

# Ship Finance International Limited

**Pareto Securities' Høyrenteseminar**

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**Frontline Management AS**

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# Agenda



- Company description and structure
- The market
- Limited downside risk
- Financials
- Rating

## Ship Finance Fact Sheet

- Domicile : Bermuda
- Formed: Oct. 2003
- Management : Bermuda, Oslo
- Listed : NYSE (SFL)
- Shareprice (Jan. 30, 2006): USD 18.37
- Market Cap : USD 1.34 billion
- Bond Issue : USD 580 mill. 2013 8.5 %. Outstanding amount under the Bond Issue is currently USD 457.1 million,
- Net Income 9 months 2005: USD 126.5 million
- Dividend paid last 12 months : USD 2.0 per share

# The Fleet

**14 Suezmaxes**

**28 VLCCs**

**1 accomodation  
rig**



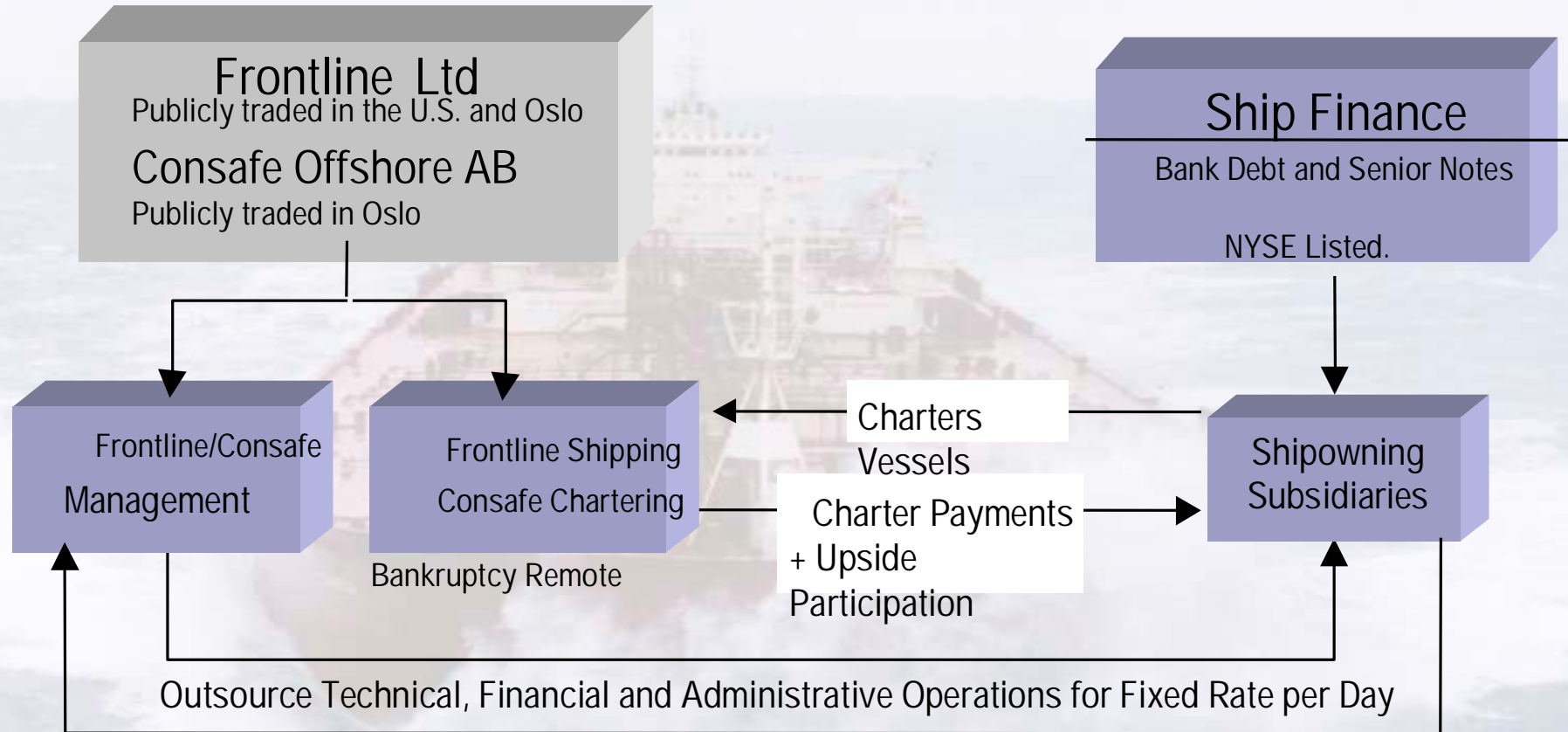
**2 container  
vessels**

**8 Suezmax  
OBOs**

**= 11.7 million dwt. or approximately 78 million barrels transport capacity.**

- § Oldest ship from 1989
- § Average age: 10.3 years
- § Tanker industry average: 8.4 years
