



# **Ship Finance International Limited**

## **Q3 2018 Results**

**Nov 20, 2018**

## **FORWARD LOOKING STATEMENTS**

This presentation 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, data contained in the Company's records and other data available from third parties. 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 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 demand in the markets in which we operate, changes in demand resulting from changes in OPEC's petroleum production levels and world wide oil consumption and storage, developments regarding the technologies relating to oil exploration, changes in market demand in countries which import commodities and finished goods and changes in the amount and location of the production of those commodities and finished goods, increased inspection procedures and more restrictive import and export controls, changes in our operating expenses, including bunker prices, dry-docking and insurance costs, performance of our charterers and other counterparties with whom we deal, timely delivery of vessels under construction within the contracted price, 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 Securities and Exchange Commission.

# Q3 2018 Highlights

## Quarterly dividend of \$0.35 per share

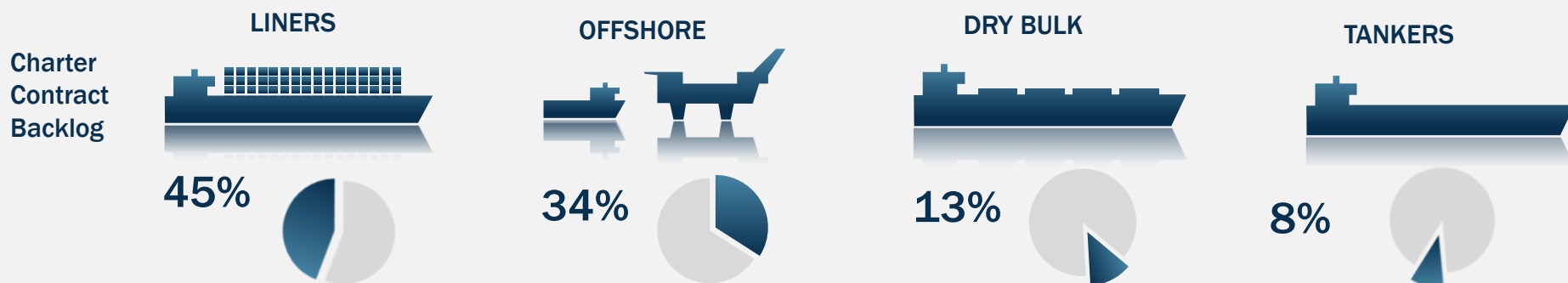
- 11.6% dividend yield<sup>(1)</sup>
- 59<sup>th</sup> consecutive quarterly dividend
- More than \$2.0 billion aggregate distributions since 2004

## Net income of \$30m or \$0.28/share for the quarter

- Aggregate charter hire of \$155m<sup>(2)</sup>
- Adjusted EBITDA<sup>(3)</sup> of \$121m

## Fleet renewal supports continued distribution capacity

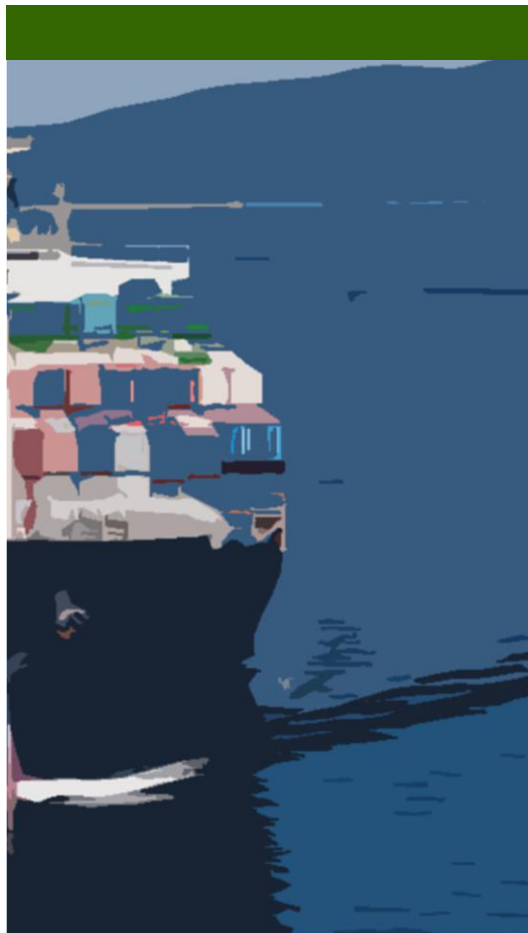
- Five older VLCCs sold in Q3/Q4
- ~\$900 million new investments YTD 2018, adding more than \$800m of contracted future charter hire



1) Quarterly cash dividend, annualized / SFL share price \$12.08 as of Nov 19, 2018.

