Ship Finance International LTD
Form 424B5
January 29, 2013
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-170598

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (1)
3.25% Convertible Senior Notes due 2018	$350,000,000	100%	$350,000,000	$47,740
Common Shares, par value $1.00 per share	(2)	(2)	(2)	(2)

(1) This filing fee is calculated in accordance with Rule 457(r) and relates to the Registration Statement on Form F-3ASR (Registration No. 333-170598) filed by Ship Finance International Ltd. on November 15, 2010.

(2) There are also being registered hereby an indeterminate number of common shares into which the 3.25% Convertible Senior Notes due 2018 may be converted. Pursuant to Rule 457(i) under the Securities Act, no separate registration fee is payable where convertible securities and the securities into which conversion is offered are registered at the same time and no additional consideration is to be received in connection with the exercise of the conversion privilege.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated November 12, 2010)

$350,000,000

Ship Finance International Limited

3.25% Convertible Senior Notes due 2018

We are offering $350,000,000 aggregate principal amount of our 3.25% Convertible Senior Notes due 2018. The notes will bear interest at 3.25% per year. We will pay interest on the notes quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning on May 1, 2013. The notes will mature on February 1, 2018. At maturity, we will pay the principal amount per note plus accrued and unpaid interest in whole in cash, or in part in common shares and in part in cash, at our election, as described in this prospectus supplement.

Holders may convert their notes into our common shares at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date based on an initial conversion price of $21.9450 per common share (which is the equivalent of an initial conversion rate of approximately 45.5684 common shares per $1,000 principal amount of notes). The conversion price will be subject to adjustment in certain events as described herein. If a holder elects to convert its notes in connection with a change of control event (as defined in this prospectus supplement), we will decrease the conversion price for notes converted in connection with such change of control event, as described in this prospectus supplement. Upon conversion, we will pay or deliver, as the case may be, cash, common shares or a combination of cash and common shares, at our election (except for conversions during the period beginning on the issuance of a call option notice and ending at 5:00 p.m. (New York City time) on the business day immediately preceding the redemption date, which shall be settled in our common shares), as described in this prospectus supplement.

If a change of control event occurs, holders may require us to repurchase for cash all or a portion of their notes at a repurchase price of 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the repurchase date.

If 90% or more of the aggregate principal amount of the notes issued on the date of original issuance have been converted or repurchased, we may, at any time prior to the 61st scheduled trading day immediately preceding the stated maturity date and subject to certain exceptions, redeem all but not part of the remaining outstanding notes at a redemption price of 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date.

The notes will be our senior unsecured obligations, will rank equally in right of payment with all other existing and future senior unsecured debt, and will rank senior to all our future subordinated debt. The notes will be effectively junior to our existing and future secured debt to the extent of the value of the assets securing such debt. The notes will be structurally subordinated to all existing and future debt and other obligations (including trade payables) of our subsidiaries. The notes will not be guaranteed by any of our subsidiaries.

Concurrently with this offering of notes, up to 6,060,606 common shares, par value $1.00 per share (which we refer to herein as the borrowed shares) are being offered, by means of a separate prospectus supplement and accompanying prospectus, by Deutsche Bank AG, London Branch, which we refer to herein as the share borrower, which is an affiliate of Deutsche Bank Securities Inc., which is one of the underwriters of this offering of notes. The share borrower will borrow the borrowed shares from SFL Capital II Ltd., our wholly-owned subsidiary, which we refer to herein as SFLC. None of the borrowed shares are newly-issued common shares. Instead, SFLC is borrowing the shares it lends to the share borrower from Hemen Holding Ltd., an affiliate of ours and our largest shareholder. 4,242,424 of the 6,060,606 borrowed shares will be initially offered at $16.50 per share (we refer to these as the fixed-price borrowed shares) and up to the remaining 1,818,182 borrowed shares are expected to be subsequently sold at prevailing market prices at the time of sale or at negotiated prices. We have been informed by Deutsche Bank Securities Inc. that it or its affiliates intend to use the short position created by the share loan and the concurrent short sales of the borrowed shares to facilitate transactions by which investors in the notes offered hereby and our other convertible notes may hedge their investments through short sales or privately negotiated derivatives transactions. The share borrower will receive all of the proceeds from the sale of the borrowed shares and neither we, nor SFLC nor Hemen Holding Ltd. will receive any of those proceeds.

The closing of this offering of the notes pursuant to this prospectus supplement and the accompanying prospectus is contingent upon the closing of the concurrent offering of the fixed-price borrowed shares, and the closing of the concurrent offering of the fixed-price borrowed shares is contingent upon the closing of the offering of the notes hereunder. See Description of Share Lending Agreement and Underwriting in this prospectus supplement.

We do not intend to apply to list the notes on any securities exchange or any automated dealer quotation system. Our common shares are listed on The New York Stock Exchange under the symbol SFL. The last reported sale price of our common shares on The New York Stock Exchange on January 24, 2013 was $17.52 per share.

Investing in the notes involves a high degree of risk. See Risk Factors beginning on page S-15 of this prospectus supplement.

	Per Note	Total
Public offering price(1)	$ 1,000.000	$ 350,000,000
Underwriting discounts and commissions	$ 14.286	$ 5,000,000
Proceeds, before expenses, to us	$ 985.714	$ 345,000,000

(1) Plus accrued interest from January 30, 2013 if settlement occurs after that date.

None of the Securities and Exchange Commission, or the Commission, any state securities regulators, the Bermuda Monetary Authority or any other regulatory body has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to investors in book-entry form through The Depository Trust Company on or about January 30, 2013.

Deutsche Bank Securities **ABG Sundal Collier**

January 25, 2013

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS OR IN ANY FREE WRITING PROSPECTUS FILED BY US WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. NEITHER WE NOR THE UNDERWRITERS HAVE AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. NEITHER WE NOR THE UNDERWRITERS ARE MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER AND SALE IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS, ANY FREE WRITING PROSPECTUS OR ANY DOCUMENT INCORPORATED BY REFERENCE IS ACCURATE AS OF ANY DATE OTHER THAN THEIR RESPECTIVE DATES. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THOSE DATES.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and the notes offered hereby, and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the base prospectus. The second part, the base prospectus, gives more general information and disclosure about us. When we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the notes being offered and other information you should know before investing. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, Where You Can Find Additional Information before investing in our notes.