- § Double hull tonnage: 68 %
- § Tanker industry average: 68 %

## The Structure



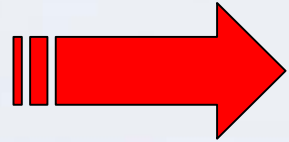
# Strenghts

- One of the largest and most modern VLCC and Suezmax fleets in the world,
- Fixed rate, long term charters intended to reduce our exposure to volatility in tanker rates,
- Profit sharing potential when the Charterer's earnings from deploying our vessels exceed the fixed rates,
- Substantially fixed operating costs under our management agreements,
- Charter counterparties initially capitalized with \$296.2 million to support their obligation to make charter payments to Ship Finance, and
- Vessels managed by Frontline Management, one of the industry's most experienced operators of tankers

# Strategy

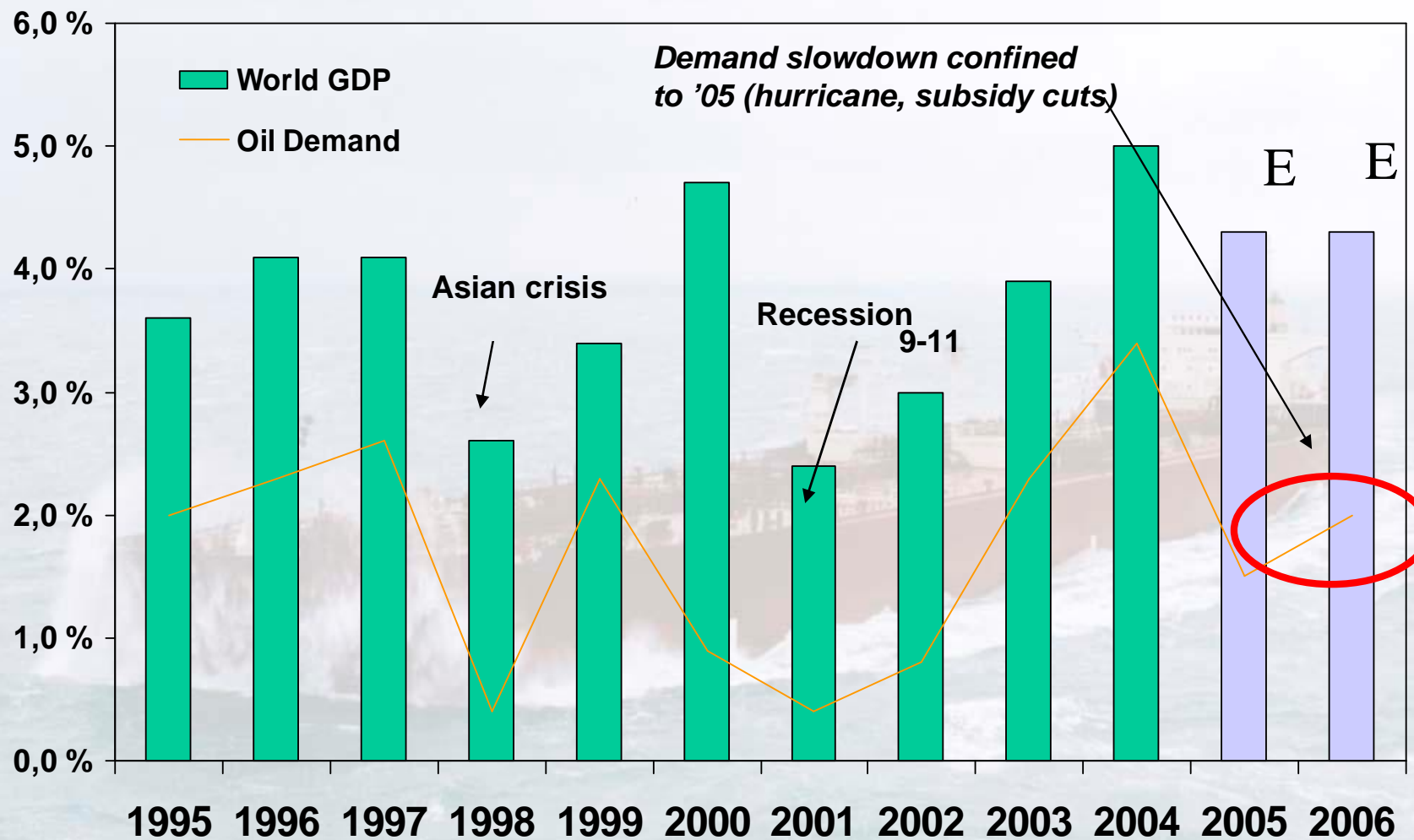
- Growth 5-10% p.a.
- Both participation in corporate acquisitions and straight purchases will be considered
- Diversify customer base
- Additional boardmembers / Sarbox requirements / management
- Continuously looking into new projects, also offshore