2) Charter hire include total charter hire from all vessels and rigs, including assets in 100% owned subsidiaries classified as 'Investment in associates'.

3) 'Adjusted EBITDA' is a non-GAAP measure. It represents cash receipts from operating activities before net interest and capital payments. It is the equivalent of charter hire receipts less cash operating expenses. For more details please see Q3 18 press release Appendix 1: Reconciliation of Adjusted EBITDA.



## Acquisition of 3 x 10,600 TEU container vessels

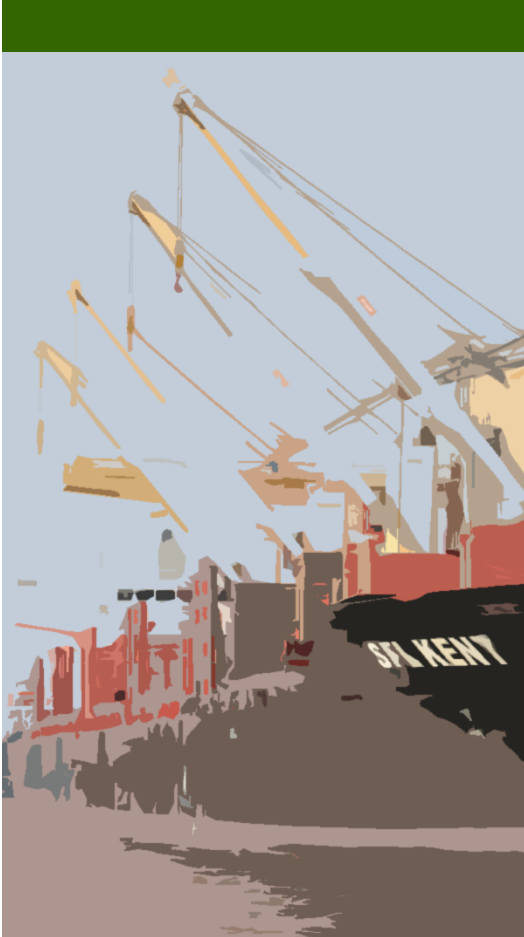
- Modern eco-design vessels built in 2015
- Minimum 6 year time charters to Maersk Line
- ~\$35.5m in annual EBITDA contribution
- Delivered in September and October 2018

## Attractive lease financing of container vessels

- 4 x 14,000 TEU vessels with charter to Evergreen acquired in May
- \$400 million long term lease was arranged in Q3/Q4, releasing \$80m cash
- Very attractive implied interest rate

## Raised NOK 600m 5-year senior unsecured notes in August

- Equivalent to approximately \$74m
- NIBOR + 4.75% margin
- All payments swapped to USD



## Continuous fleet adjustment and renewal program

- Sale of five older VLCCs in Q3/Q4
- Sale of jack-up rig Soehanah in Q4
- ~\$200m sales proceeds, plus ~\$13m notes from Frontline Ltd.

## Profit split income from Capesize bulkers

- 8 vessels with 33% profit share over the base rate
- \$0.2m profit share income in Q3 2018

## Financial investments releasing cash

- SFL owned notes and shares in Golden Close Maritime Corp, whose only asset was the drillship DeepSea Metro 1 (“DSM1”)
- DSM1 has been sold, with estimated ~\$47m cash proceeds to SFL
- Book value of investment was ~\$37m at quarter end, and gain is expected in Q4

# Liners: Modern Vessels with Long Term Contracts

2 x 19,200 TEU



Charterer: MSC - #2 liner worldwide<sup>(1)</sup>  
Contract expiry: 2031-2032  
EBITDA: ~\$30 million/year

