

## **Ship Finance International Limited**

### **Preliminary Fourth Quarter and Financial Year 2005 Results**

#### **Highlights**

- Ship Finance reports a net income of \$83.1 million and earnings per share of \$1.11 for the fourth quarter of 2005.
- Ship Finance reports a net income of \$209.5 million and earnings per share of \$2.84 for the financial year 2005.
- Ship Finance announces an ordinary cash dividend of \$0.45 per share, and a supplementary extraordinary dividend of \$0.05 per share.

Ship Finance International Limited (“Ship Finance” or the “Company”) reports total operating revenues of \$143.2 million, operating income of \$107.1 million and net income of \$83.1 million for the fourth quarter of 2005. Earnings per share for the quarter were \$1.11. Currently, all but seven of the Company’s vessels are trading under long term charters to Frontline Ltd (“Frontline”). Two of these vessels, the Company’s first containerships, are on a medium and short term time charter to unrelated third parties.

In the fourth quarter, operating revenues include \$51.8 million of accrued profit share due from Frontline under long term charter agreements. The average daily time charter equivalents (“TCEs”) earned by Frontline in the fourth quarter in the spot and time charter period market from the Company’s VLCCs, Suezmax tankers, and Suezmax OBO carriers were \$66,300, \$44,900 and \$32,900, respectively.

As at December 31, 2005, the Company had interest rate swaps with a total notional principal of \$568.3 million and an average interest rate of 3.7 percent. In the fourth quarter other financial items include a gain of \$2.9 million that is attributable to the mark to market valuations of interest rate swaps compared with a gain of \$8.1 million in the third quarter.

Ship Finance announces net income of \$209.5 million for the year ended December 31, 2005 equivalent to earnings per share of \$2.84. Of the total net income, \$88.1 million relates to the profit share with Frontline. The average daily time charter equivalents (“TCEs”) earned by Frontline in the spot and time charter period market from the Company’s VLCCs, Suezmax tankers, and Suezmax OBO carriers were \$58,200, \$40,500 and \$35,000, respectively.

As at December 31, 2005, the Company had total cash and cash equivalents of \$34.4 million, of which \$1.6 million is restricted. Cash provided by operating activities in the quarter was \$37.4 million, net cash provided by investing activities was \$24.0 million and net cash used in financing activities was \$97.5 million. In November of 2005 the bareboat charterer of the VLCC Navix Astral exercised an option to purchase the vessel for approximately \$40.5 million. The vessel was delivered to its new owner in January of 2006, resulting in a loss on sale. At December 31, 2005 a \$1.8 million loss on impairment was accrued and applied against the vessel’s book value. In January 2006 the Company acquired the VLCC Front Tobago from Frontline for consideration of \$40.0 million. Effective January 2006 this vessel has replaced the Navix Astral and will fulfil the remainder of the Navix Astral time charter with

Frontline from the delivery of the vessel to its new owner until the charter termination date in January 2014.

### **Corporate and Other Matters**

On February 17, 2006 the Board declared a dividend of \$0.50 per share which represents an ordinary cash dividend of \$0.45 per share, and a supplementary extraordinary dividend of \$0.05 per share. The record date for the dividend is March 6, 2006, ex dividend date is March 2, 2006 and the dividend will be paid on or about March 20, 2006.

In January 2006 Consafe Offshore AB (publ) ("Consafe") and Ship Finance entered into a heads of agreement in which Consafe will sell to Ship Finance the accommodation rig "Safe Concordia" via a limited liability company, for a sum of \$185 million. The rig is chartered back to Consafe for 30 years. In addition there is a profit split calculated after operating expenses, overhead expenses and tax, on an annual basis. Consafe has a right to buy back the rig anytime after 10 years until the end of the contract.

In the fourth quarter of 2005 the Company bought back and cancelled 1,475,100 of its shares. At December 31, 2005, 73,143,737 ordinary shares were outstanding and the weighted average number of shares outstanding for the quarter and year then ended was 74,560,108 and 73,904,465 respectively. In the current quarter the Company has continued the repurchase and has so far bought back another 400,000 shares. Total outstanding shares are thereby currently 72,743,737. In the fourth quarter the Company repurchased \$1.0 million of its 8.5% Notes bringing the total amount repurchased to date in 2005 to \$73.2 million. The outstanding amount of these Notes is currently \$457.1 million.

### **Market**

The generally positive trend of the VLCC market witnessed at the end of the third quarter of the year continued with strength well into the fourth quarter. After a brief decline in late September, October started off with steady rates around World Scale ("WS") 100 for the benchmark route from the MEG to Japan. From late October until the middle of November, the rates rose dramatically, peaking at WS 226 in the middle of November, the highest rate of the year. Following the peak, the market softened seeing a steady decline until the middle of December, when the decline in rates became steeper towards the traditionally quieter Christmas season. Fixtures were done around WS 120 levels at quarter end, demonstrating the high volatility experienced during the period. The average WS rate from the MEG to Japan in the fourth quarter was about WS 156, compared to WS 83 in the third quarter of 2005. This equates to a TCE of approximately \$94,000 per day. The Suezmax market was also strong throughout the quarter, with an average of WS 226. This equates to approximately \$70,000 per day.