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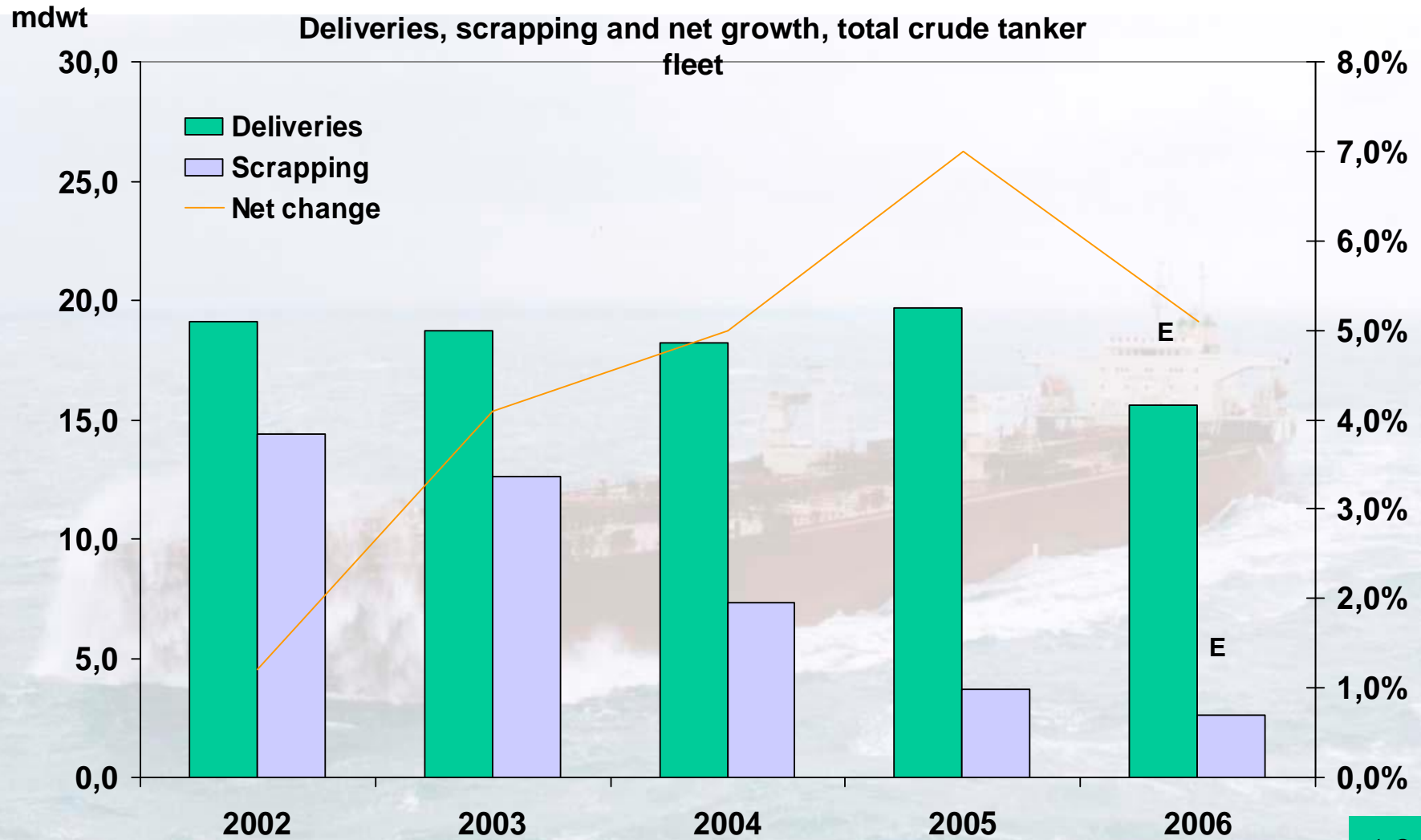
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# GDP forecasts signal robust oil demand