We prepare our financial statements, including all of the financial statements included or incorporated by reference in this prospectus supplement, in U.S. dollars and in conformity with accounting principles generally accepted in the United States, or U.S. GAAP. We have a fiscal year end of December 31.

Any statement made in this prospectus supplement, the accompanying prospectus or in a document incorporated by reference in this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated by reference in this prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

The notes may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972 and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the Bermuda Monetary Authority, or the BMA, pursuant to the provisions of the Exchange Control Act 1972 and related regulations for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of our securities.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this prospectus supplement, the accompanying prospectus and the documents that we have filed with the Commission that are incorporated by reference in this prospectus supplement may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include, but are not limited to, statements concerning plans, objectives, goals, strategies, future events or performance, underlying assumptions and other statements, which are other than statements of historical facts.

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement pursuant to this safe harbor legislation. This prospectus supplement 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. The words believe, anticipate, intend, estimate, forecast, project, plan, potential, may, should, expect and similar expressio forward-looking statements.

The forward-looking statements in this prospectus supplement, the accompanying prospectus and the documents that we have filed with the Commission that are incorporated by reference in this prospectus supplement are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management s examination of historical operating trends, data contained in our records and other 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.

In addition to these important factors and matters discussed elsewhere 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;

our ability to generate cash to service our indebtedness;

our ability to continue to satisfy our financial and other covenants, or obtain waivers relating to such covenants from our lenders, under our credit facilities;

our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

our counterparties ability or willingness to honor their obligations under agreements with us;

fluctuations in currencies and interest rates;

general market conditions including fluctuations in charterhire rates and vessel values;

changes in supply and generally the number, size and form of providers of goods and services in the markets in which we operate;

changes in demand in the markets in which we operate;

changes in demand resulting from changes in the Organization of the Petroleum Exporting Countries petroleum production levels and world-wide oil consumption and storage;

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- 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;
- the imposition of sanctions by the Office of Foreign Assets Control of the Department of the U.S. Treasury or pursuant to other applicable laws or regulations against us or any of our subsidiaries;
- changes in our operating expenses, including bunker prices, drydocking 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;
- piracy or political events; and
- other important factors described under the heading Risk Factors in this prospectus supplement, in the accompanying prospectus and in our annual report on Form 20-F for the year ended December 31, 2011, as well as those described from time to time in the reports filed by us with the Commission.

This prospectus supplement may contain assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as forward-looking statements. We may also from time to time make forward-looking statements in our periodic reports that we will file with the Commission, in other information sent to our security holders, and in other written materials. 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.

We undertake no obligation to publicly update or revise any forward-looking statement contained in this prospectus supplement, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus supplement might not occur, and our actual results could differ materially from those anticipated in these forward-looking statements.

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PROSPECTUS SUPPLEMENT SUMMARY

This section summarizes some of the information that is contained in this prospectus supplement, the accompanying prospectus or in other documents incorporated by reference into this prospectus supplement. As an investor or prospective investor in the notes, you should review carefully the risk factors and the more detailed information that appear in this prospectus supplement, the accompanying prospectus, any free writing prospectus that may be provided to you in connection with the offering of the notes or that are contained in the documents that we incorporate by reference into this prospectus supplement.

Unless otherwise indicated or if the context otherwise requires, as used in this prospectus supplement, the terms we , our , us , and the Company refer to Ship Finance International Limited and all of its subsidiaries. Unless otherwise specifically indicated, all indebtedness amounts specified in this prospectus supplement and accompanying prospectus reflect the face amounts of such indebtedness, which differs in certain circumstances from the amounts recorded in our financial statements due to certain applicable discounts under U.S. GAAP.

We use the term deadweight, 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. We use the term twenty-foot equivalent units, or TEU, in describing container vessels to refer to the number of standard twenty foot containers that the vessel can carry. We use the term car equivalent unit, or CEU, in describing the size of car carriers and number of cars they have the capacity to transport.

Ship Finance International Limited

We are a global international ship-owning company with one of the largest and most diverse asset bases across the maritime and offshore industries. As of January 21, 2013, we own and operate 62 vessels and drilling units across the tanker, drybulk, car carrier, container and offshore sectors. In the tanker and drybulk sectors we own and operate 25 crude-oil tankers, one oil/bulk/ore carrier, or OBO, 11 drybulk carriers and two chemical tankers. In the container and car carrier sectors we own and operate 9 container vessels and two car carriers; we also charter-in two container vessels. In the offshore sector we own and operate six offshore supply vessels, one jack-up drilling rig and three ultra-deepwater drilling units.

In addition to our operating fleet, we have entered into agreements for the construction of one Handysize drybulk vessel and four 4,800 TEU container vessels, which are expected to be delivered to us during 2013 and 2014. All of these vessels are scheduled to be employed on medium- to long-term charters when they are delivered to us.

Apart from seven container vessels and four drybulk vessels on short-term charters, the vessels in our fleet, including our five newbuildings, have charters attached to them, which are generally contracted to expire between two and 14 years from now. These existing charters provide us with significant and stable base cash flows and high asset utilization, subject to the full performance of the obligations of our counterparties under their agreements with us. The fixed-rate charter backlog as of September 30, 2012 and adjusted for subsequent charter cancellations and vessel acquisitions was approximately $5.4 billion, with an average remaining charter term of 6.8 years, or 10.2 years if weighted by charter revenue. Some of our charters include purchase options on behalf of the charterer, which if exercised would reduce our remaining charter coverage and contracted cash flow. The amount of actual revenues earned

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and the actual periods during which revenues are earned may be different from the backlog projections due to various factors including, off-hire caused by unscheduled repairs, maintenance and other factors.

