, we could incur other expenses or contingent liabilities that would reduce or eliminate the cash available for distribution by us as dividends. In addition, the timing and amount of dividends, if any, is at the discretion of our Board. We cannot guarantee that our Board will declare dividends in the future.

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

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

#### ***We may be required to record a further goodwill impairment loss, which could have a material adverse effect on our results of operations and financial position***

We recorded goodwill of \$225.3 million in 2015 in connection with the Merger. We are required to assess goodwill for impairment at least on an annual basis, or more frequently, if indicators are present or changes in circumstances suggest that impairment may exist. Our future operating performance may be affected by potential impairment charges related to goodwill. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. In evaluating the potential for impairment, we make assumptions and estimates regarding revenue projections, growth rates, cash flows, tax rates, and discount rates, which are uncertain and by nature may vary from actual results and are based on factors that are beyond our control.

In 2017 our assessment of goodwill for impairment resulted in us recording an impairment loss of \$112.8 million. As of December 31, 2017, we had \$112.5 million of goodwill on our balance sheet. Any further goodwill impairment loss would negatively impact our results of operations and financial position.

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

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As of December 31, 2017, the average age of our tanker fleet, owned, leased or chartered-in by us, is approximately five years. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates also increase with the age of a vessel,

making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which our vessels may engage. As our vessels age, market conditions might not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

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

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

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

As of December 31, 2017, Hemen Holding Ltd, or Hemen, a Cyprus holding company, indirectly controlled by trusts established by our Chairman and President, Mr. Fredriksen, for the benefit of his immediate family, owns approximately 48.4% of our outstanding ordinary shares. For so long as Hemen owns a significant percentage of our outstanding ordinary shares, it may be able to exercise significant influence over us and will be able to strongly influence the outcome of shareholder votes on other matters, including the adoption or amendment of provisions in our articles of incorporation or bye-laws and approval of possible mergers, amalgamations, control transactions and other significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, merger, amalgamations, consolidation, takeover or other business combination. This concentration of ownership could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our ordinary shares. Hemen, may not necessarily act in accordance with the best interests of other shareholders. The interests of Hemen may not coincide with the interests of other holders of our ordinary shares. To the extent that conflicts of interests may arise, Hemen may vote in a manner adverse to us or to you or other holders of our securities.

***We may be unable to attract and retain key management personnel in the tanker industry, which may negatively impact the effectiveness of our management and our results of operation***

Our success depends to a significant extent upon the abilities and efforts of our senior executives, and also Mr. Fredriksen, our Chairman and President, for the management of our activities and strategic guidance. While we believe that we have an experienced management team, the loss or unavailability of one or more of our senior executives, and also Mr. Fredriksen, for any extended period of time could have an adverse effect on our business and results of operations.

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

As of December 31, 2017, we employed approximately 128 people in our offices in Bermuda, London, Oslo, Singapore and India. We contract with independent ship managers to manage and operate our vessels, including the crewing of those vessels. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out as we expect and could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.

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

We procure insurance for our fleet against those risks that we believe the shipping industry commonly insures. These insurances include hull and machinery insurance, protection and indemnity insurance, which include environmental damage and pollution insurance coverage, and war risk insurance. We can give no assurance that we will be adequately insured against all risks and we cannot guarantee that any particular claim will be paid.

Although we do not anticipate any difficulty in having our technical manager initially obtain insurance policies for us, we cannot assure you that we will be able to obtain adequate insurance coverage for our vessels in the future or renew such policies on the same or commercially reasonable terms, or at all. For example, more stringent environmental regulations have in the past led to increased costs for, and in the future may result in the lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm our business, results of operations, cash flows, financial condition and ability to pay dividends. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our vessels failing to maintain certification with applicable maritime self-regulatory organizations. Further, we cannot assure you that our insurance policies will cover all losses that we incur, or that disputes over insurance claims will not arise with our insurance carriers. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. In addition, our insurance policies may be subject to limitations and exclusions, which may increase our costs or lower our revenues, which may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

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

We may be subject to increased premium payments, or calls, if the value of our claim records, the claim records of our fleet managers, and/or the claim records of other members of the protection and indemnity associations through which we receive insurance coverage for tort liability (including pollution-related liability) significantly exceed projected claims. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

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

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

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

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

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



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

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

Although there is no direct legal authority under the PFIC rules addressing our method of operation there is substantial legal authority supporting our position consisting of case law and United States Internal Revenue Service, or the IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

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

***We may not qualify for an exemption under Section 883 of the Code, and may therefore have to pay tax on United States source income, which would reduce our earnings***

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

We believe we qualify for this statutory tax exemption for the 2017 taxable year.

However, we may not qualify for exemption under Section 883 in future taxable years. There are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and become subject to United States federal income tax on our United States source shipping income. For example, if Hemen, who we believe to be a non-qualified shareholder, were to, in combination with other non-qualified shareholders, come to own 50% or more of our outstanding ordinary shares for more than half the days during the taxable year, we would not qualify for exemption under Section 883 for such taxable

year. Due to the factual nature of the issues involved, there can be no assurances on our tax-exempt status or that of any of our subsidiaries.

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

***The price of our ordinary shares historically has been volatile***

The trading price and volume of our ordinary shares has been and may continue to be subject to large fluctuations. The market price and volume of our ordinary shares may increase or decrease in response to a number of events and factors, including:

- trends in our industry and the markets in which we operate;
- changes in the market price of the services we provide;
- the introduction of new technologies or products by us or by our competitors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- operating results that vary from the expectations of securities analysts and investors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, financings or capital commitments;
- changes in laws and regulations;
- general economic and competitive conditions; and
- changes in key management personnel.

This volatility may adversely affect the prices of our ordinary shares regardless of our operating performance. To the extent that the price of our ordinary shares declines, our ability to raise funds through the issuance of equity or otherwise use our ordinary shares as consideration will be reduced. These factors may limit our ability to implement our operating and growth plans.

***Future sales of our ordinary shares could have an adverse effect on our share price***

In order to finance our future operations and growth, we may have to incur substantial additional indebtedness and possibly issue additional equity securities. Future ordinary share issuances, directly or indirectly through convertible or exchangeable securities, options or warrants, will generally dilute the ownership interests of our existing ordinary shareholders, including their relative voting rights and could require substantially more cash to maintain the then existing level, if any, of our dividend payments to our ordinary shareholders, as to which no assurance can be given. Preferred shares, if issued, will generally have a preference on dividend payments, which could prohibit or otherwise reduce our ability to pay dividends to our ordinary shareholders. Our debt will be senior in all respects to our ordinary shareholders, will generally include financial and operating covenants with which we will be required to comply and will include acceleration provisions upon defaults thereunder, including our failure to make any debt service payments, and possibly under other debt. Because our decision to issue equity securities or incur debt in the future will depend on a variety of factors, including market conditions and other matters that are beyond our control, we cannot predict or estimate the timing, amount or form of our capital raising activities in the future. Such activities could, however, cause the price of our ordinary shares to decline significantly.

**ITEM 4. INFORMATION ON THE COMPANY**

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

### *The Company*

We are Frontline Ltd., an international shipping company incorporated in Bermuda as an exempted company under the Bermuda Companies Law of 1981 on June 12, 1992 (Company No. EC-17460). On November 30, 2015, the Company and Frontline 2012 completed the Merger in which the Company was the legal acquirer and Frontline 2012 was identified as the accounting acquirer. Frontline 2012 was incorporated in Bermuda on December 12, 2011. Our registered and principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda, and our telephone number at that address is +(1) 441 295 6935. Our ordinary shares are currently listed on the New York Stock Exchange, or the NYSE, and the Oslo Stock Exchange, or the OSE, under the symbol of "FRO".

We are engaged primarily in the ownership and operation of oil and product tankers. We operate through subsidiaries located in Bermuda, India, Liberia, the Marshall Islands, Norway, the United Kingdom and Singapore. We are also involved in the charter, purchase and sale of vessels.

### *Formation of Frontline 2012*

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

### *Avance Gas*

On October 2, 2013, Frontline 2012 entered into an agreement with Stolt-Nielsen Limited, a public company incorporated in Bermuda and listed on the OSE and Sungas Holdings Ltd., a private company incorporated in the British Virgin Islands, whereby Frontline 2012 became a 37.5% shareholder in Avance Gas for a purchase consideration of \$70.7 million. In October 2013, Frontline 2012 declared the distribution of a dividend consisting of 12.5% of the capital stock of Avance Gas. Following the dividend distribution, the conversion of \$33.4 million of shareholder loans to equity and a private placement by Avance Gas of 5,882,352 new shares, Frontline 2012 owned 6,955,975 shares in Avance Gas at December 31, 2013 representing 22.89% of the total number of shares outstanding.

On April 9, 2014, Avance Gas completed an initial public offering, or IPO, of 4,894,262 new ordinary shares. Also on April 9, 2014, Frontline 2012 sold 2,854,985 shares in Avance Gas and following the sale of shares in Avance Gas, Frontline 2012 owned 4,100,990 shares in Avance Gas at December 31, 2014, representing 11.62% of the total number of shares outstanding.

On March 25, 2015, Frontline 2012 paid a stock dividend consisting of 4.1 million Avance Gas shares. All shareholders holding 60.74 shares or more of Frontline 2012, received one share in Avance Gas for every 60.74 shares they held, rounded down to the nearest whole share. The remaining fractional shares were paid in cash. Frontline 2012 retained 112,715 shares and stopped accounting for the investment as an equity method investment at this time as it no longer had significant influence over Avance Gas.

### *Golden Ocean*

On April 3, 2014, Frontline 2012 and Golden Ocean entered into an agreement pursuant to which Frontline 2012 sold all of the shares of 30 SPCs in total, each owning a cash balance and a Capesize newbuilding, to Golden Ocean. The SPCs were sold in April 2014, September 2014 and March 2015. As a result of the sale Golden Ocean issued a total 77.5 million shares to Frontline 2012. Frontline 2012 owned approximately 70% of the total shares outstanding in Golden Ocean as a consequence of

these transactions and accounted for it as a business combination achieved in stages with Frontline 2012 selected as the accounting acquirer.

On October 7, 2014, Golden Ocean and Golden Ocean Group Limited, or the Former Golden Ocean, entered into an agreement and plan of merger. The merger was completed on March 31, 2015, at which time Golden Ocean acquired 100% of the Former Golden Ocean's outstanding shares and the name of Knightsbridge Shipping Limited was changed to Golden Ocean Group Limited. Frontline 2012 de-consolidated Golden Ocean as of March 31, 2015, as its shareholding shareholding in Golden Ocean fell to approximately 45% and commenced equity accounting for its investment in Golden Ocean.

In June 2015, Frontline 2012 paid a stock dividend consisting of 75.4 million Golden Ocean shares. All shareholders holding 3.2142 shares or more, received one share in Golden Ocean for every 3.2142 shares held, rounded down to the nearest whole share. The remaining fractional shares were paid in cash. Frontline 2012 held 77.5 million Golden Ocean shares prior to this stock dividend and retained 2.1 million Golden Ocean shares in respect of the treasury shares held by Frontline 2012. This stock dividend triggered discontinued operations presentation of Frontline 2012's results of operations from Golden Ocean.

#### *The Merger*

On November 30, 2015, pursuant to a Merger Agreement, dated July, 1 2015, between the Company, Frontline Acquisition Ltd., a wholly-owned subsidiary of the Company, and Frontline 2012, the Company completed the Merger with Frontline 2012. The Merger has been 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. Consequently, the Company's historical financial statements (in all subsequent financial statements that reflect the acquisition) will be those of Frontline 2012.

#### *Offering*

On December 16, 2016, the Company completed an offering of 13,422,818 new ordinary shares at \$7.45 per share, or the Offering, generating gross proceeds of \$100.0 million. The Company's largest shareholder, Hemen, guaranteed the Offering and purchased 1,342,281 new ordinary shares in the Offering, corresponding to 10% of the Offering. Upon completion of the Offering, Hemen owns 82,145,703 shares of the Company, or approximately 48.4% of the Company's outstanding ordinary shares.

#### *Vessel Acquisitions, Disposals, Redeliveries and Newbuilding Contracts of the Company*

In January 2015, the Company took delivery of the Suezmax newbuilding, *Front Idun*.

In January 2015, the Company signed newbuilding contracts for two VLCCs, *Front Earl* and *Front Empire*.

The Company took delivery of the LR2/Aframax tanker newbuildings, *Front Panther* and *Front Puma*, in January 2015 and March 2015, respectively.

In April 2015, the Company signed newbuilding contracts for two LR2/Aframax tanker newbuildings *Front Castor* and *Front Pollux*.

In June 2015, the Company took delivery of the fourth LR2/Aframax tanker newbuilding, *Front Tiger*.

In June 2015, the Company cancelled the final two MR newbuilding contracts (hulls D2175 and D2176) at STX Dalian due to the excessive delay compared to the contractual delivery date and demanded payment of installments paid and accrued interest

from STX Dalian and the refund guarantee bank. The carrying cost of hull D2175 and D2176 at the time of cancellation was \$5.8 million per newbuilding, which was transferred to other receivables and settled in August 2015.

In June 2015, the Company signed newbuilding contracts for two VLCCs which were subsequently cancelled in October 2016.

In July 2015, the Company signed newbuilding contracts for two LR2/Aframax tanker newbuildings *Front Capella* and *Front Polaris*.

In September 2015, the Company signed newbuilding contracts for two VLCCs which were subsequently cancelled in October 2016.

In November 2015, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built Suezmax tanker *Mindanao*. The charter with Ship Finance was terminated in December 2015. The Company received a compensation payment of \$3.3 million from Ship Finance for the termination of the charter.

In November 2015, the Company entered into an agreement to purchase two Suezmax tanker newbuilding contracts, *Front Coral* and *Front Crystal*, from Golden Ocean at a purchase price of \$55.7 million per vessel. The transaction was completed in December 2015. The contracts were acquired as a result of the Merger and were valued at \$16.5 million being the excess of the estimated fair value of the contracts less the purchase price.

In January 2016, the Company took delivery of two LR2/Aframax tanker newbuildings, *Front Ocelot* and *Front Cheetah*.

In March 2016, the Company took delivery of two LR2/Aframax tanker newbuildings, *Front Cougar* and *Front Lynx*.

In May 2016, the Company took delivery of the LR2/Aframax tanker newbuilding, *Front Leopard*.

In May 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Vanguard*. The charter with Ship Finance terminated in July 2016. Frontline made a compensation payment to Ship Finance of \$0.4 million for the termination of the charter.

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in 2016 in respect of these vessels.

In June 2016, the Company took delivery of the LR2/Aframax tanker newbuilding, *Front Jaguar*.

In June 2016, the Company acquired two VLCC newbuildings under construction at Hyundai Heavy Industries at a purchase price of \$84.0 million each. The *Front Duke* was delivered to the Company in September 2016 and the *Front Duchess* was delivered to the Company in February 2017.

In August 2016, the Company took delivery of the Suezmax newbuilding, *Front Challenger*.

In September 2016, the Suezmax newbuilding, *Front Crown* and the LR2/Aframax newbuilding, *Front Altair*, were delivered to the Company.

In October 2016, the Company entered into an agreement with STX Offshore & Shipbuilding Co., Ltd in Korea, or STX, to terminate the contracts for four VLCC newbuildings due for delivery in 2017. The contracted price of these vessels was \$364.3 million, of which the Company has paid installments of \$45.5 million. Following the contract terminations, the Company has been released of any and all obligations relating to the contracts, and has received all installment payments made to STX, less a

\$0.5 million cancellation fee per vessel. The Company recorded a loss of \$2.8 million related to the contract terminations in the third quarter of 2016.

In November 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Century* upon the sale and delivery of the vessel to a third party. Ship Finance has simultaneously sold the vessel to an unrelated third party. The charter with Ship Finance terminated in March 2017. The Company agreed a compensation payment to Ship Finance of approximately \$4.1 million for the termination of the current charter.

In January 2017, the Company took delivery of the Suezmax newbuilding *Front Classic* and the LR2/Aframax newbuildings *Front Antares* and *Front Vega*.

In February 2017, the Company took delivery of the VLCC newbuilding *Front Duchess*.

In February 2017, the Company acquired two VLCC newbuildings under construction at Daewoo Shipbuilding & Marine Engineering at a net purchase price of \$77.5 million each. The *Front Prince* was delivered in September 2017 and the *Front Princess* was delivered in January 2018.

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 March 2017, the Company took delivery of the Suezmax newbuilding *Front Clipper*.

In April 2017, the Company took delivery of the Suezmax newbuilding *Front Crystal* and the LR2/Aframax newbuilding *Front Sirius*.

In April 2017, the Company ordered two VLCC newbuildings to be built at Hyundai Samho Heavy Industries. The vessels are due for delivery in December 2018 and April 2019.

In May 2017, the Company took delivery of the Suezmax newbuilding *Front Coral*.

In May 2017, the Company agreed with Ship Finance to terminate the long term charters for the 2000 built VLCC *Front Scilla* and the 1998 built Suezmax tanker *Front Brabant* upon the sale and delivery of the vessels by Ship Finance to unrelated third parties. The charters with Ship Finance terminated in the second quarter. Frontline made compensation payments to Ship Finance of \$6.5 million and \$3.6 million, respectively, for the termination of the charters. The Company recorded a loss on termination, including these termination payments, of \$12.4 million.

In June 2017, the Company took delivery of the Suezmax newbuilding *Front Cosmos* and the LR2/Aframax newbuilding *Front Castor*.

In July 2017, the Company took delivery of the Suezmax newbuilding *Front Cascade* and the VLCC newbuilding *Front Earl*.

In July 2017, the Company agreed with Ship Finance to terminate the long term charter for the 1997 built Suezmax *Front Ardenne* upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in August. Frontline made a compensation payment to Ship Finance of \$4.8 million for the termination of the charter. The Company recorded a loss on termination, including this termination payment, of \$5.8 million.

In August 2017, the Company took delivery of the LR2/Aframax newbuilding *Front Pollux*.

In September 2017, the Company took delivery of the VLCC newbuilding *Front Prince* and the LR2/Aframax newbuilding *Front Capella*.

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

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 will be recorded as an interest-bearing note payable by FSL. The termination will reduce obligations under capital leases by approx. \$20.1 million. The Company expects to record a loss on termination, including this termination payment, of approximately \$5.5 million in the first quarter of 2018.

As of December 31, 2017, the Company's newbuilding program comprised four VLCC newbuildings and one LR2/Aframax tanker newbuildings. In January 2018, the Company took delivery of the VLCC newbuildings *Front Empire* and *Front Princess*, and the LR2/Aframax newbuilding *Front Polaris*. The Company expects to take delivery of the remaining two VLCC newbuildings in December 2018 and April 2019.

## **B. BUSINESS OVERVIEW**

As of December 31, 2017, the Company's fleet consisted of 61 vessels, with an aggregate capacity of approximately 11.6 million DWT. The Company's fleet consisted of:

- (i) 43 vessels owned by the Company (10 VLCCs, 16 Suezmax tankers, 17 LR2/Aframax tankers);
- (ii) nine vessels that are under capital leases, all of which are VLCCs;
- (iii) one VLCC that is recorded as an investment in finance lease;
- (iv) one chartered-in VLCC, where the cost/revenue is split 50/50 with an unrelated third party;
- (v) seven vessels that are under the Company's commercial management (two Suezmax tankers, two LR2 tankers and three Aframax oil tankers)

Furthermore, the Company has five newbuildings under construction: four VLCCs and one LR2/Aframax tanker with an aggregate carrying capacity of 1.3 million DWT.

See Note 30 to our audited Consolidated Financial Statements included herein for changes in our fleet subsequent to December 31, 2017.

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

We own various vessel owning and operating subsidiaries. Our operations take place substantially outside of the United States. Our subsidiaries, therefore, own and operate vessels that may be affected by changes in foreign governments and other economic and political conditions. We are engaged in transporting crude oil and its related refined petroleum products and our vessels operate in the spot and time charter markets. Our VLCCs are specifically designed for the transportation of crude oil and, due to their size, are primarily used to transport crude oil from the Middle East Gulf to the Far East, Northern Europe, the Caribbean and the Louisiana Offshore Oil Port, or LOOP. Our Suezmax tankers are similarly designed for worldwide trading, but the trade for these vessels is mainly in the Atlantic Basin, Middle East and Southeast Asia. Our LR2/ Aframax tankers are designed to be flexible, able to transport primarily refined products, but also fuel and crude oil from smaller ports limited by draft restrictions. The vessels will normally trade between the larger refinery centers around the world, being USG, Middle East, Rotterdam and Singapore.

In October 2014, the Company formed VLCC Chartering Ltd., or VLCC Chartering, a 50/50 joint venture company with Tankers International LLC, or TI, to (i) create a larger fleet with more flexibility and more options for cargo owners and a

single point of contact to access these benefits, (ii) reduce voyage related expenses and thereby improve the net earnings of the VLCCs operated by both owning companies through optimization of voyages, and (iii) reduce carbon emissions as a direct consequence of using less fuel for cargo movements through fleet optimization. VLCC Chartering will serve as manager for our VLCCs and the VLCC fleet of TI.

In June 2016, the Company formed Suezmax Chartering, a commercial joint venture with Diamond S. Shipping LLC and Euronav NV in order to create a single point of contact for cargo owners to access a large fleet of modern Suezmax vessels, traded on the spot market. The Company believes that a larger fleet will provide more flexibility and more options for cargo owners and also reduce voyage related expenses by optimizing vessel selection based on proximity to cargoes, thereby reducing greenhouse gas emissions as a direct consequence of using less fuel for ballasting movements. Suezmax Chartering will serve as manager for our Suezmax tankers and the Suezmax fleet of Euronav and Diamond S. Shipping LLC.

In September 2017, the Company entered into a pooling and commercial management agreement with Mansel Pte Ltd ("Mansel"), pursuant to which both companies agreed to provide two LR2/ Aframax tankers to a revenue sharing arrangement to be commercially managed by Mansel.

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

The tanker industry is highly cyclical, experiencing volatility in profitability, vessel values and freight rates. Freight rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation. Refer to Item 5, "Operating and Financial Review and Prospects-Overview" for a discussion of the tanker market in 2017 and 2018.

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

In August 2009, the Company established SeaTeam Management Pte Ltd, or SeaTeam Management, a ship management company in Singapore. SeaTeam Management is a complement to the external ship management companies currently offering services to the Company and is not a change in the Company's outsourcing strategy. However, we would like to strengthen our position towards our service providers to enhance and secure delivery of high quality service at low cost in the future. SeaTeam Management was certified and received its ISM Document of Compliance by Det Norske Veritas on February 3, 2010 and is an approved ship management company. In addition, the Company opened a crewing company in Chennai, India, in January 2010. SeaTeam Management is a 63.75% owned subsidiary of Frontline.

## **Strategy**

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

We presently operate VLCCs and Suezmax tankers in the crude oil tanker market and LR2/Aframax tankers in the refined product market. Our preferred strategy is to have some fixed charter income coverage for our fleet, predominantly through time charters, and trade the balance of the fleet on the spot market. We focus on minimizing time spent on ballast by "cross trading" our vessels, typically with voyages loading in the Middle East Gulf discharging in Northern Europe, followed by a trans-Atlantic voyage to the U.S. Gulf of Mexico and, finally, a voyage from either the Caribbean or West Africa to the Far



East/Indian Ocean. We believe that operating a certain number of vessels in the spot market, enables us to capitalize on a potentially stronger spot market as well as to serve our main customers on a regular non term basis. We believe that the size of our fleet is important in negotiating terms with our major clients and charterers. We also believe that our large fleet enhances our ability to obtain competitive terms from suppliers, ship repairers and builders and to produce cost savings in chartering and operations.

Our business strategy is primarily based upon the following principles:

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

We continue to have a strategy of outsourcing, which includes the outsourcing of management, crewing and accounting services to a number of independent and competing suppliers. The technical management of our vessels is provided by independent ship management companies as well as our subsidiary, SeaTeam Management. Pursuant to management agreements, each of the independent ship management companies provides ship maintenance, crewing, technical support, shipyard supervision and related services to us. A central part of our strategy is to benchmark operational performance and cost level amongst our ship managers, including SeaTeam Management. Both SeaTeam Management and independent ship managers provide crewing for our vessels. Currently, our vessels are crewed with Russian, Ukrainian, Croatian, Romanian, Indian and Filipino officers and crews, or combinations of these nationalities.

In 2015 the Company opened a new subsidiary in Singapore to capitalize on the Asian market for the transportation of crude and petroleum products. As part of this process, responsibility for the management of voyage operations in relation to our fleet of LR2/Aframax vessels was transferred in-house at the start of 2017. In December 2017, the Company transferred management of voyage operations for its fleet of crude oil tankers in-house, split between its offices in Norway, Singapore and the United Kingdom. The decision to bring voyage operations in house is driven by the need to ensure that our customers receive the highest-quality and most efficient service whilst providing time-zone coverage across all of our vessel types.

### **Seasonality**

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

### **Customers**

No customers individually accounted for 10% or more of the Company's consolidated revenues in the year ended December 31, 2017. Revenues from two customers in the year ended December 31, 2016 accounted for 10% or more of the Company's consolidated revenues in the amounts of \$117.8 million and \$78.0 million. Revenues from one customer in the year ended December 31, 2015 accounted for 10% or more of the Company's consolidated revenues in the amount of \$71.3 million.

### **Competition**

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

### ***Environmental and Other Regulations***

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

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

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict with certainty the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 BP plc *Deepwater Horizon* oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

It should be noted that the U.S. is currently experiencing changes in its environmental policy, the results of which have yet to be fully determined. For example, in April 2017, the U.S. President signed an executive order regarding environmental regulations, specifically targeting the U.S. offshore energy strategy, which may affect parts of the maritime industry and our operations.

Furthermore, recent action by the IMO's Maritime Safety Committee and United States agencies indicate that cybersecurity regulations for the maritime industry are likely to be further developed in the near future in an attempt to combat cybersecurity threats. For example, cyber-risk management systems must be incorporated by ship-owners and managers by 2021. This might cause companies to cultivate additional procedures for monitoring cybersecurity, which could require additional expenses and/or capital expenditures. However, the impact of such regulations is hard to predict at this time.

### ***International Maritime Organization***

The International Maritime Organization, or the IMO, is the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted several international conventions that regulate the international shipping industry,

including but not limited to the International Convention on Civil Liability for Oil Pollution Damage of 1969, amended and replaced by the 1992 protocol, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, and the International Convention for the Prevention of Pollution from Ships of 1973, or the MARPOL. The MARPOL is broken into six Annexes, each of which establishes environmental standards relating to different sources of pollution: Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, which was separately adopted by the IMO, relates to air pollution by ship emissions, including greenhouse gases.

The operation of our vessels is also affected by the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under the International Convention for the Safety of Life at Sea of 1974, or SOLAS. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We intend to rely upon the safety management system that our appointed ship managers have developed.

Noncompliance with the ISM Code or with other IMO regulations may subject a shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports including United States and European Union ports.

#### *Air Emissions*

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits “deliberate emissions” of “ozone depleting substances,” defined to include certain halons and chlorofluorocarbons. “Deliberate emissions” are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship’s repair and maintenance. Emissions of “volatile organic compounds” from certain vessels, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions, known as ECAs (see below). We believe that all our vessels are currently compliant in all material respects with these regulations.

The IMO’s Marine Environment Protection Committee, or MEPC, adopted amendments to Annex VI that entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulfur contained in any fuel oil used on board ships. At MEPC 70, the IMO’s Marine Environment Protection Committee agreed to implement a global 0.5% m/m sulfur oxide emissions limit starting from January 1, 2020. Under the new global cap, ships will have to use fuel oil on board with a sulfur content of no more than 0.50% m/m, against the current limit of 3.50%. This limitation will require ships to use either (i) fuel oil on board with a sulfur content of no more than 0.5% m/m, which can be met by using low-sulfur complaint fuel oil or alternative fuels, or (ii) certain exhaust gas cleaning systems. Once the cap becomes effective, ships will be required to obtain bunker delivery notes stating the Sulphur content and International Air Pollution Prevention (“IAPP”) Certificates by their flag states. This subjects ocean-going vessels in these areas to stringent emissions controls, and may cause us to incur additional costs.

Sulfur content standards are even stricter within certain Emission Control Areas, ECAs. As of January 1, 2015, ships operating within an ECA are not permitted to use fuel with sulfur content in excess of 0.1%. Amended Annex VI establishes procedures for designating new ECAs. Currently, these areas include, but are not limited to, the 200 nautical miles extending from the Atlantic/Gulf coasts of the U.S., Canada and the Hawaiian Islands, as well as applicable areas of the U.S. Caribbean Sea and Europe. This subjects ocean-going vessels in these areas to stringent emissions controls, and may cause us to incur additional costs.

Mandatory energy efficiency standards for new ships, and mandatory operational measures to reduce emission from existing ships, entered into force in 2013, as amendments to MARPOL Annex VI. Under those measures, by 2025, all new ships built

will be 30% more energy efficient than those built in 2014. This included the requirements that all new ships utilize the Energy Efficiency Design Index, EEDI, and that all ships use the Ship Energy Efficiency Management Plan, SEEMP. We believe that all our vessels are currently compliant in all material respects with these regulations. These requirements could cause us to incur additional compliance costs.

If further ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the U.S. Environmental Protection Agency, EPA, or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. At MEPC 70 and MEPC 71, MEPC approved the North Sea and Baltic Sea as ECAs for nitrogen oxide, effective January 1, 2021. The EPA promulgated equivalent (and in some senses stricter) emissions standards in late 2009. It is expected that these areas will be formally designated after draft amendments are presented at MEPC's next session. The EPA promulgated equivalent (and in some senses stricter) emissions standards in late 2009. At the MEPC meeting held from March to April 2014, amendments to Annex VI were adopted which address the date on which Tier III Nitrogen Oxide (NOx), standards in ECAs will go into effect. Under the amendments, Tier III NOx standards apply to ships that operate in North American and U.S. Caribbean Sea ECAs designed for the control of NOx with a marine diesel engine installed and constructed on or after January 1, 2016. Tier III requirements could apply to areas that will be designated for Tier III NOx in the future.

As determined at the MEPC 70, the new Regulation 22A of MARPOL Annex VI will be effective on March 1, 2018 and will require ships above 5,000 gross tonnage to collect and report annual data on fuel oil consumption to an IMO database, with the first data "calendar year" beginning January 1, 2019.

#### *Safety Management System Requirements*

IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. SOLAS amendments that relate to the safe manning of vessels entered into force on January 1, 2014. We believe that all our vessels are in substantial compliance with SOLAS and LL Convention standards. SOLAS amendments regarding emergency training and drills entered into force as of January 1, 2015. Amendments to the Convention on Limitation of Liability for Maritime Claims of 1976 as amended (LLMC) went into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against ship owners. The operation of our ships is also affected by the requirements set forth in the ISM Code, as discussed previously.

#### *Pollution Control and Liability Requirements*

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. For example, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. All ships will also have to carry a ballast water record book and an International Ballast Water Management Certificate. The BWM Convention entered into force on September 9, 2017. The BWM Convention requires ships to manage their ballast water to remove, render harmless, or avoid the uptake or discharge of new or invasive aquatic organisms and pathogens within ballast water and sediments.