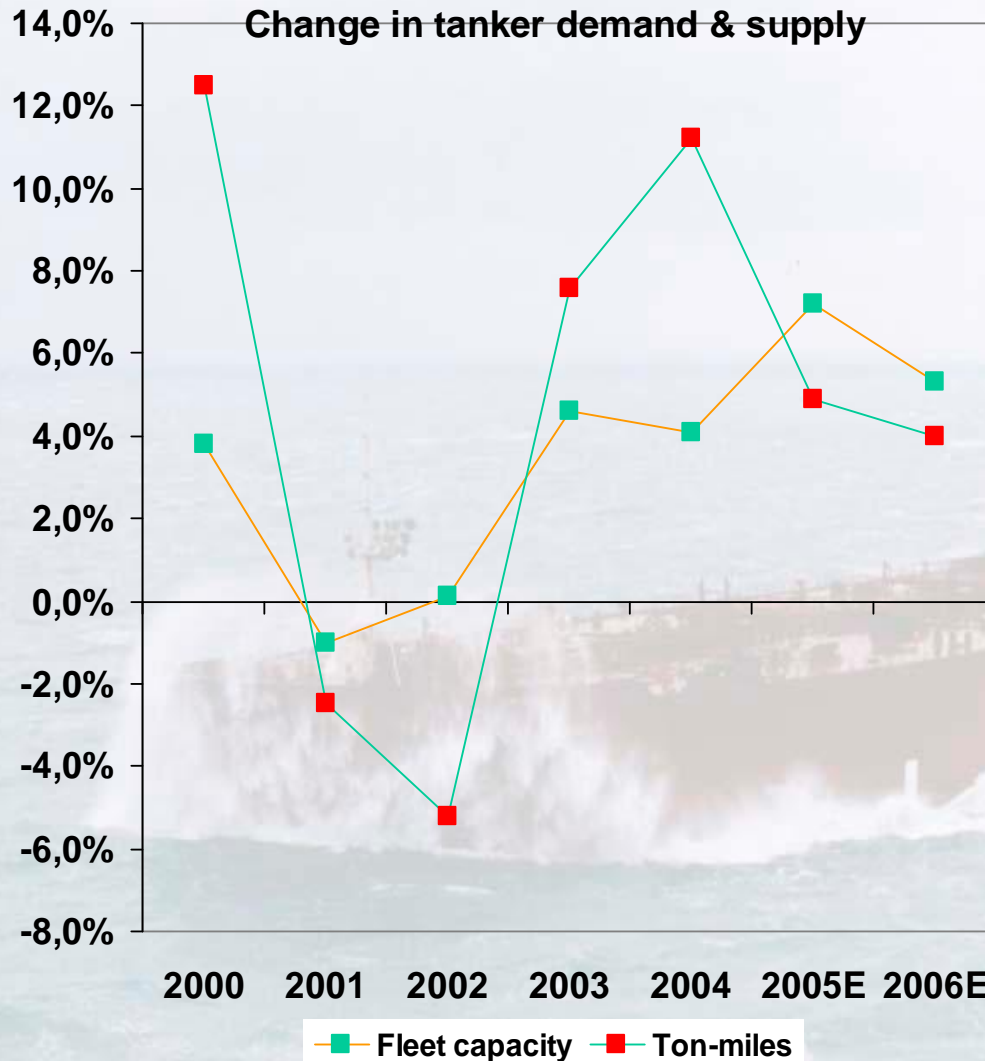


Source: IMF, IEA

# Fleet: Fewer newbuildings, but little scrapping



## '06 preview: Loser, but not loose



### 2006 assumptions

- World GDP: +4-4.5%
- Oil demand: +2.0%
- Ton-miles: +4.5%
- Total fleet growth: +5.0%
- VLCC rates: \$50,000/day
- Suezmax : \$40,000/day