The following table sets forth summary information regarding our fleet as of January 23, 2013. All of our very large crude carriers, or VLCCs, Suezmaxes, chemical tankers and our OBO are double-hull vessels.

Vessel	Built	Dwt./ft./TEU/CEU	Flag	Lease Classification	Charter Termination Date	
VLCCs						
Front Century	1998	311,000 Dwt.	MI	Capital lease	2021	
Front Champion	1998	311,000 Dwt.	BA	Capital lease	2022	
Front Vanguard	1998	300,000 Dwt.	MI	Capital lease	2021	
Front Circassia	1999	306,000 Dwt.	MI	Capital lease	2021	
Front Opalia	1999	302,000 Dwt.	MI	Capital lease	2022	
Front Comanche	1999	300,000 Dwt.	LIB	Capital lease	2022	
Golden Victory	1999	300,000 Dwt.	MI	Capital lease	2022	
Front Commerce	1999	300,000 Dwt.	LIB	Capital lease	2022	
Front Scilla	2000	303,000 Dwt.	MI	Capital lease	2023	
Front Ariake	2001	299,000 Dwt.	BA	Capital lease	2023	
Front Serenade	2002	299,000 Dwt.	LIB	Capital lease	2024	
Front Hakata	2002	298,000 Dwt.	BA	Capital lease	2025	
Front Stratus	2002	299,000 Dwt.	LIB	Capital lease	2025	
Front Falcon	2002	309,000 Dwt.	BA	Capital lease	2025	
Front Page	2002	299,000 Dwt.	LIB	Capital lease	2025	
Front Energy	2004	305,000 Dwt.	CYP	Capital lease	2027	
Front Force	2004	305,000 Dwt.	MI	Capital lease	2027	
Suezmaxes						
Front Pride	1993	150,000 Dwt.	MI	Capital lease	2017	
Front Glory	1995	150,000 Dwt.	MI	Capital lease	2018	
Front Splendour	1995	150,000 Dwt.	MI	Capital lease	2019	
Front Ardenne	1997	153,000 Dwt.	MI	Capital lease	2020	
Front Brabant	1998	153,000 Dwt.	MI	Capital lease	2021	
Mindanao	1998	159,000 Dwt.	SG	Capital lease	2021	
Glorycrown	2009	156,000 Dwt.	HK	Capital lease	2014	(1)
Everbright	2010	156,000 Dwt.	HK	Capital lease	2015	(1)
Chemical Tankers						
Maria Victoria V	2008	17,000 Dwt.	PAN	Operating lease	2018	(1)
SC Guangzhou	2008	17,000 Dwt.	PAN	Operating lease	2018	(1)
OBO Carriers						
Front Guider	1991	169,000 Dwt.	SG	Capital lease	2015	
Handysize Drybulk Carriers						
SFL Spey	2011	34,000 Dwt.	HK	n/a	n/a	(2)
SFL Medway	2011	34,000 Dwt.	HK	n/a	n/a	(2)
SFL Trent	2012	34,000 Dwt.	HK	n/a	n/a	(2)
SFL Kent	2012	34,000 Dwt.	HK	n/a	n/a	(2)
Western Australia	2012	32,000 Dwt.	HK	Operating Lease	2015	
Western Houston	2012	32,000 Dwt.	HK	Operating Lease	2015	
TBN/ Western Copenhagen (NB)	2013	32,000 Dwt.	HK	n/a	2016	(3)

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Vessel	Built	Dwt./ft./TEU/CEU	Flag	Lease Classification	Charter Termination Date	
Supramax Drybulk Carriers						
SFL Hudson	2009	57,000 Dwt.	MI	Operating lease	2020	
SFL Yukon	2010	57,000 Dwt.	HK	Operating lease	2018	
SFL Sara	2011	57,000 Dwt.	HK	Operating lease	2019	
SFL Kate	2011	57,000 Dwt.	HK	Operating lease	2021	
SFL Humber	2012	57,000 Dwt.	HK	Operating lease	2022	
Containerships						
SFL Europa	2003	1,700 TEU	MI	n/a	n/a	(2)
Heung-A Green	2005	1,700 TEU	MAL	Operating lease	2020	(1)
Green Ace	2005	1,700 TEU	MAL	Operating lease	2020	(1)
SFL Hunter	2006	2,800 TEU	MI	n/a	n/a	(2)
SFL Hawk	2007	2,800 TEU	MI	n/a	n/a	(2)
SFL Falcon	2007	2,800 TEU	MI	n/a	n/a	(2)
SFL Eagle	2007	2,800 TEU	MI	n/a	n/a	(2)
SFL Tiger	2006	2,800 TEU	MI	n/a	n/a	(2)
SFL Avon	2010	1,700 TEU	MI	n/a	n/a	(2)
CMA CGM Magellan	2010	13,800 TEU	UK	Operating lease	2026	(4)
CMA CGM Corte Real	2010	13,800 TEU	UK	Operating lease	2026	(4)
TBN/ Cap Salinas (NB)	2013	4,800 TEU	n/a	n/a	2020	(3)
TBN/ Cap Saray (NB)	2013	4,800 TEU	n/a	n/a	2020	(3)
TBN/ Cap Serrat (NB)	2013	4,800 TEU	n/a	n/a	2020	(3)
TBN/ Cap Sorell (NB)	2014	4,800 TEU	n/a	n/a	2021	(3)
Car Carriers						
Glovis Composer	2005	6,500 CEU	HK	Operating lease	2017	
Glovis Conductor	2006	6,500 CEU	PAN	Operating lease	2017	
Jack-Up Drilling Rigs						
Soehanah	2007	375 ft	PAN	Operating lease	2018	(1)
Ultra-Deepwater Drill Units						
West Polaris	2008	10,000 ft	PAN	Capital lease	2023	(1)
West Hercules	2008	10,000 ft	PAN	Capital lease	2023	(1)
West Taurus	2008	10,000 ft	PAN	Capital lease	2023	(1)
Offshore supply vessels						
Sea Leopard	1998	AHTS (5)	CYP	Capital lease	2020	(1)
Sea Bear	1999	AHTS (5)	CYP	Capital lease	2020	(1)
Sea Cheetah	2007	AHTS (5)	CYP	Operating lease	2019	(1)
Sea Jaguar	2007	AHTS (5)	CYP	Operating lease	2019	(1)
Sea Halibut	2007	PSV (6)	CYP	Operating lease	2019	(1)
Sea Pike	2007	PSV (6)	CYP	Operating lease	2019	(1)

NB: Newbuilding.