Many of the implementation dates originally written in the BWM Convention have already passed, so now that the BWM Convention has entered into force, the period for installation of mandatory ballast water exchange requirements would be extremely short, with several thousand ships a year needing to install ballast water management systems, or BWMS. For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so

that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This, in effect, makes all vessels constructed before the entry into force date “existing vessels” and allows for the installation of a BWMS on such vessels at the first International Oil Pollution Prevention (IOPP) renewal survey following entry into force of the convention. The MEPC adopted updated guidelines for approval of ballast water management systems (G8) at MEPC 70. At MEPC 71, the schedule regarding the BWM Convention’s implementation dates was also discussed and amendments were introduced to extend the date existing vessels are subject to certain ballast water standards. Ships over 400 gross tons generally must comply with a “D-1 standard,” requiring the exchange of ballast water only in open seas and away from coastal waters. The “D-2 standard” specifies the maximum amount of viable organisms allowed to be discharged. Existing vessels must comply with the D2 standard between September 8, 2019, and September 8, 2024. For most ships, compliance with the D2 standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. Costs of compliance may be substantial.

Once mid-ocean ballast exchange ballast water treatment requirements become mandatory, the cost compliance could increase for ocean carriers and the costs of ballast water treatments may be material. However, many countries already regulate the discharge of ballast water carried by vessels from country to country to prevent the introduction of invasive and harmful species via such discharges. The U.S., for example, requires vessels entering its waters from another country to conduct mid-ocean ballast exchange, or undertake some alternate measure, and to comply with certain reporting requirements. The costs of compliance with a mandatory mid-ocean ballast exchange could be material, and it is difficult to predict the overall impact of such a requirement on our operations.

The IMO has also adopted the CLC. Under the CLC and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel’s registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain exceptions. The 1992 Protocol changed certain limits on liability expressed using the International Monetary Fund currency unit, the Special Drawing Rights. The limits on liability have since been amended so that the compensation limits on liability were raised. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner’s actual fault and under the 1992 Protocol where the spill is caused by the shipowner’s intentional or reckless act or omission where the shipowner knew pollution damage would probably result. The CLC requires ships covered by it to maintain insurance covering the liability of the owner in a sum equivalent to an owner’s liability for a single incident. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the LLMC). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship’s bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

Noncompliance with the ISM Code or other IMO regulations may subject the shipowner or bareboat charter to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, certain ports. As of the date of this report, each of our vessels is ISM Code-certified. However, we may not be able to maintain such certification indefinitely.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

## *United States*

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

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all “owners and operators” whose vessels trade with the U.S., its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S.’s territorial sea and its 200 nautical mile exclusive economic zone around the U.S. The U.S. has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, except in limited circumstances, whether on land or at sea. OPA and CERCLA both define “owner and operator” in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are “responsible parties” and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers (fuel). OPA defines these other damages broadly to include:

- (i) injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- (ii) injury to, or economic losses resulting from, the destruction of real and personal property;
- (iii) net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- (iv) loss of subsistence use of natural resources that are injured, destroyed or lost;
- (v) lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- (vi) net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective December 21, 2015, the USCG adjusted the limits of OPA liability to the greater of \$2,200 per gross ton or \$18,796,800 per tanker, other than a single-hull tank vessel that is greater than 3,000 gross tons (subject to periodic adjustments for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsible party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

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

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damages for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from

willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. We plan to comply with the USCG's financial responsibility regulations by providing a certificate of responsibility evidencing sufficient self-insurance.

The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico has resulted in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. For example, on February 24, 2014, the U.S. Bureau of Ocean Energy Management, BOEM, proposed a rule increasing the limits of liability of damages for off-shore facilities under OPA based on inflation. This rule became effective in January 2015. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. In April 2015, it was announced that new regulations are expected to be imposed in the U.S. regarding offshore oil and gas drilling, and the U.S. Bureau of Safety and Environmental Enforcement, BSEE, announced a new Well Control Rule in April 2016; however, pursuant to orders by the U.S. President in early 2017, BSEE announced in August 2017 that this rule would be revised. In December 2015, the BSEE announced a new pilot inspection program for offshore facilities. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business. In January 2018, the U.S. President proposed leasing new sections of U.S. waters to oil and gas companies for offshore drilling, vastly expanding the U.S. waters that are available for such activity over the next five years. The effects of the proposal are currently unknown.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA and some states have enacted legislation providing for unlimited liability for oil spills. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law. Moreover, some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. Yet, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. The Company intends to comply with all applicable state regulations in the ports where the Company's vessels call.

#### ***Other U.S. Environmental Initiatives***

The U.S. Clean Air Act, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. In addition, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law. Moreover, some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. Yet, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws.

The EPA and USCG have enacted rules relating to ballast water discharge, compliance with which requires the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial costs, and/or otherwise restrict our vessels from entering U.S. waters.

The EPA requires a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within U.S. waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, NOI, at least 30 days before the vessel operates in U.S. waters. On March 28, 2013, the EPA re-issued the VGP for another five years (to December 18, 2018). This VGP took effect on December 19, 2013. The VGP focuses on authorizing discharges incidental to operations of commercial vessels and the new VGP contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in U.S. waters, more stringent requirements for exhaust gas scrubbers and requires the use of environmentally acceptable lubricants.



USCG regulations adopted and proposed for adoption under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters, which require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures, and/or may otherwise restrict our vessels from entering U.S. waters. The USCG has implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The USCG must approve any technology before it is placed on a vessel.

As of January 1, 2014, vessels are technically subject to the phasing-in of these standards. However, it was not until December 2016 the USCG first approved said technology. The USCG may also provide waivers to vessels that show why they can not install the new technology. The EPA, on the other hand, has taken a different approach to enforcing ballast discharge standards under the VGP. On December 27, 2013, the EPA issued an enforcement response policy in connection with the new VGP in which the EPA indicated that it would take into account the reasons why vessels do not have the requisite technology installed, but will not grant any waivers. In addition, through the CWA certification provisions that allow U.S. states to place additional conditions on the use of the VGP within state waters, a number of states have proposed or implemented a variety of stricter ballast requirements including, in some states, specific treatment standards. Compliance with these USCG and state regulations could have an adverse impact on the commercial operation of our vessels.

It should also be noted that in October 2015, the Second Circuit Court of Appeals issued a ruling that directed the EPA to redraft the sections of the 2013 VGP that address ballast water. However, the Second Circuit stated that 2013 VGP will remain in effect until the EPA issues a new VGP. In the fall of 2016, sources reported that the EPA indicated it was working on a new VGP. It presently remains unclear how the ballast water requirements set forth by the EPA, the USCG, and IMO BWM Convention, some of which are in effect and some which are pending, will co-exist. On October 9, 2015, the Sixth Circuit Court of Appeals stayed the Waters of the United States rule (WOTUS), which aimed to expand the regulatory definition of “waters of the United States,” pending further action of the court. In response, regulations have continued to be implemented as they were prior to the stay on a case-by-case basis. On February 28, 2017, the U.S. President issued an executive order directing the EPA and U.S. Army Corps of Engineers to review the WOTUS and publish a proposed rule rescinding or revising the rule. The EPA and Army Corps of Engineers are currently in the process of rulemaking pursuant to the President’s order. The effect of future actions in these cases upon our operations is unknown.

USCG has set up requirements for ships constructed before December 1, 2013 with ballast tanks trading with exclusive economic zones of the U.S. to install water ballast treatment systems as follows: (1) ballast capacity 1,500-5,000m<sup>3</sup>-first scheduled drydock after January 1, 2014; and (2) ballast capacity above 5,000m<sup>3</sup>-first scheduled drydock after January 1, 2016. All of our vessels have ballast capacities over 5,000m<sup>3</sup>, and those of our vessels trading in the U.S. will have to install water ballast treatment plants at their first drydock after January 1, 2016, unless an extension is granted by the USCG.

### ***European Union***

In October 2009, the EU amended a previously adopted directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

The EU has implemented regulations requiring vessels to use reduced sulfur content fuel for their main and auxiliary engines. The EU Directive 2005/EC/33 (amending Directive 1999/32/EC) introduced requirements parallel to those in Annex VI relating to the sulfur content of marine fuels. In addition, the EU imposed a 0.1% maximum sulfur requirement for fuel used by ships at berth in EU ports, lasting until 2020.

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

### ***Greenhouse Gas Regulation***

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, UNFCCC, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. International negotiations are continuing with respect to a successor to the Kyoto Protocol, which set emission reduction targets through 2012 and has been extended with new targets through 2020 pending negotiation of a new climate change treaty that would take effect in 2020. Restrictions on shipping emissions may be included in any new treaty. In December 2009, more than 27 nations, including the U.S. and China, signed the Copenhagen Accord, which includes a non-binding commitment to reduce greenhouse gas emissions. The 2015 United Nations Climate Change Conference in Paris resulted in the Paris Agreement, which entered into force on November 4, 2016. The Paris Agreement does not directly limit greenhouse gas emissions from ships. On June 1, 2017, the U.S. President announced that it is withdrawing from the Paris Agreement. The timing and effect of such action has yet to be determined.

At MEPC 70 and MEPC 71, a draft outline of the structure of the initial strategy for developing a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships was approved. In accordance with this roadmap, initial IMO strategy for reduction of greenhouse gas emissions needs to be developed by MEPC 72, which will be held in April 2018. The IMO may implement market-based mechanisms to reduce greenhouse gas emissions from ships at the upcoming MEPC session.

On January 1, 2013, two new sets of mandatory requirements to address greenhouse gas emissions from ships adopted by the MEPC as amendments to MARPOL Annex VI, entered into force. Currently operating ships are now required to develop and implement Ship Energy Efficiency Management Plans, or SEEMPs, and the new ships to be designed in compliance with minimum energy efficiency levels per capacity mile as defined by the Energy Efficiency Design Index, or EEDI. Under these measures, by 2025, all new ships built will be 25% more energy efficient than those built in 2014. These requirements could cause us to incur additional compliance costs.

Starting in January 2018, large ships calling at European ports are required to collect and publish data on carbon dioxide emissions. In June 2013, the European Commission developed a strategy to integrate maritime emissions into the overall EU strategy to reduce greenhouse gas emissions. For 2020, the EU made a unilateral commitment to reduce overall greenhouse gas emissions from its member states from 20% of 1990 levels. The EU also committed to reduce its emissions by 20% under the Kyoto Protocol's second period, from 2013 to 2020. In December 2013, the EU environmental ministers discussed draft rules to implement monitoring and reporting of carbon dioxide emissions from ships.

In the U.S., the EPA has issued a final finding that greenhouse gases threaten public health and safety, and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and proposed regulations to limit greenhouse gas emissions from certain large stationary sources. However, in April 2017, the U.S. President signed an executive order to review and possibly eliminate the EPA's plan to cut greenhouse gas emissions. Although the mobile source emission regulations do not apply to greenhouse gas emissions from vessels, the EPA or U.S. states could enact environmental regulations that would affect our operations. For example, California has introduced caps for greenhouse gas emissions and, in the end of 2016, signalled it may take additional action regarding climate change. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, including market-based instruments.

On June 29, 2017, the Global Industry Alliance, or GIA, was officially inaugurated. The GIA is a program, under the Global Environmental Facility-United Nations Development Program-IMO Project, which supports shipping, and related industries, as

they move towards a low carbon future. Organizations including, but not limited to, shipowners, operators, classification societies, and oil companies, signed to launch the GIA.

Any passage of climate change legislation or other regulatory initiatives by the EU, U.S., IMO or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol or Paris Agreement, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels that we cannot predict with certainty at this time. Even in the absence of climate control legislation and regulations, our businesses may be materially affected to the extent that climate change may result in sea level changes or more intense weather events.

### ***International Labor Organization***

The International Labor Organization, the ILO, a specialized agency of the UN, has adopted the Maritime Labor Convention 2006, or MLC 2006. A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. On August 20, 2012, the required number of countries met and MLC 2006 entered into force on August 20, 2013. Amendments to MLC 2006 were adopted in 2014 and 2016. All our vessels are in compliance with and are certified to meet MLC 2006.

### ***Vessel Security Regulations***

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security such as the U.S. Maritime Transportation Security Act of 2002, or the MTSA. To implement certain portions of the MTSA, the USCG issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the EPA.

Similarly, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. Chapter XI-2 imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism.

To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized organization (RO) approved by the vessel's flag state. The following are among the various requirements, some of which are found in SOLAS:

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

A ship operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port or refused entry at port. Amendments to SOLAS Chapter VII apply to vessels transporting dangerous goods and require those vessels to be in compliance with the International Maritime Dangerous Goods Code, or IMDG Code. As of January 1, 2016, the

IMDG Code also includes updates to the provisions for radioactive material, reflecting the latest 2012 provisions from the International Atomic Energy Agency (IAEA), new marking requirements for “overpack” and “salvage” and updates to various individual packing requirements. The IMO has also adopted the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, or STCW, which mandates certain requirements for security training and certifications. Flag states that have ratified SOLAS and STCW generally employ the classification societies, which have incorporated SOLAS and STCW requirements into their class rules, to undertake surveys to confirm compliance.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The USCG regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel’s compliance with SOLAS security requirements and the ISPS Code. Our vessels are in compliance with the various security measures addressed by the MTSA, SOLAS and the ISPS Code. We do not believe these additional requirements will have a material financial impact on our operations.

### ***Inspection by Classification Societies***

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS. Most insurance underwriters make it a condition for insurance coverage and lending that a vessel be certified “in class” by a classification society which is a member of the International Association of Classification Societies, the IACS. IACS has adopted harmonized Common Structural Rules, or the Rules, which apply to oil tankers and bulk carriers constructed on or after July 1, 2015. The Rules attempt to create a level of consistency between IACS Societies. Our vessels are currently classed with Germanischer Lloyd Register, Bureau Veritas and Nippon Kaiji Kyokai. ISM and ISPS certification have been awarded by Bureau Veritas and the Panama Maritime Authority to our vessels and to Eurobulk, one of our ship management companies.

A vessel must undergo annual surveys, intermediate surveys, drydockings and special surveys. In lieu of a special survey, a vessel’s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Every vessel is also required to be drydocked every 30 to 36 months for inspection of the underwater parts of the vessel. Vessels under five years of age can waive dry docking in order to increase available days and decrease capital expenditures, provided the vessel is inspected underwater. If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, drydocking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable which could cause us to be in violation of certain covenants in our loan agreements. Any such inability to carry cargo or be employed, or any such violation of covenants, could have a material adverse impact on our financial condition and results of operations.

### **Risk of Loss and Insurance**

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

Our protection and indemnity insurance, or P&I insurance, covers third-party liabilities and other related expenses from, among other things, injury or death of crew, passengers and other third parties, claims arising from collisions, damage to cargo and other third-party property and pollution arising from oil or other substances. Our current P&I insurance coverage for pollution is the maximum commercially available amount of \$1.0 billion per tanker per incident and is provided by mutual protection and indemnity associations. Each of the vessels currently in our fleet is entered in a protection and indemnity association which is a member of the International Group of Protection & Indemnity Clubs. The 13 protection and indemnity associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to re-insure each association's liabilities. The pool provides a mechanism for sharing all claims in excess of \$10 million up to, currently, \$1.0 billion. For the 2016/17 policy year, the International Group has maintained a three layer GXL insurance program, together with an additional Collective Overspill layer, which combine to provide just over \$3 billion of commercial reinsurance. As a member of protection and indemnity associations, which are, in turn, members of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of protection and indemnity associations comprising the International Group.

Our hull and machinery insurance covers actual or constructive total loss from covered risks of collision, fire, heavy weather, grounding and engine failure or damages from same. Our war risks insurance covers risks of confiscation, seizure, capture, vandalism, terrorism, sabotage and other war-related risks. Our loss-of-hire insurance covers loss of revenue for not less than \$20,000 per day for Suezmax tankers and VLCCs for not less than 180 days resulting from an accident covered by the terms of our hull and machinery insurance for each of our vessels, with a 60 day deductible for all Suezmax tankers and VLCCs. Our LR2/Aframax product tankers are insured for not less than \$20,000 for 90 days with a deductible of 14 days.

## C. ORGANIZATIONAL STRUCTURE

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

## D. PROPERTY, PLANTS AND EQUIPMENT

### The Company's Vessels

The following table sets forth certain information regarding the fleet that we operated as of December 31, 2017:

<b>Vessel</b>	<b>Built</b>	<b>Approximate Dwt.</b>	<b>Flag</b>	<b>Type of Employment<sup>(1)</sup></b>
<b>Tonnage Owned</b>				
<b>VLCCs</b>				
Front Kathrine	2009	297,000	MI	Spot market
Front Queen	2009	297,000	MI	Spot market
Front Eminence	2009	321,000	MI	Spot market
Front Endurance	2009	321,000	MI	Spot market
Front Cecilie	2010	297,000	HK	Spot market
Front Signe	2010	297,000	HK	Spot market
Front Duke	2016	299,000	MI	Spot market
Front Duchess	2017	299,000	MI	Spot market
Front Earl	2017	300,000	MI	Spot market
Front Prince	2017	300,000	MI	Spot market
<b>Suezmax Tankers</b>				
Front Ull	2014	157,000	MI	Spot market

Front Idun	2015	157,000	MI	Spot market
Front Thor	2010	156,000	MI	Spot market
Front Loki	2010	156,000	MI	Spot market
Front Odin	2010	156,000	MI	Spot market
Front Njord <sup>(2)</sup>	2010	156,000	HK	Time charter
Front Balder	2009	156,000	MI	Spot market
Front Brage	2011	156,000	MI	Spot market
Front Crown	2016	157,000	MI	Spot market
Front Challenger	2016	157,000	MI	Spot market
Front Classic	2017	157,000	MI	Spot market
Front Clipper	2017	157,000	MI	Spot market
Front Crystal	2017	157,000	MI	Spot market
Front Coral	2017	158,000	MI	Spot market
Front Cosmos	2017	158,000	MI	Spot market
Front Cascade	2017	157,000	MI	Spot market

#### **LR2/Aframax Tankers**

Front Lion <sup>(3)</sup>	2014	115,000	MI	Time charter
Front Puma <sup>(4)</sup>	2015	115,000	MI	Time charter
Front Panther <sup>(5)</sup>	2015	115,000	MI	Time charter
Front Tiger <sup>(6)</sup>	2015	115,000	MI	Time charter
Front Ocelot	2016	110,000	MI	Spot market
Front Cheetah <sup>(7)</sup>	2016	113,000	MI	Time charter
Front Lynx	2016	110,000	MI	Spot market
Front Cougar	2016	110,000	MI	Spot market
Front Leopard	2016	110,000	MI	Spot market
Front Jaguar	2016	110,000	MI	Spot market
Front Altair	2016	110,000	MI	Spot market
Front Antares	2017	110,000	MI	Spot market
Front Vega	2017	111,000	MI	Spot market
Front Sirius	2017	111,000	MI	Spot market
Front Castor	2017	110,000	MI	Spot market
Front Pollux	2017	110,000	MI	Spot market
Front Capella	2017	110,000	MI	Spot market

**Tonnage chartered-in from Ship Finance****VLCCs**

Front Circassia <sup>(8)</sup>	1999	306,000	MI	Spot market
Front Ariake	2001	299,000	BA	Spot market
Front Serenade	2002	299,000	LIB	Spot market
Front Stratus	2002	299,000	LIB	Spot market
Front Hakata	2002	298,000	BA	Spot market
Front Falcon	2002	309,000	BA	Spot market
Front Page	2002	299,000	LIB	Spot market
Front Force	2004	305,000	MI	Spot market
Front Energy	2004	305,000	MI	Spot market

**Tonnage chartered-in from third parties****VLCCs**

Oceanis <sup>(9)</sup>	2011	300,000	GR	Spot market
------------------------	------	---------	----	-------------

1. Time Charter includes those contracts with durations in excess of six months.
2. This vessel commenced a time charter in February 2016 and was re-delivered in February 2018.
3. This vessel commenced a time charter in August 2015 which was extended with the earliest possible re-delivery in January 2019.
4. This vessel commenced a time charter in March 2015 and was re-delivered in February 2018.
5. This vessel commenced a time charter in February 2015 and was re-delivered in January 2018.
6. This vessel commenced a time charter in February 2016 and was re-delivered in January 2018.
7. This vessel commenced a time charter in January 2016 which was extended in January 2018 with earliest possible re-delivery in June 2018.
8. The lease for this vessel was terminated in February 2018.
9. The profits and losses from chartering in and chartering out this vessel are shared equally with a third party. The charter-in has earliest possible redelivery in June 2018.

Our fleet chartered-in from Ship Finance is contracted to us under leasing arrangements with remaining fixed terms of between four and ten years.

Key to Flags:

BA – Bahamas, LIB - Liberia, MI – Marshall Islands, MLT - Malta, HK – Hong Kong, GR – Greece.

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

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

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

### **A. OPERATING RESULTS**

#### **Overview**

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

As of December 31, 2017, the Company's fleet consisted of 61 vessels, with an aggregate capacity of approximately 11.6 million DWT. The Company's fleet consisted of:

- (i) 43 vessels owned by the Company (10 VLCCs, 16 Suezmax tankers, 17 LR2/Aframax tankers);
- (ii) nine vessels that are under capital leases, all of which are VLCCs;
- (iii) one VLCC that is recorded as an investment in finance lease;
- (iv) one chartered-in VLCC, where the cost/revenue is split 50/50 with an unrelated third party;
- (v) seven vessels that are under the Company's commercial management (two Suezmax tankers, two LR2 tankers and three Aframax oil tankers)

Furthermore, the Company has five newbuildings under construction: four VLCCs and one LR2/Aframax tanker with an aggregate carrying capacity of 1.3 million DWT.

A full fleet list is provided in Item 4.D. "Information on the Company" showing the vessels that we own, lease and charter-in as of December 31, 2017. See Note 30 to our audited Consolidated Financial Statements included herein for changes in our vessels subsequent to December 31, 2017.



## Fleet Changes

Refer to Item 4. for discussion on acquisitions and disposals of vessels. A summary of the changes in the vessels that we own, lease and charter-in for the years ended December 31, 2017, 2016 and 2015 is summarized in the table below. The vessels shown as 'Acquired upon the Merger' in 2015 are those of the Company due to the fact that Frontline 2012 was determined to be the accounting acquirer in the Merger.

	2017	2016	2015
<b>VLCCs</b>			
At start of period	21	20	6
Acquired upon the Merger	—	—	12
Other acquisitions/newbuilding deliveries	3	1	—
Disposal/lease termination	(2)	(1)	—
Chartered-in	(2)	1	2
At end of period	20	21	20
<b>Suezmax tankers</b>			
At start of period	14	12	4
Acquired upon the Merger	—	—	4
Other acquisitions/newbuilding deliveries	6	2	2
Disposal/lease termination	(2)	—	—
Chartered-in	(2)	—	2
At end of period	16	14	12
<b>LR2/Aframax tankers</b>			
At start of period	11	7	1
Acquired upon the Merger	—	—	—
Other acquisitions/newbuilding deliveries	6	7	3
Disposal/lease termination	—	—	—
Chartered-in	—	(3)	3
At end of period	17	11	7
<b>MR tankers</b>			
At start of period	3	10	6
Acquired upon the Merger	—	—	—
Other acquisitions/newbuilding deliveries	—	—	—
Disposal/lease termination	—	(6)	—
Chartered-in	(3)	(1)	4
At end of period	—	3	10
<b>Total</b>			
At start of period	49	49	17
Acquired upon the Merger	—	—	16
Other acquisitions/newbuilding deliveries	15	10	5
Disposal/lease termination	(4)	(7)	—
Chartered-in	(7)	(3)	11
At end of period	53	49	49

## Summary of Fleet Employment

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

	As of December 31,					
	2017		2016		2015	
	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet	Number of vessels	Percentage of fleet
<b>VLCCs</b>						
Spot	20	100%	17	81%	16	80%
Time charter	—	—	4	19%	4	20%
	20	100%	21	100%	20	100%
<b>Suezmax tankers</b>						
Spot	15	94%	11	79%	5	42%
Time charter	1	6%	3	21%	5	42%
Index related time charter	—	—	—	—	2	16%
	16	100%	14	100%	12	100%
<b>LR2/Aframax tankers</b>						
Spot	12	71%	5	45%	—	—
Time charter	5	29%	6	55%	7	100%
	17	100%	11	100%	7	100%
<b>MR tankers</b>						
Spot	—	—	3	100%	8	80%
Time charter	—	—	—	—	2	20%
	—	—	3	100%	10	100%
<b>Total fleet</b>						
Spot	47	89%	36	73%	29	59%
Index related time charter	—	—	—	—	2	4%
Time charter	6	11%	13	27%	18	37%
	53	100%	49	100%	49	100%

## Market Overview and Trend Information

The statistical data provided in this section has been taken from the International Energy Agency, or IEA, and Clarksons Research, an independent third party maritime research company. The figures quoted below are estimates and may vary from estimates provided by other research services.

The past two years have been characterized by large growth in the global crude oil tanker fleet, and the growth is expected to continue in 2018. 58 VLCC's are scheduled to be delivered in 2018, although some of these are expected to be pushed to 2019, and further contracting has decreased from the levels seen in 2017. This compares to 50 VLCCs delivered in 2017 and 47 in 2016. There was an increase in scrapping in 2017, with 13 VLCCs removed from the fleet, and there have been reports of up to seven VLCCs sold for scrap up until the end of February 2018. The VLCC fleet totalled 717 vessels at the end of the fourth quarter of 2017 and the Suezmax fleet totalled 514 vessels. The LR2 product tanker fleet totalled 320 vessels.

The estimated average spot charter rate for a VLCC trading on a standard 'TD3' voyage between the Middle East and Japan in 2017 was an estimated daily TCE rate of \$22,700. This compares to an estimated daily TCE rate of \$42,400 in 2016. The average rate for a Suezmax tanker trading on a standard 'TD20' voyage between West Africa and Rotterdam in 2017 was an estimated daily TCE rate of \$12,200. This compares to an estimated daily TCE rate of \$23,400 in 2016. The average rate for an

LR2 product tanker trading on a standard 'TC1' voyage between the Middle East and Japan was an estimated daily TCE rate of \$9,000 in 2017. This compares to an estimated daily TCE rate of \$15,000 in 2016.

Crude oil demand and the world economy remains strong. The IEA, estimates that world oil demand in 2018 will be 99,3 million barrels per day (mb/d), representing an increase of 1.5 % or 1.5 mb/d from 2017.

In 2018, global oil supply is projected to grow by 1,3 %. The oil supply growth has primarily come from the Atlantic Basin, whilst the demand growth is in Asia, which is positive for tonne-mile development. We are in the midst of a crude inventory draw cycle that is negatively impacting the market. There is a historic relationship between crude oil inventory levels and freight rates, with periods where rates rise as inventories build and decline as inventories are consumed. With the crude oil market in backwardation, inventories are being drawn down. While inventories remain elevated, days of forward demand cover has decreased sharply due to rising consumption.

It will take some time until the crude oil tanker market has sufficiently absorbed new supply of vessels, despite the existence of factors that are evident in strong markets. The impact of declining market rates and rising fuel costs on our results of operations are discussed further in *Results of Operations* below.

### **Critical Accounting Policies and Estimates**

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

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

These policies may need to be revised in the future in the event that changes to our business occur.

### **Goodwill and impairment 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 the 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 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 the business combination was calculated. 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 September 30, 2017, the Company's market capitalization was \$1,026 million (based on a share price of \$6.04) compared to its carrying value of \$1,437 million. The Company reviewed merger transactions in North America over \$25 million in the nine months ended to September 30, 2017, global deals between public companies of more than \$100 million in the last three years and global marine transport sector transactions of more than \$100 million in the last five years and observed average control premiums (based on the one month average share price before the bid) of approximately 30%, 31% and 31%, respectively. Based on a range of 30% to 31% and the average control premium of 31% for global marine transport sector deals, and using 30% as the mid point in the range, the fair value of the Company was calculated as \$1,333 million. As such the Company concluded that it was required to complete the second step of the goodwill impairment analysis. Under the second step of the goodwill impairment analysis the Company has calculated the implied fair value of Goodwill, to assess whether any impairment is likely. The Company estimated that the fair value of the underlying assets and liabilities amounts to approximately \$945 million, which gives an implied fair value of goodwill of \$388 million. This is in excess of the carrying value and as such no impairment was required at September 30. The fair values of the underlying assets and liabilities of the company, including intangibles, were calculated in a manner consistent with the fair values calculated at the time of the merger with Frontline 2012 Ltd.

At December 31, 2017 the Company's share price had fallen by a further \$1.45 per share, or 24% from its September 30 share price and 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 December 31, 2017 was \$779 million (based on a share price of \$4.59) and the Company has calculated the fair value of the Company to be \$1,013 million, based on a control premium of 30%, compared to its carrying value of approximately \$1,300 million (prior to recording any impairment loss on goodwill). The Company notes that a transaction was agreed in the tanker sector with a control premium of 35% in the fourth quarter and has assessed that no revision to the control premium is therefore required as at December 31, 2017. As the fair value of the Company was below the carrying value, the Company concluded that it was required to complete the second step of the goodwill impairment analysis. Under the second step of the goodwill impairment analysis the Company estimates that the fair value of the underlying assets and liabilities amount to approximately \$901 million, which gives an implied fair value of goodwill of \$112.5 million. A comparison of this to the carrying value of goodwill resulted in an impairment loss in respect of goodwill of \$112.8 million. The impairment is a result of the declining forecast charter rates, declining vessel values and ultimately the fall in the Company's share price since the date of the Merger.

If our stock price declines, or if our control premium declines, without an equal decline in the fair value of underlying assets and liabilities the implied value of goodwill might decrease even further which could result in additional impairments of some or all of the \$112.5 million of goodwill remaining on the balance. A share price of \$4.08 per share at the year end would have resulted in the impairment of all of the carrying value of goodwill, in February 2018, our share price fell to \$3.87 per share. 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. A one percentage point decrease in the control premium below that level would decrease the implied fair value of goodwill by \$7.8 million based on the share price at December 31, 2017. 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.

## **Revenue and expense recognition**

Revenues and expenses are recognized on the accruals basis. Revenues are generated from voyage charters, time charters and a finance lease. 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 revenues are recorded over the term of the charter as a service is provided. When the time charter is based on an index, the Company recognizes revenue when the index has been determined. 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.

From January 1, 2018, the Company is adopting ASC 606 *Revenue from Contracts with Customers* which replaces nearly all existing revenue guidance. Under this guidance, the Company believes the most significant impact will be to the timing of revenue recognition on voyage charters. The total revenue recognized on voyage charters across all accounting periods will remain the same however, each period's voyage results could differ materially from the same period's voyage results recognized based on the present revenue recognition guidance. Under ASC 606 voyage revenue will be recognized on a load-to-discharge basis. The Company expects to recognize an increase in the retained deficit of approximately \$20.0 million on January 1, 2018 related to the timing of revenue recognition based on the change to the load-to-discharge method.

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 pool participants are responsible for paying voyage expenses. Adjustments between the pool participants are settled on a quarterly basis. Pool revenues are reported as voyage charter revenues for all periods presented.

Rental payments from the Company's sales-type lease are allocated between lease service revenue, lease interest income and repayment of net investment in leases. The amount allocated to lease service revenue is based on the estimated fair value, at the time of entering the lease agreement, of the services provided which consist of ship management and operating services.

## **Vessels and equipment**

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

## **Vessel Impairment**

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

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

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

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

In May 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Vanguard*. The charter was terminated in July 2016. The Company agreed to a compensation payment to Ship Finance of \$0.3 million for the termination of the charter and recorded an impairment loss of \$7.3 million in 2016 and recorded a gain on lease termination of \$0.1 million. In the three months ended September, 2016, the Company recorded an impairment loss of \$8.9 million in respect of three vessels leased in from Ship Finance - the 1997-built *Front Ardenne*, the 1998-built *Front Brabant* and the 1998-built *Front Century* - based on a 25% probability assumption of terminating the vessel's lease before the next dry dock. This impairment loss included \$5.6 million in respect of *Front Century*.