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# Limited downside risk

- SFL's revenue stream is fixed time charter payments from 52 vessels (1 container vessel in the spot market) which are non-cancelable except for constructive total loss,

## Contracted cash flow excl. Safe Concordia

<u>Year</u>	<u>Charter Payments</u>	<u>Management and Administrative Fees</u> <i>(dollars)</i>	<u>Net Contracted Cash Payments</u>
2005	\$420 827 359,32	\$106 182 416,71	\$314 644 942,61
2006	\$433 602 416,25	\$107 762 500,00	\$325 839 916,25
2007	\$427 122 416,25	\$107 762 500,00	\$319 359 916,25
2008	\$425 174 605,01	\$108 048 500,00	\$317 126 105,01
2009	\$407 058 985,05	\$107 762 500,00	\$299 296 485,05
2010	\$324 103 719,00	\$84 728 952,05	\$239 374 766,95
2011	\$251 973 636,92	\$67 070 000,00	\$184 903 636,92
2012	\$247 169 698,46	\$67 245 500,00	\$179 924 198,46
2013	\$245 654 358,26	\$67 070 000,00	\$178 584 358,26
2014 and beyond	\$1 750 374 594,93	\$442 522 050,51	\$1 307 852 544,42
<b>Total</b>	<b>\$4 933 061 789,45</b>	<b>\$1 266 154 919,27</b>	<b>\$3 666 906 870,18</b>

## Limited downside risk

- Charter payments are supported by a \$274.4 million Charter Service Reserve Deposit at Frontline Shipping Limited and by a \$21.8 million Charter Service Reserve Deposit at Consafe Chartering,
- Below we have copied in a "stress test" based on the initial 47 vessels purchased from Frontline Ltd. and leased back to Frontline Shipping Limited. The "stress test" modelled illustrates the sustainability of the initial Charter Service Reserve Deposit in Frontline Shipping Limited, in an amount of \$250 million. Please note that this "stress test" is only an example, but it should illustrate how the dynamics work,

**Stress case sustainability for Frontline Shipping**

The below "stress test" modelled by SFIL illustrates the sustainability of the Charter Service Reserve Deposit.

Each of the 3 scenarios uses the worst consecutive average market rates recorded during a 1, 2 and 3 years period from January 1994 to 2004 as per (i) Clarkson's database for VLCC and Suezmax and (ii) the Charterer's own figures for OBO.

**Assumptions:**  
1 year deferral of charter payments if Charter Service Reserve Deposit is less than USD 75 million

Base charter rates payable to SFL	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
VLCC	26,575	25,575	25,175	25,175	25,175	26,175
Suezmax	21,100	21,100	20,700	20,700	20,700	20,700

Deferral of charter payments if Charter Service Reserve Deposit is less than USD 75 million	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
VLCC	4,600	4,600	4,600	4,600	4,600	4,600
Suezmax	3,400	3,400	3,400	3,400	3,400	3,400

Scenario	Stress rates (USD/day)			USD mill.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	VLCC	Suez	OBO		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Worst 1 YR consecutive average	14,924	14,563	16,133	Begin Cash	250	190	106			
				Cash loss (stress rates less charter rates to SFIL)	-140	-140	-78			
				Contract coverage in excess of stress rates	80	56	27			
				End cash <sup>1</sup>	190	106	56			
Worst 2 YR consecutive average	18,688	15,516	18,308	Begin Cash	250	222	172	108	69	
				Cash loss (stress rates less charter rates to SFIL)	-97	-97	-90	-51	-19	
				Contract coverage in excess of stress rates	69	47	27	11	6	
				End cash <sup>2</sup>	222	172	106	69	55	
Worst 3 YR consecutive average	21,531	17,112	18,333	Begin Cash	250	250	230	197	148	100
				Cash loss (stress rates less charter rates to SFIL)	-64	-64	-58	-58	-58	-22
				Contract coverage in excess of stress rates	65	44	24	9	9	4
				End cash <sup>3</sup>	250	230	197	148	100	82