4 x 14,000 TEU



Charterer: Evergreen - #7 liner worldwide<sup>(1)</sup>  
Contract expiry: 2024 + 1.5 year extension options  
EBITDA: ~\$60 million/year

3 x 10,600 TEU



Charterer: Maersk Line - #1 liner worldwide<sup>(1)</sup>  
Contract expiry: 2024 + 2 x 2 year extension options  
EBITDA: ~\$35.5 million/year

7 x 8,700-9,500 TEU



Charterer: Maersk Line - #1 liner worldwide<sup>(1)</sup>  
Contract expiry: 2020-2022  
EBITDA: ~\$80 million/year

## Other liner vessels

Type	No. x Size	Contract Expiry	Charterer
Container	15 x 1,100-4,400 TEU	2025	Leading container line
Container	10 x 1,700-5,800 TEU	2019-2022	MSC
Container	2 x 1,700 TEU	2020	Heung-A
Car Carrier	2 x 6,500 CEU	2018-2019	MOL/spot

# \$1,520

million of contracted  
revenue<sup>(2)</sup>

# 7.4

Average duration of  
current charters in years<sup>(2)</sup>

# 280,000

Aggregate TEU<sup>(3)</sup>

1) Based on operating fleet. Source: Alphaliner.

2) As of September 30, 2018, and adjusted for subsequent acquisitions. Average charter term weighted by charter revenues and excluding option periods.

3) Approximate capacity as of September 30, 2018, and adjusted for subsequent acquisitions.

# Tankers: Significant Market Strengthening

3 x VLCC



**Built:** 2002-2004

**Size:** ~300,000 DWT

**Charterer:** Frontline Shipping Limited

**Contract expiry:** 2025-2027

2 x Suezmax



**Built:** 2009-2010 with eco upgrades

**Size:** 156,000 DWT

**Charterer:** Spot chartering in pool with Frontline vessels

2 x LR2 Product tankers



**Built:** 2017

**Size:** 114,000 DWT

**Charterer:** Phillips 66

**Contract expiry:** 2024 + 5 x 1 year extension options

2 x Chemical tankers



**Built:** 2008

**Size:** 17,000 DWT

**Charterer:** Sinochem

**Contract expiry:** 2021

## \$270

million of contracted  
revenue<sup>(1)</sup>

## 7.0

Average duration of  
current charters in years<sup>(1)</sup>

## 1.5

Million aggregate dwt<sup>(2)</sup>

1) As of September 30, 2018, and adjusted for subsequent sales. Average charter term weighted by charter revenues and excluding option periods. Assuming base charter rate for the VLCCs on charter to Frontline Shipping Limited.

2) Approximate capacity as of September 30, 2018, and adjusted for subsequent sales.

# Dry bulk: Long Term Fundamentals Remain Positive

8 x Capesize



Built: 2009-2013

Size: ~180,000 DWT

Charterer: Golden Ocean

Contract expiry: 2025 + 3 year extension option

2 x Kamsarmax



Built: 2012

Size: 82,000 DWT

Charterer: Sinotrans Group

Contract expiry: 2022

5 x Supramax



Built: 2009-2012

Size: 57,000 DWT

Charterer: Hyundai Glovis

Contract expiry: 2018-2022

7 x Handysize



Built: 2011-2013

Size: 32-34,000 DWT

Charterer: N/A (Spot chartering)

## \$430

Million of contracted  
revenue<sup>(1)</sup>

## 6.0

Average duration of  
current charters in years<sup>(1)</sup>

## 2.1

Million aggregate DWT<sup>(2)</sup>

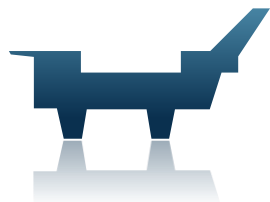
1) As of September 30, 2018. Average charter term weighted by charter revenues and excluding option periods.

2) Approximate capacity as of September 30, 2018.