The tanker market experienced upwards pressure due to disruptions on the supply side, as tonnage was delayed in the US Gulf, Iraq and the Turkish Straits.

The International Energy Agency (IEA) reported in February an average OPEC Oil production, including Iraq, of approximately 29.4 million barrels per day during the fourth quarter of 2005, a 0.06 million barrels per day or 0.2 percent decrease from the third quarter. OPEC decided at its meeting held 31 January to maintain current production levels.

IEA estimates world oil demand averaged 84.1 million barrels per day in the fourth quarter, a 1.3 percent increase from the third quarter in 2005. IEA further predicts that the average demand for 2006 in

total will be 85.1 million barrels per day, or a 2.1 percent growth from 2005, hence showing a firm belief in continued demand growth.

The world trading VLCC fleet totalled 472 vessels at the end of the fourth quarter of 2005, an increase of 2.6 percent over the quarter. No VLCCs were scrapped in the period and 12 were delivered. The total order book is at 92 vessels at the end of the fourth quarter, down from 98 vessels after the third quarter of 2005. This represents 19.5 percent of the current VLCC fleet. A total of six VLCCs were ordered during the quarter.

The world Suezmax fleet totalled 334 vessels at the end of the quarter, up from 330 vessels after the third quarter of 2005, a 1.2 percent fleet growth over the quarter. No Suezmaxes were scrapped during the quarter and four were delivered. The total order book at the end of the quarter is 64, unchanged from the end of the third quarter. This represents 19.2 percent of the Suezmax fleet. Four Suezmaxes were ordered during the period.

The tanker market looks healthy for next year. The freight futures market seems to be optimistic, and at the moment it is possible to sell freight futures for the year 2006 at a level that equates to TCEs for VLCCs at approximately \$52,000 per day and \$40,000 per day for Suezmax.

### **Strategy**

In order to broaden the asset portfolio and thereby reduce the risk the Board has considered investments in non tanker assets. The offshore market is currently showing interesting opportunities. The underlying fundamentals are strong, the assets generate high cashflow, and the competition with other financiers are somewhat reduced compared to normal commodity shipping markets.

As of today's date the Company has \$30 million in cash and approximately \$120 million in additional debt capacity linked to unencumbered assets. In early March the Company will receive its profit share for 2005 from Frontline in the amount of \$88 million.

Until attractive investments can be found, the Board will continue to consider buy back of stock and bonds as an attractive alternative to improve the short and medium term return to shareholders.

The Board is somewhat disappointed with the liquidity in the trading of the SFL share. As a result of this the Board is considering listing of the SFL shares at an additional exchange as well as more marketing of the Company in order to stimulate analytical coverage.

### **Outlook**

The Company has managed to grow its annual revenue base by 18 percent in 2005. The Board is optimistic that it will be able to continue to grow in the coming year. Unencumbered assets and the profit share to be received in a few weeks time secures a sound fundament for future growth. The strong start of the year in the tanker market also increases the likelihood of a sizeable profit share also for 2006. Based on this the Board is optimistic with respect to the future for the Company, and believes that it will be able to provide a good long term return to shareholders.

## **Forward Looking Statements**

This press release contains forward looking statements. These statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including Ship Finance management's examination of historical operating trends. Although Ship Finance believes that these assumptions were reasonable when made, because assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond its control, Ship Finance cannot give assurance that it will achieve or accomplish these expectations, beliefs or intentions.

Important factors that, in the Company's view, could cause actual results to differ materially from those discussed in this press release include the strength of world economies and currencies, general market conditions including fluctuations in charter hire rates and vessel values, changes in demand in the tanker market as a result of changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in the Company's operating expenses including bunker prices, dry-docking and insurance costs, 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 or political events, and other important factors described from time to time in the reports filed by the Company with the United States Securities and Exchange Commission.

February 17, 2006  
The Board of Directors  
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**SHIP FINANCE INTERNATIONAL LIMITED FOURTH QUARTER REPORT (UNAUDITED)**