**Notes:**  
(1) 2.9 years until default on minimum cash  
2.3 years until deferral of charter payments  
(2) 4.5 years until default on minimum cash  
3.4 years until deferral of charter payments  
(3) 5.5 years until deferral of charter payments

## Limited downside risk

- Cash BE rates for Ship Finance are much lower than the fixed rates,

	<b>Base Charter Rate</b>	<b>Cash Breakeven</b>
<b>VLCC</b>	<b>26 597</b>	<b>20 005</b>
<b>Suezmax</b>	<b>21 100</b>	<b>14 162</b>
<b>Suezmax OBO</b>	<b>21 100</b>	<b>18 049</b>
<b>Container vessels</b>		<b>5 207</b>

## Limited downside risk

- Limited operational risk:

All technical management and operations are subcontracted to Frontline Management and Consafe Management at a fixed turnkey rate per day per vessel.

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# Sales type lease accounting

- Ship Finance is accounting for 44 of the long term charters to Frontline as sales type leases under U.S. GAAP, while the remaining charters will initially be accounted for as operating leases,
- Cash flow from sale type leases are allocated between interest income on the sales type lease, service income (Management fee) and a reduction in the balance of the sales type lease net investment,
- In the P&L statement only the interest income on the sales type lease and the service income is booked, while the installment part is accounted for under cash flow as repayment of finance leases under investment activities,
- No depreciation is accounted for on the sales type leases, but rather a capital repayment of the sales type leases,
- The capital repayment element of a sales type lease is based on a reducing balance / constant interest rate. So it begins with a small amount in the initial period of a lease and then increases over time, like an annuity,
- Lease accounting treatment will therefore show high profitability in the early years and then lower profitability in later years

# Profit & Loss

<b>2004 Jul-Sep</b>	<b>2005 Jul-Sep</b>	<b>INCOME STATEMENT</b> <i>(in thousands of \$ except per share data)</i>	<b>2005 Jan-Sep</b>	<b>2004 Jan-Sep</b>	<b>2004 Jan-Dec (audited)</b>
<b>121,074</b>	<b>118,403</b>	<b>Total operating revenues</b>	<b>295,572</b>	<b>340,587</b>	<b>492,069</b>
795	1,158	Voyage expenses	3,000	9,765	9,978
23,619	31,411	Ship operating expenses	82,729	71,998	96,505
1,315	536	Administrative expenses	1,621	2,829	3,812
7,693	5,193	Depreciation	14,682	29,478	34,617
<b>33,422</b>	<b>38,298</b>	<b>Total operating expenses</b>	<b>102,032</b>	<b>114,070</b>	<b>144,912</b>
<b>87,652</b>	<b>80,105</b>	<b>Operating income (loss)</b>	<b>193,540</b>	<b>226,517</b>	<b>347,157</b>
(76)	1,048	Interest income	2,333	2193	2,567
(24,209)	(25,384)	Interest expense	(84,242)	(73,138)	(95,933)
(10,477)	9,516	Other financial items	14,862	3,512	8,780
(74)	(19)	Foreign currency exchange gain (loss)	(21)	43	88
<b>52,816</b>	<b>65,266</b>	<b>Net income (loss)</b>	<b>126,473</b>	<b>159,127</b>	<b>262,659</b>
<b>\$0.70</b>	<b>\$0.87</b>	<b>Basic earnings per share amounts (\$)</b>	<b>\$1.69</b>	<b>\$2.14</b>	<b>\$3.52</b>

# Cash flow

**Cash flow (in thousands of \$)**

	<b>Q3 2005</b>	<b>Q3 2004</b>	<b>9M 2005</b>	<b>9M 2004</b>	<b>2004</b>
Net cash flow provided by operating activities	40 525	47 421	244 730	156 944	178 528
Net cashflow provided by (used in) investing activities	59 579	65 339	-293 722	57 559	76 948
Hereof repayment of investments in finance leases	25 794	16 370	72 922	43 024	61 990
Net cashflow provided by (used in) financing activitites	-81 005	-81 529	88 743	-151 134	-226 283
Hereof deemed dividends paid to FSL	-3 699	-7 464	-14 464	-55 373	-58 997
Net increase (decrease) in cash and cash equivalentents	19 099	31 231	39 751	63 369	29 193
Cash and cash equivalentents at begin of period	49 845	32 138	29 193	0	0
Cash and cash equivalentents at end of period	68 944	63 369	68 944	63 369	29 193