Key to Flags: BA Bahamas, CYP Cyprus, MAL Malta, HK Hong Kong, LIB Liberia, MI Marshall Islands, PAN Panama, SG Singapore, UK United Kingdom.

Notes:

(1) Charterer has purchase options during the term of the charter.
(2) Employed on a short-term charter or in the spot market.
(3) Charter has been agreed.
(4) Vessel chartered-in.

(5) Anchor handling tug supply vessel, or AHTS.
(6) Platform supply vessel, or PSV.

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Our primary objective is to continue to grow our business through accretive acquisitions across a diverse range of marine and offshore asset classes. In doing so, our strategy is to expand and diversify our customer base and generate stable and increasing cash flows by chartering our assets primarily under medium to long-term bareboat or time charters.

We have paid dividends for 36 consecutive quarters including the dividend payment of $0.39 per share in respect of the quarter ending September 30, 2012 and a special accelerated dividend payment of $0.39 per share in respect of the quarter ended December 31, 2012, both of which were paid on December 28, 2012 to shareholders of record on December 20, 2012. There will be no additional dividend paid in respect of the quarter ended December 31, 2012.

For the years ended December 31, 2009, 2010, 2011 and 2012, we paid aggregate dividends in cash and in kind to our shareholders in the amounts of $111.1 million ($1.50 per share), $129.5 million ($1.64 per share), $122.6 million ($1.55 per share) and $152.0 million ($1.86 per share), respectively. Our ability to pay dividends is always subject to the discretion of our board of directors, the requirements of Bermuda law and the limitations contained in our bond and debt facilities. Please see Risk Factors Changes in our dividend policy could adversely affect holders of our common shares.

Corporate Debt and Dividend Structure

As of September 30, 2012, on an as adjusted basis after giving effect only to this offering and the use of proceeds thereof, we, including our unconsolidated subsidiaries, would have had approximately $3.3 billion in aggregate principal amount of indebtedness outstanding, of which approximately $2.6 billion would have been secured. The notes will be effectively junior to such secured indebtedness to the extent of the value of the assets securing such indebtedness. As of the same date, we had entered into interest rate swap contracts with a combined outstanding principal amount of approximately $1.8 billion.

Recent and Other Developments

In October 2012, we issued 6,000,000 new shares in an underwritten public offering that raised gross proceeds of approximately $89.3 million.

In October 2012, we successfully placed a five-year senior unsecured bond in the Norwegian credit market with an interest rate of Norwegian Interbank Offered Rate, or NIBOR, plus a margin of 5.0% per annum. The principal amount of the notes is Norwegian Kroners (NOK) 600.0 million, or the equivalent of approximately $105.4 million. The bond was drawn down in October 2012, with net proceeds to us of approximately $103.5 million. We have swapped all payments to USD with a fixed interest rate of 6.06% per annum.

In October and November 2012, we acquired two Japanese-built 6,500 CEU car carriers built in 2005 and 2006, respectively. Both vessels have been time chartered to an investment grade logistics company publicly listed in Asia. The charter period is five years per vessel. In November 2012, we entered into a $53.2 million secured loan facility with a bank to part-finance the acquisition of the vessels, representing approximately 70% of the aggregate purchase price. The facility bears interest at the London Interbank Offered Rate, or LIBOR, plus a margin, and has a term of five years from drawdown. The loan was drawn down in full in December 2012.

In October 2012, the OBO *Front Climber* was delivered to its new owner. Net sales proceeds of approximately $8.9 million were received, including a $0.6 million charter termination compensation payment from Frontline Ltd., or Frontline.

In November 2012, the OBO *Front Driver* was delivered to its new owner. Net sales proceeds of approximately $9.6 million were received, including a $0.5 million charter termination compensation payment from Frontline.

In November 2012, we took delivery of the newbuilding Handysize drybulk carrier *Western Houston,* which immediately upon delivery from the shipyard commenced a three year time charter.

In November 2012, the non-double hull VLCC *Front Lady* was delivered to its new owner. Net sales proceeds of approximately $14.1 million were received, excluding $11.6 million of compensation payable to Frontline.

On November 29, 2012, our board of directors declared a dividend of $0.39 per share in respect of the third quarter of 2012 and an additional accelerated dividend of $0.39 per share in respect of the fourth quarter of 2012. These dividends totaling $66.5 million were paid on December 28, 2012.

In December 2012, we announced that we have agreed to terminate the charters on the two remaining OBO carriers, *Front Viewer* and *Front Guider.* We received approximately $23.5 million from Frontline as compensation for the early termination of the charters and the estimated loss of future cash sweep earnings relating to the two vessels. *Front Viewer* was sold and delivered to an unrelated third party in December 2012, with net sales proceeds of approximately $9.1 million. *Front Guider* is expected to be sold during 2013, and will remain on charter to Frontline until a sale is concluded.

In December 2012, our equity accounted subsidiary SFL West Polaris Limited entered into a $420 million secured term loan and revolving credit facility with a syndicate of banks. The proceeds of the facility will be used to refinance the outstanding amount under an existing $700 million facility, which matures in 2013. The facility bears interest at LIBOR plus a margin and has a term of five years from drawdown, which is expected in the first quarter of 2013. The Company will provide a corporate guarantee of up to $100 million for this facility.

In January 2013, one of our employees exercised options to acquire 25,000 of our common shares and 25,000 new common shares were issued.

In January 2013, the non-double hull VLCC *Edinburgh* was delivered to its new owner. Net sales proceeds of approximately $18.8 million were received, excluding $7.8 million of compensation payable to Frontline. Following this sale, all of our tankers are double-hull vessels.

