Ship Finance International LTD
Form 6-K
October 01, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of October 2009

Commission File Number: 001-32199

Ship Finance International Limited

(Translation of registrant's name into English)

Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda
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(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F [X]   Form 40-F [   ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________.

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________.

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant’s “home country”), or under the rules of the home country exchange on which the registrant’s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant’s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS FORM 6-K REPORT

Attached hereto are the unaudited condensed interim financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations of Ship Finance International Limited (the "Company") for the six months ended June 30, 2009.

This report on Form 6-K is hereby incorporated by reference into the Company's Registration Statement on Form F-3 (Registration No. 333-150125), filed with the U.S. Securities and Exchange Commission (the "SEC") on April 7, 2008, and the Company's amended Registration Statement on Form F-3/A (Registration No. 333-158162) filed with the SEC on May 6, 2009.

SHIP FINANCE INTERNATIONAL LIMITED

As used herein, "we", "us", "our" and "the Company" all refer to Ship Finance International Limited. This management's discussion and analysis of financial condition and results of operations should be read together with the discussion included in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2008.

Management's Discussion and Analysis of Financial Condition and Results of Operations
for the six months ended June 30, 2009

General

Ship Finance International Limited is a Bermuda based ship-owning company incorporated in 2003, with registered and principal executive offices located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda.

We operate through subsidiaries, partnerships and branches located in Bermuda, Cyprus, Malta, Liberia, Norway, the United States of America, Singapore, the United Kingdom and the Marshall Islands.

We are an international ship owning company and our assets currently consist of 32 oil tankers, eight oil/bulk/ore carriers, which we refer to as OBOs currently configured to carry drybulk cargo, one drybulk carrier, eight container vessels, one jack-up drilling rig, six offshore supply vessels, two chemical tankers and three ultra-deepwater drilling units. At June 30, 2009 we owned one additional jack-up drilling rig and one VLCC which were subsequently sold.

Additionally we have contracted to purchase the following vessels:

- two newbuilding Suezmax oil tankers, with estimated delivery to us in 2009 and 2010, respectively; and
- five newbuilding container vessels, with estimated delivery to us between 2010 and 2012,

We have entered into an agreement to sell the two newbuilding Suezmax tankers immediately upon their delivery to us from the shipyard. The five newbuilding container vessels will be marketed for medium to long-term employment upon their delivery to us.

Our customers currently include subsidiaries of Frontline Ltd ("Frontline"), Horizon Lines Inc. ("Horizon Lines"), Golden Ocean Group Limited ("Golden Ocean"), Seadrill Limited ("Seadrill"), Taiwan Maritime Transportation Co. Ltd ("TMT"), Bryggen Shipping & Trading AS ("Bryggen"), Heung-A Shipping Co. Ltd ("Hueng-A"), the CMA CGM Group ("CMA CGM") and Deep Sea Supply Plc ("Deep Sea"). Existing charters for most of our vessels range from four to 18 years remaining charter period, providing us with significant, stable base cash flows and high asset utilization provided that our counterparties fully perform under the terms of the respective charters. Some of our charters include purchase options exercisable by the charterer, which if exercised would reduce our remaining charter coverage and contracted cash flow.

We were formed in 2003 as a wholly owned subsidiary of Frontline, which is one of the largest owners and operators of large crude oil tankers in the world, and effective January 2004 we purchased from Frontline a fleet of 47 vessels, comprised of 23 Very Large Crude Carriers ("VLCCs"), including an option to acquire one VLCC, 16 Suezmax tankers and eight OBOs.

Since 2004 we have diversified our asset base from the initial two asset types - crude oil tankers and OBOs - to eight asset types, now including container vessels, drybulk carriers, chemical tankers, jack-up drilling rigs, ultra-deepwater drilling units and offshore supply vessels.

In early July 2009, we announced that Seadrill had exercised a purchase option for one of the jack-up drilling rigs, which was delivered to Seadrill in mid July 2009. In late July 2009, we announced the sale of a single-hull VLCC to an unrelated third party, which was delivered to the buyer in early September 2009.