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in 2016 in respect of these vessels.

In November 2016, the Company agreed with Ship Finance to terminate the long term charter for *Front Century* upon the sale and delivery of the vessel to a third party. The charter was terminated in March 2017. The Company has agreed a compensation payment to Ship Finance of \$4.1 million for the termination of the charter and recorded an impairment loss of \$27.3 million in the three months ended December 31, 2016 based on a 100% probability assumption of terminating the vessel's lease before the next dry dock. The Company recorded a gain on lease termination of \$20.6 million in the first quarter of 2017.

In March 2017 the Company recorded an impairment loss of \$21.2 million with respect to four vessels leased in from Ship Finance, the 2000 built VLCC *Front Scilla*, 1998 built Suezmax tanker *Front Brabant*, the 1997 built Suezmax *Front Ardenne* and the 1999 built VLCC *Front Circassia* based on a 25% probability assumption of terminating the vessel leases before their next dry dock.

In May 2017, the Company agreed with Ship Finance to terminate the long term charters for the 2000 built VLCC *Front Scilla* and the 1998 built Suezmax tanker *Front Brabant* upon the sale and delivery of the vessels by Ship Finance to unrelated third parties. The charters with Ship Finance terminated in the second quarter. Frontline agreed to make compensation payments to Ship Finance of \$6.5 million and \$3.6 million, respectively, for the termination of the charters. The Company recorded a loss on termination, including these termination payments, of \$12.4 million in the second quarter.

In July 2017, the Company agreed with Ship Finance to terminate the long term charter for the 1997 built Suezmax *Front Ardenne* upon the sale and delivery of the vessel by Ship Finance to an unrelated third party. The charter with Ship Finance terminated in August. Frontline agreed to make compensation payments to Ship Finance of \$4.8 million for the termination of the charter. The Company recorded a loss on termination, including this termination payment, of \$5.8 million in the third quarter.

In December 2017, the Company has recognised an impairment loss of \$142.9 million on the remaining 9 VLCCs chartered in from Ship Finance. The leasehold interest in these capital leased assets was recorded at fair value at the time of the Merger based on the discounted value of the expected cash flows from the vessels. Based on the deterioration in forecast rates since the Merger, and the reduced remaining useful economic life of the vessels as they approach the end of their leases, the Company has recognised an impairment loss on all of these leased vessels, calculated as the difference between the discounted value of the expected cash flows from the vessels as at December 31, 2017 and the carrying value of the vessels under capital lease at that time. For every \$1,000 per day decrease in the estimated forecast TCE rates used in the impairment analysis over the life of the leases the impairment charge would increase by \$17.6 million.

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

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

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

The table set forth below indicates the carrying value of each of our owned vessels as of December 31, 2017 and 2016. As of December 31, 2017, December 31, 2016 and the date of this annual report, we were not holding any of the vessels listed in the table below as held for sale. We believe that the future undiscounted cash flows expected to be earned by those vessels, which have experienced a decline in charter-free market value below such vessels' carrying value, over their operating lives would exceed such vessels' carrying values as of December 31, 2017, and accordingly, have not recorded an impairment charge.

			Carrying Value at Dec 31	
	Built	Approximate Dwt.	2017	2016
VLCCs				
Front Kathrine*	2009	297,000	59.0	61.8
Front Queen*	2009	297,000	59.3	62.1
Front Eminence*	2009	321,000	60.1	62.8

Front Endurance*	2009	321,000	<b>60.0</b>	62.8
Front Cecilie*	2010	297,000	<b>62.9</b>	65.7
Front Signe*	2010	297,000	<b>63.0</b>	65.8
Front Duke*	2016	299,000	<b>80.5</b>	83.2
Front Duchess	2017	299,000	<b>81.8</b>	—
Front Earl*	2017	300,000	<b>98.3</b>	—
Front Prince	2017	300,000	<b>78.1</b>	—
<b>Suezmax tankers</b>				
Front Ull*	2014	157,000	<b>59.2</b>	61.5
Front Idun*	2015	157,000	<b>61.2</b>	63.5
Front Thor*	2010	156,000	<b>44.7</b>	46.9
Front Loki*	2010	156,000	<b>44.8</b>	46.9
Front Odin*	2010	156,000	<b>45.0</b>	47.1
Front Njord*	2010	156,000	<b>45.1</b>	47.2
Front Balder*	2009	156,000	<b>43.0</b>	45.0
Front Brage*	2011	156,000	<b>46.0</b>	47.9
Front Crown*	2016	157,000	<b>57.6</b>	59.6
Front Challenger*	2016	157,000	<b>57.5</b>	59.6
Front Classic*	2017	157,000	<b>58.4</b>	—
Front Clipper*	2017	157,000	<b>58.6</b>	—
Front Crystal*	2017	157,000	<b>61.3</b>	—
Front Coral*	2017	158,000	<b>62.8</b>	—
Front Cosmos*	2017	158,000	<b>60.5</b>	—
Front Cascade*	2017	157,000	<b>60.7</b>	—
<b>LR2/Aframax tankers</b>				
Front Lion*	2014	115,000	<b>40.2</b>	41.6
Front Puma	2015	115,000	<b>40.5</b>	41.9
Front Panther	2015	115,000	<b>40.3</b>	41.7
Front Tiger	2015	115,000	<b>40.3</b>	41.8
Front Ocelot	2016	110,000	<b>43.7</b>	45.2
Front Cheetah	2016	113,000	<b>42.8</b>	44.3
Front Lynx	2016	110,000	<b>43.1</b>	44.6
Front Cougar	2016	110,000	<b>43.2</b>	44.7
Front Leopard	2016	110,000	<b>43.6</b>	45.1
Front Jaguar*	2016	110,000	<b>44.3</b>	45.8
Front Altair*	2016	110,000	<b>49.1</b>	50.8
Front Antares*	2017	110,000	<b>49.5</b>	—
Front Vega*	2017	111,000	<b>49.5</b>	—
Front Sirius*	2017	111,000	<b>49.9</b>	—
Front Castor*	2017	110,000	<b>51.2</b>	—
Front Pollux*	2017	110,000	<b>50.2</b>	—
Front Capella*	2017	110,000	<b>50.4</b>	—
			<b>2,341.2</b>	<b>1,476.9</b>



\* We believe the basic charter-free market value at December 31, 2017 for each vessel marked with an asterisk in the table above is lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately \$228.3 million. We refer you to the risk factor entitled "Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels which may adversely affect our earnings, or could cause us to incur impairment charges".

### **Impairment of Marketable Securities**

We regularly review our marketable securities for impairment. For equity securities that we do not intend to sell and it is not more likely than not that we will be required to sell the security before recovery of our carrying value, we evaluate qualitative criteria to determine whether an other-than-temporary impairment exists, such as the financial health of and specific prospects for the company and the industry sector in which it operates, the length of time and magnitude of the amount of the unrealized loss position.

### **Factors Affecting our Results**

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

- the earnings of our vessels;
- other operating gains and losses;
- contingent rental income or expense;
- vessel operating expenses;
- administrative income and expenses;
- impairment losses on vessels and vessels held under capital lease;
- depreciation;
- interest expense;
- impairment losses and unrealized gains and losses on marketable securities;
- gains and losses on derivatives; and
- share of results from associated company and gain on equity interest.

We have derived our earnings from time charters, voyage charters, pool arrangements and a finance lease. As of December 31, 2017, 47 of our 53 vessels, which are owned or leased in by us, were employed in the voyage charter market. The tanker industry has historically been highly cyclical, experiencing volatility in profitability, vessel values and freight rates. In particular, freight and charter rates are strongly influenced by the supply of tanker vessels and the demand for oil transportation services.

Other operating (losses) gains relate to (i) gains arising on the cancellation of newbuilding contracts, which are considered to be contingent gains, and are recognized when the gain is virtually certain which is generally on a cash basis, (ii) losses arising on the cancellation of newbuildings which are accounted for when the contracts are cancelled, (iii) gains and losses on the sale of newbuilding contracts, which are recognized when we are reasonably assured that substantially all of the risks of the newbuilding contract have been transferred (iv) gains and losses on the termination of capital leases before the expiration of the lease term, which are accounted for by removing the carrying value of the asset and obligation, with a gain or loss recognized for the difference. Gains and losses on the termination of leases are accounted for when the lease is terminated and the vessel is redelivered to the owners and (v) gains and losses on the sale of vessels, which 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.

Contingent rental income or expense results from the Company's capital leases, which were acquired as a result of the Merger. Any variations in the estimated profit share expense that was included in the fair valuation of these lease obligations on the date of the Merger as compared to actual profit share expense incurred is accounted for as contingent rental income or expense.

Operating costs are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance.

Administrative expenses are comprised of general corporate overhead expenses, including personnel costs, property costs, legal and professional fees and other general administrative expenses. Personnel costs include, among other things, salaries, pension costs, fringe benefits, travel costs and health insurance.

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

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

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

An impairment loss on a marketable security is recorded in the Consolidated Statement of Operations when the mark-to-market fair value loss is determined to be other than temporary.

None of the Company's interest rate swaps qualify for hedge accounting and changes in fair values are recognized in the Consolidated Statement of Operations.

#### **Lack of Historical Operating Data for Vessels before their Acquisition (other than those acquired in a Business Combination)**

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

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

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

## Inflation

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

## Results of Operations

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

<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Voyage charter revenues	<b>518,156</b>	502,284	15,872	3.2
Time charter revenues	<b>106,237</b>	226,058	(119,821)	(53.0)
Finance lease interest income	<b>1,748</b>	2,194	(446)	(20.3)
Other income	<b>20,185</b>	23,770	(3,585)	(15.1)
<b>Total operating revenues</b>	<b>646,326</b>	754,306	(107,980)	(14.3)
 Voyage expenses and commissions	 <b>259,334</b>	 161,641	 97,693	 60.4

Voyage charter revenues increased in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- an increase of \$153.3 million due to the delivery of four VLCCs, twelve LR2/Aframax and eight Suezmax newbuildings between January 2016 and December 2017.
- an increase of \$38.0 million due to the delivery of six VLCCs, three Suezmax tankers and three LR2/Aframax tankers onto voyage charter as a result of the time charters coming to an end.
- an increase of \$17.3 million due to the delivery of one chartered-in VLCC and two chartered-in MR tanker delivered between July 2016 and November 2016.

These factors were partially offset by:

- a decrease of \$68.7 million due to a decrease in market rates.
- a decrease of \$41.0 million due to the disposal of six MR tankers in August, September and December 2016.
- a decrease of \$52.5 million due to the redelivery of four chartered-in MR tankers, two VLCCs and two Suezmax tankers.
- a decrease of \$9.0 million due to offhire days on five VLCCs primarily in relation to dry dockings in the year ending December 31, 2017.
- a decrease of \$5.0 million due to the delivery of one Suezmax tanker onto time charter in June 2017.
- a decrease of \$16.5 million due to termination of leases for two VLCCs in March and June 2017; and two Suezmax tankers in May and August 2017.

Time charter revenues decreased in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- a decrease of \$71.9 million due to the delivery of six VLCCs, four Suezmax tankers and three LR2/Aframax tankers onto voyage charters between July 2016 and December 2017.
- a decrease of \$23.7 million due to the termination of the leases on three VLCCs in July 2016, March 2017 and June 2017; and two Suezmax tankers in May 2017 and August 2017.
- a decrease of \$26.5 million due to the redelivery of four chartered-in LR2/Aframax tankers in December 2016 and two chartered-in MR tankers in October 2016 and June 2017.
- a decrease of \$11.7 million due to a decrease in market rates on renewed time charters.

These factors were partially offset by:

- an increase of \$9.8 million due to the delivery of two VLCCs and three Suezmax newbuildings between October 2016 and September 2017.
- an increase of \$2.9 million due to the delivery of one VLCC, one Suezmax tanker and one LR2/Aframax tanker onto time charter in March 2017 and June 2017.
- an increase of \$1.3 million due to one chartered-in MR tanker trading on time charter from November 2016.

Finance lease interest income in the year ended December 31, 2017 is related to the investment in finance lease for one VLCC, it has decreased due to the reduced balance of the lease receivable as a result of lease payments received.

Other income in the year ended December 31, 2017 primarily comprised of 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 decrease in the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily due to a loss booked on a commercial management profit share arrangement in the year ended December 31, 2017 compared to an income in 2016, offset by an increase in new commercial management and newbuilding supervision fees earned.

Voyage expenses and commissions increased in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- an increase of \$80.4 million due to the delivery of four VLCCs, twelve LR2/Aframax tankers and eight Suezmax tanker newbuildings between January 2016 and December 2017.
- an increase of \$34.5 million due to the delivery of six VLCCs and three Suezmax tankers onto voyage charters between May 2016 to June 2017.
- an increase of \$11.8 million primarily due to an increase in bunker prices.
- an increase of \$8.6 million due to the delivery of two chartered-in MR tankers and one chartered-in VLCC between July 2016 and November 2016.

These factors were partially offset by:

- a decrease of \$15.4 million due to the disposal of six MR tankers.
- a decrease of \$15.4 million due to the redelivery of five chartered-in MR tankers and two Suezmax tankers and two VLCCs between October 2016 and September 2017.
- a decrease of \$5.8 million due to termination of leases for two VLCCs in March and June 2017; and two Suezmax tankers in May and August 2017.

#### ***Other operating (losses) gains***

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
(Loss) gain on cancellation of newbuilding contracts	—	(2,772)	2,772	(100.0)
(Loss) gain on lease termination	<b>2,379</b>	89	2,290	2,573.0
(Loss) gain on pool arrangements	<b>2</b>	—	2	—
	<b>2,381</b>	(2,683)	5,064	(188.7)

In the year ended December 31, 2017 we terminated the leases on two VLCCs and two Suezmax tankers, recognizing a loss of \$2.4 million. In the year ended December 31, 2016 we terminated the lease on one VLCC and recognized a loss of \$0.1 million. Furthermore we recognized a loss of \$2.8 million in 2016 in respect of the termination of the contracts for four VLCC newbuildings due for delivery in 2017. See Note 10 and 19 to our audited Consolidated Financial Statements included herein for full details.

#### ***Contingent rental income***

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Contingent rental income	<b>26,148</b>	18,621	7,527	40.4

Contingent rental income in the year ended December 31, 2017 relates to the Company's charter party contracts with Ship Finance and is due to the fact that the actual profit share payable of \$5.6 million was \$26.1 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 with Frontline 2012 Ltd ("the Merger").

#### ***Ship operating expenses***

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Ship operating expenses	<b>135,728</b>	119,515	16,213	13.6

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 increased in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- an increase of \$34.2 million due to the delivery of four VLCCs, thirteen LR2/Aframax and eight Suezmax newbuildings between January 2016 and December 2017.
- an increase of \$4.1 million in dry docking expenses primarily due to six vessels docking in the year ended December 31, 2017 compared with five vessels in the year ended December 31, 2016.

These factors were partially offset by:

- a decrease of \$11.0 million due to six MR tankers sold in August, September, and December 2016.
- a decrease of \$8.9 million due to the termination of the leases on three VLCCs in July 2016, March 2017 and June 2017; and two Suezmax tanker in the May and August 2017.
- a decrease of approximately \$1.5 million due to an increase in supplier rebates.
- a decrease of \$0.7 million due to the receipt of claims in excess of the carrying amount.

#### *Charter hire expense*

(in thousands of \$)	2017	2016	Change	
			\$	%
Charter hire expense	19,705	67,846	(48,141)	(71.0)

Charter hire expense decreased in the year ended December 31, 2017 as compared with the year ended December 31, 2016 primarily due to:

- a decrease of \$61.6 million relating to six MR tankers, three LR2/Aframax tankers, two VLCCs, and two Suezmax tankers re-delivered between December 2016 and December 2017.
- an increase of \$11.4 million relating to one MR tanker and one VLCC being delivered from January 2016 to November 2016.

#### *Impairment loss on vessels and vessels held under capital lease*

(in thousands of \$)	2017	2016	Change	
			\$	%
Impairment loss on vessels and vessels held under capital lease	164,187	61,692	102,495	166.1

In December 2017, the Company has recognised an impairment loss of \$142.9 million on the remaining 9 VLCCs chartered in from Ship Finance. The leasehold interest in these capital leased assets was recorded at fair value at the time of the Merger based on the discounted value of the expected cash flows from the vessels. Based on the deterioration in forecast rates since the Merger, and the reduced remaining useful economic life of the vessels as they approach the end of their leases, the Company has recognised an impairment loss on all of these leased vessels, calculated as the difference between the discounted value of the expected cash flows from the vessels as at December 31, 2017 and the carrying value of the vessels under capital lease at that time.

In March 2017, the company recorded an impairment loss of \$21.2 million in relation to two Suezmax tankers (*Front Ardenne* and *Front Brabant*) and two VLCCs (*Front Scilla* and *Front Circassia*).

In November 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Century*. The charter was terminated in March 2017. The Company agreed a compensation payment to Ship Finance of \$4.1 million for the termination of the charter and recorded an impairment loss of \$27.3 million in 2016 based on a 100% probability assumption of terminating the vessel's lease before its next dry dock.

In the three months ended September, 2016, the Company recorded an impairment loss of \$8.9 million in respect of three vessels leased in from Ship Finance - the 1997-built *Front Ardenne*, the 1998-built *Front Brabant* and the 1998-built *Front Century* - based on a 25% probability assumption of terminating the vessel's lease before its next dry dock. This impairment loss included \$5.6 million in respect of *Front Century*.

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate sale price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in 2016 with respect to these vessels.

In May 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Vanguard*. The charter was terminated in July 2016. The Company has agreed a compensation payment to Ship Finance of \$0.4 million for the termination of the charter and recorded an impairment loss of \$7.3 million in 2016.

#### *Provision for uncollectible receivable*

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Provision for uncollectible receivable	—	4,000	(4,000)	100.0

In 2016, the Company made a provision of \$4.0 million against a receivable, which was acquired as a result of the Merger and was subject to Court proceedings.

#### *Administrative expenses*

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Administrative expenses	<b>37,603</b>	37,026	577	1.6

Administrative expenses increased in the year ended December 31, 2017 as compared with the year ended December 31, 2016 primarily due to an increase in legal fees in relation to legal advice on the potential acquisition of DHT Holdings Inc. ("DHT").

#### *Depreciation*

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Depreciation	<b>141,748</b>	141,043	705	0.5

Depreciation expense increased in the in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- an increase of \$27.6 million due to the delivery of four VLCC newbuildings, eight Suezmax newbuildings and thirteen LR2/Aframax newbuildings between January 2016 and December 2017.

These factors were offset by:

- a decrease of \$3.6 million due to the disposal of six MR tankers in August, November, and December 2016.
- a decrease of \$18.9 million due to the termination of leases for two Suezmax tankers in May and August 2017; and two VLCCs between December 2016 and June 2017.
- a decrease of \$4.4 million due to impairment losses on two VLCC and two Suezmax tankers in December 2016 and March 2017.

#### *Interest income*

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Interest income	<b>588</b>	367	221	60.2

Interest income in the year ended December 31, 2017 and the year ended December 31, 2016 relates solely to interest received on bank deposits.

### ***Interest expense***

<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Interest expense	<b>(69,815)</b>	(56,687)	(13,128)	(23.2)

Interest expense increased in the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to:

- an increase of \$16.2 million as a result of additional borrowings relating to the delivery of 25 newbuildings between January 2016 and December 2017.
- an increase of \$7.4 million due to lower newbuilding interest capitalization as a result of the delivery of vessels since Q4 2016.
- an increase of \$0.4 million in amortization of deferred charges due to new loan facilities since Q4 2016.
- an increase of \$0.3 million in amortization of deferred charges were written off in relation to two Suezmax tankers in Q1 2017.

These factors are partially offset by:

- a decrease of \$5.8 million in finance lease interest expense due to the termination of leases on three VLCCs between May 2016 and June 2017; and two Suezmax tankers in May and August 2017.
- a decrease of \$2.4 million in loan interest expense and finance lease interest expense due to reductions in loan obligations as a result of ongoing repayments.
- a decrease of \$2.2 million due to a decrease in loan interest on the six MR tankers which were disposed of between August, November and December 2016.
- a decrease of \$0.8 million in amortisation of deferred charges due to the six MR tankers which were disposed of between August, November and December 2016.

### ***Impairment loss on marketable securities***

<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Impairment loss on marketable securities	—	(7,233)	7,233	100.0

The impairment loss on shares in the year ended December 31, 2016 relates to the mark to market losses on the Golden Ocean and Avance Gas shares held by the Company. An impairment loss was recorded as it was determined that the losses were "other than temporary" in view of the prospects for both the dry bulk and LPG sectors at that time.

### ***Gain from sale of securities***

<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Gain on sale of marketable securities	<b>1,061</b>	—	1,061	100.0

In January 2017, the Company acquired 10.9 million shares in DHT for an aggregate cost of \$46.1 million. In the year ended December 31, 2017, the company sold a total of 6.2 million shares in DHT for proceeds of \$27.4 million, recognizing a gain of \$1.1 million.

### ***Other income (expenses)***



<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Foreign currency exchange (loss) gain	<b>(55)</b>	9	(64)	(711.1)
(Loss) gain on derivatives	<b>(753)</b>	3,718	(4,471)	120.3
Other non-operating income	<b>1,213</b>	204	1,009	494.6

The loss on derivatives in 2017 wholly relates to a loss on interest rate swaps of \$0.8 million. The gain on derivatives in 2016 relates to a gain on interest rate swaps of \$1.9 million and a gain on bunker swaps of \$1.9 million.

The increase in other non-operating income in 2017 as compared to 2016 primarily relates to an increase in dividends received from Ship Finance and Avance Gas.

***Net (income) loss attributable to non-controlling interest***

<i>(in thousands of \$)</i>	<b>2017</b>	2016	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Net (income) loss attributable to non-controlling interest	<b>(539)</b>	(504)	(35)	6.9

Net income attributable to non-controlling interest in the year ended December 31, 2017 and December 31, 2016 is attributable to the non-controlling interests in the results of Seateam.

**Year ended December 31, 2016 compared with the year ended December 31, 2015**

***Total operating revenues and voyage expenses and commission***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Voyage charter revenues	<b>502,284</b>	331,388	170,896	51.6
Time charter revenues	<b>226,058</b>	121,091	104,967	86.7
Finance lease interest income	<b>2,194</b>	577	1,617	280.2
Other income	<b>23,770</b>	5,878	17,892	304.4
<b>Total operating revenues</b>	<b>754,306</b>	458,934	295,372	64.4
Voyage expenses and commissions	<b>161,641</b>	109,706	51,935	47.3

Time charter revenues increased in 2016 as compared to 2015 primarily due to:

- an increase of \$45.8 million due to the results of two Suezmax tankers and five VLCCs, which were acquired upon the Merger, as such 2016 includes 12 months of their results whereas 2015 includes only one month,
- an increase of \$39.3 million due to the delivery of three LR2/Aframax tankers and seven LR2/Aframax tanker newbuildings onto time charter between February 2015 and September 2016,
- an increase of \$24.2 million due to the delivery of three Suezmax tankers onto time charter in January, February, and October 2016, the delivery of two Suezmax tanker newbuildings in August and September 2016 and the purchase of two Suezmax tankers in March 2015,
- an increase of \$37.3 million due to the delivery of five VLCCs onto time charter between January and November 2016 along with the delivery of a VLCC newbuilding in September 2016, and
- an increase of \$11.1 million due to the delivery of two chartered-in MR tankers onto time charter in May 2015 and July 2015.

These factors were partially offset by:

- a decrease of \$43.6 million due to the delivery of one VLCC tanker, two MR tankers and two Suezmax tankers onto voyage charters between April 2015 and July 2016, and
- a decrease of \$9.2 million due to the redelivery of two chartered-in LR2/Aframax tankers in June and December 2016.

Voyage charter revenues increased in 2016 as compared to 2015 primarily due to:

- an increase of \$192.2 million due to the results of four Suezmax tankers and nine VLCCs, which were acquired upon the Merger, as such 2016 includes 12 months of their results whereas 2015 includes only one month,
- an increase of \$52.5 million due to the delivery of four VLCCs onto voyage charter between November 2015 and July 2016,
- an increase of \$35.2 million due to the delivery of five Suezmax tankers and two Suezmax newbuildings onto voyage charters between April and October 2016,
- an increase of \$33.7 million due to the delivery of three LR2/Aframax tankers and one LR2/Aframax newbuilding onto voyage charters between June 2015 and June 2016, and
- an increase of \$8.2 million due to the delivery of two chartered-in MR tankers and one chartered-in VLCC onto voyage charter in July, October and November 2016.

These factors were partially offset by:

- a decrease of \$36.0 million due to the redelivery of five chartered-in MR tankers between September 2015 and April 2016,
- a decrease of \$34.2 million due to the delivery of two Suezmax tankers onto time charter in January and February 2016,
- a decrease of \$31.6 million due to the delivery of two VLCCs onto time charter in January, April and November 2016,
- a decrease of \$22.5 million due to the delivery of three LR2/Aframax tankers onto time charter between February 2015 and February 2016,
- a decrease of \$21.1 million due to the disposal of five MR tankers in August and September 2016, and
- a decrease of \$5.6 million due to a decrease in market rates.

Finance lease interest income relates to the investment in finance lease, which was acquired upon the Merger. The increase in 2016 is attributable to the impact of a full year's results in 2016 as compared to one month in 2015.

The increase in other income in 2016 as compared to 2015 is primarily due to the impact of the Merger, therefore 2016 includes 12 months of other income whereas 2015 includes only one month of other income. Other income in 2016 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 in 2015 relates to yard commissions received in the period following the de-consolidation of Knightsbridge Shipping Limited (renamed Golden Ocean Group Limited on March 31, 2015) relating to newbuildings sold to Knightsbridge by Frontline 2012.

Voyage expenses and commissions increased in 2016 as compared to 2015 primarily due to:

- an increase of \$72.1 million due to the results of six Suezmax tankers and fourteen VLCCs, which were acquired upon the Merger, as such 2016 includes 12 months of voyage expenses whereas 2015 includes only one month,
- an increase of \$14.4 million due to the delivery of eight LR2/Aframax tanker newbuildings and one VLCC newbuilding between March 2015 and September 2016,
- an increase of \$5.7 million due to the delivery of two Suezmax tanker newbuildings in August 2016 and the purchase of two Suezmax tankers in March 2015,

- an increase of \$9.4 million due to the delivery of two Suezmax tankers and one VLCC onto voyage charters in November 2015, April 2016 and July 2016, and
- an increase of \$2.8 million due to the delivery of two chartered-in MR tankers and one chartered-in VLCC onto voyage charter in July, October and November 2016.

These factors were partially offset by:

- a decrease of \$11.4 million due to the delivery of two Suezmax tankers onto time charter in January and February 2016,
- a decrease of \$10.0 million due to the delivery of three VLCC tankers onto short term time charters between April and November 2016,
- a decrease of \$8.4 million due to the delivery of three LR2/Aframax tankers onto time charter in February and February 2016,
- a decrease of \$12.6 million due to the redelivery of five chartered-in MR tankers between December 2015 and July 2016,
- a decrease of \$5.3 million due to the disposal of six MR tankers between August and October 2016, and
- a decrease of \$4.8 million primarily due to a decrease in bunker prices.

#### ***Other operating (losses) gains***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
(Loss) gain on cancellation of newbuilding contracts	<b>(2,772)</b>	30,756	(33,528)	(109.0)
Gain on sale of newbuilding contracts	—	78,167	(78,167)	(100.0)
Gain on lease termination	<b>89</b>	—	89	100.0
	<b>(2,683)</b>	108,923	(111,606)	(102.5)

See Note 10 to our audited Consolidated Financial Statements included herein.

#### ***Contingent rental income***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Contingent rental income	<b>(18,621)</b>	—	(18,621)	100.0

Contingent rental income in 2016 relates to the charter party contracts with Ship Finance and is due to the fact that the actual profit share expense in the year of \$50.9 million was \$18.6 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.

#### ***Ship operating expenses***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Ship operating expenses	<b>119,515</b>	64,357	55,158	85.7

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 increased in 2016 as compared to 2015 primarily due to:

- an increase of \$49.0 million due to fourteen VLCCs and four Suezmax tankers, which were acquired upon the Merger, as such 2016 includes 12 months of their operating expenses whereas 2015 includes only one month,
- an increase of \$14.4 million due to the delivery of eleven LR2/Aframax newbuildings between March 2015 and December 2016,
- an increase of \$2.5 million due to the delivery of two Suezmax newbuildings in August 2016 and the purchase of two second hand Suezmax tankers in March 2015, and
- an increase of \$0.7 million due to the delivery of one VLCC newbuilding in September 2016.

These factors were partially offset by:

- a decrease of \$0.3 million in dry docking expenses due to five vessels docking in 2015 compared with four vessels in 2016.
- a general decrease in other operating expenses of \$11.2 million.

#### ***Charter hire expense***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Charter hire expense	<b>67,846</b>	43,387	24,459	56.4

Charter hire expense increased in 2016 as compared to 2015 primarily due to:

- an increase of \$38.8 million relating to three VLCC and two Suezmax tankers chartered-in between January and November 2016, and
- an increase of \$7.8 million relating to four MR tankers chartered-in between May 2015 and October 2016.

These factors were partially offset by a decrease of \$20.1 million due to the redelivery of three MR tankers and three LR2/Aframax tankers between December 2015 and December 2016.

#### ***Impairment loss on vessels and vessels held under capital lease***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Impairment loss on vessels and vessels held under capital lease	<b>61,692</b>	—	61,692	100.0

In May 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Vanguard*. The charter was terminated in July 2016. The Company has agreed a compensation payment to Ship Finance of \$0.4 million for the termination of the charter and recorded an impairment loss of \$7.3 million in the three months ended June 30, 2016.

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate sale price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in respect of these vessels in the three months ended June 30, 2016 .

In the three months ended September, 2016, the Company recorded an impairment loss of \$8.9 million in respect of three vessels leased in from Ship Finance. This impairment loss included \$5.6 million in respect of the 1998-built VLCC *Front Century*.

In November 2016, the Company agreed with Ship Finance to terminate the long term charter for the *Front Century* upon the sale and delivery of the vessel to a third party. The charter was terminated in March 2017. The Company has agreed a

compensation payment to Ship Finance of approximately \$4.0 million for the termination of the charter and recorded an impairment loss of \$27.3 million in the three months ended December 31, 2016.

***Provision for uncollectible receivable***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Provision for uncollectible receivable	<b>4,000</b>	—	4,000	100.0

In 2016, the Company made a provision of \$4.0 million against a receivable, which was acquired as a result of the Merger and was subject to Court proceedings, following developments in those Court proceedings.

***Administrative expenses***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Administrative expenses	<b>37,026</b>	10,582	26,444	249.9

Administrative expenses increased in 2016 as compared to 2015 primarily due to the increased size of the Company following the Merger and newbuilding supervision costs in 2016, which are recharged to related parties. Amounts recharged to related parties are recorded as Other Income.