# Offshore: Activity slowly picking up

## West Linus



**Type:** Harsh-environment jack-up rig

**Built:** 2014

**Charterer:** Seadrill

**Sub-Charterer:** ConocoPhillips

**Contract expiry:** 2029

## West Hercules



**Type:** Harsh-environment semi-submersible rig

**Built:** 2008

**Charterer:** Seadrill

**Sub-Charterer:** Equinor

**Contract expiry:** 2024

## West Taurus



**Type:** Semi-submersible rig

**Built:** 2008

**Charterer:** Seadrill

**Sub-Charterer:** N/A

**Contract expiry:** 2024

## 3 AHTS + 2 PSV



**Built:** 1 x 1998 + 4 x 2007

**Charterer:** Subsidiary of Solstad Offshore

**Sub-Charterer:** N/A

**Contract expiry:** 2027

# \$1,130

million of contracted  
revenue<sup>(1)</sup>

# 8.3

Average duration of  
current charters in years<sup>(1)</sup>

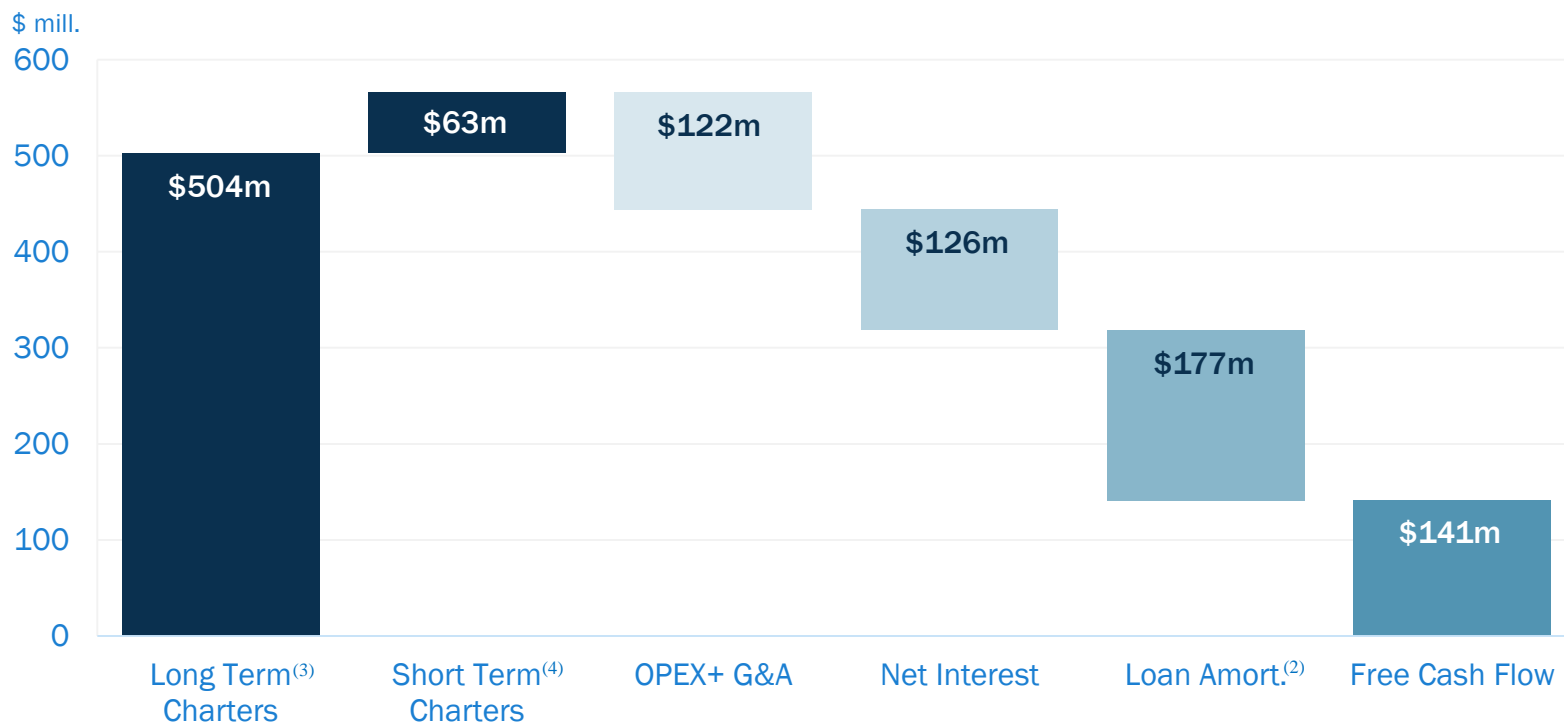
1) As of September 30, 2018. Average charter term weighted by charter revenues and excluding option periods.