Operating Results

Total operating revenues

Total operating revenues for the six months ended June 30, 2009 decreased to $184.9 million, compared to $242.5 million for the same period in 2008, primarily owing to a $44.3 million reduction in profit sharing revenues. Operating revenues include finance lease interest income, finance lease service revenues, charter revenues and profit sharing revenues from our profit sharing arrangements with Frontline Shipping Limited, Frontline Shipping II Limited and Frontline Shipping III Limited (the "Frontline Charterers"). The Frontline Charterers are all subsidiaries of Frontline.

The following table sets forth our total operating revenues in the six months ended June 30, 2009 and 2008:

(in thousands of $)	6 months ended June 30 2009	6 months ended June 30 2008
Finance lease interest income	80,327	92,073
Finance lease service revenues	45,494	46,909
Profit sharing revenues	22,502	66,781
Time charter revenues	2,164	9,395
Bareboat charter revenues	34,249	27,276
Other operating income	155	27
Total operating revenues	184,891	242,461

Finance lease interest income arises on our tankers and OBOs, two jack-up drilling rigs and two offshore supply vessels. Finance lease interest income reduces over the terms of our leases as a progressively lesser proportion of the lease rental payment is allocated as interest income, and a higher amount treated as repayment of the finance lease. Our total finance lease interest income has also decreased as a result of negative interest rate adjustments which reduced the charterhire income received on the two jack-up drilling rigs, although this reduction in revenue is matched by a corresponding reduction in interest expense.

The reduction in finance lease service revenue reflects the re-chartering of a tanker in 2008 to a third party charterer on bareboat terms, as well as the change in sub-chartering of two tankers in 2009 by one of the Frontline Charterers from time-charter to a bareboat charter basis. Profit sharing revenue decreased considerably owing to lower charter rates achieved by the Frontline Charterers on our vessels during the six month period ended June 30, 2009 compared with the same period in 2008.

Time charter revenues were received throughout 2008 on our three 1,700 twenty foot equivalent unit ("TEU") container vessels. Two of these vessels were re-chartered in January 2009 on bareboat terms, resulting in a reduction in time charter revenues in the six months ended June 30, 2009 compared with the same period in 2008, and the third vessel is now being chartered out at a lower rate compared to 2008.

Bareboat charter revenues are earned by our two chemical tankers and those of our containerships and offshore supply vessels which are leased under operating leases on bareboat charters. The chemical tankers were acquired in April and October 2008 and two 1,700 TEU container vessels were re-chartered in January 2009 on bareboat terms, resulting in an increase in bareboat charter revenues for the six month period ended June 30, 2009 compared with the same period in 2008.

At June 30, 2009 we also owned three subsidiaries which are accounted for under the equity method; these subsidiaries own one drybulk carrier and three ultra deepwater drilling units (see below). The charterhire earned on these assets are accounted for as finance lease income in the accounts of the vessel-owning subsidiaries.

Cash flows arising from finance leases

The following table analyzes our cash flows from our charters to the Frontline Charterers, Seadrill, Deep Sea and TMT, which were accounted for as finance leases, during the six months ended June 30, 2009 and 2008:

(in thousands of $)

	6 months ended June 30, 2009	6 months ended June 30, 2008
Charterhire payments accounted for as:		
Finance lease interest income	80,328	92,073
Finance lease service revenues	45,494	46,909
Finance lease repayments	92,017	98,048
Non-cash adjustment to leases	(1,321)	(1,295)
Total charterhire received	216,518	235,735

Ship operating expenses

Ship operating expenses consist mainly of payments to Frontline Management (Bermuda) Ltd, ("Frontline Management") of $6,500 per day for each vessel chartered to the Frontline Charterers, in accordance with the vessel management agreements. They also include ship operating expenses for the time-chartered containerships that are managed by unrelated third parties.