***Depreciation***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Depreciation	<b>141,043</b>	52,607	88,436	168.1

Depreciation expense increased in 2016 as compared to 2015 primarily due to:

- an increase of \$82.0 million due to six Suezmax tankers and fourteen VLCCs, which were acquired upon the Merger, as such 2016 includes 12 months of their depreciation whereas 2015 includes only one month,
- an increase of \$10.8 million due to the delivery of eleven LR2/Aframax tanker newbuildings, two Suezmax newbuildings and one VLCC newbuilding between February 2015 and September 2016,
- an increase of \$0.8 million due to the delivery of two Suezmax tankers in March 2015, and
- an increase of \$0.2 million due to the capitalization of additional de-rating costs on four Suezmax tankers.

These factors were partially offset by a decrease of \$3.6 million due to the disposal of six MR tankers between August and November 2016.

***Interest income***

<i>(in thousands of \$)</i>	<b>2016</b>	2015	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Interest income	<b>367</b>	47	320	680.9

Interest income 2016 and 2015 relates solely to interest received on bank deposits.

***Interest expense***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Interest expense	<b>(56,687)</b>	(17,621)	(39,066)	(221.7)

Interest expense increased in 2016 as compared to 2015 primarily due to:

- an increase of \$32.1 million in finance lease interest expense due to two Suezmax tankers and twelve VLCCs held under capital leases that were acquired upon the Merger, as such 2016 includes 12 months of their finance lease interest expense whereas 2015 includes only one month,
- an increase of \$6.5 million as a result of additional borrowings between April 2015 and September 2016,
- an increase of \$0.6 million in amortization of deferred charges through the sale of the six MR tankers
- an increase of \$0.9 million in amortization of deferred charges due to the new term loan facility signed in December 2015, and
- an increase of \$0.8 million on loan interest expense and amortization of deferred charges as a result of the Merger.

These factors are partially offset by a decrease of \$1.8 million due to the increase in the capitalization of newbuilding loan interest expense and decrease in loan interest on the MR tankers, which were disposed of.

***Share of results from associated company and gain on equity interest***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Share of results of associated company and gain on equity interest	—	2,727	(2,727)	(100.0)

Share of results from associated company in 2015 relates to Frontline 2012's share of results of Avance Gas.

***Impairment loss on marketable securities***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Impairment loss on marketable securities	<b>(7,233)</b>	(10,507)	3,274	31.2

An impairment loss of \$2.4 million was recorded in the three months ended March 31, 2016, in respect of the mark to market loss on the Golden Ocean shares that was determined to be other than temporary in view of the significant fall in rates in the Baltic Dry Index and the short to medium term prospects for the dry bulk sector.

An impairment loss of \$4.6 million was recorded in the six months ended June 30, 2016 and an impairment loss of \$0.3 million was recorded in the three months ended September 30, 2016, in respect of the mark to market loss on the Avance Gas shares that was determined to be other than temporary in view of the significant fall in rates and the short to medium term prospects for the LPG sector.

The impairment loss on shares in 2015 relates to the shares held in Golden Ocean.

A loss of \$1.1 million was incurred in the period from March 31, 2015 (being the date of de-consolidation of Golden Ocean) to June 26, 2015 (being the date of Frontline 2012's stock dividend of Golden Ocean shares). A total loss of \$41.7 million was incurred in this period, of which \$1.1 million was allocated to continuing operations and \$40.6 million was allocated to discontinued operations based on the number of Golden Ocean shares that were dividended and retained.

A loss of \$9.4 million was incurred as a result of (i) the mark to market loss on the Golden Ocean shares held by Frontline 2012 in the period from June 26 through December 31, 2015, and (ii) the mark to market loss on the Golden Ocean shares that were

acquired upon the Merger. An impairment loss was recorded in both cases as it was determined that the loss was other than temporary in view of the significant fall in rates in the Baltic Dry Index.

***Other income (expenses)***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Foreign currency exchange losses	<b>9</b>	134	(125)	(93.3)
Gain (loss) on derivatives	<b>3,718</b>	(6,782)	10,500	154.8
Other non-operating income	<b>204</b>	320	(116)	(36.3)

The gain on derivatives in 2016 relates to a gain on interest rate swaps of \$1.9 million and a gain on bunker swaps of \$1.8 million. The loss on derivatives in 2015 relates to a loss on interest rate swaps of \$4.5 million and a loss on bunker swaps of \$2.3 million.

The decrease in other non-operating income in 2016 as compared to 2015 relates to a decrease in dividends received from Ship Finance and Avance Gas.

***Net loss from discontinued operations***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Net loss from discontinued operations	<b>—</b>	(131,006)	131,006	100.0

The loss from discontinued operations in 2015 relates to the operations of Golden Ocean. In June 2015, Frontline 2012 paid a stock dividend consisting of 75.4 million Golden Ocean shares. This stock dividend was deemed to trigger discontinued operations presentation of the results of Golden Ocean as it represented a strategic shift that had a major effect on Frontline 2012's financial and operational results. The results of operations and balance sheet of Golden Ocean were included within the dry bulk segment in prior periods. The loss in 2015 primarily relates to (i) a \$62.5 million impairment loss on five vessels owned by Golden Ocean, (ii) a \$40.6 million impairment loss on the shares held in Golden Ocean, (iii) a \$14.9 million share of Golden Ocean's losses between March 31, 2015, being the date of de-consolidation of Golden Ocean and June 26, 2015 being the date of the stock dividend, and (iv) a net loss of \$13.2 million for Golden Ocean in the period it was consolidated between January 1 and March 31, 2015.

***Net (income) loss attributable to non-controlling interest***

<i>(in thousands of \$)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Net (income) loss attributable to non-controlling interest	<b>(504)</b>	30,244	(30,748)	(101.7)

Net income attributable to non-controlling interest in 2016 is attributable to the non-controlling interest in the results of Seateam. The net loss attributable to non-controlling interest in 2015 primarily relates to the non-controlling interest in the results of Golden Ocean.

**Recent accounting pronouncements**

See Note 3 to our audited Consolidated Financial Statements included herein.

## **B. 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 installments, 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 December 31, 2017, 2016 and 2015, we had cash and cash equivalents of \$104.1 million, \$202.4 million and \$264.5 million, respectively. As of December 31, 2017, 2016 and 2015, we had restricted cash balances of \$0.7 million, \$0.7 million and \$0.4 million, respectively. Restricted cash does not include cash balances of \$74.0 million (2016: \$49.6 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 nine 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 December 31, 2017, the cash held by Frontline Shipping Limited of \$8.9 million (2016: \$26.0 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 and any other amounts incurred in the ordinary course of business.

As of December 31, 2017, the remaining commitments for our five newbuilding contracts amounted to \$305.4 million, of which \$252.0 million is due in 2018 and \$53.4 million is due in 2019. As at December 31, 2017, Frontline has committed bank financing in place to partially finance delivery of all of the Company's remaining newbuildings and estimates loan amounts of \$196.8 million and \$54.9 million to be drawn in 2018 and 2019, respectively. Two VLCCs and one LR2/Aframax tanker were delivered in January 2018.

In February 2018 the Company extended the terms of its senior unsecured loan facility of up to \$275.0 million with an affiliate of Hemen Holding Ltd by 12 months. Following the extension, the facility is repayable in November 2019.

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 annual report.

### ***Medium to Long-term Liquidity and Cash Requirements***

Our medium and long-term liquidity requirements include payment of newbuilding installments, 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.

## Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated.

<i>(in thousands of \$)</i>	2017	2016	2015
Net cash provided by operating activities	<b>130,485</b>	286,015	207,346
Net cash used in investing activities	<b>(722,567)</b>	(396,752)	(459,279)
Net cash provided by financing activities	<b>493,825</b>	48,615	219,512
Net change in cash and cash equivalents	<b>(98,257)</b>	(62,122)	(32,421)
Net change in cash balances included in held for distribution	—	—	61,144
Cash and cash equivalents at beginning of year	<b>202,402</b>	264,524	235,801
Cash and cash equivalents at end of year	<b>104,145</b>	202,402	264,524

### *Net cash provided by operating activities*

Net cash provided by operating activities in the year ended December 31, 2017 was \$130.5 million compared with \$286.0 million in the year ended December 31, 2016. 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 December 31, 2017, compared with the actual TCE rates achieved during 2017, 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 \$22,200, \$18,200 and \$16,000 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 in 2018. 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 \$722.6 million in 2017 comprised mainly of additions to newbuildings, vessels and equipment of \$713.6 million, of which most was in respect of 20 newbuilding contracts, 15 of which were delivered during the year. Furthermore, the Company purchased 10,891,009 shares in DHT for an aggregate cost of \$46.1 million. This amount was partially offset by the following;

- sale proceeds of \$27.4 million in relation to the sale of 6.3 million shares in DHT
- finance lease payments received of \$9.7 million in respect of the investment in finance lease held on the balance sheet

Net cash used in investing activities of \$396.8 million in 2016 comprised mainly of additions to newbuildings, vessels and equipment of \$622.5 million, of which most was in respect of 25 newbuilding contracts, ten of which were delivered during the year. This amount was partially offset by the following:

- a refund of \$43.5 million in respect of four VLCC newbuilding contracts, which were cancelled in October 2016,
- sale proceeds of \$173.2 million, primarily in respect of the six MR tankers sold during the year, and
- finance lease payments received of \$9.3 million in respect of the investment in finance lease that was acquired upon the Merger.

Net cash used in investing activities of \$459.3 million in 2015 comprised mainly of:

- newbuilding installment payments of \$685.0 million,
- \$100.0 million to paid to acquire two Suezmax tankers,
- \$1.8 million for upgrading costs on four Suezmax tankers and
- cash used in investing activities of discontinued operations of Golden Ocean of \$310.8 million.

This was partially offset by the following:

- restricted cash net inflows of \$35.7 million, which is mainly attributable to the reclassification of \$35.8 million of advance sale proceeds from Avance Gas in connection with the agreed sale of eight VLGC newbuildings as cash and cash equivalents,
- refunds of newbuilding installments and interest of \$58.8 million, in aggregate, in respect of newbuilding contracts that were cancelled by Frontline 2012,
- sale proceeds of \$456.4 million received from Avance Gas in connection with the sale of eight VLGC newbuildings to Avance Gas immediately following their delivery to Frontline 2012 from the yard. This amount is in addition to \$139.2 million, which was received in advance in 2014, and
- cash of \$87.4 million acquired upon the Merger.

#### ***Net cash provided by financing activities***

Net cash provided by financing activities in 2017 of \$493.8 million was primarily a result of loan drawdowns of \$673.4 million and an additional \$10.1 million of cash generated from secured short-term borrowings. These items were partially offset by dividend payments of \$51.4 million, debt repayments of \$84.0 million, capital lease repayments of \$31.9 million, lease termination payments of \$19.0 million and debt fees paid of \$3.5 million.

Net cash provided by financing activities in 2016 of \$48.6 million was primarily a result of the Company's offering of 13,422,818 new ordinary shares at \$7.45 per share in December 2016, which generated net proceeds of \$98.2 million, and loan drawdowns of \$356.1 million. These items were partially offset by dividend payments of \$164.6 million, debt repayments of \$169.9 million, capital lease repayments of \$61.7 million, and debt fees paid of \$9.5 million.

Net cash provided by financing activities in 2015 of \$219.5 million was primarily a result of loan drawdowns of \$659.7 million, cash provided by the discontinued operations of Golden Ocean of \$141.8 million and \$3.3 million which the Company received in December 2015 as a compensation payment from Ship Finance for the early termination of the long term charter for the 1998-built Suezmax tanker *Mindanao*.

These items were partially offset by the following:

- dividend payments of \$39.2 million,
- debt repayments of \$427.3 million,
- the payment of \$113.2 million in December 2015, comprising principal of \$112.7 million and accrued interest of \$0.5 million, in respect of the remaining outstanding balance on the loan notes due to Ship Finance, which were issued on the early termination of the leases for the VLCCs *Front Champion*, *Golden Victory*, *Front Comanche*, *Front Commerce* and *Front Opalia*, and,
- debt fees paid of \$0.5 million.

The net change in cash balances held for distribution relates to Golden Ocean. Frontline 2012 determined that the stock dividend of 75.4 million of its shares in Golden Ocean in June 2015 represented a significant strategic shift in its business and, therefore, recorded the results of its dry bulk operations as discontinued operations in the years ended December 31, 2015 and 2014. The balance sheet at December 31, 2014 was also presented on a discontinued operations basis, which meant that \$61.4

million of cash was recorded in current assets held for distribution. The operations of Golden Ocean were de-consolidated in 2015.

## **Equity**

On December 16, 2016, the Company completed an offering of 13,422,818 new ordinary shares at \$7.45 per share, or the Offering, generating net proceeds of \$98.2 million.

## **Borrowing Activities**

### **\$466.5 million term loan facility**

During December 2014, the amount of a \$136.5 million term loan facility was increased to \$466.5 million such that a further ten tranches of \$33.0 million, each for a LR2/Aframax tanker newbuilding, could be drawn. The repayment schedule was amended to installments on a quarterly basis, in an amount of \$0.4 million for each MR product tanker and \$0.4 million for each LR2/Aframax tanker with a balloon payment on the final maturity date in April 2021. In addition the loan margin and commitment fee were amended to 2.05% and 0.82%, respectively. In December 2015, the loan margin was reduced to 1.90%. During 2015, \$99.0 million was drawn down on delivery of three LR2/Aframax tankers and \$13.1 million was repaid. During 2016, \$192.4 million was drawn down on delivery of six LR2/Aframax tankers and \$126.4 million was repaid. The facility is fully drawn down as of December 31, 2017.

### **\$60.6 million term loan facility**

In March 2015, Frontline 2012 entered into a \$60.6 million term facility to fund the purchase of two second hand vessels. The loan has a term of five years and carries interest at LIBOR plus a margin of 1.80%. Repayments are made on a quarterly basis, each in an amount \$0.9 million, with a balloon payment on the final maturity date in March 2021. The facility is fully drawn down as of December 31, 2017.

### **\$500.1 million term loan facility**

In December 2015, subsidiaries of the Company signed a new \$500.1 million senior secured term loan facility with a number of banks, which matures in December 2020 and carries an interest rate of LIBOR plus a margin of 1.90%. This facility is secured by six VLCCs and six Suezmax tankers. Repayments are made on a quarterly basis, each in an amount \$9.5 million, with a balloon payment on the final maturity date in December 2020. The facility is fully drawn down as of December 31, 2017.

### **\$275.0 million revolving credit facility**

In June 2016, the Company signed a \$275.0 million senior unsecured facility agreement with, an affiliate of Hemen, the Company's largest shareholder. The \$275.0 million facility carries an interest rate of 6.25%. The facility is available to the Company for a period of 18 months from the first utilization date and is repayable in full on the 18 month anniversary of the first utilization date. There are no scheduled loan repayments before this date. The facility does not include any financial covenants and will be used to part finance the Company's current newbuilding program, partially finance potential acquisitions of newbuildings or vessels on the water and for general corporate purposes.

The Company drew down \$90.0 million in the year ended December 31, 2017 and up to \$185.0 million remains available and undrawn as at year end. In February 2018 the Company extended the terms of the facility by 12 months. Following the extension, the facility is repayable in November 2019.

### **\$109.2 million term loan facility**

In July 2016, the Company entered into a senior secured term loan facility in an amount of up to \$109.2 million with ING Bank. The facility matures on June 30, 2021, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 17 years. The Company drew down \$54.6 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. The facility is fully drawn down as of December 31, 2017.

**\$328.4 million term loan facility**

In August 2016, the Company signed a senior secured term loan facility in an amount of up to \$328.4 million with China Exim Bank. The facility matures in 2029, carries an interest rate of LIBOR plus a margin in line with the Company's other facilities and has an amortization profile of 18 years. The Company drew down \$109.0 million in the year ended December 31, 2016 in connection with one LR2 tanker and two Suezmax tanker newbuildings, which were delivered in the year. The Company drew down a further \$165.9 million in the year ended December 31, 2017 in connection with two Suezmax tankers and three LR2/Aframax tankers delivered in the year. The facility is fully drawn down as of December 31, 2017.

**\$110.5 million term loan facility (Credit Suisse)**

In December 2016, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with Credit Suisse. The facility matures in 2022, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The Company drew down \$54.9 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. Up to \$54.9 million remains available and undrawn as at year end.

**\$321.6 million term loan facility**

In February 2017, the Company signed a second senior secured term loan facility in an amount of up to \$321.6 million. The facility provided by China Exim Bank is insured by China Export and Credit Insurance Corporation. The facility matures in 2033, carries an interest rate of LIBOR plus a margin in line with the Company's other credit facilities and has an amortization profile of 15 years. This facility will be used to part finance eight of our newbuildings and will be secured by four Suezmax tankers and three LR2/Aframax tankers delivered in the year, and one LR2/Aframax newbuilding being delivered in 2018. The Company drew down \$252.7 million in the year ended December 31, 2017 in connection with four Suezmax tankers and three LR2/Aframax tanker delivered in the period. Up to \$32.0 million remains available and undrawn as at year end.

**\$110.5 million term loan facility (Credit Suisse)**

In June 2017, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with Credit Suisse. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The facility will be used to partially finance two of our recent VLCC resales and newbuilding contracts to be delivered in 2018 and 2019. As at December 31, 2017 the full balance remains available and undrawn.

**\$110.5 million term loan facility (ING)**

In June 2017, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with ING. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The facility will be used to partially finance two of our recent VLCC resales and newbuilding contracts and will be secured by one VLCC delivered in the year and one VLCC newbuilding being delivered in 2018. The Company drew down \$55.3 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. Up to \$55.2 million remains available and undrawn as at year end.

**Secured borrowings**

In December 2017, the Company sold 1.3 million shares in Golden Ocean Group Ltd. ("GOGL"), for proceeds of NOK 84.8 million (\$10.1 million). At the same time the Company entered into a forward contract to repurchase 1.3 million shares in GOGL in March 2018 for NOK 85.2 million (\$10.3 million). The transaction has been accounted for as a secured borrowing, with the shares transferred to 'Marketable securities pledged to creditors' and a liability recorded at December 31, 2017 within debt for \$10.3 million, after adjusting for the effect of foreign exchange.

**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 \$74.0 million (2016: \$49.6 million), which are required to be maintained by the financial covenants in our loan facilities, as 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. The Company was in compliance with all of the financial covenants contained in the Company's loan agreements as of December 31, 2017.

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

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

### D. TREND INFORMATION

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

### E. OFF-BALANCE SHEET ARRANGEMENTS

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

Following assignments of two property leases in 2015, each to a related party, a subsidiary of the Company has guaranteed the remaining outstanding payments due under the leases of approximately \$7.9 million as of December 31, 2017 (2016: approximately \$8.3 million). The Company does not believe that it will be required to make any payments under these guarantees and has not recorded a liability in the balance sheet in this respect.

In November 2015, the Company agreed to commercially manage a VLCC being chartered-in by a third party for a two year period and to share equally the results of the vessel calculated as net voyage earnings less charter hire expense. The agreement terminated in 2017 and there is no further potential liability. As at December 31, 2016, the maximum potential liability for the Company was \$6.6 million.

### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

At December 31, 2017, we had the following contractual obligations and commitments:

(In thousands of \$)	Payment due by period				Total
	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years	
Floating rate debt	102,758	205,516	797,371	386,413	1,492,058
Fixed rate debt	—	90,000	—	—	90,000
Secured borrowings	10,312	—	—	—	10,312
Operating lease obligations	6,071	2,744	378	—	9,193
Capital lease obligations (1)	21,722	48,521	51,781	71,351	193,375
Newbuilding commitments (2)	251,991	53,382	—	—	305,373
Interest on floating rate debt (3)	56,764	101,690	43,839	64,544	266,837
Interest on fixed rate debt	5,625	4,731	—	—	10,356
Interest on capital lease obligations	13,515	22,048	14,591	8,606	58,760
	468,758	528,632	907,960	530,914	2,436,264

1. As of December 31, 2017, the Company held 9 vessels under capital leases, all of which are leased from Ship Finance and were acquired upon the Merger. The amounts shown in the table above represent the contractual obligations under these lease agreements and exclude the value of contingent rental expense that was included in the fair valuation of these lease obligations on the date of the Merger. As of December 31, 2017, we have recorded total obligations under these capital leases of \$299.0 million of which \$193.4 million is in respect of the minimum contractual payments and \$105.6 million is in respect of contingent rental expense.
2. The newbuilding commitments as of December 31, 2017 consist of four VLCCs and one LR2/Aframax tankers.
3. Interest on floating rate debt has been calculated using three month U.S. dollar libor as of December 31, 2017, plus agreed margin, and outstanding borrowings as of that date.

## G. SAFE HARBOR

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

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Position
John Fredriksen	73	Chairman, President and Director
Kate Blankenship	53	Director and Audit Committee Chairman
Georgina Sousa	67	Director
Ola Lorentzon	68	Director
Robert Hvide Macleod	38	Director and Chief Executive Officer of Frontline Management AS
Inger M. Klemp	54	Chief Financial Officer of Frontline Management AS

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

**John Fredriksen** has served as Chairman of the Board, President and a director of the Company since November 3, 1997. Mr. Fredriksen has established trusts for the benefit of his immediate family which indirectly control Hemen, our largest shareholder. Mr. Fredriksen was a director of Frontline 2012 at the date of the Merger. Mr. Fredriksen is Chairman, President and a director of a related party Seadrill Limited, a Bermuda company listed on the OSE and the NYSE. He is also a director of a related party Golden Ocean Group Limited, a Bermuda company listed on Nasdaq and the OSE whose principal shareholder is Hemen. From 2001 until September 2014 Mr. Fredriksen served as Chairman of the Board, President and a director of Golar LNG Limited, or Golar, a Bermuda company listed on the Nasdaq Global Market.

**Kate Blankenship** has been a director of the Company since August 2003. Mrs. Blankenship joined the Company in 1994 and served as the Company's Chief Accounting Officer and Company Secretary until October 2005. Mrs. Blankenship has been a director of Ship Finance since October 2003. Mrs. Blankenship has served as a director of Golden Ocean Group Limited since November 2004, Seadrill Limited since May 2005, Archer Limited since August 2007, Independent Tankers Corporation Limited since February 2008, Seadrill Partners LLC since June 2012 and Avance Gas since October 2013. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship served as a director of Golar LNG Limited from July 2003 until September 2015 and Golar LNG Partners from September 2007 until September 2015.

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

**Ola Lorentzon** has been director of the Company since May 2015. Mr. Lorentzon was the Managing Director of Frontline Management AS, a subsidiary of the Company, from April 2000 until September 2003. Mr. Lorentzon has served as a director of FLEX LNG Ltd. since June 2017 and is also a director and Chairman of Golden Ocean Group Limited and a director of Erik Thun AB.

**Robert Hvide Macleod** has been a director of the Company since May 2015 and has served as Chief Executive Officer of Frontline Management AS since November 2014. Mr. Macleod served as principal executive officer of Frontline 2012 at the date of the Merger. Mr. Macleod was employed by the A.P. Moller Group from 2002 to 2004 and Glencore-ST Shipping from 2004 to 2011. He is the founder of Highlander Tankers AS. Mr. Macleod holds a Maritime Business (Hons) degree from Plymouth University.

**Inger M. Klemp** has served as Chief Financial Officer of Frontline Management AS since June 1, 2006 and served as principal financial officer of Frontline 2012 at the date of the Merger. Mrs. Klemp has served as a director of Independent Tankers Corporation Limited since February 2008 and has served as Chief Financial Officer of Golden Ocean Shipping Limited from September 2007 to March 2015. Mrs. Klemp served as Vice President Finance from August 2001 until she was promoted in May 2006. Mrs. Klemp graduated as MSc in Business and Economics from the Norwegian School of Management (BI) in 1986. Prior to joining the Company, Mrs. Klemp was Assistant Director Finance in Color Group ASA and Group Financial Manager in Color Line ASA, an OSE listed company and before that was Assistant Vice President in Nordea Bank Norge ASA handling structuring and syndication of loan facilities in the international banking market and a lending officer of Danske Bank A/S.

## **B. COMPENSATION**

During the year ended December 31, 2017, we paid aggregate cash compensation of approximately \$1.7 million and an aggregate amount of approximately \$0.1 million for pension and retirement benefits to our directors and executive officers (six persons). In addition, we also recognized stock compensation expense of approximately \$2.1 million in respect of 1,170,000 share options, which were granted to our directors and executive officers in July 2016. The initial exercise price of these options was \$8.00 per option and is reduced by the amount of dividends paid after the date of grant. The exercise price of these options as of December 31, 2017 is \$7.40.

## **C. BOARD PRACTICES**

In accordance with our bye-laws the number of directors shall be such number not less than two as our shareholders by Ordinary Resolution may from time to time determine and each director shall hold office until the next annual general meeting following his election or until his successor is elected. We currently have five directors.

We currently have an audit committee, which is responsible for overseeing the quality and integrity of our financial statements and our accounting, auditing and financial reporting practices, our compliance with legal and regulatory requirements, the independent auditor's qualifications, independence and performance and our internal audit function. In 2017, our audit committee comprised of Mrs. Kate Blankenship.

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

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

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

As a foreign private issuer we are exempt from certain requirements of the NYSE that are applicable to U.S. listed companies. For a listing and further discussion of how our corporate governance practices differ from those required of U.S. companies listed on the NYSE, please see Item 16G or visit the corporate governance section of our website at [www.frontline.bm](http://www.frontline.bm).

#### D. EMPLOYEES

As of December 31, 2017, we employed approximately 128 people in our offices in Bermuda, London, Oslo, Singapore and India, compared to 135 employees in 2016 and 123 employees in 2015. We contract with independent ship managers to provide technical management services in respect of our vessels.

#### E. SHARE OWNERSHIP

As of February 28, 2018, the beneficial interests of our directors and officers in our ordinary shares were as follows:

<b>Director or Officer</b>	<b>Ordinary shares of \$1.00 each</b>	<b>Options to acquire ordinary shares which have vested</b>	<b>Percentage of ordinary shares outstanding</b>
John Fredriksen*	*	66,000	*
Kate Blankenship	2,343	7,000	**
Georgina Sousa	—	4,000	—
Ola Lorentzon	3,000	7,000	—
Robert Hvide Macleod	270,000	266,000	**
Inger M. Klemp	180,000	40,000	**

\* Mr. Fredriksen disclaims beneficial ownership of the 82,145,703 ordinary shares held by Hemen, a Cyprus holding company, which is indirectly controlled by trusts established by Mr. Fredriksen for the benefit of his immediate family, except to the extent of his voting and dispositive interest in such shares of common stock. Mr. Fredriksen has no pecuniary interest in the shares held by Hemen.

\*\* Less than 1%.



## Share Option Scheme

In November 2006, the Board approved a share option plan, which was cancelled in 2009 and replaced it with the Frontline Ltd. Share Option Scheme, or the Frontline Scheme. The Frontline Scheme permits the Board, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The subscription price for all options granted under the scheme is reduced by the amount of all dividends declared by the Company in the period from the date of grant until the date the option is exercised, provided the subscription price is never reduced below the par value of the share. The vesting periods of options granted under the plan will be specific to each grant. There is no maximum number of shares authorized for awards of equity share options and authorized, un-issued or treasury shares of the Company may be used to satisfy exercised options.

In April 2011, the Company granted 29,000 share options (as adjusted for the 1-for-5 reverse share split in February 2016) to directors and employees, all of which expired in April 2016. In July 2016, the Company granted 1,170,000 share options with an exercise price of \$8.00 per share, reduced for dividends paid of \$0.60 per share up until December 31, 2017, to directors and officers in accordance with the terms of the Frontline Scheme. One third of the options vest over one year, one third vest over two years and one third vest over three years. The options have a five year term.

Details of options to acquire our ordinary shares by our directors and officers as of February 28, 2018, were as follows:

Director or Officer	Number of options		Exercise price*	Expiration Date
	Total	Vested		
John Fredriksen	198,000	66,000	\$7.40	July 2021
Kate Blankenship	21,000	7,000	\$7.40	July 2021
Georgina Sousa	12,000	4,000	\$7.40	July 2021
Ola Lorentzon	21,000	7,000	\$7.40	July 2021
Robert Hvide Macleod	798,000	266,000	\$7.40	July 2021
Inger M. Klemp	120,000	40,000	\$7.40	July 2021

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table presents certain information as of February 28, 2018, regarding the ownership of our ordinary shares with respect to each shareholder whom we know to beneficially own more than 5% of our outstanding ordinary shares.

Owner	Number of shares	%
Hemen Holding Ltd.	82,145,703	48.4%
Ship Finance International Limited	11,000,000	6.5%

As of March 15, 2018, 32,158,233 of our ordinary shares were listed for trading on the NYSE.

Our major shareholders have the same voting rights as our other shareholders. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

### B. RELATED PARTY TRANSACTIONS

See Note 27 to our audited Consolidated Financial Statements included herein.

### C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18.

#### *Legal Proceedings*

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

#### *Dividend Policy*

In December 2015, our Board approved implementing a dividend policy to distribute quarterly dividends to shareholders equal to or close to earnings per share adjusted for non-cash items. In 2017, we declared dividends of \$0.15 for the first quarter. In 2016, we declared dividends of \$0.40 per share for the first quarter, \$0.20 per share for the second quarter, \$0.10 per share for the third quarter and in February 2017, we declared a dividend of \$0.15 per share for the fourth quarter of 2016. The timing and amount of dividends, if any, is at the discretion of the Board. We cannot guarantee that our Board will declare dividends in the future.

### **B. SIGNIFICANT CHANGES**

None.

## **ITEM 9. THE OFFER AND LISTING**

The Company's ordinary shares are traded on the NYSE and OSE under the symbol "FRO".

The NYSE is the Company's "primary listing". As an overseas company with a secondary listing on the OSE, the Company is not required to comply with certain listing rules applicable to companies with a primary listing on the OSE. The Company's ordinary shares were thinly traded on the London Stock Exchange, or LSE, since 1999 to November 2015 at which time they were de-listed and as a result, historical LSE trading information is not provided below.

All share prices have been adjusted for the 1-for-5 reverse share split, which was effected on February 3, 2016. The following table sets forth the high and low closing prices for each of the periods indicated for our ordinary shares.

The following table sets forth, for the five most recent fiscal years, the high and low prices for the ordinary shares on the NYSE and OSE.

	NYSE		OSE	
	High	Low	High	Low
<b>Fiscal year ended December 31,</b>				
2017	\$ 7.46	\$ 4.56	NOK 64.00	NOK 38.10
2016	\$ 14.75	\$ 6.80	NOK 129.45	NOK 56.15
2015	\$ 23.15	\$ 11.10	NOK 166.00	NOK 88.75
2014	\$ 25.30	\$ 5.95	NOK 159.00	NOK 38.70
2013	\$ 19.30	\$ 8.80	NOK 125.00	NOK 49.50

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

	NYSE		OSE	
	High	Low	High	Low
<b>Fiscal year ended December 31, 2017</b>				
First quarter	\$ 7.46	\$ 6.70	NOK 64.00	NOK 55.70
Second quarter	\$ 6.95	\$ 5.41	NOK 58.95	NOK 45.48
Third quarter	\$ 6.39	\$ 4.88	NOK 52.00	NOK 39.00
Fourth quarter	\$ 6.40	\$ 4.56	NOK 52.00	NOK 38.10
<b>Fiscal year ended December 31, 2016</b>				
First quarter	\$ 14.65	\$ 7.63	NOK 129.65	NOK 65.05
Second quarter	\$ 10.26	\$ 7.43	NOK 84.95	NOK 61.20
Third quarter	\$ 8.76	\$ 6.85	NOK 72.15	NOK 54.85
Fourth quarter	\$ 7.89	\$ 6.96	NOK 68.00	NOK 55.50

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

	NYSE		OSE	
	High	Low	High	Low
March 2018 (through March 15)	\$ 4.52	\$ 3.87	NOK 35.36	NOK 30.46
February 2018	\$ 4.60	\$ 3.87	NOK 35.64	NOK 31.34
January 2018	\$ 5.12	\$ 4.60	NOK 42.04	NOK 35.72
December 2017	\$ 5.28	\$ 4.56	NOK 43.90	NOK 38.10
November 2017	\$ 6.40	\$ 5.24	NOK 52.00	NOK 43.30
October 2017	\$ 6.30	\$ 5.81	NOK 50.75	NOK 46.60
September 2017	\$ 6.04	\$ 5.00	NOK 48.70	NOK 40.00

## ITEM 10. ADDITIONAL INFORMATION

### A. SHARE CAPITAL

Not applicable.