# Contribution from Projects Last 12 Months<sup>(1)</sup>

## Large performing fleet generating significant cash flows

**\$445m** adjusted EBITDA-equivalent last 12 months

**\$141m** net cash flow from projects after interest and debt amortization<sup>(1)</sup>



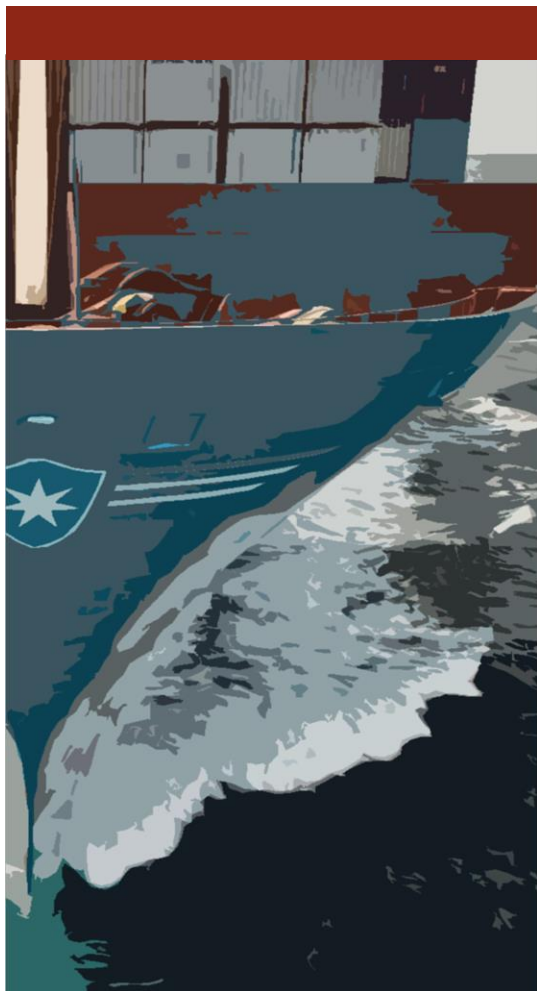
1) Not as accounted per US GAAP and including cash flow in 100% owned subsidiaries accounted for as 'investment in associates'.

2) Ordinary installments relating to the Company's projects. Excluding refinancing and prepayments when vessels are sold.

3) Long Term Charters includes total gross charter hire related to contracts undertaken for a period greater than one year from all owned vessels and rigs, including assets in 100% owned subsidiaries classified as 'Investment in associates'.

4) Short Term Charters includes gross hire from short term charters and voyage charters.

# SFL Operational Performance



## Pro-forma illustration of cash flow<sup>(1)</sup>

- Not as accounted for under US GAAP
- Used as an internal guideline to assess the Company's performance
- Excluding extraordinary and non-cash items

	Q3 2018 <sup>(2)</sup>		Q2 2018 <sup>(2)</sup>	
	\$ mill.	\$/share	\$ mill.	\$/share
<b>CHARTER HIRE</b>				
Tankers	19.2	0.18	21.3	0.20
Liner (Container and Car Carriers)	66.2	0.62	52.5	0.49
Dry bulk	28.8	0.27	29.4	0.27
Offshore	35.9	0.33	35.2	0.33
<b>SUM charter hire</b>	<b>150.1</b>	<b>1.39</b>	<b>138.4</b>	<b>1.29</b>
Vessel operating expenses and G&A	(29.9)	(0.28)	(30.9)	(0.29)
Profit share	0.2	0.00	0.0	0.00
Financial investments	0.1	0.00	0.3	0.00
<b>Adjusted EBITDA</b>	<b>120.5</b>	<b>1.12</b>	<b>107.7</b>	<b>1.00</b>