Since October 1, 2012, we have repurchased approximately $51.4 million of our 8.5% Senior Notes due 2013.

Concurrent Transaction

Concurrently with this offering of notes, up to 6,060,606 common shares (which we refer to herein as the borrowed shares) are being offered, by means of a separate prospectus supplement and accompanying prospectus, by the share borrower, which is an affiliate of one of the the underwriters of this offering of notes. The share borrower will borrow the borrowed shares from SFLC pursuant to a share lending agreement, which we refer to as the SFLC Share Lending Agreement. SFLC will borrow the shares it lends to the share borrower from Hemen Holding Ltd., an affiliate of ours and our largest shareholder, pursuant to a share lending agreement, which we refer to as the Hemen Share Lending Agreement. 4,242,424 of the 6,060,606 borrowed shares will be initially offered at $16.50 per share (we refer to these as the fixed-price borrowed shares) and up to the remaining 1,818,182 borrowed shares are expected to be subsequently sold at prevailing market prices at the time of sale or at negotiated prices.

The share borrower will receive all of the proceeds from the sale of the borrowed shares. Neither we, nor SFLC nor Hemen Holding Ltd. will receive any proceeds from the sale of the borrowed shares. Pursuant to the SFLC Share Lending Agreement, the share borrower has agreed to pay SFLC an amount in cash equal to the aggregate dividend paid for any cash dividend or distribution we make in respect of the borrowed shares.

We have been informed by Deutsche Bank Securities Inc., one of the underwriters of this offering of notes, that it or its affiliates intend to use the short position created by the share loan and the concurrent short sales of the borrowed shares to facilitate transactions by which investors in the notes offered hereby and our other convertible notes may hedge their investments through short sales or privately negotiated derivatives transactions. See Description of Share Lending Agreement and Underwriting.

The closing of this offering of the notes pursuant to this prospectus supplement and the accompanying prospectus is contingent upon the closing of the concurrent offering of the fixed-price borrowed shares, and the closing of the concurrent offering of the fixed-price borrowed shares is contingent upon the closing of the offering of the notes hereunder.

Corporate Information

We are a holding company incorporated under the laws of Bermuda. We operate through our vessel owning and other subsidiaries incorporated in Bermuda, Liberia, Norway, Cyprus, Singapore, Malta, the Marshall Islands and the United Kingdom. Our common shares are listed on The New York Stock Exchange under the symbol SFL. Our principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda, and our telephone number is +1 (441) 295-9500. We maintain an internet site at http://www.shipfinance.bm. The information contained at our internet site is not incorporated by reference in this prospectus supplement or the accompanying prospectus, and you should not consider it a part of this prospectus supplement or the accompanying prospectus.

The information above concerning us is only a summary and does not purport to be comprehensive or complete. For additional information about us, you should refer to the information described in Where You Can Find Additional Information in this prospectus supplement.

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THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes. As used in this section, we, our, and us refer to Ship Finance International Limited and not to any of its existing or future subsidiaries.

Issuer	Ship Finance International Limited, a Bermuda exempted company.
Securities	$350,000,000 aggregate principal amount of 3.25% Convertible Senior Notes due 2018.
Maturity	February 1, 2018, unless earlier repurchased, redeemed or converted. At maturity, we will pay the principal amount per note plus accrued and unpaid interest in whole in cash, or in part in common shares and in part in cash, at our election, as described in this prospectus supplement.
Issue Price	100%
Interest	3.25% per year. Interest will accrue from January 30, 2013 and will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning on May 1, 2013.
Conversion of notes	Holders may convert their notes into our common shares at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date based on an initial conversion price of $21.9450 per common share (which is the equivalent of an initial conversion rate of approximately 45.5684 common shares per $1,000 principal amount of notes). The conversion price will be subject to adjustment in certain events as described herein. If a holder elects to convert its notes in connection with a change of control event (as defined in this prospectus supplement), we will decrease the conversion price for notes converted in connection with such change of control event.
	Upon conversion, we will pay or deliver, as the case may be, cash, common shares or a combination of cash and common shares, at our election (except for conversions during the period beginning on the issuance of a call option notice and ending at 5:00 p.m. (New York City time) on the business day immediately preceding the redemption date, which shall be settled in our common shares). If we satisfy our conversion obligation solely in cash or through a combination of cash and common shares, the amount of cash and number of common shares, if any, due upon

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conversion will be based on a daily conversion value (as defined herein) for each VWAP trading day (as defined herein) in a 50 VWAP trading day conversion period (as described under Description of Notes Conversion of Notes Settlement Upon Conversion).

Converting holders will not receive any additional cash payment or additional shares representing interest, if any, accrued and unpaid to the conversion date except under the limited circumstances described below under Description of Notes Conversion of Notes. Instead, interest will be deemed paid by the payment or delivery, as the case may be, of cash, common shares or a combination of cash and common shares to the converting holder upon conversion of a note.

Change of control event

If we undergo a change of control event (as defined in this prospectus supplement under Description of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event), subject to certain conditions, holders may require us to repurchase for cash all or part of their notes in principal amounts of $1,000 or an integral multiple thereof. The change of control repurchase price, payable in cash, will be equal to 100% of the principal amount of the notes to be repurchased, *plus* accrued and unpaid interest to, but excluding, the purchase date. See Description of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event.

In addition, holders may convert some or all of their notes in connection with a change of control event at the change of control conversion price as described in Description of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event.

Optional redemption

At any time prior to the 61st scheduled trading day immediately preceding the scheduled maturity date, if 90% or more of the aggregate principal amount of the notes issued on the date of original issuance have been previously purchased or converted, we may redeem all but not part of the remaining outstanding notes at a redemption price, payable in cash, equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date; provided, however, that on or after August 1, 2017, we may only redeem the notes if we have elected stock settlement as the settlement method for conversions on or after August 1, 2017. See Description of Notes Issuer Call Option.