## **B. MEMORANDUM OF ASSOCIATION AND BYE-LAWS**

The Memorandum of Association of the Company has previously been filed as Exhibit 1.1 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 21, 2014, and is hereby incorporated by reference into this Annual Report.

At the 2016 Annual General Meeting of the Company, our shareholders voted to amend the Company's bye-laws to ensure conformity with revisions to the Bermuda Companies Act 1981, as amended, and to update the Company's bye-laws governing general meetings, delegation of the Board's powers and proceedings of the Board. These amended bye-laws of the Company as adopted on September 23, 2016, has previously been filed as Exhibit 1.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 16, 2017, and is hereby incorporated by reference into this Annual Report.

The purposes and powers of the Company are set forth in Items 7(2)-(4) and 8(2)-(4) of our Memorandum of Association and by reference to the Second Schedule of the Bermuda Companies Act of 1981 which is attached as an exhibit to our Memorandum of Association. These purposes include acting as a group holding company, exploring, drilling, moving, transporting and refining petroleum and hydro-carbon products, including oil and oil products; the acquisition, ownership, chartering, selling, management and operation of ships and aircraft; the entering into of any guarantee, contract, indemnity or suretyship and to assure, support, secure, with or without the consideration or benefit, the performance of any obligations of any person or persons; and the borrowing and raising of money in any currency or currencies to secure or discharge any debt or obligation in any manner.

*Shareholder Meetings.* Under our bye-laws, annual shareholder meetings will be held in accordance with the Companies Act at our registered office in Bermuda or such other location suitable for such purpose (other than Norway or the United Kingdom) at a time selected by our Board. The quorum at any annual or general meeting, save as otherwise provided by our bye-laws, is at least two shareholders present in person or by proxy and entitled to vote (whatever the number of shares held by them), provided however that if the Company shall have only one shareholder, such shareholder, present in person or by proxy, shall constitute the necessary quorum. The meetings may be held at any place, in or outside of Bermuda that is not a jurisdiction which applies a controlled foreign company tax legislation or similar regime. Special meetings may be called at the discretion of the Board and at the request of shareholders holding at least one-tenth of all outstanding shares entitled to vote at a meeting. Annual shareholder meetings and special meetings must be called by not less than seven days' prior written notice specifying the place, day and time of the meeting. The Board may fix any date as the record date for determining those shareholders eligible to receive notice of and to vote at the meeting.

The Companies Act provides that a company must have a general meeting of its shareholders in each calendar year unless that requirement is waived by a resolution of the shareholders. The Companies Act does not impose any general requirements regarding the number of voting shares which must be present or represented at a general meeting in order for the business transacted at the general meeting to be valid. The Companies Act generally leaves the quorum for shareholders meeting to the company to determine in its bye-laws. The Companies Act specifically imposes special quorum requirements where the shareholders are being asked to approve the modification of rights attaching to a particular class of shares (33.33%) or an amalgamation or merger transaction (more than 33.33%) unless in either case the bye-laws provide otherwise. The Company's bye-laws do not provide for a quorum requirement other than 33.33% where the shareholders are being asked to approve the modifications of rights attaching to a particular class of shares, but where the shareholders are being asked to approve an amalgamation or merger, the Company's bye-laws provide for a quorum requirement of at least two shareholders present in person or by proxy and entitled to vote (whatever the number of shares held by them), or only one shareholder present in person or by proxy, if the Company shall have only one shareholder.

The key powers of our shareholders include the power to alter the terms of the Company's memorandum of association and to approve and thereby make effective any alterations to the Company's bye-laws made by the directors. Dissenting shareholders holding 20% of the Company's shares may apply to the Court to annul or vary an alteration to the Company's memorandum of association. A majority vote against an alteration to the Company's bye-laws made by the directors will prevent the alteration

from becoming effective. Other key powers are to approve the alteration of the Company's capital including an increase in share capital, a reduction in share capital, to approve the removal of a director, to resolve that the Company be wound up or discontinued from Bermuda to another jurisdiction or to enter into an amalgamation or winding up. Under the Companies Act, all of the foregoing corporate actions require approval by an ordinary resolution (a simple majority of votes cast), except in the case of an amalgamation or merger transaction, which requires approval by 75% of the votes cast (unless the bye-laws provide otherwise). The Company's bye-laws only require an ordinary resolution to approve an amalgamation or merger whether or not the Company is the surviving company. In addition, the Company's bye-laws confer express power on the Board to reduce its issued share capital selectively with the authority of an ordinary resolution.

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

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

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

*Directors.* The Companies Act provides that the directors shall be elected or appointed by the shareholders. A director may be elected by a simple majority vote of shareholders, at a meeting where at least two shareholders entitled to vote (whatever the number of shares held by them), or only one shareholder, if the Company shall have only one shareholder, are present in person or by proxy. A person holding a majority of the voting shares of the Company will be able to elect all of the directors, and to prevent the election of any person whom such shareholder does not wish to be elected. There are no provisions for cumulative voting in the Companies Act or the bye-Laws and the Company's bye-Laws do not contain any super-majority voting requirements.

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

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

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

- If that director becomes bankrupt or compounds with his creditors;
- If that director is prohibited by law from being a director; or
- If that director ceases to be a director by virtue of the Companies Act (as defined in the bye-laws).

Under the Company's bye-laws, the minimum number of directors comprising the Board at any time shall be two. The Board currently consists of five directors. The minimum and maximum number of directors comprising the Board from time to time shall be determined by way of an ordinary resolution of the shareholders of the Company. The shareholders may, at the annual general meeting by ordinary resolution, determine that one or more vacancies in the Board be deemed casual vacancies. The Board, so long as a quorum remains in office, shall have the power to fill such casual vacancies. Under the Company's bye-laws, the Board shall at all times comprise a majority of directors who are not resident in the United Kingdom. Each director will hold office until the next annual general meeting or until his successor is appointed or elected. The Company may, at a Special General Meeting called for the purpose of removing a director, do so, provided notice is served upon the concerned director 14 days prior to the meeting and he is entitled to be heard. Any vacancy created by such a removal may be filled at the meeting by the election of another person by the shareholders or in the absence of such election, by the Board.

Bermuda law permits the bye-laws of a Bermuda company to contain provisions excluding personal liability of a director, alternate director, officer, member of a committee authorized under Bye-law 104, resident representative or their respective heirs, executors or administrators to the company for any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which the officer or person may be guilty. Bermuda law also grants companies the power generally to indemnify directors, alternate directors and officers of the Company and any members of a committee authorized under Bye-law 108, resident representatives or their respective heirs, executors or administrators if any such person was or is a party or threatened to be made a party to a threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a director, alternate director or officer of the Company or member of a committee authorized under Bye-law 108, resident representative or their respective heirs, executors or administrators or was serving in a similar capacity for another entity at the company's request.

The Company's bye-laws do not prohibit a director from being a party to, or otherwise having an interest in, any transaction or arrangement with the Company or in which the Company is otherwise interested. The Company's bye-laws provide that a director who has an interest in any transaction or arrangement with the Company and who has complied with the provisions of the Companies Act and with its bye-Laws with regard to disclosure of such interest shall be taken into account in ascertaining whether a quorum is present, and will be entitled to vote in respect of any transaction or arrangement in which he is so interested. The Company's bye-laws provide its Board the authority to exercise all of the powers of the Company to borrow money and to mortgage or charge all or any part of our property and assets as collateral security for any debt, liability or obligation. The Company's directors are not required to retire because of their age, and the directors are not required to be holders of the Company's ordinary shares. Directors serve for one year terms, and shall serve until re-elected or until their successors are appointed at the next annual general meeting. The Company's bye-laws provide that no director, alternate director, officer, person or member of a committee, if any, resident representative, or his heirs, executors or administrators, which we refer to collectively as an indemnitee, is liable for the acts, receipts, neglects, or defaults of any other such person or any person involved in our formation, or for any loss or expense incurred by us through the insufficiency or deficiency of title to any property acquired by us, or for the insufficiency or deficiency of any security in or upon which any of our monies shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortious act of any person with whom any monies, securities, or effects shall be deposited, or for any loss occasioned by any error of judgment, omission, default, or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in relation to the execution of his duties, or supposed duties, to us or otherwise in relation thereto. Each indemnitee will be indemnified and held harmless out of our funds to the fullest extent permitted by Bermuda law against all liabilities, loss, damage or expense (including but not limited to liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable) incurred or suffered by him as such director, alternate director, officer, person or committee member or resident representative (or in his reasonable belief that he is acting as any of the above). In addition, each

indemnatee shall be indemnified against all liabilities incurred in defending any proceedings, whether civil or criminal, in which judgment is given in such indemnatee's favor, or in which he is acquitted, or in connection with any application under the Companies Acts in which relief from liability is granted to him by the court. The Company is authorized to purchase insurance to cover any liability it may incur under the indemnification provisions of its bye-laws.

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

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

- we will not be able to pay our liabilities as they fall due; or
- the realizable value of our assets, is less than our liabilities.

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

*Oslo Stock Exchange.* The Company's bye-laws provide that any person, other than its registrar, who acquires or disposes of an interest in shares which triggers a notice requirement of the Oslo Stock Exchange must notify the Company's registrar immediately of such acquisition or disposal and the resulting interest of that person in shares. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our ordinary shares.

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

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

The Companies Act and our bye-Laws do not confer any pre-emptive, redemption, conversion or sinking fund rights attached to our ordinary shares. Holders of Ordinary Shares are entitled to one vote per share on all matters submitted to a vote of holders of ordinary shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of ordinary shares require approval by a simple majority of votes cast at a meeting at which a quorum is present.

Bye-law 19 specifically provides that the issuance of more shares ranking *pari passu* with the shares in issue shall not constitute a variation of class rights, unless the rights attached to shares in issue state that the issuance of further shares shall

constitute a variation of class rights. Bye-law 3 confers on the directors the right to dispose of any number of unissued shares forming part of the authorized share capital of the Company without any requirement for shareholder approval. Bye-law 93 contains certain stipulations regarding the Company's (or any of its subsidiaries') transactions with any of its Principal Shareholders (or any Associate of a Principal Shareholder). When Bye-law 93 applies, the Company is required to send to each shareholder a disclosure statement containing information about the proposed transaction. However, this bye-law provision specifically exempts from this requirement the issuance of new shares to a Principal Shareholder for cash.

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

## **C. MATERIAL CONTRACTS**

### **Ship Finance**

#### ***Charter Ancillary Agreements and Amendments***

In May 2015, the Company and Ship Finance agreed to amendments to the leases on 12 VLCCs and five Suezmaxes, the related management agreements and further amendments to the charter ancillary agreements for the remainder of the charter periods. As a result of the amendments to the charter ancillary agreements, which took effect on July 1, 2015, the daily hire payable to Ship Finance was reduced to \$20,000 per day and \$15,000 per day for VLCCs and Suezmaxes, respectively. The fee due from Ship Finance for operating costs was increased from \$6,500 per day per vessel to \$9,000 per day per vessel. In return, the Company issued 11.0 million new shares (as adjusted for the 1-for-5 reverse share split in February 2016) to Ship Finance and the profit share above the new daily hire rates was increased from 25% to 50%. The Company was released from its guarantee obligation and in exchange, Frontline Shipping Limited, a wholly owned subsidiary of the Company and the chartering counterparty with Ship Finance, has agreed to certain dividend restrictions. 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 December 31, 2017, the cash held by Frontline Shipping Limited of \$8.9 million (2016: \$26.0 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 and any other amounts incurred in the ordinary course of business.

As the Merger with Frontline 2012 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. The Company recorded contingent rental income of \$26.1 million in 2017 due to the fact that the actual profit share expenses earned by Ship Finance of \$5.6 million was \$26.1 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. The Company recorded contingent rental income of \$18.6 million in 2016 due to the fact that the actual profit share expense earned by Ship Finance in the period of \$50.9 million was \$18.6 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.

We also refer you to “Item 4. Information on the Company -A. History and Development of the Company,” “Item 5. Operating and Financial Review and Prospects -B. Liquidity and Capital Resources” and “Item 7. Major Shareholders and Related Party Transactions -B. Related Party Transactions” for a discussion of other material agreements that we have entered into outside the ordinary course of our business during the two-year period immediately preceding the date of this annual report.

## **D. EXCHANGE CONTROLS**



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

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

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

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

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

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

## **E. TAXATION**

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

### **United States Federal Income Tax Considerations**

In the opinion of Seward & Kissel LLP, our United States counsel, the following are the material United States federal income tax consequences to us of our activities and to United States Holders of our ordinary shares. The following discussion of U.S. federal income tax matters is based on the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all of which are subject to change, possibly with retroactive effect.

Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States.

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

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

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

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

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

### **Application of Section 883**

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

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

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

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

Prior to the Merger, the Company qualified for exemption under Section 883 while Frontline 2012 did not so qualify. In addition, the Company currently does not anticipate circumstances under which the Company would be able to satisfy the 50% Ownership Test. The Company's ability to satisfy Publicly-Traded Test is described below.

Under the Treasury Regulations, stock of a foreign corporation is considered "primarily traded" on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. The Company's ordinary shares was "primarily traded" on the NYSE during the 2017 taxable year.

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

The Company believes that its ordinary shares have satisfied the Listing Threshold, as well as the Trading Frequency Test and Trading Volume Tests, during the 2017 taxable year.

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

During the 2017 taxable year, 5% Shareholders owned less than 50% of the Company's ordinary shares for more than half the number of days in the year. Therefore, the Company was not subject to the 5% Override Rule, and therefore the Company believes that it satisfied the Publicly-Traded Test for the 2017 taxable year. We did not qualify for this statutory tax exemption for the 2016 taxable year because 5% shareholders owned 50% or more of our ordinary shares for more than half the number of days in the year. Therefore, we did not qualify for exemption under Section 883 in 2016 and were subject to a 4% United States federal income tax without allowance for deduction.

However, the Company may not satisfy the Publicly-Traded Test in future taxable years. In this regard, Hemen, who we believe to be a non-qualified shareholder, currently owns less than 50% of the our ordinary shares. If Hemen and other non-qualified 5% Shareholders holds more than 50% of our ordinary shares, the Company would be subject to the 5% Override Rule for its such taxable year unless it could establish that, among the ordinary shares owned by the 5% Shareholders, sufficient shares are owned by qualified shareholders, for purposes of Section 883 of the Code, to preclude non-qualified shareholders from owning 50% or more of the Company's ordinary shares for more than half the number of days during the taxable year. The requirements of establishing this exception to the 5% Override Rule are onerous and the Company may not be able to satisfy them.

## **Taxation in Absence of Section 883 Exemption**

If the benefits of Section 883 were unavailable for the 2017 taxable year, the Company's United States source shipping income will be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, which the Company refers to as the "4% gross basis tax regime". Since under the sourcing rules described above, no more than 50% of the Company's shipping income would be treated as being derived from United States sources, the maximum effective rate of United States federal income tax on the Company's shipping income would never exceed 2% under the 4% gross basis tax regime.

## **Gain on Sale of Vessels**

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

## **Taxation of United States Holders**

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

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

If a partnership holds ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding ordinary shares, you are encouraged to consult your own tax advisor regarding the United States federal income tax consequences of owning an interest in a partnership that holds ordinary shares.

## **Distributions**

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to ordinary shares to a United States Holder will generally constitute foreign source dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of the Company's current or

accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of the Company's earnings and profits will be treated first as a non-taxable return of capital to the extent of the United States Holder's tax basis in its ordinary shares on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a United States corporation, United States Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from the Company.

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

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

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

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

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

Special United States federal income tax rules apply to a United States Holder that holds stock in a foreign corporation classified as a passive foreign investment company, or a PFIC, for United States federal income tax purposes. In general, the Company will be treated as a PFIC with respect to a United States Holder if, for any taxable year in which such holder held the Company's ordinary shares, either;

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

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

Based on the Company's current operations and future projections, the Company does not believe that it is, or that it has been, nor does it expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, the Company's belief is based principally on the position that, for purposes of determining whether the Company is a PFIC, the

gross income the Company derives or is deemed to derive from the time chartering and voyage chartering activities should constitute services income, rather than rental income. Correspondingly, the Company believes that such income does not constitute passive income, and the assets that the Company or its wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute assets that produce, or are held for the production of, passive income for purposes of determining whether the Company is a PFIC.

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

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

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

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

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

Alternatively, if the Company were to be treated as a PFIC for any taxable year and, as anticipated, the ordinary shares are treated as "marketable stock," a United States Holder would be allowed to make a Mark-to-Market election with respect to the Company's ordinary shares. If that election is made, the United States Holder generally would include as ordinary income in each taxable year that the Company that the Company is a PFIC the excess, if any, of the fair market value of the ordinary shares at the end of the taxable year over such holder's adjusted tax basis in the ordinary shares. The United States Holder would also be permitted an ordinary loss for each such taxable year in respect of the excess, if any, of the United States Holder's adjusted tax basis in the ordinary shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the Mark-to-Market election. A United States Holder's tax basis in its ordinary shares would be adjusted to reflect any such income or loss amount. In any taxable year that the Company is a PFIC, gain realized on the sale, exchange or other disposition of the ordinary shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the ordinary shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the United States Holder.

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

Finally, if the Company were to be treated as a PFIC for any taxable year, a United States Holder who does not make either a QEF election or a Mark-to-Market election for that year, who is referred to as a "Non-Electing United States Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing United States Holder on the ordinary shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing United States Holder in the three preceding taxable years, or, if shorter, the Non-Electing United States Holder's holding period for the ordinary shares), and (2) any gain realized on the sale, exchange or other disposition of the ordinary shares. Under these special rules:

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

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

#### **PFIC Annual Filing Requirements**

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

#### **Backup Withholding and Information Reporting**

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

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his United States federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

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

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

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

Individuals who are United States Holders (and to the extent specified in applicable Treasury Regulations, certain United States entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, the ordinary shares, unless the ordinary shares are held through an account maintained with a United States financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual United States Holder (and to the extent specified in applicable Treasury Regulations a United States entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of United States federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. United States Holders (including United States entities) are encouraged consult their own tax advisors regarding their reporting obligations under this legislation.



## **Bermuda Taxation**

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

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

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

## **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

## **G. STATEMENT BY EXPERTS**

Not applicable.

## **H. DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Commission 100 F Street, N.E., Room 1580 Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the public reference facilities maintained by the Commission at its principal office in Washington, D.C. 20549. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at our principal executive offices at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda HM 08.

## **I. SUBSIDIARY INFORMATION**

Not applicable.

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

### *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 December 31, 2017, the Company's outstanding debt which was at variable interest rates, net of the amount subject to interest rate swap agreements, was \$1,301 million. Based on this, a one percentage point increase in annual LIBOR interest rates would increase its annual interest expense by approximately \$13.0 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 British pounds, Norwegian kroner or Singapore dollars and risks of two kinds arise as a result: a transaction risk, that is, the risk that currency fluctuations will have an effect on the value of 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. 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 \$150.0 million was switched to fixed rate. The fair value of these swaps at December 31, 2017 was a receivable of \$4.5 million (2016: receivable of \$4.4 million). The Company recorded a gain on these interest rate swaps of \$0.8 million in 2017 (2016: gain of \$1.9 million).

#### *Bunker swap agreements*

From time to time, the Company may enter into bunker swap agreements to hedge the cost of its fuel costs. In August 2015, the Company entered into four bunker swap agreements whereby the fixed rate on 4,000 metric tons per calendar month was switched to a floating rate. The Company is then exposed to fluctuations in bunker prices, as the cargo contract price is based on an assumed bunker price for the trade. There is no guarantee that the hedge removes all the risk from the bunker exposure, due to possible differences in location and timing of the bunkering between the physical and financial position. The contracts ended in December 2016. The fair value of these swaps at December 31, 2016 was nil. A non-cash mark to market gain of \$1.9 million was recorded in 2016 (2015: loss of \$2.3 million).

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

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

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **a) Disclosure Controls and Procedures**

Management assessed the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this annual report as of December 31, 2017. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective as of the evaluation date.

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

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Management conducted the evaluation of the effectiveness of the internal controls over financial reporting using the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report entitled Internal Control-Integrated Framework (2013).

Our management with the participation of our principal executive officer and principal financial officer assessed the effectiveness of the design and operation of the Company's internal controls over financial reporting pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as of December 31, 2017. Based upon that evaluation, our management with the participation of our principal executive officer and principal financial officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers AS, an independent registered public accounting firm, as stated in their report which appears herein.

**c) Attestation Report of Independent Registered Public Accounting Firm**

The independent registered public accounting firm that audited the consolidated financial statements, PricewaterhouseCoopers AS, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, appearing under Item 18, and such report is incorporated herein by reference.

**d) Changes in internal control over financial reporting**

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

**ITEM 16. RESERVED**

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

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

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to all entities controlled by us and all employees, directors, officers and agents of the Company. We have posted a copy of our code of ethics on our website at [www.frontline.bm](http://www.frontline.bm). We will provide any person, free of charge, a copy of our code of ethics upon written request to our registered office.

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

The Company's principal accountant for 2017 and 2016 was PricewaterhouseCoopers AS. The following table sets forth for the two most recent fiscal years the fees paid or accrued for audit and services provided by PricewaterhouseCoopers AS to the Company.

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>
Audit Fees (a)	<b>1,102</b>	1,149
Audit-Related Fees (b)	—	—
Tax Fees (c)	—	—
All Other Fees (d)	—	—
<b>Total</b>	<b>1,102</b>	1,149

**(a) Audit Fees**

Audit fees represent professional services rendered for the audit of our annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements. The amount in 2016 includes \$50,000 for costs incurred in connection with the \$100 million share offering in December 2016.

**(b) Audit-Related Fees**

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

**(c) Tax Fees**

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

**(d) All Other Fees**

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

The Company's Board has adopted pre-approval policies and procedures in compliance with paragraph (c) (7)(i) of Rule 2-01 of Regulation S-X that require the Board to approve the appointment of the independent auditor of the Company before such auditor is engaged and approve each of the audit and non-audit related services to be provided by such auditor under such engagement by the Company. All services provided by the principal auditor in 2017 were approved by the Board pursuant to the pre-approval policy.

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

Not applicable.

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

None.

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

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

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

- *Independence of Directors.* The NYSE requires that a U.S. listed company maintain a majority of independent directors. As permitted under Bermuda law and our bye-laws, one member of our Board, Mrs. Kate Blankenship, is independent according to the NYSE's standards for independence applicable to a foreign private issuer.
- *Executive Sessions.* The NYSE requires that non-management directors meet regularly in executive sessions without management. The NYSE also requires that all independent directors meet in an executive session at least once a year. As permitted under Bermuda law and our bye-laws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.
- *Nominating/Corporate Governance Committee.* The NYSE requires that a listed U.S. company have a nominating/corporate governance committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Bermuda law and our bye-laws, we do not currently have a nominating or corporate governance committee.

- *Audit Committee.* The NYSE requires, among other things, that a listed U.S. company have an audit committee with a minimum of three members, all of whom are independent. As permitted by Rule 10A-3 under the Securities Exchange Act of 1934, our audit committee consists of one independent member of our Board, Mrs. Kate Blankenship.
- *Corporate Governance Guidelines.* The NYSE requires U.S. companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Bermuda law and we have not adopted such guidelines.

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

#### **ITEM 16H. MINE SAFETY DISCLOSURES**

Not applicable.

## PART III

### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

### ITEM 18. FINANCIAL STATEMENTS

The following financial statements listed below and set forth on pages F-1 through F-48 are filed as part of this annual report:

#### **Consolidated Financial Statements of Frontline Ltd.**

<a href="#"><u>Index to Consolidated Financial Statements of Frontline Ltd.</u></a>	<a href="#"><u>1</u></a>
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Consolidated Balance Sheets at December 31, 2017 and 2016</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>12</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>14</u></a>

## ITEM 19. EXHIBITS

No.	Description of Exhibit
1.1*	<a href="#"><u>Memorandum of Association of the Company, incorporated by reference to Exhibit 1.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013.</u></a>
1.2*	<a href="#"><u>Amended and Restated Bye-Laws of the Company as adopted by shareholders on September 23, 2016, incorporated by reference to Exhibit 1.2 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2016.</u></a>
1.3*	<a href="#"><u>Certificate of Deposit of Memorandum of Increase of Share Capital, incorporated by reference to Exhibit 1.3 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2014.</u></a>
1.4*	<a href="#"><u>Certificate of Deposit of Memorandum of Reduction of Issued Share Capital, dated February 3, 2016, incorporated by reference to Exhibit 1.4 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2016.</u></a>
2.1*	<a href="#"><u>Form of Ordinary Share Certificate, incorporated by reference to Exhibit 2.1 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2015.</u></a>
4.1*	<a href="#"><u>Charter Ancillary Agreement between Frontline Ltd and Ship Finance International Limited dated January 1, 2004 incorporated by reference to Exhibit 4.6 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.</u></a>
4.2	<a href="#"><u>Addendum to Charter Ancillary Agreement between Frontline Ltd and Ship Finance International Limited dated June 15, 2004.</u></a>
4.3	<a href="#"><u>Form of Performance Guarantee issued by the Company dated January 1, 2004.</u></a>



- 4.5\* [Frontline Ltd Share Option Scheme dated September 25, 2009. Incorporated by reference to Exhibit 4.16 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2010.](#)
- 4.6\* [Addendum No. 3 to Charter Ancillary Agreement between Frontline Ltd, Ship Finance International Limited and Frontline Shipping Ltd, dated August 21, 2007 incorporated by reference to Exhibit 4.18 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.](#)
- 4.7\* [Addendum No. 1 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated August 21, 2007 incorporated by reference to Exhibit 4.19 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.](#)
- 4.8\* [Addendum No. 2 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated March 25, 2010 incorporated by reference to Exhibit 4.21 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2010.](#)
- 4.9\* [Addendum No. 7 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping Ltd., dated December 22, 2011, incorporated by reference to Exhibit 4.17 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011.](#)
- 4.10\* [Addendum No. 3 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping II Ltd., dated December 22, 2011, incorporated by reference to Exhibit 4.18 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011.](#)
- 4.11\* [Agreement and Plan of Merger, dated July 1, 2015, among Frontline Ltd., Frontline Acquisition Ltd. and Frontline 2012 Ltd. \(attached as Exhibit 99.1 to the Company's Current Report on Form 6-K, dated July 2, 2015 and incorporated herein by reference\).](#)
- 4.12\* [Voting Agreement, dated as of July 1, 2015, by and among Frontline Ltd., Frontline 2012 Ltd., and the shareholders party thereto \(attached as Exhibit 99.2 to the Company's Current Report on Form 6-K, dated July 2, 2015 and incorporated herein by reference\).](#)
- 4.16\* [Addendum No. 8 to Charter Ancillary Agreement between Frontline Ltd., Ship Finance International Limited and Frontline Shipping Ltd., dated June 5, 2015 incorporated by reference to Exhibit 4.16 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2015.](#)
- 8.1 [Subsidiaries of the Company.](#)
- 12.1 [Certification of the Principal Executive Officer pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 12.2 [Certification of the Principal Financial Officer pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- 13.1 [Certification of the Principal Executive Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 13.2 [Certification of the Principal Financial Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 15.1 [Consent of Independent Registered Public Accounting Firm](#)

\* Incorporated herein by reference.

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

## SIGNATURES

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

Frontline Ltd.

(Registrant)

Date: March 19, 2018

By: /s/ Inger M. Klemp

Name: Inger M. Klemp

Title: Principal Financial Officer

## **Index to Consolidated Financial Statements of Frontline Ltd.**

<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2017 and 2016</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>12</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>14</u></a>

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Frontline Ltd.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Frontline Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under item 15(b) of Frontline Ltd.'s Annual Report on Form 20-F. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally

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

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

/s/ PricewaterhouseCoopers AS

PricewaterhouseCoopers AS

Oslo, Norway

March 19, 2018

We have served as the Company's auditor since 2012.