1) Including charter hire in subsidiaries accounted for as 'investment in associates'

2) In this table, revenues and vessel operating expenses for vessels trading in the spot market are net of voyage expenses

# Income Statement

(in thousands of \$ except per share data)	Three months ended	
	Sep 30, 2018	Jun 30, 2018
Charter revenues - operating lease	95 052	79 450
Charter revenues - finance lease (net of charter hire treated as		
Repayment of investment in finance leases)	15 701	17 345
Profit share income	244	-
<b>Total operating revenues</b>	<b>110 997</b>	<b>96 795</b>
<b>Gain (loss) on sale of assets and termination of charters</b>	<b>826</b>	<b>(195)</b>
Vessel operating expenses	(33 083)	(30 861)
Administrative expenses	(1 961)	(2 628)
Depreciation	(26 914)	(24 110)
Vessel impairment charge	(6 811)	(21 779)
<b>Total operating expenses</b>	<b>(68 769)</b>	<b>(79 378)</b>
<b>Operating income</b>	<b>43 054</b>	<b>17 222</b>
Results in associates	3 453	3 856
Interest income from associates	3 532	3 532
Interest income, other	523	792
Interest expense	(27 840)	(23 957)
Amortization of deferred charges	(2 317)	(2 316)
Income (expense) related to non-designated derivatives	8 179	681
Mark to market of equity securities	370	16 300
Other financial items	777	(344)
Taxes	-	-
<b>Net income</b>	<b>29 731</b>	<b>15 766</b>
<b>Basic earnings per share (\$)</b>	<b>0,28</b>	<b>0,15</b>
Weighted average number of shares <sup>(1)</sup>	107 607 222	104 953 386
Common shares outstanding <sup>(1)</sup>	107 607 222	107 607 222

## COMMENTS

### Charter revenues – operating lease

- Full quarter of earnings on four 14,000 TEU container vessels on charter to Evergreen

### Charter revenues – finance leases:

- Excludes \$8.9m of charter hire treated as “Repayment of investment in finance leases”

### Profit share income:

- \$0.2m profit share from Capesize dry bulk carriers on charter to Golden Ocean

### Vessel impairment charge:

- \$6.8m impairment charge on VLCC sold post quarter end

### Income (expense) related to non-designated derivatives:

- Includes positive non-cash mark-to-market of derivatives of \$8.4m, mainly relating cross-currency swap movements in connection with NOK bond buybacks

<sup>1)</sup> The weighted average number of shares and the number of common shares outstanding excludes up to 15 million shares issued by Ship Finance as part of share lending arrangements in connection with the Company's offering of the 2021 and 2023 Notes. The shares are owned by Ship Finance and will be returned on or before maturity of the 2021 and 2023 Notes, thus they are excluded in the calculation of earnings per share.

# Balance Sheet

<i>(in thousands of \$)</i>	Sep 30, 2018	Jun 30, 2018
<b>ASSETS</b>		
Short term		
Cash and cash equivalents	143 989	144 787
Investment in marketable securities	127 130	113 627
Amount due from related parties	9 368	6 851
Other current assets	136 631	141 470
Long term		
Vessels and equipment, net	2 145 654	2 072 290
Vessels and equipment under capital lease, net	109 713	-
Investment in finance leases	535 665	621 011
Investment in associates	21 699	18 491
Amount due from related parties - Long term	312 060	298 156
Other long term assets	48 276	47 365
<b>Total assets</b>	<b>3 590 185</b>	<b>3 464 048</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short term		
Short term and current portion of long term interest bearing debt	603 953	734 438
Amount due to related parties	1 851	4 608
Other current liabilities	79 737	70 037
Long term		
Long term interest bearing debt, net of deferred charges	1 350 611	1 181 692
Other long term liabilities	322 324	231 449
Stockholders' equity	1 231 709	1 241 824
<b>Total liabilities and stockholders' equity</b>	<b>3 590 185</b>	<b>3 464 048</b>

## COMMENTS

### Cash and cash equivalents:

- Excludes \$8.7m of freely available cash in subsidiaries accounted for as "Investment in associates"

### Vessels and equipment, net:

- Delivery of two 10,600 TEU container vessels on long term charters to Maersk.