Ship operating expenses decreased from $49.7 million for the six months ended June 30, 2008 to $47.1 million for the six months ended June 30, 2009, primarily due to the re-chartering on bareboat terms of a tanker in 2008 and two container vessels in January 2009. There was also an impact from the election, in May 2009, by Frontline to re-charter two vessels, changing from time charter to bareboat charter basis in 2009, during which time the $6,500 daily charge for vessel management is suspended.

Administrative expenses

Administrative expenses, which include the fair value cost of share options granted to directors and employees, decreased slightly to $5.1 million in the six months ended June 30, 2009, compared to $5.5 million in the same period in 2008

Depreciation expense

Depreciation expenses relate to the vessels on charters accounted for as operating leases. For the six months ended June 30, 2009 depreciation expenses were $15.0 million, compared to $13.2 million for same period in 2008.The increase is mainly due to the delivery of two chemical tankers in April and October 2008.

Vessel impairment expense

Management has been closely monitoring the issue of the statutory phase-out of single-hulled tanker vessels and its effect on the carrying values of the remaining single-hulled tanker vessels in our fleet. The continuing decline in independent broker valuations of these vessels and the agreement to sell the Front Duchess at a price less than its

carrying value resulted in the decision to adjust the estimated residual values of the six remaining single-hulled tanker vessels.
The reduction in the residual values, and subsequent recalculation of the lease investments resulted in an impairment adjustment totalling $26.8 million to be recognized in the second quarter of 2009. There was no impairment for the six months ended June 30, 2008.

Interest income

Interest income has decreased to $0.1 million for the six months ended June 30, 2009 from $1.9 million for the same period in 2008, owing to the reduction in average USD LIBOR and lower levels of funds held on deposit.

Interest expense

(in thousands of $)	6 months ended June 30, 2009	6 months ended June 30, 2008
Interest on floating rate loans	24,650	41,671
Interest on 8.5% Senior Notes	19,086	19,086
Swap interest expense	6,753	733
Other interest	8,933	-
Amortization of deferred charges	2,412	1,851
	61,834	63,341

At June 30, 2009 the Company and its consolidated subsidiaries had total debt outstanding of $2,355 million, comprised of $301 million principal amount of 8.5% senior notes (net of $148 million of those notes repurchased and held as treasury bonds), $1,964 million under floating rate secured credit facilities and $90 million of unsecured fixed rate debt. At December 31, 2008 we had total debt outstanding of $2,596 million, of which $449 million related to the 8.5% senior notes, $2,032 million was under floating rate secured credit facilities and $115 million was unsecured fixed rate debt.

At June 30, 2009 the Company and its consolidated subsidiaries were party to interest rate swap contracts which effectively fix our interest rate on $1,142 million of floating rate debt at a weighted average interest rate of 3.91% per annum (December 31, 2008: $1,206 million of floating rate debt fixed at a weighted average of 3.95% per annum).

The reduction in interest payable on floating rate loans between the first half of 2008 and 2009 mainly results from the reduction in average USD LIBOR between these two periods, from 2.78% per annum at June 30, 2008 to 0.60% per annum at June 30,2009. The reduction in USD LIBOR also accounts for the increase in swap interest payable in the first half of 2009 compared to 2008, resulting in a reduction in variable interest receivable on that part of the floating rate debt which is subject to interest rate swaps, while fixed interest payable under the swap contracts remains unchanged.

Other interest of $8.9 million is payable on the unsecured fixed rate debt and two short-term floating rate loans from related parties.

Amortization of deferred charges was $2.4 million in the six months ended June 30, 2009, compared with $1.9 million in the same period in 2008. The 26% increase is due to new financing facilities established since the first half of 2008.

Other financial items

In the six months ended June 30, 2009, other financial items amounted to a net income of $34.7 million, compared to a net income of $0.6 million for the six months ended June 30, 2008. During the six months ended June 30, 2009 the Company recognized an extraordinary gain of $22.6 million on the purchase of $148 million of 8.5% senior notes. In addition to the extraordinary gain, other financial items consist mainly of mark-to-market valuation changes on financial instruments, including our interest rate swap contracts and our bond and equity swaps.