**Frontline Ltd.**

**Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015**

*(in thousands of \$, except per share data)*

	2017	2016	2015
<b>Operating revenues</b>			
Voyage charter revenues	518,156	502,284	331,388
Time charter revenues	106,237	226,058	121,091
Finance lease interest income	1,748	2,194	577
Other income	20,185	23,770	5,878
<b>Total operating revenues</b>	<b>646,326</b>	<b>754,306</b>	<b>458,934</b>
<b>Other operating gains (losses)</b>	<b>2,381</b>	<b>(2,683)</b>	<b>108,923</b>
<b>Operating expenses</b>			
Voyage expenses and commission	259,334	161,641	109,706
Contingent rental income	(26,148)	(18,621)	—
Ship operating expenses	135,728	119,515	64,357
Charter hire expenses	19,705	67,846	43,387
Impairment loss on vessels and vessels held under capital lease	164,187	61,692	—
Impairment loss on goodwill	112,821	—	—
Provision for uncollectible receivable	—	4,000	—
Administrative expenses	37,603	37,026	10,582
Depreciation	141,748	141,043	52,607
<b>Total operating expenses</b>	<b>844,978</b>	<b>574,142</b>	<b>280,639</b>
<b>Net operating (loss) income</b>	<b>(196,271)</b>	<b>177,481</b>	<b>287,218</b>
<b>Other income (expenses)</b>			
Interest income	588	367	47
Interest expense	(69,815)	(56,687)	(17,621)
Gain on sale of shares	1,061	—	—
Share of results from associated company and gain on equity interest	—	—	2,727
Impairment loss on shares	—	(7,233)	(10,507)
Foreign currency exchange (loss) gain	(55)	9	134
(Loss) gain on derivatives	(753)	3,718	(6,782)
Other non-operating items, net	1,213	204	320
<b>Net other (expenses) income</b>	<b>(67,761)</b>	<b>(59,622)</b>	<b>(31,682)</b>
<b>Net (loss) income before income taxes and non-controlling interest</b>	<b>(264,032)</b>	<b>117,859</b>	<b>255,536</b>
Income tax expense	(290)	(345)	(150)
<b>Net (loss) income from continuing operations</b>	<b>(264,322)</b>	<b>117,514</b>	<b>255,386</b>
Net loss from discontinued operations	—	—	(131,006)
<b>Net (loss) income</b>	<b>(264,322)</b>	<b>117,514</b>	<b>124,380</b>
Net (income) loss attributable to non-controlling interest	(539)	(504)	30,244
<b>Net (loss) income attributable to the Company</b>	<b>(264,861)</b>	<b>117,010</b>	<b>154,624</b>
Basic and diluted (loss) earnings per share attributable to the Company from continuing operations	<b>\$(1.56)</b>	<b>\$0.75</b>	<b>\$2.13</b>
Basic and diluted (loss) earnings per share attributable to the Company from discontinued operations	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$(0.84)</b>
Basic and diluted (loss) earnings per share attributable to the Company	<b>\$(1.56)</b>	<b>\$0.75</b>	<b>\$1.29</b>
Cash dividends per share declared	<b>\$0.30</b>	<b>\$1.05</b>	<b>\$0.25</b>

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



**Frontline Ltd.****Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015***(in thousands of \$)*

	2017	2016	2015
<b>Comprehensive income</b>			
Net (loss) income	(264,322)	117,514	124,380
Unrealized gain (loss) from marketable securities	1,901	(5,425)	(9,582)
(Gain) loss from marketable securities reclassified to Consolidated Statement of Operations	(571)	7,233	9,369
Foreign currency translation gain (loss)	158	(686)	(170)
Other comprehensive income (loss)	1,488	1,122	(383)
Comprehensive (loss) income	(262,834)	118,636	123,997
Comprehensive income (loss) attributable to non-controlling interest	539	504	(30,244)
Comprehensive (loss) income attributable to the Company	(263,373)	118,132	154,241
Comprehensive (loss) income	(262,834)	118,636	123,997

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

**Frontline Ltd.**
**Consolidated Balance Sheets as of December 31, 2017 and 2016**
*(in thousands of \$)*

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	104,145	202,402
Restricted cash	741	677
Marketable securities	19,231	8,428
Marketable securities pledged to creditors	10,272	—
Trade accounts receivable, net	49,585	49,079
Related party receivables	5,068	5,095
Other receivables	17,294	19,416
Inventories	61,715	37,702
Voyages in progress	38,254	45,338
Prepaid expenses and accrued income	6,170	5,741
Current portion of investment in finance lease	9,126	9,745
Other current assets	13	3
<b>Total current assets</b>	<b>321,614</b>	<b>383,626</b>
<b>Long-term assets</b>		
Newbuildings	79,602	308,324
Vessels and equipment, net	2,342,130	1,477,395
Vessels and equipment under capital lease, net	251,698	536,433
Investment in finance lease	21,782	30,908
Goodwill	112,452	225,273
Derivative instruments receivable	4,450	4,358
<b>Total assets</b>	<b>3,133,728</b>	<b>2,966,317</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt and current portion of long-term debt	113,078	67,365
Current portion of obligations under capital leases	43,316	56,505
Related party payables	8,921	18,103
Trade accounts payable	11,809	4,325
Accrued expenses	38,809	26,159
Other current liabilities	6,067	10,292
<b>Total current liabilities</b>	<b>222,000</b>	<b>182,749</b>
<b>Long-term liabilities</b>		
Long-term debt	1,467,074	914,592
Obligations under capital leases	255,700	366,095
Other long-term liabilities	1,325	3,112
<b>Total liabilities</b>	<b>1,946,099</b>	<b>1,466,548</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Share capital (2017 and 2016: 169,809,324 shares issued and outstanding, par value \$1.00 per share)	169,809	169,809
Additional paid in capital	197,399	195,304
Contributed surplus	1,090,376	1,099,680

Accumulated other comprehensive income	2,227	739
Retained (deficit) earnings	(272,503)	34,069
<b>Total equity attributable to the Company</b>	<b>1,187,308</b>	<b>1,499,601</b>
Non-controlling interest	321	168
<b>Total equity</b>	<b>1,187,629</b>	<b>1,499,769</b>
<b>Total liabilities and equity</b>	<b>3,133,728</b>	<b>2,966,317</b>

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

**Frontline Ltd.**
**Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015**
*(in thousands of \$)*

	2017	2016	2015
<b>Net (loss) income</b>	<b>(264,322)</b>	117,514	124,380
Net loss from discontinued operations	—	—	131,006
<b>Net (loss) income from continuing operations</b>	<b>(264,322)</b>	117,514	255,386
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by operating activities:			
Depreciation	141,748	141,043	52,607
Amortization of deferred charges	1,913	2,027	1,917
Other operating losses (gains)	(2,378)	2,683	(108,923)
Gain on sale of shares	(1,061)	—	—
Amortization of time charter contract value	—	(6,799)	816
Contingent rental income	(26,148)	(18,621)	—
Impairment loss on vessels and vessels under capital lease	164,187	61,692	—
Provision for uncollectible receivable	—	4,000	—
Share of results from associated company and gain on equity interest	—	—	(2,727)
Impairment loss on goodwill	112,821	—	—
Impairment loss on marketable securities	—	7,233	10,507
Mark to market (gain) loss on derivatives	(93)	(8,017)	3,618
Dividends received from Avance Gas	—	—	4,101
Other, net	1,953	(1,232)	1,015
Changes in operating assets and liabilities, net of acquisition:			
Trade accounts receivable	(506)	4,287	(21,037)
Other receivables	2,122	10,833	(5,049)
Inventories	(24,079)	(12,241)	9,367
Voyages in progress	7,084	6,828	15,505
Prepaid expenses and accrued income	(429)	(1,427)	5,892
Other current assets	(1)	406	(405)
Trade accounts payable	7,485	(5,175)	2,832
Accrued expenses	12,645	(2,936)	(7,771)
Related party balances	3,062	(10,707)	(8,601)
Other current liabilities	(6,178)	(5,583)	5,574
Other	660	207	(868)
Cash (used in) provided by operating activities of discontinued operations	—	—	(6,410)
<b>Net cash provided by operating activities</b>	<b>130,485</b>	286,015	207,346
<b>Investing activities</b>			
Change in restricted cash	(64)	(309)	35,713
Additions to newbuildings, vessels and equipment	(713,560)	(622,460)	(786,772)
Refund of newbuilding installments and interest	—	43,497	58,793
Purchase of shares	(46,100)	—	—
Proceeds from sale of newbuilding vessels	—	173,187	456,366
Cash acquired upon the Merger	—	—	87,443
Finance lease payments received	9,745	9,333	—
Net proceeds from sale of shares	27,412	—	—

Cash used in investing activities of discontinued operations	—	—	(310,822)
<b>Net cash used in investing activities</b>	<b>(722,567)</b>	<b>(396,752)</b>	<b>(459,279)</b>
<b>Financing activities</b>			
Net proceeds from issuance of shares	—	98,200	—
Proceeds from long-term debt	<b>673,416</b>	356,066	659,700
Repayment of long-term debt	<b>(83,951)</b>	(169,883)	(427,338)
Payment of obligations under finance leases	<b>(31,854)</b>	(61,677)	(5,491)
Lease termination receipts / (payments)	<b>(19,006)</b>	—	3,266
Payment of related party loan note	—	—	(112,687)
Debt fees paid	<b>(3,495)</b>	(9,523)	(485)
Cash dividends paid	<b>(51,401)</b>	(164,551)	(39,228)
Payment of fractional shares on reverse share split	—	(17)	—
Proceeds from secured short-term borrowings	<b>10,116</b>	—	—
Cash provided by financing activities of discontinued operations	—	—	141,775
<b>Net cash provided by financing activities</b>	<b>493,825</b>	48,615	219,512
<b>Net change in cash and cash equivalents</b>	<b>(98,257)</b>	<b>(62,122)</b>	<b>(32,421)</b>
<b>Net change in cash balances included in held for distribution</b>	—	—	61,144
<b>Cash and cash equivalents at beginning of year</b>	<b>202,402</b>	264,524	235,801
<b>Cash and cash equivalents at end of year</b>	<b>104,145</b>	202,402	264,524
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of interest capitalized	<b>57,291</b>	53,474	17,544
Income taxes paid	<b>1,222</b>	716	—

Details of non-cash investing and financing activities are given in Notes 6 and 29.

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

**Frontline Ltd.**
**Consolidated Statements of Changes in Equity for the years ended December 31, 2017, 2016 and 2015**
*(in thousands of \$, except number of shares)*

	2017	2016	2015
<b>Number of shares outstanding</b>			
Balance at the beginning of the year	169,809,324	781,937,649	635,205,000
Treasury shares cancelled	—	—	(17,319,898)
Cancellation of shares held by the Company prior to the Merger	—	—	(34,323,000)
Effect of reverse business acquisition	—	—	198,375,547
Effect of reverse share split	—	(625,551,143)	—
Shares issued	—	13,422,818	—
Balance at the end of the year	169,809,324	169,809,324	781,937,649
<b>Share capital</b>			
Balance at the beginning of the year	169,809	781,938	635,205
Treasury shares cancelled	—	—	(17,320)
Cancellation of shares held by the Company prior to the Merger	—	—	(34,323)
Effect of reverse business acquisition	—	—	198,376
Effect of reverse share split	—	(625,551)	—
Shares issued	—	13,422	—
Balance at the end of the year	169,809	169,809	781,938
<b>Treasury shares</b>			
Balance at the beginning of the year	—	—	(50,397)
Shares cancelled	—	—	50,397
Balance at the end of the year	—	—	—
<b>Additional paid in capital</b>			
Balance at the beginning of year	195,304	109,386	382,373
Gain attributable to change in non-controlling ownership	—	—	27,485
Stock dividend	—	—	(187,784)
Effect of reverse business acquisition	—	—	361,441
Transfer to contributed surplus	—	—	(474,129)
Stock compensation expense	2,095	1,418	—
Payment for fractional shares on reverse share split	—	(17)	—
Shares issued	—	84,517	—
Balance at the end of year	197,399	195,304	109,386
<b>Contributed surplus</b>			
Balance at the beginning of year	1,099,680	474,129	—
Transfer from additional paid in capital	—	—	474,129
Effect of reverse share split	—	625,551	—
Cash dividends	(9,304)	—	—
Balance at the end of year	1,090,376	1,099,680	474,129
<b>Accumulated other comprehensive income (loss)</b>			
Balance at the beginning of year	739	(383)	—
Other comprehensive income (loss)	1,488	1,122	(383)
Balance at the end of year	2,227	739	(383)

**Retained (deficit) earnings**

Balance at the beginning of year	34,069	81,212	156,399
Net income (loss)	(264,861)	117,010	154,624
Cash dividends	(41,711)	(164,153)	(39,228)
Stock dividends	—	—	(190,583)
Balance at the end of year	(272,503)	34,069	81,212

**Total equity attributable to the Company**

1,187,308	1,499,601	1,446,282
-----------	-----------	-----------

**Non-controlling interest**

Balance at the beginning of year	168	61	323,770
Impact of sale of shares in subsidiary	—	—	(27,485)
Net income (loss)	539	504	(30,244)
Dividend paid to non-controlling interest	(386)	(397)	—
Impact of de-consolidation	—	—	(265,980)
Balance at the end of year	321	168	61

**Total equity**

1,187,629	1,499,769	1,446,343
-----------	-----------	-----------

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

**Frontline Ltd.**  
**Notes to the Consolidated Financial Statements**

**1. ORGANIZATION AND BUSINESS**

*Historical Structure of the Company*

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. The Company's ordinary shares are listed on the New York Stock Exchange and the Oslo Stock Exchange under the symbol of "FRO".

On July 1, 2015, the Company, Frontline Acquisition Ltd, or Frontline Acquisition, a newly formed and wholly-owned subsidiary of the Company, and Frontline 2012 Ltd, or Frontline 2012, entered into an agreement and plan of merger, (as amended from time to time, the "Merger Agreement") pursuant to which Frontline Acquisition and Frontline 2012 agreed to enter into a merger transaction, or the Merger, with Frontline 2012 as the surviving legal entity and thus becoming a wholly-owned subsidiary of the Company. For accounting purposes, the acquisition of Frontline 2012 has been treated as a reverse business acquisition. The Merger was completed on November 30, 2015 and shareholders in Frontline 2012 received shares in the Company as merger consideration. One share in Frontline 2012 gave the right to receive 2.55 shares in the Company and 583.6 million shares were issued as merger consideration based on the total number of Frontline 2012 shares of 249.1 million less 6.8 million treasury shares held by Frontline 2012 and 13.46 million Frontline 2012 shares held by the Company, which were cancelled upon completion of the Merger. Because this transaction is accounted for as a reverse business acquisition, the financial statements included in this Form 20-F for the period through November 30, 2015 are those of Frontline 2012. The financial statements reflect the reverse business acquisition of the Company by Frontline 2012 for the period since November 30, 2015.

*Business*

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, and operates LR2/Aframax tankers, which are clean product tankers, and range in size from 111,000 to 115,000 dwt. The Company operates through subsidiaries located in Bermuda, India, Liberia, the Marshall Islands, Norway, the United Kingdom and Singapore. The Company is also involved in the charter, purchase and sale of vessels.

As of December 31, 2017, the Company's fleet consisted of 61 vessels, with an aggregate capacity of approximately 11.6 million DWT. The Company's fleet consisted of:

- (i) Forty-three vessels owned by the Company (10 VLCCs, 16 Suezmax tankers and 17 LR2/Aframax tankers),
- (ii) nine VLCCs that are under capital leases,
- (iii) one VLCC that is recorded as an investment in a finance lease,
- (iv) one chartered-in VLCC, where the cost/revenue is split equally with a third party, and
- (v) seven vessels that are under our commercial management (two Suezmax tankers, two LR2 tankers and three Aframax oil tankers).

Furthermore, the Company has five newbuildings under construction, comprised of four VLCCs and one LR2/Aframax tanker.

**2. ACCOUNTING POLICIES**



**Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles. On November 30, 2015, a wholly-owned subsidiary of the Company acquired Frontline 2012. This transaction has been accounted for as a reverse business acquisition in which Frontline 2012 is treated as the accounting acquirer, primarily because Frontline 2012's shareholders owned 74.6% of the Company's ordinary shares upon completion of the Merger. As a result, the historical financial statements of Frontline 2012 became the historical financial statements of the Company as of the completion of the Merger. Because this transaction is accounted for as a reverse business acquisition, the financial statements included in this Form 20-F for the period through November 30, 2015 are those of Frontline 2012 only. The results of operations and cash flows for the Company, the acquired company for accounting purposes, are included in the consolidated financial statements from November 30, 2015, the date on which the Merger was completed. Amounts shown as "Acquired upon the Merger" in these financial statements are those of the Company due to the fact that Frontline 2012 was determined to be the accounting acquirer in the Merger.

**Use of estimates**

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions impact, among others, the following: vessels and obligations under capital leases, the amount of uncollectible accounts and accounts receivable, the amount to be paid for certain liabilities, including contingent liabilities, the amount of costs to be capitalized in connection with the construction of our newbuildings and the lives of our vessels. Actual results could differ from those estimates.

**Fair values**

We have determined the estimated fair value amounts presented in these consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that we could realize in a current market exchange. Estimating the fair value of assets acquired and liabilities assumed in a business combination requires the use of estimates and significant judgments, among others, the following: the expected revenues earned by vessels held under capital lease and the operating costs (including dry docking costs) of those vessels, the expected contingent rental expense, if applicable, to be included in obligations under capital lease, the discount rate used in cash flow based valuations, the market assumptions used when valuing acquired time charter contracts and the value of contingent claims. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**Principles of consolidation**

The consolidated financial statements include the accounts for us and our wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation. The operating results of acquired companies are included in our Consolidated Statement of Operations from the date of acquisition.

For investments in which we own 20% to 50% of the voting shares and have significant influence over the operating and financial policies, the equity method of accounting is used. Accordingly, our share of the earnings and losses of these companies are included in the share of income (losses) in equity investments in the accompanying Consolidated Statements of Operations.

**Discontinued operations**

We believe that the disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Frontline 2012 determined that the stock dividend of 75.4 million shares in Golden Ocean in June 2015 represented a significant strategic shift in Frontline 2012's business and has, therefore, recorded the results of its dry bulk operations as discontinued operations in the year ended December 31, 2015. The Consolidated Statement of Cash Flows for the year ended December 31, 2015 has also been presented on a discontinued operations basis.

**Foreign currency translation**

Our functional currency is the U.S. dollar. Exchange gains and losses on translation of our net equity investments in subsidiaries are reported as a separate component of accumulated other comprehensive loss in shareholders' equity. Foreign currency transaction gains and losses are recorded in the Consolidated Statement of Operations.

**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**

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

**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 Consolidated Statement of Operations.

**Inventories**

Inventories comprise principally of fuel and lubricating oils and are stated at the lower of cost and net realizable 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. 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 Consolidated Statement of Operations over the lease period.

Each of the Company's capital leases were acquired as a result of the Merger and contain a profit share (contingent rental expense), which was reflected in the fair valuation of the obligations under capital lease at the date of the Merger. Any variations in the estimated profit share expense as compared to actual profit share expense incurred is accounted for as contingent rental income or expense and is recorded in the Consolidated Statement of Operations in the period in which it becomes realizable.

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 shorter of the vessels' remaining economic useful lives or on a straight-line basis over the term of the lease.

Upon termination of a capital lease, any remaining assets and obligations related to the vessel are written off to the Statement of Operations. The net position, including any termination payments, are presented in other operating gains (losses).

**Newbuildings**

The carrying value of the vessels under construction, or 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.

**Goodwill and impairment of goodwill**

Goodwill arising from a business combination, being the value of purchase consideration in excess of amounts allocable to identifiable assets and liabilities is not amortized and is subject to annual review for impairment or more frequently should indications of impairment arise. For purposes of performing the impairment test of goodwill, we have established that the Company has one reporting unit: tankers. Impairment of goodwill in excess of amounts allocable to identifiable assets 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 selected September 30 as its annual goodwill impairment testing date. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

**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, or 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.

**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, depressed second hand tanker values and issues at the shipyard. 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. 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. The Company has recorded debt issuance costs (i.e. deferred charges) as a direct deduction from the carrying amount of the related debt.

#### **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 charters, time charters and a finance lease. 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 revenues are recorded over the term of the charter as a service is provided. When the time charter is based on an index, the Company recognizes revenue when the index has been determined. 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.

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 pool participants are responsible for paying voyage expenses. Adjustments between the pool participants are settled on a quarterly basis. Pool revenues are reported as voyage charter revenues for all periods presented.

Rental payments from the Company's sales-type lease are allocated between lease service revenue, lease interest income and repayment of net investment in leases. The amount allocated to lease service revenue is based on the estimated fair value, at the time of entering the lease agreement, of the services provided which consist of ship management and operating services.

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 revenue become received or receivable.

#### **Other operating (losses) gains**

Other operating (losses) gains relate to (i) gains arising on the cancellation of newbuilding contracts, which are considered to be contingent gains, and are recognized when the gain is virtually certain which is generally on a cash basis, (ii) losses arising on the cancellation of newbuildings which are accounted for when the contracts are cancelled, (iii) gains and losses on the sale of newbuilding contracts, which are recognized when we are reasonably assured that substantially all of the risks of the newbuilding contract have been transferred (iv) gains and losses on the termination of capital leases before the expiration of the lease term, which are accounted for by removing the carrying value of the asset and obligation, with a gain or loss recognized for the difference. Gains and losses on the termination of leases are accounted for when the lease is terminated and the vessel is redelivered to the owners and (v) gains and losses on the sale of vessels, which 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.

#### **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.

**Contingent rental income (expense)**

Contingent rental income (expense) results from the Company's capital leases, which were acquired as a result of the Merger. Any variations in the estimated profit share expense that was included in the fair valuation of these lease obligations on the date of the Merger as compared to actual profit share expense incurred is accounted for as contingent rental income (expense). Any contingent rental expense on operating leases is recorded as charter hire expense. When a lease is terminated, the estimated profit share included with the lease obligation, as calculated at the time of the Merger, is written off to other operating gains or losses in the Consolidated Statement 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. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

**Derivatives***Interest rate and bunker swaps*

The Company enters into interest rate and bunker swap transactions from time to time to hedge a portion of its exposure to floating interest rates and movements in bunker prices. These transactions involve the conversion of floating rates into fixed rates over the life of the transactions without an exchange of underlying principal. The fair values of the interest rate and bunker swap contracts are recognized as assets or liabilities. None of the interest rate and bunker swaps qualify for hedge accounting and changes in fair values are recognized in 'Mark to market gain (loss) on derivatives' in the Consolidated Statement of Operations. Cash outflows and inflows resulting from derivative contracts are presented as cash flows from operations in the Consolidated Statement of Cash Flows.

**Earnings per share**

Basic earnings per share is computed based on the income available to ordinary shareholders and the weighted average number of shares outstanding. Diluted earnings per share includes the effect of the assumed conversion of potentially dilutive instruments.

**Share-based compensation**

The Company accounts for share-based payments in accordance with ASC Topic 718 "Compensation – Stock Compensation", under which the fair value of issued stock options is expensed over the period in which the options vest.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle is that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. This update establishes a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP. The Company has concluded that, under ASC 606, voyage charter revenue will continue to be recognized over time, however the period over which it is recognized will change from discharge-to-discharge to load-to-discharge. The Company believes that performance obligations under a voyage charter begin to be met from the point at which a cargo is loaded until the point at which a cargo is discharged. While this represents a change in the period over which revenue is recognized, the total voyage results recognized over all periods would not change, however, each period's voyage results could differ materially from the same period's voyage results recognized based on the present revenue recognition guidance. The Company expects to recognize an increase in the retained deficit of approximately \$20.0 million on January 1, 2018 related to the timing of revenue recognition based on the change to the load-to-discharge method. The adoption of the standard is not expected to have a material impact on other income, primarily 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 adoption of this standard is not expected to have an impact on time charter income, which is accounted for under the leasing standard.

The new guidance also specifies revised treatment for certain contract related costs, being either incremental costs to obtain a contract, or cost to fulfill a contract. Under the new guidance, an entity shall recognize as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The guidance also provides a practical expedient whereby an entity may recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Cost to fulfill a contract must be capitalized if they meet certain criteria. The Company is in the process of assessing the impact of this change on its consolidated financial statements.

The company has elected to apply the modified retrospective approach. Upon adoption, the Company will recognize the cumulative effect of adopting this guidance as an adjustment to its opening balance of retained earnings as of January 1, 2018. Prior periods will not be retrospectively adjusted.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which made targeted improvements to the recognition and measurement of financial assets and financial liabilities. The update changes how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The new guidance also changes certain disclosure requirements and other aspects of current US GAAP. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted in some cases. Upon adoption, the Company will recognize the cumulative effect of adopting this guidance as an adjustment to its opening balance of retained earnings as of January 1, 2018. Prior periods will not be retrospectively adjusted. The Company expects to recognize a decrease in the retained deficit of \$2.8 million on January 1, 2018. Going forward, movements in fair values of instruments covered by this standard will be recognized through the Consolidated Statement of Operations.

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 August 2016, the FASB issued ASU No. 2016-15, *Statement of cash flows (Topic 230): Classification of certain cash receipts and cash payments*. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance

principle. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company has concluded that the impact of this new standard will be limited to disclosure which will not be significant.

In October 2016, the FASB issued ASU 2016-16, *Income taxes (Topic 740): Intra-entity transfers of assets other than inventory*, which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of cash flows (Topic 230): Restricted cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As such, amounts generally described as restricted cash and restricted cash equivalents should be 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. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01 *Business combinations (Topic 805)*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this Update provide a screen to determine when a set is not a business. If the screen is not met, it (i) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (ii) removes the evaluation of whether a market participant could replace the missing elements. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in certain cases. The Company does not expect the adoption of this standard to have a material impact 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.

In February 2017, the FASB issued ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*. The Update clarifies the definition of “in substance nonfinancial assets”, it also clarifies that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. The amendments in this Update exclude all businesses and non-profit activities from the scope of Subtopic 610-20. Therefore, derecognition of all businesses and non-profit activities should be accounted for in accordance with Subtopic 810-10, *Consolidation-Overall*. The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) would have required an entity to apply the guidance in Topic 860, *Transfers and Servicing*, to a transfer of an equity method investment unless the equity method investment is considered an in substance nonfinancial asset. This Update removes that scope exception. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718)*. The update aims to reduce diversity in practice and simplify the guidance in Topic 718 when companies account for changes to the terms and conditions of share based payment awards. The amendments in this Update mean an entity should account for a modification unless the fair value of the modified award is the same as the original award immediately prior to modification, the vesting conditions for the modified award are the same as the original award and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

#### **4. MERGER WITH FRONTLINE 2012**

##### **The Transaction**

On July 1, 2015, the Company, Frontline Acquisition and Frontline 2012 entered into a Merger Agreement pursuant to which Frontline Acquisition and Frontline 2012 agreed to enter the Merger, with Frontline 2012 as the surviving legal entity and thus becoming a wholly-owned subsidiary of the Company. The Merger was completed on November 30, 2015 and shareholders in Frontline 2012 received shares in the Company as merger consideration. One share in Frontline 2012 gave the right to receive 2.55 shares in the Company and 583.6 million shares were issued as merger consideration based on the total number of Frontline 2012 shares of 249.1 million less 6.8 million treasury shares held by Frontline 2012 and 13.46 million Frontline 2012 shares held by the Company, which were cancelled upon completion of the Merger. Following completion of the Merger, existing shareholders of the Company and Frontline 2012 owned 25.4% and 74.6%, respectively, of the Company.

Prior to the merger announcement, Hemen and certain of its affiliates, owned approximately 13% of the ordinary shares in the Company, approximately 59% of the ordinary shares in Frontline 2012, and approximately 37% of the ordinary shares in Ship Finance International Limited, or Ship Finance. Prior to the merger announcement, Ship Finance owned approximately 28% of the ordinary shares in the Company. Approval of the Merger required that a minimum of 75% of the voting Frontline 2012 shareholders and 50% of the voting Company shareholders voted in favor of the Merger. In connection with the special general meetings of the Company and Frontline 2012, Hemen and Ship Finance entered into voting agreements to vote all of their respective shares in favor of the Merger. Following completion of the Merger, Hemen and Ship Finance, owned 51.7% and 7.0%, respectively, of the Company's outstanding shares.

##### **Accounting for the Merger**

The Merger has been 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 factors that were considered in



determining that Frontline 2012 should be treated as the accounting acquirer were the relative voting rights in the combined company, the composition of the board of directors in the combined company, the controlling interest of Hemen, the relative sizes of the Company and Frontline 2012, the composition of senior management of the combined company, the name of the combined company, the terms of exchange of equity interests and the continued stock exchange listings of the combined company. Management believes that the relative voting rights in the combined company, the composition of the board of directors in the combined company, the controlling interest of Hemen and the relative sizes of the Company and Frontline 2012 were the most significant factors in determining Frontline 2012 as the accounting acquirer.

The following represents the purchase price calculation (in thousands, total amounts may not recalculate due to rounding) and has not been restated for the 1-for-5 reverse share split:

*(Number of shares in thousands)*

Total number of Frontline 2012 shares	249,100
Cancellation of treasury shares	(6,792)
Cancellation of shares held by the Company	(13,460)
Number of Frontline 2012 shares qualifying for merger consideration	228,848
Frontline 2012 shares that would be issued to maintain combined company shareholdings (1)	77,794
Total number of Frontline 2012 shares if it was the legal acquirer	306,642

1. As Frontline 2012 shareholders own approximately 74.6% of the combined company, it is calculated that Frontline 2012 would issue approximately 77,794,000 shares in order to retain a 74.6% shareholding if it was the legal acquirer.

*(in thousands of \$)*

Frontline 2012 shares that would be issued to maintain combined company shareholdings	77,794
Closing Frontline 2012 share price on November 30, 2015	\$ 7.18
Total purchase price consideration	558,571

The following represents the calculation of goodwill arising and the allocation of the total purchase price to the estimated fair value and historic cost of assets acquired and fair value of liabilities assumed:

*(in thousands of \$)*

Total purchase price consideration	558,571
Fair value of net assets acquired and liabilities assumed	(333,298)
Goodwill	225,273

*(in thousands of \$)*

Cash and cash equivalents	87,443
Current assets	145,601
Vessels and equipment, net	132,712
Vessels held under capital lease, net	706,219
Favorable newbuilding contracts	16,523
Investment in finance lease, long term portion	41,468
Short-term debt and current portion of long-term debt	(4,004)
Current portion of obligations under capital lease	(96,123)
Other current liabilities	(91,250)
Long-term debt	(52,516)
Obligations under capital lease, long term portion	(453,007)
Other non-current liabilities	(99,768)
Fair value of net assets acquired and liabilities assumed	333,298

The Company believes that the goodwill may be attributable, in part or in whole, to the following factors; the expected synergies from combining the operations of the Company and Frontline 2012, particularly in respect of the benefits of operating an enlarged oil tanker fleet and assembled workforce. Also, the exchange ratio for the merger was agreed between the Company and Frontline 2012 in June 2015. Due to passage of time from June 2015 until completion of the merger in November 2015, the increase in Frontline 2012's share price resulted in a increase in the value of the purchase price consideration, which increased the goodwill amount that was recognized upon completion of the Merger.

#### **Vessels and equipment, net**

The two vessels acquired upon the Merger have been valued at fair value (level 2) based on the average of broker valuations from two different ship broker companies. The brokers assess each vessel based on, among others, age, yard, deadweight capacity and compare this to market transactions. The fair value of the vessels less estimated residual value is depreciated on a straight-line basis over the vessels' estimated remaining economic useful lives in accordance with Frontline 2012's existing policy.

#### **Favorable newbuilding contracts**

In November 2015, the Company entered into an agreement to purchase two Suezmax tanker newbuilding contracts from Golden Ocean at a purchase price of \$55.7 million per vessel. The vessels were delivered in the first half of 2017. The contracts were acquired as a result of the Merger and were fair valued (level 2) at \$16.5 million being the excess of the estimated fair value of the contracts less the purchase price. The fair value of favorable newbuilding contracts was added to the carrying value of Newbuildings when the purchase of these contracts was completed in December 2015.

#### **Vessels acquired with existing time charters**

The value of a time charter contract acquired with a vessel is recognized separately to the value of the vessel. These contracts are fair valued (level 3) using an 'excess earnings' technique whereby the terms of the contract are assessed relative to current market conditions and they are recorded at the sum of the incremental or decremental cash flows arising over the life of the contracts. The Company acquired five unfavorable time charter contracts upon the Merger. The value of such contracts is amortized over the term of the contracts on a straight line basis. As of December 31, 2016 these contracts had been fully amortized. The Company recognized amortization within time charter revenues of \$6.8 million in the year ended December 31, 2016 and \$1.3 million in the year ended December 31, 2015.

#### **Vessels under capital lease**

Leases of vessels, where the Company has substantially all the risks and rewards of ownership, are classified as capital leases. The Company acquired nineteen vessels under capital lease upon the Merger, fifteen of which are leased from Ship Finance (one lease was terminated in December 2015, one lease was terminated in July 2016 and a further four leases were cancelled during 2017) and require daily hire payments to Ship Finance of \$20,000 and \$15,000 for VLCCs and Suezmaxes, respectively, and a profit share payment (contingent rental expense) of 50% above the daily hire rates. The leasehold interest in these capital leased assets has been recorded at fair value (level 3) based on the discounted value of the expected cash flows from the vessels. The four non Ship Finance vessels acquired upon the Merger were redelivered during 2017.

The obligations under these capital leases have been recorded at fair value (level 3) based on the net present value of the contractual lease payments and the estimated contingent rental expense that is expected to accrue over the terms of the leases. As of December 31, 2017, the Company has recorded total obligations under these capital leases of \$299.0 million of which \$193.4 million is in respect of the minimum contractual payments and \$105.6 million is in respect of contingent rental expense.

#### **Investment in finance leases**

The Company acquired one sales-type lease as a result of the Merger. The fair value (level 3) of the leasehold interest is based on the expected future cash flows derived from the time charter out of the vessel over the remaining term of the lease. 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 finance lease interest income and 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.

The Consolidated Statement of Operations for 2015 includes revenues of \$43.5 million and net income of \$9.8 million, which are attributable to the Company.