### Vessels and equipment under capital lease, net:

- First of the 14,000 TEU container vessels financed under Asian lease financings, reclassified from "Vessels and equipment, net"

### Other current assets:

- Includes jack-up drilling rig Soehanah classified as "Held for sale"

### Short term and current portion of long term interest bearing debt:

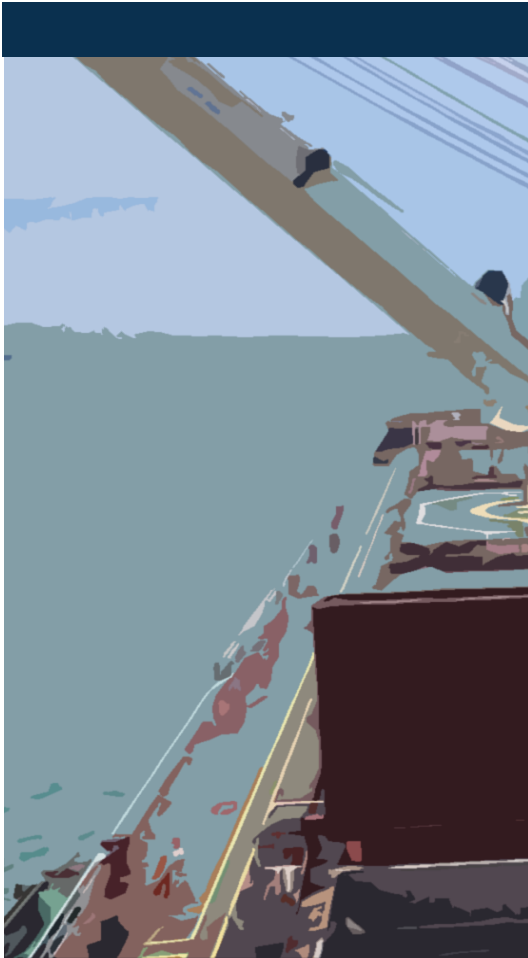
- Includes remaining \$240m under intermediary facility for financing of container vessels. Refinanced post quarter end.

### Other long term liabilities:

- Includes lease obligation for first of the 14,000 TEU container vessels financed under Asian lease financings

### Stockholders' equity:

- Book equity ratio of 34.3%



## Strong liquidity position and several debt free vessels

- \$153m in total available liquidity at quarter end
- \$127m in available for sale securities<sup>(1)</sup>
- Eight debt free vessels and rigs at quarter end
- \$60m net proceeds from Asian lease financings post quarter end
- Cash boost from ~\$84m sale of Soehanah and ~\$47m sale of securities (DSM1), expected in the fourth quarter

## New financings at attractive terms

- NOK 600m senior unsecured notes issued September 2018
- \$400m lease financing of four 14,000 TEU container vessels
- \$200m intermediary financing of three 10,600 TEU container vessels

1) Market value as per September 30, 2018.



- **Quarterly dividend of \$0.35 per share**
  - 11.6% dividend yield<sup>(1)</sup>
- **Net Income of \$30m (\$0.28/share)**
  - \$155m Aggregate charter hire<sup>(2)</sup>
  - Adjusted EBITDA<sup>(3)</sup> of \$121m
- **Securing attractive financing**
  - Entered into lease financings totaling \$400m at attractive terms
  - Issued NOK 600m in five year senior unsecured bonds
- **Substantial fleet and backlog growth**
  - Added more than \$800m to the charter backlog in 2018
  - Continued shift in fleet composition with increasingly diversified high quality counterparties
- **Very robust liquidity position and investment capacity**

1) Quarterly cash dividend (annualized) / SFL share price of \$12.08 as of November 19, 2018).

2) Charter hire includes total charter hire from all vessels and rigs, including assets in 100% owned subsidiaries classified as 'Investment in associates'.

3) 'Adjusted EBITDA' is a non-GAAP measure. It represents cash receipts from operating activities before net interest and capital payments. It is the equivalent of charter hire receipts less cash operating expenses. For more details please see Q3 18 press release Appendix 1: Reconciliation of Adjusted EBITDA.