<b>2004 Oct - Dec</b>	<b>2005 Oct - Dec</b>	<b>INCOME STATEMENT</b> <i>(in thousands of \$ except per share data)</i>	<b>2005 Jan-Dec</b>	<b>2004 Jan-Dec (audited)</b>
<b>151,482</b>	<b>143,159</b>	<b>Total operating revenues</b>	<b>437,510</b>	<b>492,069</b>
-	1,875	Loss on sale of assets	654	-
212	601	Voyage expenses	3,600	9,978
24,509	27,511	Ship operating expenses	110,241	96,505
983	824	Administrative expenses	2,446	3,812
5,139	5,225	Depreciation	19,907	34,617
<b>30,843</b>	<b>34,161</b>	<b>Total operating expenses</b>	<b>136,194</b>	<b>144,912</b>
<b>120,369</b>	<b>107,123</b>	<b>Operating income (loss)</b>	<b>300,662</b>	<b>347,157</b>
374	1,010	Interest income	3,343	2,567
(22,796)	(27,694)	Interest expense	(111,935)	(95,933)
5,267	2,666	Other financial items	17,528	8,780
45	(32)	Foreign currency exchange gain (loss)	(52)	88
<b>103,529</b>	<b>83,073</b>	<b>Net income (loss)</b>	<b>209,546</b>	<b>262,659</b>
<b>\$1.38</b>	<b>\$1.11</b>	<b>Basic earnings per share amounts (\$)</b>	<b>\$2.84</b>	<b>\$3.52</b>

<b>BALANCE SHEET</b> <i>(in thousands of \$)</i>	<b>2005 Dec 31</b>	<b>2004 Dec 31 (audited)</b>
<b>ASSETS</b>		
<i>Short term</i>		
Cash, restricted cash and cash equivalents	34,432	34,572
Amount due from parent	-	4,864
Other current assets	197,188	192,421
<i>Long term</i>		
Newbuildings and vessel purchase options	-	8,370
Vessels and equipment, net	315,220	236,305
Investment in finance leases	1,818,344	1,641,644
Deferred charges and other long-term assets	37,409	34,761
<b>Total assets</b>	<b>2,402,593</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	91,308
Amount due to parent	4,880	-
Other current liabilities	16,001	8,958
<i>Long term</i>		
Long term interest bearing debt	1,671,138	1,387,586
Other long term liabilities	26,533	4,103
Stockholders' equity	561,522	660,982
<b>Total liabilities and stockholders' equity</b>	<b>2,402,593</b>	<b>2,152,937</b>

<b>2004</b> <b>Oct - Dec</b>	<b>2005</b> <b>Oct - Dec</b>	<b>STATEMENT OF CASHFLOWS</b> <i>(in thousands of \$)</i>	<b>2005</b> <b>Jan-Dec</b>	<b>2004</b> <b>Jan-Dec</b> <i>(audited)</i>
		<b>OPERATING ACTIVITIES</b>		
103,529	83,073	Net income (loss)	209,546	262,659
		Adjustments to reconcile net income to net cash provided by operating activities		
6,046	5,916	Depreciation and amortisation	36,431	44,102
		Unrealised foreign currency exchange (gain) loss	-	(164)
(5,314)	(2,861)	Adjustment of financial derivatives to market value	(14,732)	(9,289)
-	1,895	Loss on sale of assets	654	
-	187	Other	(4,708)	(1,146)
(82,677)	(50,803)	Change in operating assets and liabilities	53,643	(117,634)
<b>21,584</b>	<b>37,407</b>	<b>Net cash provided by operating activities</b>	<b>280,834</b>	<b>178,528</b>
		<b>INVESTING ACTIVITIES</b>		
18,966	21,736	Repayment of investments in finance leases	94,777	61,990
423	1,289	Net maturities (placement) of restricted cash	3,804	560,121
-	-	Sale of investment in finance lease	229,800	-
-	21	Acquisition of subsidiaries, net of cash acquired	(518,182)	(536,793)
-	-	Purchase of option	-	(8,370)
-	-	Investment in newbuilding	-	-
-	-	Short-term loan advances to parent company	-	(55,254)
-	994	Purchase of vessels	(79,772)	-
-	-	Repayments from parent company	-	55,254
<b>19,389</b>	<b>24,040</b>	<b>Net cash provided by (used in) investing activities</b>	<b>(269,573)</b>	<b>76,948</b>
		<b>FINANCING ACTIVITIES</b>		
-	-	Proceeds from share issue	-	24,696
(14,713)	(27,210)	Repurchase of shares	(33,083)	(14,713)
-	-	Proceeds from long-term debt	1,571,429	1,017,100
-	(26)	Debt fees paid	(7,346)	(15,760)
(22,825)	(31,630)	Repayment of long-term debt	(1,253,503)	(1,099,707)
(33,986)	(36,663)	Cash dividends paid	(148,864)	(78,902)
(3,625)	(2005)	Deemed dividends paid	(136,230)	(58,997)
<b>(75,149)</b>	<b>(97,534)</b>	<b>Net cash provided by (used in) financing activities</b>	<b>(7,597)</b>	<b>(226,283)</b>
<b>(34,176)</b>	<b>(36,087)</b>	<b>Net increase in cash and cash equivalents</b>	<b>3,664</b>	<b>29,193</b>
<b>63,369</b>	<b>68,944</b>	<b>Cash and cash equivalents at start of period</b>	<b>29,193</b>	<b>-</b>
<b>29,193</b>	<b>32,857</b>	<b>Cash and cash equivalents at end of period</b>	<b>32,857</b>	<b>29,193</b>