# Balance sheet

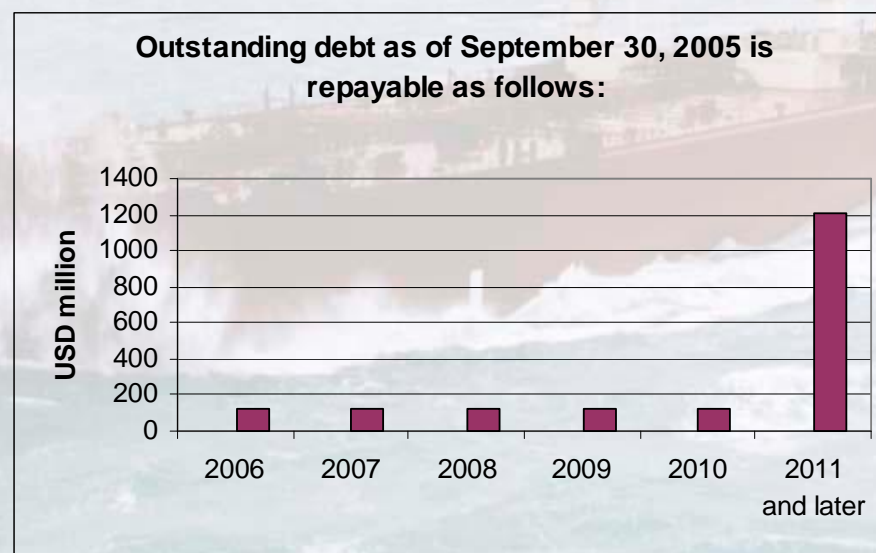
<b>BALANCE SHEET</b> <i>(in thousands of \$)</i>	<b>2005</b> <b>Sep 30</b>	<b>2004</b> <b>Sep 30</b>	<b>2004</b> <b>Dec 31</b> <i>(audited)</i>
<b>ASSETS</b>			
<i>Short term</i>			
Cash, restricted cash and cash equivalents	71,808	69,171	34,572
Amount due from parent	4,155	-	4,864
Other current assets	148,391	123,279	192,421
<i>Long term</i>			
Newbuildings and vessel purchase options	-	8,370	8,370
Vessels and equipment, net	322,362	347,126	236,305
Investment in finance leases	1,834,772	1,556,010	1,641,644
Deferred charges and other long-term assets	35,770	27,931	34,761
<b>Total assets</b>	<b>2,417,258</b>	<b>2,131,887</b>	<b>2,152,937</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<i>Short term</i>			
Short term and current portion of long term interest bearing debt	122,519	88,845	91,308
Amount due to parent	-	-	-
Other current liabilities	23,082	19,544	8,958
<i>Long term</i>			
Long term interest bearing debt	1,702,768	1,412,875	1,387,586
Other long term liabilities	27,154	1,679	4,103
Stockholders' equity	541,735	608,944	660,982
<b>Total liabilities and stockholders' equity</b>	<b>2,417,258</b>	<b>2,131,887</b>	<b>2,152,937</b>

# Net interest bearing debt

	<b>Q3 05</b>	<b>Q2 05</b>	<b>Q1 05</b>	<b>Q4 04</b>	<b>Q3 04</b>	<b>2004</b>
Long term interest bearing debt	1 702 768	1 728 518	1 513 025	1 387 586	1 412 875	1 387 586
Short term interest bearing debt	122 519	118 507	104 188	91 308	88 845	91 308
Cash and bank deposits	71 808	52 560	115 698	34 572	69 171	34 572
<b>Net interest bearing debt</b>	<b>1 753 479</b>	<b>1 794 465</b>	<b>1 501 515</b>	<b>1 444 322</b>	<b>1 432 549</b>	<b>1 444 322</b>

# Debt structure

	Amounts in USD million	Maturity
Syndicated bank loan	1 023	2011
Syndicated bank loan	344	2012
8,5% Bond loan	458	2013
<b>Total</b>	<b>1 825</b>	



## Financial statistics

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### Cash flow (in thousands of \$)

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	9M 2005	9M 2004	2004
EBITDA,1) / net Interest	3,3	3,4	4,1
Total interest bearing debt / EBITDA			3,8