### Unaudited Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of the Company and Frontline 2012 as if the Merger had occurred as of the beginning of the years presented. The pro forma financial information is not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisition been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial condition of the Company.

<i>(in thousands \$, except per share data)</i>	2015
Total operating revenues	934,670
Net income (loss) from continuing operations	269,352
Loss from discontinued operations	(131,006)
Net income (loss)	138,346
Net loss attributable to non-controlling interest	30,244
Net income (loss) attributable to the Company	168,590
Basic and diluted earnings per share;	
Basic and diluted earnings (loss) per share attributable to the Company from continuing operations	\$ 2.24
Basic and diluted (loss) income per share attributable to the Company from discontinued operations	\$ (0.84)
Basic and diluted earnings (loss) per share attributable to the Company	\$ 1.40

Amounts shown above for basic and diluted earnings per share reflect the 1-for-5 reverse share split in February 2016.

### 5. GOODWILL

<i>(in thousands of \$)</i>	Goodwill	Accumulated impairment losses	Net carrying value
Balance as of December 31, 2014	—	—	—
Acquired on the Merger	225,273	—	
Balance as of December 31, 2016 and 2015	225,273	—	225,273
Impairment loss	—	(112,821)	
Balance as of December 31, 2017	225,273	(112,821)	112,452

On the date of the Merger the share price of Frontline Ltd. was \$15.15, adjusted for the 1-for-5 reverse share split in February 2016, and the Company recorded goodwill of \$225.3 million. 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. At September 30, 2017 the Company carried out the two step impairment analysis and concluded that no impairment was required.

At December 31, 2017 the Company's share price had fallen by \$1.45 per share, or 24% from its September 30 share price and 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 as at December 31, 2017 was \$779 million (based on a share price of \$4.59) and the Company has calculated the fair value of the Company to be \$1,013 million, based on an estimated control premium of 30%, compared to its carrying value of \$1,300 million (prior to recording any impairment loss on goodwill). 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. As the fair value of the Company was below the carrying value, the Company concluded that it was required to complete the second step of the goodwill impairment analysis. Under the second step of the goodwill impairment analysis, the Company estimates that the fair value of the underlying assets and liabilities amount to approximately \$901 million, which gives an implied fair value of goodwill of \$112.5 million. A comparison of this to the carrying value of goodwill resulted in an impairment loss in respect of goodwill of \$112.8 million. The impairment is a result of the declining forecast charter rates, declining vessel values and ultimately the fall in the Company's share price since the date of the Merger.

## 6. DISCONTINUED OPERATIONS

On April 3, 2014, Frontline 2012 and Knightsbridge Shipping Limited (NASDAQ: VLCCF), renamed Golden Ocean Group Limited, or Golden Ocean, entered into an agreement pursuant to which Frontline 2012 sold all of the shares of five SPCs, each owning a cash balance and a Capesize newbuilding, to Golden Ocean. On April 23, 2014, the closing date of the transaction, Golden Ocean issued 15.5 million newly issued ordinary shares to Frontline 2012 as consideration. In April 2014, Frontline 2012 also agreed to sell twenty-five SPCs to Golden Ocean, each owning a fuel efficient dry bulk newbuilding. Thirteen of the SPCs were sold in September 2014 at which time Golden Ocean issued 31.0 million shares to Frontline 2012 as consideration. Frontline 2012 sold the remaining twelve SPCs in March 2015 and received 31.0 million shares of Golden Ocean as consideration.

Frontline 2012 owned 77.5 million shares of Golden Ocean or 69.7% of the total shares outstanding at the time of Golden Ocean's merger with Golden Ocean Group Limited, or the Former Golden Ocean, on March 31, 2015. This ownership percentage was reduced to 44.9% as a result of the aforementioned merger. Frontline 2012 stopped consolidating at this time and equity accounted for its shareholding in Golden Ocean upto June 2015.

In June 2015, Frontline 2012 paid a stock dividend consisting of 75.4 million Golden Ocean shares. All shareholders holding 3.2142 shares or more, received one share in Golden Ocean for every 3.2142 shares held, rounded down to the nearest whole share. The remaining fractional shares were paid in cash. Frontline 2012 held 77.5 million Golden Ocean shares prior to this stock dividend and retained 2.1 million Golden Ocean shares in respect of the treasury shares held at the time of the dividend. This stock dividend was deemed to trigger discontinued operations presentation of the results of Golden Ocean as it represented a strategic shift that has a major effect on Frontline 2012's financial and operational results.

Amounts recorded in respect of discontinued operations in the years ended December 31, 2015 is as follows;

<i>(in thousands of \$)</i>	2015
Operating revenues	18,083
Voyage expenses and commissions	(13,414)
Ship operating costs	(7,050)
Administrative expenses	(985)
Depreciation	(7,712)
Vessel impairment loss	(62,489)
Interest expense	(2,119)
Share of results from associated companies	(14,880)
Impairment loss on shares	(40,556)
Gain on non-controlling interest	192
Other financial items	(76)
Net loss from discontinued operations	(131,006)
Net loss attributable to non-controlling interest	(30,305)
Net (loss) income from discontinued operations after non-controlling interest	(100,701)

The vessel impairment loss in 2015 relates to five vessels (*KSL China*, *Battersea*, *Belgravia*, *Golden Future* and *Golden Zhejiang*), which Golden Ocean agreed to sell to, and lease back, from Ship Finance. Impairment losses are taken when events or changes in circumstances occur such that future cash flows for an individual vessel will be less than its carrying value and not fully recoverable. In such instances an impairment charge is recognized if the estimate of the undiscounted cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount.

The impairment loss on shares in 2015 relates to the shares held in Golden Ocean and was incurred in the period from March 31, 2015 (being the date of de-consolidation of Golden Ocean) to June 26, 2015 (being the date of Frontline 2012's stock dividend of Golden Ocean shares). The total impairment loss in this period was \$41.7 million, of which \$1.1 million was allocated to continuing operations and \$40.6 million was allocated to discontinued operations based on the number of Golden Ocean shares that were dividended and retained. An additional impairment loss of \$9.4 million was recorded in the period April 1 to December 31, 2015 in relation to the retained non-controlling interest held as an available for sale security. The impairment losses were recorded in the Consolidated Statement of Operations as Impairment loss on marketable securities as it was determined that the losses were other than temporary in view of the significant fall in rates in the Baltic Dry Index.

### **Related Party Transactions**

Frontline 2012 sold twelve SPCs to Golden Ocean in March 2015 and received 31.0 million shares of Golden Ocean as consideration. Golden Ocean assumed \$404.0 million in respect of remaining newbuilding installments, net of a cash payment from Frontline 2012 of \$108.6 million.

### **Management Agreements**

#### *General Management Agreement*

Golden Ocean was provided with general administrative services up to March 31, 2015, at which time the General Management Agreement was terminated, by ICB Shipping (Bermuda) Limited, or ICB, a subsidiary of the Company. ICB was entitled to a management fee of \$2.3 million per annum, plus a commission of 1.25% on gross freight revenues from Golden Ocean's tanker vessels, 1% of proceeds on the sale of any of Golden Ocean's vessels, and 1% of the cost of the purchase of vessels. In addition, Golden Ocean, in its discretion, has awarded equity incentives to ICB based upon its performance. Such awards were subject to the approval the Golden Ocean Board of Directors.

#### *Technical Management*

The technical management of the Golden Ocean's vessels was provided by ship managers subcontracted by its General Manager. General Management Agreement fees, Technical Management fees, newbuilding commission and newbuilding supervision fees earned by the General Manager were \$0.6 million, \$0.2 million, nil and \$1.1 million, respectively, for the period January 1, 2015 to March 31, 2015.

#### *Commercial Management with the Former Golden Ocean*

Pursuant to a commercial management agreement, or the Dry Bulk Commercial Management Agreement, the Former Golden Ocean managed Golden Ocean's dry bulk carriers. The Former Golden Ocean was able to subcontract some or all of the services provided to Golden Ocean and its subsidiaries to its affiliates or third parties. Pursuant to the Dry Bulk Commercial Management Agreement, the Former Golden Ocean was entitled to receive a commission of 1.25% of all gross freight earned by Golden Ocean's dry bulk carriers. In addition, Golden Ocean, in its discretion, awarded equity incentives to the Former Golden Ocean based on its performance. Such awards were subject to the approval of the Golden Ocean Board of Directors.

The Former Golden Ocean was considered a related party from September 15, 2014 when Golden Ocean became a majority-owned subsidiary of Frontline 2012. Management fees earned by the Former Golden Ocean were \$0.1 million for the period January 1, 2015 to March 31, 2015.

## **7. SEGMENT INFORMATION**

The Company and the chief operating decision maker, or CODM, measure performance based on the Company's overall return to shareholders based on consolidated net income. The CODM does not review a measure of operating result at a lower level than the consolidated group. Consequently, the Company has only one reportable segment: tankers, following the reclassification of the results of Golden Ocean as discontinued operations. The tankers segment includes crude oil tankers and product tankers.

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

No customers in the year ended December 31, 2017 individually accounted for 10% or more of the Company's consolidated revenues.

Revenues from two customers in the year ended December 31, 2016, accounted for 10% or more of the Company's consolidated revenues in the amounts of \$117.8 million and \$78.0 million. Revenues from one customer in the year ended December 31, 2015, accounted for 10% or more of the Company's consolidated revenues in the amount of \$71.3 million.

## **8. INCOME TAXES**

### **Bermuda**

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until March 31, 2035.

### **United States**

For the year ended December 31, 2017, the Company did not accrue U.S. income taxes as the Company is not engaged in a U.S. trade or business and is exempted from a gross basis tax under Section 883 of the U.S. Internal Revenue Code.

Under Section 863(c)(2)(A) of the Internal Revenue Code, 50% of all transportation revenue attributable to transportation which begins or ends in the United States shall be treated as from sources within the United States where no Section 883 exemption is available. Such revenue is subject to 4% tax. No revenue tax has been recorded in voyage expenses and commissions in 2017 (2016: \$0.9 million, 2015: \$0.9 million).

### **Other Jurisdictions**

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

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

## **9. EARNINGS PER SHARE**

The computation of basic earnings per share is based on the weighted average number of shares outstanding during the year and net income attributable to the Company. The impact of stock options using the treasury stock method was anti-dilutive in each year as the exercise price was higher than the average share price and, therefore 1,170,000, 1,170,000 and 125,000 options were excluded from the denominator in the calculation for 2017, 2016 and 2015 respectively.

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

<i>(in thousands of \$)</i>	2017	2016	2015
Net (loss) income from continuing operations after non-controlling interest	<b>(264,861)</b>	117,010	255,325
Net (loss) income from discontinued operations after non-controlling interest	—	—	(100,701)
Net (loss) income attributable to the Company	<b>(264,861)</b>	117,010	154,624

<i>(in thousands)</i>	2017	2016	2015
Weighted average number of ordinary shares	<b>169,809</b>	156,973	120,082

All share and per share amounts outstanding have been adjusted for the reverse business acquisition of the Company by Frontline 2012 and the 1-for-5 reverse share split that was effected in February 2016, unless otherwise stated.

## 10. OTHER OPERATING (LOSSES) GAINS

<i>(in thousands of \$)</i>	2017	2016	2015
Gain (loss) on cancellation of newbuilding contracts	—	(2,772)	30,756
Gain (loss) on sale of newbuilding contracts	—	—	78,167
Gain (loss) on lease termination	<b>2,379</b>	89	—
Gain (loss) on pool arrangements	<b>2</b>	—	—
	<b>2,381</b>	(2,683)	108,923

In January 2015, Frontline 2012 recorded a gain of \$1.7 million following the receipt of \$7.6 million in connection with the cancellation in December 2014 of hull D2174 at STX Dalian. There was no bank debt secured on this cancelled newbuilding and so none of the amount received was used to repay bank debt.

In June 2015, Frontline 2012 recorded a gain of \$23.1 million following the receipt of \$24.7 million in connection with the cancellation in October 2013 of hull J0106 at Jinhaiwan. There was no bank debt secured on this cancelled newbuilding and so none of the amount received was used to repay bank debt.

In August 2015, Frontline 2012 recorded a total gain of \$3.0 million following the receipt of \$7.3 million for each vessel in connection with the cancellation in June 2015 of hulls D2175 and D2176 at STX Dalian. There was no bank debt secured on this cancelled newbuilding and so none of the amount received was used to repay bank debt.

In October 2015, Frontline 2012 recorded a gain of \$2.8 million following the receipt of \$11.9 million in connection with the cancellation in May 2014 of hull D2171 at STX Dalian. There was no bank debt secured on this cancelled newbuilding and so none of the amount received was used to repay bank debt.

In January 2014, Frontline 2012 received \$139.2 million from Avance Gas, a then equity investee, in connection with the agreed sale of eight VLGC newbuildings to Avance Gas immediately following their delivery to Frontline 2012 from the yard. This receipt was placed in a restricted account to be used for installments to be paid by Frontline 2012, past and future construction supervision costs and it also included a profit element to be transferred to cash and cash equivalents on delivery of each newbuilding. All vessels were delivered in 2015 and Frontline 2012 recognized an aggregate gain on sale of \$78.2 million.

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in 2016 in respect of these vessels.

In October 2016, the Company entered into an agreement with STX Offshore & Shipbuilding Co., Ltd in Korea, or STX, to terminate the contracts for four VLCC newbuildings due for delivery in 2017. The Company recorded a loss of \$2.8 million related to these contract terminations.

In the year ended December 31, 2017 we terminated the leases on two VLCCs and two Suezmax tankers, recognizing a loss of \$2.4 million. In the year ended December 31, 2016 we terminated the lease on one VLCC and recognized a loss of \$0.1 million. In the year ended December 31, 2015 we terminated the lease on one Suezmax tanker with no gain or loss recognized. Further information on the gain (loss) on termination of leases can be found in note 19.

## 11. LEASES

As of December 31, 2017, the Company leased in nine vessels on long-term time charter (2016: thirteen vessels), all of which were leased from Ship Finance. All of these long-term charters are classified as capital leases. One further vessel is leased in on short-term time charter from a third party and has been classified as an operating lease. This vessel has a profit sharing agreement whereby the net earnings of the vessel in excess of/below the daily fixed rate charter hire expense will be shared equally with a third party. Furthermore, the Company is committed to make rental payments under operating leases for office premises.

### *Rental expense*

The future minimum rental payments under the Company's non-cancellable operating leases are as follows:

*(in thousands of \$)*

2018	6,071
2019	1,446
2020	1,298
2021	231
2022	147
Thereafter	—
	9,193

Total expense for operating leases was \$21.2 million, \$71.8 million and \$43.2 million a for the years ended December 31, 2017, 2016 and 2015, respectively.

### *Contingent rental expense*

In March 2015, the Company entered into an agreement to charter-in an MR tanker on a fixed rate charter whereby the Company agreed to pay the counterparty a profit sharing payment equal to 50% of the charter revenues earned by Frontline 2012 in excess of the daily base charter hire paid. At December 31, 2017, the profit share expense incurred and recorded as charter hire expense was nil (2016: nil).

In November 2015, the Company entered into an agreement to charter-in two VLCCs and two Suezmax tankers on a fixed rate charter whereby the Company agreed to pay the counterparty a profit sharing payment equal to 60% of the charter revenues earned by the Company in excess of the daily base charter hire paid. The charters commenced between January and April 2016 and terminated between January and April 2017. At December 31, 2017, the profit share expense incurred and recorded as charter hire expense was nil (2016: \$4.2 million).

In November 2016, a subsidiary of the Company entered into an agreement to charter-in a VLCC tanker on a fixed rate charter whereby the net earnings of the vessel in excess of/below the daily fixed rate charter hire expense will be shared equally. At December 31, 2017, \$0.3 million was recognised as a reduction in charterhire expense as the earnings of the vessel were below the fixed daily hire (2016 expense: \$0.2 million).



### *Rental income*

Six vessels were on fixed rate time charters at December 31, 2017 (2016: thirteen vessels) of which one vessel was on fixed rate time charter with a profit sharing agreement in place (2016: one vessel). No vessels were on index linked time charters at December 31, 2017 (2016: No vessels). The minimum future revenues to be received under these contracts as of December 31, 2017 are as follows:

*(in thousands of \$)*

2018	8,449
2019	640
2020	—
2021	—
2022	—
Thereafter	—
<b>Total minimum lease payments</b>	<b>9,089</b>

The cost and accumulated depreciation of vessels leased to third parties as of December 31, 2017 were \$294.1 million and \$44.9 million, respectively, and as of December 31, 2016 were \$712.6 million and \$65.5 million, respectively.

### *Contingent rental income*

In March 2015, the Company entered into an agreement to charter-out two Suezmax tankers on fixed rate time charters whereby the counterparty agreed to pay the Company a profit sharing payment equal to 50% of the charter revenues earned in excess of daily base charter hire paid. These vessels were redelivered from the charters during March and April 2016 with profit share income in the year ending December 31, 2017 nil, (2016: \$0.7 million).

In December 2014, the Company entered into agreements to charter-out two Suezmax tankers on index linked time charters. These vessels were redelivered to the Company in January and July 2016. The Company earned time charter revenues in the year ending December 31, 2016: \$7.1 million and December 31, 2015: \$27.7 million.

## **12. 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 \$74.0 million (2016: \$49.6 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 nine 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 December 31, 2017, the cash held by Frontline Shipping Limited of \$8.9 million (2016: \$26.0 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 and any other amounts incurred in the ordinary course of business.

## **13. INVESTMENT IN FINANCE LEASE**

As of December 31, 2017, one of the Company's vessels was accounted for as a sales-type lease (2016: one). The components of the investment in the sales-type lease may be summarized as follows:

<i>(in thousands of \$)</i>	2017	2016
Net minimum lease payments receivable	22,070	33,563
Estimated residual values of leased property (unguaranteed)	10,821	10,821
Less: finance lease interest income	(1,983)	(3,731)
Total investment in sales-type lease	30,908	40,653
Current portion	9,126	9,745
Long-term portion	21,782	30,908
	30,908	40,653

The minimum future gross revenues to be received under the sales-type lease as of December 31, 2017 are as follows:

<i>(in thousands of \$)</i>	
2018	10,419
2019	11,493
2020	158
2021	—
2022	—
Thereafter	—
	22,070

The counterparty to the lease is a state-owned oil company, which the Company has deemed to have a low credit risk.

#### 14. MARKETABLE SECURITIES

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

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

<i>(in thousands of \$)</i>	2017	2016
Balance at start of the year	8,428	13,853
Shares acquired	46,100	—
Shares disposed of	(26,351)	—
Impairment loss	—	(7,233)
Unrealized gain (loss) recorded in other comprehensive income	1,326	1,808
Marketable securities reclassified as pledged to creditors	(10,272)	—
<b>Total</b>	<b>19,231</b>	<b>8,428</b>

#### Avance Gas

In March 2015, Frontline 2012 paid a stock dividend consisting of 4.1 million Avance Gas shares. Frontline 2012 retained 112,715 shares, which were recorded as marketable securities, in respect of the treasury shares held at the time of the dividend. The Company received 329,669 shares when Frontline 2012 paid the stock dividend. As of December 31, 2017, 2016 and 2015, the Company holds 442,384 shares in Avance Gas, which are recorded as marketable securities.

An impairment loss of \$4.9 million was recorded in the year ended December 31, 2016, in respect of the mark to market loss on the Avance Gas shares that was determined to be other than temporary in view of the significant fall in rates and the short to medium term prospects for the LPG sector at that time.

In the period ended December 31, 2017, the Company recognized a mark to market loss of \$0.09 million in relation to the 0.4 million shares held in Avance Gas Holdings Ltd in Other Comprehensive Income.

As of December 31, 2017, the 442,384 shares in Avance Gas are held as collateral against secured borrowings.

### **Ship Finance**

As of December 31, 2017 and 2016, the Company owned 73,383 shares in Ship Finance, which were acquired as a result of the Merger.

In the period ended December 31, 2017, the Company recognized a mark to market gain of \$0.05 million in relation to the 0.1 million shares held in Ship Finance in Other Comprehensive Income.

### **Golden Ocean**

As of December 31, 2016 and 2015, the Company held 1,270,657 shares in Golden Ocean, which are recorded as marketable securities.

An impairment loss of \$9.4 million was recorded in the year ended December 31, 2015, as a result of (i) the mark to market loss on the remaining Golden Ocean shares held by Frontline 2012 in the period from June 26, 2015 through December 31, 2015, and (ii) the mark to market loss on the Golden Ocean shares that were acquired as a result of the Merger. An impairment loss was recorded in both cases as it was determined that the loss was other than temporary in view of the significant fall in rates in the Baltic Dry Index.

An impairment loss of \$2.4 million was recorded in the three months ended March 31, 2016, in respect of the mark to market loss on the Golden Ocean shares that was determined to be other than temporary in view of the significant fall in rates in the Baltic Dry Index and the short to medium term prospects for the dry bulk sector.

In December 2017, the Company sold 1,260,358 shares in GOGL for proceeds of \$10.1 million. At the same time the Company entered into a forward contract to repurchase 1.3 million shares in GOGL in March 2018 for \$10.3 million. The transaction has been accounted for as a secured borrowing, with the shares reclassified to marketable securities pledged to creditors and a liability recorded within debt for \$10.1 million.

As of December 31, 2017 the Company reports a total of 1,270,657 shares in Golden Ocean (as adjusted for the 1-for-5 reverse share split in August 2016), of which 1,260,358 as marketable securities pledged to creditors.

In the period ended December 31, 2017, the Company recognized a mark to market gain of \$4.37 million in relation to the 1.3 million shares held in Golden Ocean Group Ltd in Other Comprehensive Income.

### **DHT**

The company acquired 10.9 million shares in DHT in the three months ended March 31, 2017 for an aggregate cost of \$46.1 million.

In the period ended December 31, 2017, the Company sold a total of 6.2 million shares in DHT for proceeds of \$27.4 million, recognizing a gain of \$1.1 million in the statement of operations of which \$0.6m relate to the gain reclassification from Other Comprehensive Income.

In the period ended December 31, 2017, the Company recognized a mark to market loss of \$3.0 million in relation to the shareholding in DHT in Other Comprehensive Income.



## 15. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are presented net of allowance for doubtful accounts of \$6.0 million (2016: \$6.2 million). Movements in the allowance for doubtful accounts in the three years ended December 31, 2017 may be summarized as follows;

*(in thousands of \$)*

Balance at December 31, 2014	494
Additions charged to income	1,184
Balance at December 31, 2015	1,678
Additions charged to income	4,492
Balance at December 31, 2016	6,170
Deductions credited to income	(172)
<b>Balance at December 31, 2017</b>	<b>5,998</b>

## 16. OTHER RECEIVABLES

*(in thousands of \$)*

	<b>2017</b>	2016
Claims receivable	<b>5,857</b>	10,732
Agent receivables	<b>3,518</b>	3,825
Other receivables	<b>7,919</b>	4,859
	<b>17,294</b>	19,416

Claims receivable are primarily attributable to insurance claims.

Other receivables are presented net of allowances for doubtful accounts amounting to nil as of December 31, 2017 (2016:nil).

## 17. NEWBUILDINGS

Movements in the three years ended December 31, 2017 may be summarized as follows:

*(in thousands of \$)*

<b>Balance at December 31, 2014</b>	<b>227,050</b>
Additions, net, continuing basis	677,103
Newbuildings acquired upon the Merger	16,523
Newbuildings acquired from related party	1,927
Newbuildings sold to Avance Gas	(517,398)
Transfer to Vessels and equipment, net	(133,429)
Interest capitalized, continuing basis	5,989
Cancellations	(11,532)
<b>Balance at December 31, 2015</b>	<b>266,233</b>
Additions, net, continuing basis	614,116
Transfer to Vessels and equipment, net	(532,766)
Interest capitalized, continuing basis	6,994
Cancellations	(46,253)
<b>Balance at December 31, 2016</b>	<b>308,324</b>
Additions, net, continuing basis	707,988
Transfer to Vessels and equipment, net	(941,388)
Interest capitalized, continuing basis	4,678
<b>Balance at December 31, 2017</b>	<b>79,602</b>

The following table sets forth certain details of our newbuildings delivered in the years ended December 31, 2017 and December 31, 2016:

(in thousands of \$)

Vessel name	Vessel type	Date of delivery
Front Classic	Suezmax	January 2017
Front Vega	LR2/ Aframax	January 2017
Front Antares	LR2/ Aframax	January 2017
Front Duchess	VLCC	February 2017
Front Clipper	Suezmax	March 2017
Front Crystal	Suezmax	April 2017
Front Sirius	LR2/ Aframax	April 2017
Front Coral	Suezmax	May 2017
Front Cosmos	Suezmax	June 2017
Front Castor	LR2/ Aframax	June 2017
Front Cascade	Suezmax	July 2017
Front Earl	VLCC	July 2017
Front Pollux	LR2/ Aframax	August 2017
Front Capella	LR2/ Aframax	September 2017
Front Prince	VLCC	September 2017
Front Cheetah	LR2/ Aframax	January 2016
Front Ocelot	LR2/ Aframax	January 2016
Front Cougar	LR2/ Aframax	March 2016
Front Lynx	LR2/ Aframax	March 2016
Front Leopard	LR2/ Aframax	May 2016
Front Jaguar	LR2/ Aframax	June 2016
Front Challenger	Suezmax	August 2016
Front Altair	LR2/ Aframax	September 2016
Front Duke	VLCC	September 2016
Front Crown	Suezmax	September 2016

As at December 31, 2015, the Company's newbuilding program comprised six VLCCs, eight Suezmax tankers and fourteen LR2/Aframax newbuildings.

In June 2016, the Company acquired two VLCC newbuildings under construction at Hyundai Heavy Industries at a purchase price of \$84.0 million each. The *Front Duke* was delivered to the Company in September 2016 and the *Front Duchess* was delivered to the Company in February 2017. In June 2016, the Company also acquired options for two VLCC newbuildings, which lapsed in August 2016.

In October 2016, the Company entered into an agreement with STX to terminate the contracts for four VLCC newbuildings due for delivery in 2017. The contracted price of these vessels was \$364.3 million, of which the Company has paid installments of \$45.5 million. Following the contract terminations, the Company has been released of any and all obligations relating to the contracts, and has received all installment payments made to STX, less a \$0.5 million cancellation fee per vessel. The Company recorded a loss of \$2.8 million related to the contract terminations in the third quarter of 2016.

As of December 31, 2016, the Company's newbuilding program comprised three VLCCs, six Suezmax tankers and seven LR2/Aframax tanker newbuildings.

In February 2017, the Company acquired two VLCC newbuilding under construction at Daewoo Shipbuilding & Marine Engineering at a net purchase price of \$77.5 million. One vessel was delivered in September 2017 and the other vessel is due for delivery in January 2018.

In April 2017, the Company ordered two VLCC newbuildings to be built at Hyundai Samho Heavy Industries. The vessels are due for delivery in December 2018 and April 2019. The Company's options for two additional sister vessels have lapsed.

As of December 31, 2017, the Company's newbuilding program comprised four VLCCs and one LR2/Aframax tanker newbuildings.

## 18. VESSELS AND EQUIPMENT

Movements in the three years ended December 31, 2017 may be summarized as follows:

<i>(in thousands of \$)</i>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Carrying Value</b>
<b>Balance at December 31, 2014</b>	<b>943,651</b>	<b>(81,732)</b>	<b>861,919</b>
Vessels and equipment acquired upon the Merger	132,712	—	
Transfers from Newbuildings	133,429	—	
Additions	101,752	—	
Depreciation	—	(40,614)	
<b>Balance at December 31, 2015</b>	<b>1,311,544</b>	<b>(122,346)</b>	<b>1,189,198</b>
Depreciation	—	(53,369)	
Additions	215	—	
Disposals	(173,203)	—	
Impairment loss	(36,311)	18,099	
Transfers from Newbuildings	532,766	—	
<b>Balance at December 31, 2016</b>	<b>1,635,011</b>	<b>(157,616)</b>	<b>1,477,395</b>
Depreciation	—	(77,547)	
Additions	894	—	
Transfers from Newbuildings	941,388	—	
<b>Balance at December 31, 2017</b>	<b>2,577,293</b>	<b>(235,163)</b>	<b>2,342,130</b>

In June 2016, the Company entered into an agreement to sell its six MR tankers for an aggregate price of \$172.5 million to an unaffiliated third party. Five of these vessels were delivered by the Company in August and September 2016 and the final vessel was delivered in November 2016. The Company recorded an impairment loss of \$18.2 million in 2016 in respect of these vessels.

A summary of our vessel deliveries in the years ended December 31, 2017 and December 31, 2016 can be found in note 17. Newbuildings.

## 19. VESSELS UNDER CAPITAL LEASE, NET

Movements in the three years ended December 31, 2017 may be summarized as follows:



<i>(in thousands of \$)</i>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Carrying Value</b>
<b>Balance at December 31, 2014</b>	—	—	—
Acquired upon the Merger	706,219	—	—
Depreciation	—	(11,993)	—
<b>Balance at December 31, 2015</b>	<b>706,219</b>	<b>(11,993)</b>	<b>694,226</b>
Impairment loss	(63,958)	20,478	
Lease termination	(34,812)	8,173	
Depreciation	—	(87,674)	
<b>Balance at December 31, 2016</b>	<b>607,449</b>	<b>(71,016)</b>	<b>536,433</b>
Impairment loss	(187,379)	4,727	
Lease termination	(61,075)	23,192	
Depreciation	—	(64,200)	
<b>Balance at December 31, 2017</b>	<b>358,995</b>	<b>(107,297)</b>	<b>251,698</b>

The outstanding obligations under capital leases as of December 31, 2017 are payable as follows:

<i>(in thousands of \$)</i>	
2018	63,960
2019	58,135
2020	51,679
2021	51,255
2022	44,543
Thereafter	115,846
Minimum lease payments	385,418
Less: imputed interest	(86,402)
Present value of obligations under capital leases	299,016

In May 2015, the Company and Ship Finance agreed to amendments to the leases on 12 VLCCs and five Suezmaxes, the related management agreements and further amendments to the charter ancillary agreements for the remainder of the charter periods. As a result of the amendments to the charter ancillary agreements, which took effect on July 1, 2015, the daily hire payable to Ship Finance was reduced to \$20,000 per day and \$15,000 per day for VLCCs and Suezmaxes, respectively. The fee due from Ship Finance for operating costs was increased from \$6,500 per day per vessel to \$9,000 per day per vessel. In return, the Company issued 11.0 million new shares (as adjusted for the 1-for-5 reverse share split in February 2016) to Ship Finance and the profit share above the new daily hire rates was increased from 25% to 50%. The Company was released from its guarantee obligation and in exchange Frontline Shipping Limited, a wholly owned subsidiary of the Company and the chartering counterparty with Ship Finance, has agreed to certain dividend restrictions. 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 December 31, 2017, the cash held by Frontline Shipping Limited of \$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 and any other amounts incurred in the ordinary course of business.

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. As of December 31, 2017, the Company has recorded total obligations under these capital leases of \$299.0 million of which \$193.4 million is in respect of the minimum contractual payments and \$105.6 million is in respect of contingent rental

expense. Profit share arising in the year ended December 31, 2017 was \$5.6 million, which was \$26.1 million less than the amount accrued in the lease obligations payable when the leases were recorded at fair value at the time of the merger with Frontline 2012. Profit share arising in the year ended December 31, 2016 was \$50.9 million, which was \$18.6 million less than the amount accrued in the lease obligations payable when the leases were recorded at fair value at the time of the merger with Frontline 2012. No contingent rental expense was recorded in the month of December 2015.