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Additional amounts

All payments and deliveries made by us or any successor to us under or with respect to the notes, including, but not limited to, payments of principal, payments of interest and payments or deliveries, as the case may be, of cash, our common shares or a combination of cash and our common shares upon conversion or share settlement at maturity, will be made without withholding or deductions, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required by certain jurisdictions, we will pay such additional amounts as may be necessary to ensure that the net amount received by the holder after such withholding or deduction (and after deducting any taxes on the additional amounts) will equal the amounts that would have been received by such holder had no such withholding or deduction been required, subject to certain exceptions set forth under Description of Notes Additional Amounts.

Ranking

The notes will be our senior unsecured obligations and will rank *pari passu* with all of our other existing and future senior unsecured debt and senior to all of our future subordinated debt. The notes will be structurally subordinated to all existing and future debt and other obligations (including trade payables) of our subsidiaries. In addition, the notes will be effectively junior to all of our existing and future secured debt to the extent of the value of the assets securing that debt.

As of September 30, 2012, on an as adjusted basis after giving effect only to this offering and the use of proceeds thereof, we, including our unconsolidated subsidiaries, would have had approximately $3.3 billion in aggregate principal amount of indebtedness outstanding, of which approximately $2.6 billion would be secured. The notes will be effectively junior to such secured indebtedness to the extent of the value of the assets securing such indebtedness. As of the same date, we had entered into interest rate swap contracts with a combined outstanding principal amount of approximately $1.8 billion.

The indenture governing the notes will not limit the amount of debt that we or our subsidiaries may incur.

Use of proceeds	We estimate that the net proceeds from this offering will be approximately $344.1 million, after deducting the underwriters discounts and commissions and estimated fees and expenses payable by us. We intend to use: Approximately $225.0 million to redeem or repurchase in the open market, in negotiated transactions or otherwise, all of the outstanding 8.5% Senior Notes due 2013; and Approximately $119.1 million for general corporate purposes, including working capital. See Use of Proceeds.
Book-entry form	The notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of a nominee of DTC. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.
Absence of a public market for the notes	The notes are new securities and there is currently no established market for the notes. Accordingly, we cannot assure you as to the development or liquidity of any market for the notes. The underwriters have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so, and may discontinue any market making with respect to the notes without notice. We do not intend to apply for a listing of the notes on any securities exchange or any automated dealer quotation system.
New York Stock Exchange symbol for our common shares	Our common shares are listed on The New York Stock Exchange under the symbol SFL.
Trustee	U.S. Bank National Association.
Paying agent, registrar and conversion agent	Deutsche Bank Trust Company Americas. We maintain banking relationships in the ordinary course of business with the paying agent, registrar and conversion agent and its affiliates. See Underwriting Other Relationships.
Governing law	The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

Important U.S. federal income tax consequences	We may be treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. If we are treated as a PFIC for any taxable year, we will inform investors of our status and we will provide investors with the information necessary to make and maintain a qualified electing fund, or QEF, election. However, this election may not be made until the notes are converted into common shares, and the unavailability of such election may result in adverse U.S. federal income tax consequences to holders. Prospective U.S. Holders should consult with their tax advisors as to the consequences of our being a PFIC for any taxable year, including whether or not to make a QEF election, and should carefully review the information set forth under Taxation U.S. Taxation for additional information.
	For the U.S. federal income tax consequences of the holding, disposition and conversion of the notes, and the holding and disposition of our common shares, see Taxation.
Concurrent offering of borrowed shares	Concurrently with this offering of notes, up to 6,060,606 borrowed shares are being offered, by means of a separate prospectus supplement and accompanying prospectus, by the share borrower, which is an affiliate of one of the underwriters of this offering of notes. The share borrower will borrow the borrowed shares from SFLC. SFLC will borrow the shares it lends to the share borrower from Hemen Holding Ltd., an affiliate of ours and our largest shareholder. 4,242,424 of the 6,060,606 borrowed shares will be initially offered at $16.50 per share (we refer to these as the fixed-price borrowed shares) and up to the remaining 1,818,182 borrowed shares are expected to be subsequently sold at prevailing market prices at the time of sale or at negotiated prices. We have been informed by Deutsche Bank Securities Inc. that it or its affiliates intend to use the short position created by the share loan and the concurrent short sales of the borrowed shares to facilitate transactions by which investors in the notes offered hereby may hedge their investments in the notes (and our other convertible notes).
	The share borrower will receive all of the proceeds from the sale of the borrowed shares. Neither we, nor SFLC nor Hemen Holding Ltd. will receive any proceeds from the sale of the borrowed shares. Pursuant to the SFLC Share Lending Agreement, the share borrower has agreed to pay SFLC an amount in cash equal to the aggregate dividend

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	paid for any cash dividend or distribution we make in respect of the borrowed shares. See Description of Share Lending Agreement and Underwriting.
	The closing of this offering of the notes pursuant to this prospectus supplement and the accompanying prospectus is contingent upon the closing of the concurrent offering of the fixed-price borrowed shares, and the closing of the concurrent offering of the fixed-price borrowed shares is contingent upon the closing of the offering of the notes hereunder.
Risk factors	You should carefully consider all of the information that is contained in or incorporated by reference into this prospectus and, in particular, you should evaluate the risks set forth under Risk Factors on page S-15 of this prospectus supplement before deciding to invest in the notes.

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SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table provides our consolidated financial data as of the dates and for the periods shown. Our summary consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements incorporated by reference herein, which have been audited by MSPC, Certified Public Accountants and Advisors, A Professional Corporation, or MSPC, our independent registered public accounting firm, as indicated in their report incorporated by reference herein.

Our summary consolidated financial data presented below as of and for September 30, 2011 and 2012 have been prepared on the same basis as our audited consolidated financial statements, are derived from our unaudited consolidated financial statements incorporated by reference herein and, in the opinion of management, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation thereof. Our interim results are not necessarily indicative of our results for the entire year or for any future periods.

The summary financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, our audited and unaudited consolidated financial statements, including the related notes thereto, incorporated by reference herein, Selected Consolidated Financial Information, and our Management s Discussion and Analysis of Financial Condition And Results Of Operations included in our current report on Form 6-K filed with the Commission on January 24, 2013 and Item 5. Operating and Financial Review and Prospects included in our annual report on Form 20-F for the year ended December 31, 2011, which are incorporated by reference herein.