1) EBITDA adjusted for repayment of investment in finance leases  
and deemed dividend paid to Frontline Shipping Limited

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# Rating

- Corporate ratings from Moodys and S&P for Ship Finance International Limited are Ba3/BB-, respectively

## What are we not getting credit for?

- Lack of appreciation of available cash with Charterers which is a buffer,
- Lack of appreciation of that Ship Finance have to drop paying dividend if necessary,
- Lack of practice in adding repayment of investments in finance leases when calculating EBITDA

# Appendixes

## Fleet List

<u>Name of Vessel</u>	<u>Built</u>	<u>Dwt</u>	<u>Name of Vessel</u>	<u>Built</u>	<u>Dwt</u>
<b><u>SUEZMAX</u></b>			<b><u>VLCC</u></b>		
Front Granite	1991	142,000	Front Sabang	1990	285,715
Front Birch	1991	152,000	Front Vanadis	1990	285,782
Front Maple	1991	152,000	Front Highness	1991	284,420
Front Traveller	1991	152,269	Front Lady	1991	284,420
Front Sunda	1992	142,000	Front Lord	1991	284,420
Front Transporter	1992	152,269	Front Duke	1992	284,420
Front Comor	1993	142,000	Front Duchess	1993	284,480
Front Pride	1993	149,686	Front Ace	1993	275,546
Front Target	1993	152,552	Edinburgh	1993	302,500
Front Splendour	1995	149,745	Front Vanguard	1998	300,058
Front Glory	1995	149,834	Front Vista	1998	300,149
Front Ardenne	1997	153,000	Front Century	1998	311,189
Front Brabant	1998	153,000	Front Champion	1998	311,286
Mindanao	1998	158,000	Omala	1999	306,009
<b><u>OBO</u></b>			Opalia	1999	302,193
Front Breaker	1991	169,177	Ocana	1999	300,144
Front Climber	1991	169,178	Front Comanche	1999	300,133
Front Driver	1991	169,177	Golden Victory	1999	305,155
Front Guider	1991	169,142	Front Scilla	2000	302,193
Front Leader	1991	169,381	Ariake	2001	296,000
Front Rider	1992	169,718	Front Serenade	2002	298,500
Front Striver	1992	169,204	Otina	2002	296,000
Front Viewer	1992	169,381	Front Stratus	2002	298,500
<b><u>CONTAINER</u></b>			Front Falcon	2002	308,000
Sea Alpha	2005	1.700 TEU	Front Page	2002	298,500
Sea Beta	2005	1.700 TEU	Front Force	2005	306,000
<b><u>ACCOMODATION RIG</u></b>			Front Energy	2005	306,000
Safe Concordia	2005				

# P&L

## Split of total operating revenues

(Sooo's)	Ref	YTD 2005	Q3 2005	Q2 2005	Q1 2005
<b>Operating revenues</b>	3:1				
Time charter revenues		-44,177	-16,383	-14,618	-13,176
Bareboat charter revenues		-5,648	-1,738	-1,763	-2,147
Voyage charter revenues		-5,762	-195	-1,513	-4,054
Demurrage/despatch		-3,668	-2,159	-1,131	-379
Pool earnings		-2	3	-	-4
Finance lease interest income		-129,081	-45,209	-43,050	-40,822
Finance lease service revenues		-68,345	-23,792	-22,769	-21,785
Other operating income		-37,668	-28,242	-9,403	-22
<b>Total operating revenues</b>		<b>-294,351</b>	<b>-117,715</b>	<b>-94,247</b>	<b>-82,389</b>
Gain or loss from sale of assets		-1,221	-688	-63	-470

## Breakdown of deemed dividends paid in Q1, Q2 and Q3 2005

Q1	
Deemed dividends per Q1 Press Release	(6 938)
Restatement for payment over cost for Century/Champion/Victory	(75 153)
Restated deemed dividends for Q1	<u>(82 091)</u>
Q2	
Payment over cost for Target/Traveller/Transporter	(30 024)
Scilla Super profit payment	(14 582)
Net dividend paid to FSL/FSL2	<u>(3 827)</u>
	<u>(48 434)</u>
Q3	
Net dividend paid to FSL/FLS2	(3 699)
Total deemed dividend reported for 9 mth period ended 9/30/05	<u>(134 224)</u>