The following table sets forth certain details of vessel lease terminations in the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

(in thousands of \$)

<b>Vessel</b>	<b>Year</b>	<b>Termination agreed</b>	<b>Termination date</b>	<b>Termination (payment)/ receipt</b>	<b>Gain/ (loss) on termination</b>
Front Ardenne	2017	July 2017	August 2017	(4,853)	(5,824)
Front Scilla	2017	May 2017	June 2017	(6,465)	(7,341)
Front Brabant	2017	May 2017	May 2017	(3,578)	(5,021)
Front Century	2017	November 2016	March 2017	(4,110)	20,565
<b>Vessels terminated in 2017</b>				(19,006)	2,379
Front Vanguard	2016	May 2016	July 2016	(293)	89
<b>Vessels terminated in 2016</b>				(293)	89
Front Mindanao	2015	November 2015	December 2015	3,266	—
<b>Vessels terminated in 2015</b>				3,266	—

In September, 2016, the Company recorded an impairment loss of \$8.9 million in respect of three vessels leased in from Ship Finance - the 1997-built *Front Ardenne*, the 1998-built *Front Brabant* and the 1998-built *Front Century* - based on a 25% probability assumption of terminating the vessel's lease before the next dry dock. This impairment loss included \$5.6 million in respect of *Front Century*.

In November 2016, the Company agreed with Ship Finance to terminate the long term charter for the 1998-built VLCC *Front Century*. The Company recorded an impairment loss of \$27.3 million in the year ended December 31, 2016, based on a 100% probability assumption of terminating the vessel's lease before the next dry dock.

In March 2017 the Company recorded an impairment loss of \$21.2 million with respect to four vessels leased in from Ship Finance - the 1997-built *Front Ardenne*, the 1998 built *Front Brabant*, the 2000-built *Front Scilla* and the 1999-built *Front Circassia* - based on a 25% probability assumption of terminating the vessel's lease before the next dry dock.

In December 2017, the Company has recognized an impairment loss of \$142.9 million on the remaining nine VLCCs chartered in from Ship Finance. The leasehold interest in these capital leased assets was recorded at fair value at the time of the Merger based on the discounted value of the expected cash flows from the vessels. Based on the deterioration in forecast rates since the Merger, and the reduced remaining useful economic life of the vessels as they approach the end of their leases, the Company has recognised an impairment loss on all of these leased vessels, calculated as the difference between the discounted value of the expected cash flows from the vessels as at December 31, 2017 and the carrying value of the vessels under capital lease at that time.

As of December 31, 2017, the Company held 9 vessels under capital leases (2016: 13 vessels), all of which are leased from Ship Finance. The remaining periods on these leases at December 31, 2017 range from 3 to 9 years. The Company recognized capital lease interest expense in 2017 \$26.0 million (2016: \$35.4 million). None of these vessels have been subleased under noncancelable operating leases.

## 20. EQUITY METHOD INVESTMENTS

On March 25, 2015, Frontline 2012 paid a stock dividend consisting of 4.1 million Avance Gas shares. All shareholders holding 60.74 shares or more, received one share in Avance Gas for every 60.74 shares they held, rounded down to the nearest whole share. The remaining fractional shares were paid in cash. \$0.01 million of this dividend was paid in cash and \$56.5 million was recorded as a stock dividend. Frontline 2012 retained 112,715 shares, which were recorded as marketable securities, in respect of the treasury shares held at the time of the dividend. Frontline 2012 stopped accounting for the investment as an equity method investment at this time as it no longer had significant influence over Avance Gas.

Frontline 2012's share of earnings from Avance Gas was \$2.7 million in 2015. Frontline 2012 received dividends of \$4.1 million from Avance Gas in 2015, while accounting for Avance Gas as an equity method investment.

The Company holds no equity method investments as at December 31, 2017.

## 21. ACCRUED EXPENSES

<i>(in thousands of \$)</i>	2017	2016
Voyage expenses	20,918	13,527
Ship operating expenses	6,758	6,869
Administrative expenses	1,867	1,355
Interest expense	6,297	2,003
Taxes	739	1,671
Drydocking expenses	1,989	—
Other	241	734
	38,809	26,159

## 22. OTHER CURRENT LIABILITIES

<i>(in thousands of \$)</i>	2017	2016
Deferred charter revenue	1,653	6,302
Other	4,414	3,990
	6,067	10,292

## 23. DEBT

<i>(in thousands of \$)</i>	2017	2016
U.S. dollar denominated floating rate debt		
\$500.1 million term loan facility	423,894	461,997
\$60.6 million term loan facility	51,062	54,530
\$466.5 million term loan facility	297,794	314,315
\$109.2 million term loan facility	102,776	53,797
\$328.4 million term loan facility	261,354	107,981
\$321.6 million term loan facility	246,531	—
\$110.5 million term loan facility (ING)	54,483	—
\$110.5 million term loan facility (Credit Suisse)	54,162	—
Total U.S. dollar floating rate	1,492,056	992,620
U.S. dollar denominated fixed rate debt		
\$275.0 million revolving credit facility	90,000	—
Total U.S. dollar fixed rate	90,000	—
Credit facilities	42	11
Secured borrowings	10,312	—
Total debt	1,592,410	992,631
Short term debt and current portion of long term debt	113,076	67,365
Deferred charges	12,260	10,674
Long term portion of debt	1,467,074	914,592

The outstanding debt as of December 31, 2017 is repayable as follows:

<i>(in thousands of \$)</i>	
2018	113,076
2019	192,793
2020	412,344
2021	410,637
2022	38,242
Thereafter	425,318
	1,592,410

#### **\$466.5 million term loan facility**

During December 2014, the amount of a \$136.5 million term loan facility was increased to \$466.5 million such that a further ten tranches of \$33.0 million, each for a LR2/Aframax tanker newbuilding, could be drawn. The repayment schedule was amended to installments on a quarterly basis, in an amount of \$0.4 million for each MR product tanker and \$0.4 million for each LR2/Aframax tanker with a balloon payment on the final maturity date in April 2021. In addition the loan margin and commitment fee were amended to 2.05% and 0.82%, respectively. In December 2015, the loan margin was reduced to 1.90%. During 2015, \$99.0 million was drawn down on delivery of three LR2/Aframax tankers and \$13.1 million was repaid. During 2016, \$192.4 million was drawn down on delivery of six LR2/Aframax tankers and \$126.4 million was repaid. The facility is fully drawn down as of December 31, 2017.

#### **\$60.6 million term loan facility**

In March 2015, Frontline 2012 entered into a \$60.6 million term facility to fund the purchase of two second hand vessels. The loan has a term of five years and carries interest at LIBOR plus a margin of 1.80%. Repayments are made on a quarterly basis, each in an amount \$0.9 million, with a balloon payment on the final maturity date in March 2021. The facility is fully drawn down as of December 31, 2017.

**\$500.1 million term loan facility**

In December 2015, subsidiaries of the Company signed a new \$500.1 million senior secured term loan facility with a number of banks, which matures in December 2020 and carries an interest rate of LIBOR plus a margin of 1.90%. This facility is secured by six VLCCs and six Suezmax tankers. Repayments are made on a quarterly basis, each in an amount \$9.5 million, with a balloon payment on the final maturity date in December 2020. The facility is fully drawn down as of December 31, 2017.

**\$275.0 million revolving credit facility**

In June 2016, the Company signed a \$275.0 million senior unsecured facility agreement with an affiliate of Hemen, the Company's largest shareholder. The \$275.0 million facility carries an interest rate of 6.25%. The facility is available to the Company for a period of 18 months from the first utilization date and is repayable in full on the 18 month anniversary of the first utilization date. There are no scheduled loan repayments before this date. The facility does not include any financial covenants and will be used to part finance the Company's current newbuilding program, partially finance potential acquisitions of newbuildings or vessels on the water and for general corporate purposes.

The Company drew down \$90.0 million in the year ended December 31, 2017 and up to \$185.0 million remains available and undrawn as at year end. In February 2018 the Company extended the terms of the facility by 12 months. Following the extension, the facility is repayable in November 2019. The balance outstanding is included in long-term debt as at December 31, 2017.

**\$109.2 million term loan facility**

In July 2016, the Company entered into a senior secured term loan facility in an amount of up to \$109.2 million with ING Bank. The facility matures on June 30, 2021, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 17 years. The Company drew down \$54.6 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. The facility is fully utilized as of December 31, 2017.

**\$328.4 million term loan facility**

In August 2016, the Company signed a senior secured term loan facility in an amount of up to \$328.4 million with China Exim Bank. The facility matures in 2029, carries an interest rate of LIBOR plus a margin in line with the Company's other facilities and has an amortization profile of 18 years. The Company drew down \$109.0 million in the year ended December 31, 2016 in connection with one LR2 tanker and two Suezmax tanker newbuildings, which were delivered in the year. The Company drew down a further \$165.9 million in the year ended December 31, 2017 in connection with two Suezmax tankers and three LR2/Aframax tankers delivered in the year. The facility is fully drawn down as of December 31, 2017.

**\$110.5 million term loan facility (Credit Suisse)**

In December 2016, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with Credit Suisse. The facility matures in 2022, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The Company drew down \$54.9 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. Up to \$54.9 million remains available and undrawn as at year end.

**\$321.6 million term loan facility**

In February 2017, the Company signed a second senior secured term loan facility in an amount of up to \$321.6 million. The facility provided by China Exim Bank is insured by China Export and Credit Insurance Corporation. The facility matures in 2033, carries an interest rate of LIBOR plus a margin in line with the Company's other credit facilities and has an amortization profile of 15 years. This facility will be used to part finance eight of our newbuildings and will be secured by four Suezmax tankers and three LR2/Aframax tankers delivered in the year, and an LR2/Aframax newbuilding being delivered in 2018. The Company drew down \$252.7 million in the year ended December 31, 2017 in connection with four Suezmax tankers and three LR2/Aframax tanker delivered in the period. Up to \$32.0 million remains available and undrawn as at year end.

**\$110.5 million term loan facility (Credit Suisse)**

In June 2017, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with Credit Suisse. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The facility will be used to partially finance two of our recent VLCC resales and newbuilding contracts to be delivered in 2018 and 2019. As at December 31, 2017 the full balance remains available and undrawn.

#### **\$110.5 million term loan facility (ING)**

In June 2017, the Company signed a senior secured term loan facility in an amount of up to \$110.5 million with ING. The facility matures in 2023, carries an interest rate of LIBOR plus a margin of 1.90% and has an amortization profile of 18 years. The facility will be used to partially finance two of our recent VLCC resales and newbuilding contracts and will be secured by one VLCC delivered in the year and one VLCC newbuilding being delivered in 2018. The Company drew down \$55.3 million in the year ended December 31, 2017 in connection with one VLCC delivered in the period. Up to \$55.2 million remains available and undrawn as at year end.

#### **Secured borrowings**

In December 2017, the Company sold 1.3 million shares in Golden Ocean, for proceeds of NOK 84.8 million (\$10.1 million). At the same time the Company entered into a forward contract to repurchase 1.3 million shares in GOGL in March 2018 for NOK 85.2 million (\$10.3 million). The transaction has been accounted for as a secured borrowing, with the shares transferred to 'Marketable securities pledged to creditors' and a liability recorded at December 31, 2017 within debt for \$10.3 million, after adjusting for the effect of foreign exchange. The Company is required to post collateral of 20% of the total repurchase price for the duration of the agreement. As at December 31, 2017, 442,384 shares in Avance Gas were held as collateral with the remaining balance being paid to the counterparty as cash collateral in January 2018.

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 \$74.0 million (2016: \$49.6 million), which are required to be maintained by the financial covenants in our loan facilities, as 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. The Company was in compliance with all of the financial covenants contained in the Company's loan agreements as of December 31, 2017.

#### **Assets pledged**

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>
Vessels, net,	<b>2,341,069</b>	1,476,889

#### **Deferred charges**

<i>(in thousands of \$)</i>	<b>2017</b>	<b>2016</b>
Debt arrangement fees	<b>17,490</b>	14,103
Accumulated amortization	<b>(5,230)</b>	(3,429)
	<b>12,260</b>	10,674

During 2017, the Company paid \$3.5 million (2016: \$9.5 million) with respect to debt arrangement fees.

## **24. SHARE CAPITAL**

### *Offering*

On December 16, 2016, the Company completed an offering of 13,422,818 new ordinary shares at \$7.45 per share, or the Offering, generating net proceeds of \$98.2 million. The Company's largest shareholder, Hemen, guaranteed the Offering and was allocated 1,342,281 new ordinary shares in the Offering, corresponding to 10% of the Offering. Hemen owns 82,145,703 shares in the Company upon completion of the Offering, or approximately 48.4% of the Company's shares and votes.

#### *Capital Reorganization*

A resolution was approved at the Company's Special Meeting of Shareholders on January 29, 2016, to effect a capital reorganization with effect from February 3, 2016, for a 1-for-5 reverse share split of the Company's ordinary shares and to reduce the Company's authorized share capital from \$1,000,000,000 divided into 1,000,000,000 shares of \$1.00 par value each to \$500,000,000 divided into 500,000,000 shares of \$1.00 par value each. The authorized share capital of the Company as at December 31, 2016 is \$500,000,000 divided into 500,000,000 share of \$1.00 par value each.

#### *Merger with Frontline 2012*

On July 1, 2015, the Company, Frontline Acquisition Ltd, or Frontline Acquisition, a newly formed and wholly-owned subsidiary of the Company, and Frontline 2012 entered into an agreement and plan of merger pursuant to which Frontline Acquisition and Frontline 2012 agreed to enter into a merger transaction, with Frontline 2012 as the surviving legal entity and thus becoming a wholly-owned subsidiary of the Company. For accounting purposes, the acquisition of Frontline 2012 has been treated as a reverse business acquisition. The Merger was completed on November 30, 2015 and shareholders in Frontline 2012 received shares in the Company as merger consideration. One share in Frontline 2012 gave the right to receive 2.55 shares in the Company and 583.6 million shares were issued as merger consideration based on the total number of Frontline 2012 shares of 249.1 million less 6.8 million treasury shares held by Frontline 2012 and 13.46 million Frontline 2012 shares held by the Company, which were cancelled upon completion of the Merger.

The following table summarizes the movement in the number of shares outstanding during the two years ended December 31, 2017;

<b>Outstanding shares at December 31, 2015</b>	<b>781,937,649</b>
Outstanding shares at December 31, 2015 after giving effect to 1-for-5 reverse share split in February 2016	156,386,506
Issue of shares in December 2016	13,422,818
<b>Outstanding shares at December 31, 2016</b>	<b>169,809,324</b>
<b>Outstanding shares at December 31, 2017</b>	<b>169,809,324</b>

The share capital amount in the balance sheet as of December 31, 2015 has not been restated for the 1-for-5 reverse share split.

## **25. SHARE OPTIONS**

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



In July 2016, the Company granted 1,170,000 share options, with an exercise price of \$8.00 per share, to directors and officers in accordance with the terms of the Frontline Scheme. One third of the options vest over one year, one third vest over two years and one third vest over three years. The options have a five year term.

The fair value of the newly granted option awards is estimated on the date of grant using a Black-Scholes option valuation model with the following assumptions:

	July 2016
Risk free interest rate	0.69%
Expected life (years)	3.5
Expected volatility	79.80%
Expected dividend yield	0.00%

The risk-free interest rate was estimated using the interest rate on three-year U.S. treasury zero coupon issues. The volatility was estimated using historical share price data. The dividend yield has been estimated at 0% as the exercise price is reduced by all dividends declared by the Company from the date of grant to the exercise date. It was assumed that all of the options granted in July 2016 will vest.

The initial exercise price of these options was \$8.00 per option and is reduced by the amount of dividends paid after the date of grant. As at December 31, 2017, the exercise price of the options granted in July 2016 was \$7.40 and the Company's share price was \$4.59. As at December 31, 2017, 390,000 shares had vested. None of these share options had expired or been forfeited at December 31, 2017. As at December 31, 2017, there was \$1.2 million in unrecognized stock compensation expense related to non-vested options. As at December 31, 2016, there was \$3.3 million in unrecognized stock compensation expense related to non-vested options. Stock compensation expense of \$2.1 million was recognized in 2017 (2016: \$1.4 million).

The weighted average grant-date fair value of the options granted in 2016 was \$4.06 per share.

## 26. 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 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 \$150.0 million was switched to fixed rate. The contract has a forward start date of February 2019. The aggregate fair value of these swaps at December 31, 2017 was a receivable of \$4.5 million (2016: receivable of \$4.4 million). The fair value (level 2) of the Company's interest rate swap agreements is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable, fixed interest rates on interest rate swaps, current interest rates, forward rate curves and the current credit worthiness of both the Company and the derivative counterparty. The estimated amount is the present value of future cash flows. The Company recorded a gain on these interest rate swaps of \$0.8 million in 2017 (2016: gain of \$1.9 million).

The interest rate swaps are not designated as hedges and are summarized as at December 31, 2017 as follows:



Notional Amount	Inception Date	Maturity Date	Fixed Interest Rate
(\$000s)			
15,925	June 2013	June 2020	1.4025%
47,357	September 2013	September 2020	1.5035%
80,233	December 2013	December 2020	1.6015%
15,434	March 2014	March 2021	1.6998%
15,777	June 2014	June 2021	1.7995%
16,120	September 2014	September 2021	1.9070%
150,000	February 2016	February 2026	2.1970%
340,846			

### Foreign currency risk

The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. There is a risk that currency fluctuations will have a negative effect on the value of the Company's cash flows. Company has not entered into forward contracts for either transaction or translation risk, which may have an adverse effect on the Company's financial condition and results of operations. Certain of the Company's subsidiaries report in Sterling, Singapore dollars and Norwegian kroner and risks of two kinds arise as a result:

- a transaction risk, that is, the risk that currency fluctuations will have a negative effect on the value of the Company's cash flows;
- a translation risk, that is, the impact of adverse currency fluctuations in the translation of foreign operations and foreign assets and liabilities into U.S. dollars for the Company's consolidated financial statements.

Accordingly, such risk may have an adverse effect on the Company's financial condition and results of operations. The Company has not entered into derivative contracts for either transaction or translation risk.

### Bunker swap agreements

From time to time, the Company may enter into bunker swap agreements to hedge the cost of its fuel costs. In August 2015, the Company entered into four bunker swap agreements whereby the fixed rate on 4,000 metric tons per calendar month was switched to a floating rate. The Company is then exposed to fluctuations in bunker prices, as the cargo contract price is based on an assumed bunker price for the trade. There is no guarantee that the hedge removes all the risk from the bunker exposure, due to possible differences in location and timing of the bunkering between the physical and financial position. The contracts ended in December 2016.

The fair value of these swaps at December 31, 2017 and 2016 was nil. The fair value (level 2) is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable forward rate curves and the current credit worthiness of both the Company and the derivative counterparty. The estimated amount is the present value of future cash flows. The Company recorded a gain of \$1.9 million in 2016 (2015: loss of \$2.3 million).

### Fair Values

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2017 and 2016 are as follows:

	2017		2016	
(in thousands of \$)	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	104,145	104,145	202,402	202,402
Restricted cash	741	741	677	677
<b>Liabilities:</b>				
Floating rate debt	1,492,099	1,492,099	992,631	992,631
Fixed rate debt	100,312	99,865	—	—

The estimated fair value of financial assets and liabilities are as follows:

(in thousands of \$)	2017 Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash and cash equivalents	104,145	104,145	—	—
Restricted cash	741	741	—	—
<b>Liabilities:</b>				
Floating rate debt	1,492,099	—	1,492,099	—
Fixed rate debt	99,865	—	10,312	89,553

(in thousands of \$)	2016 Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash and cash equivalents	202,402	202,402	—	—
Restricted cash	677	677	—	—
<b>Liabilities:</b>				
Floating rate debt	992,631	—	992,631	—

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

See Note 4 for a summary of the estimated fair values of the assets acquired and liabilities assumed on the Merger.

At December 31, 2017 the nine vessels held under capital lease, all of which are leased from Ship Finance, were measured at a combined fair value of \$251.7 million, which was determined using level three inputs being the discounted expected cash flows from the leased vessels at December 31, 2017.

At December 31, 2016, the VLCC *Front Century* was measured at a fair value of \$1.5 million, which was determined using

level three inputs being the discounted expected cash flows from the leased vessel at December, 2016 and the Suezmax tankers *Front Ardenne* and *Front Brabant* were measured at a combined fair value of \$38.4 million, which was determined using level three inputs being the discounted expected cash flows from the leased vessels at September 30, 2016 less depreciation in the three months ended December 31, 2016.

Nonrecurring fair value measurements include a goodwill impairment assessment completed during the year. The impairment test used Level 1, Level 2 and Level 3 inputs. See note 5.

#### **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 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, or SEB, HSBC, Royal Bank of Scotland, DnB Nor Bank ASA and Nordea Bank Norge, or Nordea. There is a concentration of credit risk with respect to restricted cash to the extent that substantially all of the amounts are carried with SEB, Nordea and HSBC. However, the Company believes this risk is remote.

## **27. RELATED PARTY TRANSACTIONS**

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 Norway AS, GHL Finance Limited, Golden Ocean Group Limited, Arcadia Petroleum Limited, Deep Sea Supply Plc, Seatankers Management Co. Ltd, or Seatankers Management, Archer Limited, North Atlantic Drilling Ltd, Sterna Finance Limited and Flex LNG Limited. In November 2014, Highlander Tankers AS, or Highlander Tankers, post fixture managers for the Company became a related party as Robert Hvide Macleod, the owner and director of Highlander Tankers, was appointed the Chief Executive Officer of Frontline Management AS. Frontline 2012 and the Company (and its subsidiaries) were related parties prior to the Merger. In October 2014, VLCC Chartering Ltd, or VLCC Chartering, was set up as a joint venture between the Company and Tankers International LLC, or TI. VLCC Chartering provides chartering services to the combined fleets of the Company and TI.

#### **Transactions with the Company**

Frontline Management (Bermuda) Limited, a wholly owned subsidiary of the Company, was providing all management services to Frontline 2012 up to the Merger and management fees of \$3.6 million were incurred in the eleven months ended November 30, 2015. These costs are recorded in administrative expenses in the Consolidated Statement of Operations.

Newbuilding supervision fees of \$4.1 million were charged to Frontline 2012 by the Company in the eleven months ended November 30, 2015.

Technical management fees of \$1.8 million were charged to Frontline 2012 by SeaTeam Management Pte. Ltd, a majority owned subsidiary of the Company, in the eleven months ended November 30, 2015.

#### **Highlander Tankers Transactions**

In January 2015, Frontline 2012 assumed three charter-out contracts and the commercial management of four vessels from Highlander Tankers for a consideration of \$1.8 million being the estimated value of the charter-out contracts and commercial management agreements.

### Avance Gas Transactions

In January 2014, Frontline 2012 received \$139.2 million from Avance Gas, a then equity investee, in connection with the agreed sale of eight VLGC newbuildings to Avance Gas immediately following their delivery to Frontline 2012 from the yard. This receipt was placed in a restricted account to be used for installments to be paid by Frontline 2012, past and future construction supervision costs and it also included a profit element to be transferred to cash and cash equivalents on delivery of each newbuilding. All vessels were delivered in 2015 and Frontline 2012 recognized a gain on sale of \$78.2 million in aggregate.

### Ship Finance Transactions

Ship Finance are the counterparty to all vessels we hold as Vessels Under Capital Lease, further information can be found in note 19.

In the year ended December 31, 2017 we terminated the leases on two VLCCs and two Suezmax tankers. In the year ended December 31, 2016 we terminated the lease on one VLCC. In the year ended December 31, 2015 we terminated the lease on one Suezmax tanker. Further information on the gain (loss) on termination of leases can be found in note 19.

In December 2015, the Company paid the remaining outstanding balance on the loan notes due to Ship Finance, which were issued on the early termination of the leases for the VLCCs *Front Champion*, *Golden Victory*, *Front Comanche*, *Front Commerce* and *Front Opalia*. \$113.2 million was paid comprising principal of \$112.7 million and accrued interest of \$0.5 million.

A summary of leasing transactions with Ship Finance in the years ended December 31, 2017, 2016 (all of which were in the period subsequent to the Merger) and 2015 are as follows;

(in thousands of \$)	2017	2016	2015
Charter hire paid (principal and interest)	75,055	93,545	8,355
Lease termination receipt	—	—	3,266
Lease termination payments	(19,006)	(293)	—
Lease interest expense	25,980	35,417	3,357
Contingent rental income	(26,148)	(18,621)	—
Remaining lease obligation	299,016	422,600	533,251

Contingent rental income in 2017 is due to the fact that the actual profit share expense earned by Ship Finance in 2017 of \$5.6 million was \$26.1 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 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*. Frontline 2012 recognized an expense of \$2.1 million in 2017 in relation to the pooling arrangement which is payable to Ship Finance (2016: expense of \$0.9 million, 2015: income of \$1.4 million).

In 2013, Frontline 2012 and Ship Finance entered into a joint project between four of Frontline 2012's vessels *Front Odin*, *Front Njord*, *Front Thor*, *Front Loki* and the two Ship Finance vessels *Glorycrown* and *Everbright*. All costs in relation to the conversion to be shared on a pro-rata basis. At December 31, 2017, the Company is not owed any amounts by Ship Finance in respect of this project (2016: nil).

### Golden Ocean Transactions

In November 2015, the Company entered into an agreement to purchase two Suezmax tanker newbuilding contracts from Golden Ocean at a purchase price of \$55.7 million per vessel. The transaction was completed in December 2015. \$1.9 million was paid to Golden Ocean with the balance payable to the yard as newbuilding commitments assumed from Golden Ocean.

#### **Seatanker Management Transactions**

In January 2016, the Company recharged \$2.4 million of fit out costs to Seatankers Management Co. Ltd, which had been incurred on a leased office prior to its assignment to Seatankers Management Co. Ltd in December 2015.

The Company entered into a Services Agreement with Seatankers Management, effective January 1, 2016, and was charged \$0.6 million in the year ended December 31, 2017 (2016: \$0.7 million) for the provision of advisory and other support services.

#### **Transactions with other affiliates of Hemen**

In June 2016, the Company signed a \$275.0 million senior unsecured facility agreement with, an affiliate of Hemen, the Company's largest shareholder. The Company drew down \$90.0 million in the year ended December 31, 2017 from the facility and up to \$185.0 million remains available and undrawn as at year end. 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 (incurred) from related parties for the years ended December 31, 2017, 2016 and 2015 are as follows:

<i>(in thousands of \$)</i>	<b>2017</b>	2016	2015
Seatankers Management Co. Ltd	<b>3,420</b>	6,057	460
Ship Finance International Limited	<b>3,473</b>	1,552	(1,226)
Golden Ocean Group Limited	<b>6,671</b>	9,387	1,246
Seatankers Management Norway AS	<b>767</b>	919	(89)
Arcadia Petroleum Limited	<b>—</b>	929	31
Seadrill Limited	<b>470</b>	656	84
Archer Limited	<b>238</b>	235	40
Flex LNG Limited	<b>4,432</b>	1,204	—
Deep Sea Supply Plc	<b>67</b>	130	32
North Atlantic Drilling Ltd	<b>37</b>	48	16
Frontline companies (prior to the Merger)	<b>—</b>	—	(9,562)

Net amounts earned from other 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 December 31, 2017 and 2016 is as follows:

<i>(in thousands of \$)</i>	<b>2017</b>	2016
Ship Finance International Limited	<b>1,239</b>	1,077
Seatankers Management Co. Ltd	<b>52</b>	1,060
Archer Ltd	<b>88</b>	54
VLCC Chartering Ltd	<b>81</b>	47
Golden Ocean Group Limited	<b>1,953</b>	1,151
Seadrill Limited	<b>489</b>	597
Deep Sea Supply Plc	<b>68</b>	67
Arcadia Petroleum Limited	<b>—</b>	198
Flex LNG Limited	<b>979</b>	741
North Atlantic Drilling Ltd	<b>103</b>	103
Other related parties	<b>16</b>	—
	<b>5,068</b>	5,095

A summary of balances due to related parties at December 31, 2017 and 2016 is as follows:

<i>(in thousands of \$)</i>	<b>2017</b>	2016
Ship Finance International Limited	<b>6,349</b>	15,495
Seatankers Management Co. Ltd	<b>1,345</b>	972
Seadrill Limited	<b>—</b>	5
Golden Ocean Group Limited	<b>1,227</b>	1,631
	<b>8,921</b>	18,103

## **28. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2017, the Company's newbuilding program comprised four VLCCs and one LR2/Aframax tanker newbuildings. As of December 31, 2017, total installments of \$76.9 million had been paid and the remaining installments to be paid amounted to \$305.4 million, of which \$252.0 million is due in 2018 and \$53.4 million is due in 2019.

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.

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

Following assignments of two property leases in 2015, each to a related party, a subsidiary of the Company has guaranteed the remaining outstanding payments due under the leases of approximately \$7.9 million as of December 31, 2017 (2016: approximately \$8.3 million). The Company does not believe that it will be required to make any payments under these guarantees and has not recorded a liability in the balance sheet in this respect.

## **29. SUPPLEMENTAL INFORMATION**

On July 1, 2015, the Company, Frontline Acquisition Ltd, or Frontline Acquisition, a newly formed and wholly-owned subsidiary of the Company, and Frontline 2012 entered into an agreement and plan of merger pursuant to which Frontline Acquisition and Frontline 2012 agreed to enter into a merger transaction, or the Merger, with Frontline 2012 as the surviving legal entity and thus becoming a wholly-owned subsidiary of the Company. The Merger was completed on November 30, 2015 and shareholders in Frontline 2012 received shares in the Company as merger consideration.

On March 25, 2015, Frontline 2012 paid a stock dividend consisting of 4.1 million Avance Gas shares. All shareholders holding 60.74 shares or more, received one share in Avance Gas for every 60.74 shares they held, rounded down to the nearest whole share. The remaining fractional shares were paid in cash. \$0.01 million of this dividend was paid in cash and \$56.5 million was recorded as a stock dividend. Frontline 2012 retained 112,715 shares, which were recorded as marketable securities, in respect of the treasury shares held at the time of the dividend. Frontline 2012 stopped accounting for the investment as an equity method investment at this time as it no longer had significant influence over Avance Gas.

During 2016, the Company agreed with Ship Finance to terminate the long term charter for two vessels. The Company recognized a reduction in capital lease obligations of \$27.1 million in the year ended December 31, 2016 and \$24.6 million in the year ended December 31, 2017 in respect of these vessels.

During 2017, the Company agreed with Ship Finance to terminate the long term charter for three vessels. The Company recognized a reduction in capital lease obligations of \$53.2 million in the year ended December 31, 2017 in respect of these vessels.

Further information on the termination of long term charters with Ship Finance can be found in note 19.

### **30. SUBSEQUENT EVENTS**

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

In February 2018 the Company extended the terms of its senior unsecured loan facility of up to \$275.0 million with an affiliate of Hemen Holding Ltd by 12 months. Following the extension, the facility is repayable in November 2019.

In the first quarter of 2018, the Company sold 4.7 million shares in DHT for total consideration of \$17.8 million. All shares held in DHT have now been disposed of.

In February 2018, the Company agreed with Ship Finance to terminate the long-term charter for the 1999-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; 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 will be recorded as an interest-bearing note payable by FSL. The termination will reduce obligations under capital leases by approx. \$20.6 million. The Company expects to record a loss on termination, including this termination payment, of \$5.5 million in the first quarter of 2018.