	Year Ended December 31,			Nine Months Ended September 30, (unaudited)	
	2009	2010	2011	2011	2012
(In thousands of U.S. dollars)					
Income statement data:					
Total operating revenues	$ 345,220	$ 308,060	$ 295,114	$ 219,053	$ 242,038
Gain on sale of assets	24,721	28,104	8,468	6,131	25,849
Total operating expenses	160,677	124,319	140,877	104,496	118,148
Net operating income	209,264	211,845	162,705	120,688	149,739
Net income before equity in earnings of associated companies	$ 116,969	$ 115,299	$ 80,273	$ 61,702	$ 101,409
Equity in earnings of associated companies	75,629	50,413	50,902	39,317	33,328
Net income	$ 192,598	$ 165,712	$ 131,175	$ 101,019	$ 134,737
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 84,186	$ 86,967	$ 94,915	$ 81,236	$ 66,818
Total assets	3,059,586	2,882,361	2,896,128	3,003,555	2,902,003
Total liabilities	2,310,258	2,053,441	2,039,037	2,164,368	1,992,623
Short and long term debt (including current portion)	2,135,950	1,922,854	1,910,464	2,025,996	1,850,531
Total equity	749,328	828,920	857,091	839,188	909,380
Cash flow data:					
Net cash provided by operating activities	125,522	153,771	163,661	131,379	68,251
Net cash provided by/(used in) investing activities	424,068	76,977	(5,862)	(130,960)	54,641
Net cash used in financing activities	(511,479)	(227,967)	(149,851)	(6,150)	(150,989)
Other financial data:					
EBITDA Consolidated(1)	483,968	399,663	352,345	263,418	240,389
EBITDA Group(2)	761,707	714,410	670,145	507,389	445,806
Total Debt Consolidated (at end of period)	2,135,950	1,922,854	1,910,464	2,025,996	1,850,531
Total Debt Group(2) (at end of period)	4,026,450	3,669,379	3,319,589	3,491,475	3,113,364

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(1) We define EBITDA Consolidated as net income before depreciation, interest expense, net, other financial items, net, certain significant non-cash charges for (i) impairment of assets, (ii) gains from sale of assets and termination of charters, (iii) net gains/losses from the repurchase of our 8.5% Senior Notes due 2013 and our NOK500 million Senior Unsecured Bonds due 2014 and (iv) the mark-to-market of certain derivative contracts, and the repayments from investments in direct financing and sales-type leases, net of any upfront payments, as applicable.

(2) We have three ultra-deepwater drilling units and two container vessels owned by four wholly-owned subsidiaries which are accounted for under the equity method and therefore not consolidated in our financial statements. We define EBITDA Group as EBITDA Consolidated before equity in earnings of associated companies and adjusted for (i) the total operating revenues, (ii) repayments from investments in direct financing and sales-type leases and (iii) vessel operating expenses at our subsidiaries that are accounted for under the equity method. We record our investments in equity-method investees on the consolidated balance sheets as Investment in associated companies . These subsidiaries have significant amount of indebtedness which because of the aforementioned accounting treatment does not show up in our balance sheets. Total Debt Group includes indebtedness of our unconsolidated subsidiaries. Total Debt Group, as further adjusted, is derived by adding Total Debt Consolidated, as further adjusted, plus approximately $1.3 billion of indebtedness, as of September 30, 2012, of our unconsolidated subsidiaries.

	Years Ended December 31,			Nine Months Ended September 30,	
	2009	2010	2011	2011	2012
				(unaudited)	
(In thousands of U.S. dollars)					
Reconciliation of net income to EBITDA Consolidated and EBITDA Group:					
Net income	$ 192,598	$ 165,712	$ 131,175	$ 101,019	$ 134,737
Depreciation	30,236	34,201	49,929	36,339	41,377
Interest expense, net	116,835	80,325	79,978	57,313	51,048
Other financial items, net	(1,457)	(2,676)	1,034	597	(1,073)
Vessel impairment charge	26,756				
Long-term investment impairment charge	7,110				3,353
Gain on sale of assets and termination of charters	(24,721)	(28,103)	(8,468)	(6,131)	(25,849)
Gain on sale of associate			(4,064)	(4,064)	
Net gain (loss) on repurchase of 2013 Senior Notes and NOK bonds	(20,600)	13	(521)	469	(129)
Mark to market of derivatives	(12,675)	14,733	4,408	2,675	(7,367)
Repayments from investments in direct financing and sales-type leases	210,386	175,958	98,874	75,201	44,292
Less: upfront payments on certain charters	(40,500)	(40,500)			
EBITDA Consolidated	$ 483,968	$ 399,663	$ 352,345	$ 263,418	$ 240,389
Less: equity in earnings of associated companies	(75,629)	(50,413)	(50,902)	(39,317)	(33,328)
Total operating revenues Associates	150,473	137,348	155,514	116,496	113,302
Repayments from investments in direct financing and sales-type leases Associates	203,141	228,001	238,388	183,662	151,360
Vessel operating expenses Associates	(246)	(189)	(25,200)	(16,870)	(25,917)
EBITDA Group	$ 761,707	$ 714,410	$ 670,145	$ 507,389	$ 445,806
Reconciliation of Total Debt Consolidated to Total Debt Group (at end of period):					
Total Debt Consolidated	2,135,950	1,922,854	1,910,464	2,025,996	1,850,531
Total Debt Associates	1,890,500	1,746,525	1,409,125	1,465,479	1,262,833
Total Debt Group	4,026,450	3,669,379	3,319,589	3,491,475	3,113,364

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RISK FACTORS

An investment in our notes involves a high degree of risk, including the risks we face described in the accompanying prospectus and the documents incorporated by reference herein. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face described in the accompanying prospectus and the documents incorporated by reference herein.