Asset impairment expense

At June 30, 2009 an impairment test was performed on the financial investment in a company held as a long term asset. The investee is a container vessel owner/operator. The impairment test was performed due to the significant decrease in market values of container vessels and container vessel spot rates.

The asset impairment charge was calculated to be $7.1 million for the six months ending June 30, 2009 while there was zero impairment for the same period in 2008.

Equity in earnings of associated companies

During 2008 we established two new wholly-owned subsidiaries which, like another wholly-owned subsidiary established in 2006, have been accounted for under the equity method, as discussed in Note 3 of the Consolidated Financial Statements included herein. These investments represent 100% interests in the vessel-owning subsidiaries which own the drybulk carrier Front Shadow acquired in 2006, the ultra deepwater drill ship West Polaris acquired in July 2008 and the two ultra deepwater drilling units West Hercules and West Taurus acquired in November 2008. Equity in earnings in associated companies increased from $0.5 million in the six months ended June 30, 2008 to $39.4 million in the six months ended June 30, 2009 owing to the acquisition of the three ultra-deepwater drilling units in 2008.

Seasonality

Most of our vessels are chartered at fixed rates on a long-term basis and seasonal factors do not have a significant direct affect on our business. Most of our tankers and OBOs are subject to profit sharing agreements, and our single remaining jack-up drilling rig became subject to a profit sharing agreement in 2009. To the extent that seasonal factors affect the profits of the charterers of these vessels we will also be affected.

Liquidity and Capital Resources

As of June 30, 2009, we had total cash and cash equivalents of $61.4 million and restricted cash of $0.8 million.

Cash flows provided by operating activities decreased for the six months ended June 30, 2009 to $81.8 million, compared to $102.4 million for the same period in 2008, mainly due to working capital movements.

Net cash provided by investing activities was $162.4 million for the six months ended June 30, 2009, compared to $2.7 million used in investing activities for the same period in 2008.

Cash provided by the repayment of finance leases was $91.5 million in the six months to June 30, 2009 compared to $119.1 million in same period in 2008. The higher figure in 2008 was due to the upfront payment on the hire-purchase sale of the Front Sabang. Additional cash of $59.3 million in 2009 has resulted from the release of restricted cash, following the unwinding of the total return bond swaps. In the same period in 2008 there were net placements of restricted cash $7.9 million. In the six months to June 30, 2009 $30.9 million was received from investments in associated companies, compared to zero for the same period in 2008.

In the six months ended June 30, 2009 $19.0 million was invested in our newbuilding projects. During the comparative period in 2008, we paid $134.8 million for the acquisition of vessels and received $23.0 million for the sale of vessels.

Net cash outflow from financing activities for the six months ended June 30, 2009 was $229 million, compared with $91.6 million in the same period in 2008. The increase in outflow was mainly due to the $125.4 million used to repurchase 8.5% senior notes in the first half of 2009 and cash settlements of derivative instruments during 2009. Cash used in the payment of dividends has decreased from $80.7 million in the six months ended June 30, 2008 to $53.5 million in the six months ended June 30, 2009 due to a reduction in the dividend and some shareholders electing to receive dividends in the form of shares.

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SHIP FINANCE INTERNATIONAL LIMITED
Consolidated Statements of Operations
for the six month periods ended June 30, 2009 and June 30, 2008 (unaudited)
and the year ended December 31, 2008 (audited)

(in thousands of $, except per share amounts)

	6 months ended June 30		Year ended December 31
	2009 (unaudited)	2008 (unaudited)	2008 (audited)
Operating revenues			
Finance lease interest income from related parties	78,577	90,453	174,948
Finance lease interest income from non-related parties	1,750	1,620	3,674
Finance lease service revenues from related parties	45,494	46,909	93,553
Profit sharing revenues from related parties	22,502	66,781	110,962
Time charter revenues from non-related parties	2,164	9,395	18,646
Bareboat charter revenues from related parties	10,437	10,713	21,188
Bareboat charter revenues from non-related parties	23,812	16,563	34,606
Other operating income	155	27	228
Total operating revenues	184,891	242,461	457,805