This prospectus supplement does not describe all of the risks of an investment in the notes. You should consult your own financial and legal advisors about the risks entailed by an investment in the notes and the suitability of your investment in the notes in light of your particular circumstances. Before you decide to invest in our securities, you should carefully consider the risks and the discussion of risks under the heading Risk Factors in the accompanying prospectus and in our annual report for the year ended December 31, 2011 on Form 20-F, filed with the Commission on April 27, 2012. In addition, you should carefully consider the risks set forth below, as well as other information included in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference in this prospectus supplement that summarize the risks that may materially affect our business. Please refer to the section entitled Where You Can Find Additional Information in this prospectus supplement and in the accompanying prospectus for discussions of these other filings.

Risks Relating To Our Industry and Our Company

In the event the shipyards do not perform under their agreements with us for the construction of our Newbuilding Vessels and we are unable to enforce certain refund guarantees, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

Currently, we have newbuilding contracts with Chinese shipyards for the construction of a Handysize drybulk carrier and four 4,800 TEU container vessels, which are scheduled to be delivered to us during 2013 and 2014. As of January 22, 2013, we have made total yard payments in the amount of $72.6 million and we have remaining yard installments in the amount of $183.9 million.

We depend on our charterers, including the Frontline Charterers and the Seadrill Charterers, which are companies affiliated with us, for our operating cash flows and for our ability to pay dividends to our shareholders and repay our outstanding borrowings.

Most of the tanker vessels and the OBO in our fleet are chartered to subsidiaries of Frontline, namely Frontline Shipping Limited and Frontline Shipping II Limited, which we refer to collectively as the Frontline Charterers. In addition, we have chartered three of our drilling units to three subsidiaries of Seadrill Limited, namely Seadrill Deepwater Charterer Ltd., Seadrill Offshore AS, and Seadrill Polaris Ltd., which we refer to collectively as the Seadrill Charterers. Our other vessels that have charters attached to them are chartered to other customers under medium to long-term time and bareboat charters.

The charter hire payments that we receive from our customers constitute substantially all of our operating cash flows. The Frontline Charterers have no business or sources of funds other than those related to the chartering of our tanker fleet to third parties.

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In December 2011, our charter agreements with the Frontline Charterers, which both remain wholly-owned subsidiaries of Frontline, were amended and we agreed to temporarily reduce the charter rates payable on our double-hull tankers and OBOs (three sold and delivered in 2012) by $6,500 per day per vessel from 2012 through 2015, subject to the cash sweep arrangement described in the immediately following risk factor. As part of the amendments, we received compensation payments from Frontline in the amount of $106 million in cash. Frontline continues to guarantee the payment of charterhire with respect to Frontline Shipping Limited and Frontline Shipping II Limited.

Although there are restrictions on the Frontline Charterers rights to use their cash to pay dividends or make other distributions, at any given time their available cash may be diminished or exhausted, and they may be unable to make charterhire payments to us without support from Frontline. The performance under the charters with the Seadrill Charterers is guaranteed by Seadrill Limited. If the Frontline Charterers, the Seadrill Charterers or any of our other charterers are unable to make charterhire payments to us, our results of operations and financial condition will be materially adversely affected and we may not have cash available to pay dividends to our shareholders and to repay our outstanding borrowings.

The amount of the profit sharing payment we receive under our charters with the Frontline Charterers, if any, may depend on prevailing spot market rates, which are volatile.

Most of our tanker vessels and our OBO operate under time charters to the Frontline Charterers. These charter contracts provide for base charterhire and additional profit sharing payments when the Frontline Charterers earnings from deploying our vessels exceed certain levels. The majority of our vessels chartered to the Frontline Charterers are sub-chartered by the Frontline Charterers in the spot market, which is subject to greater volatility than the long-term time charter market, and the amount of future profit sharing payments that we receive, if any, will be primarily dependent on the strength of the spot market.

Prior to December 31, 2011, the Frontline Charterers paid us a profit sharing rate of 20% of their earnings above average threshold charter rates on a time-charter equivalent basis from their use of our fleet each fiscal year. The amendments to the charter agreements with the Frontline Charterers described in the preceding risk factor increased the profit sharing percentage to 25% for earnings above the threshold levels effective as of January 1, 2012. The amendments also provided for a temporary reduction in charter rates for a four year period. During that period, the Frontline Charterers are obligated pay us 100% of any earnings on a time-charter equivalent basis above the temporarily reduced time charter rates, subject to a maximum of $6,500 per day, or the cash sweep amounts. As described above, we received a compensation payment of $106 million, of which $50 million represented a non-refundable advance relating to the 25% profit sharing agreement. For the nine month period ended September 30, 2012, we recorded $40.1 million in accumulated cash sweep amounts. There was no accumulated profit share for the nine month period ended September 30, 2012 and an additional $50 million of profit share will need to accumulate before we recognize profit share revenues in our consolidated accounts.

We cannot assure you that we will receive any profit sharing payments for any periods in the future, which may have an adverse affect on our results of operations and financial condition.

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The container shipping industry is cyclical and volatile and the persistent global economic recession has resulted in decreased demand for container shipping, which, together with an over-supply of container vessel capacity, may negatively impact any future container vessel operations we may have.

As of January 22, 2013, seven of our container vessels were employed on short-term time charters. We also have contracts for the construction of four 4,800 TEU newbuilding container vessels that are scheduled to commence seven year time charters upon their delivery to us, which is expected during the second half of 2013 and the first quarter of 2014. The persistent global economic slowdown may result in decreased demand for container shipping and a related decrease in charter rates.

The ocean-going container shipping industry is both cyclical and volatile in terms of charter hire rates and profitability. Container vessel charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the effects of the recent economic crisis began to affect global container trade. Charter rates have fallen significantly since the middle of 2008 and remain well below long-term averages and could further decline in the near term. Fluctuations in charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products internationally transported by container vessels. The container vessels market is typically stronger in the spring and autumn in anticipation of increased consumption of consumer products during the holiday and peak seasons. The factors affecting the supply and demand for container vessels and supply and demand for products shipped in containers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

Our ability to employ our container vessels will depend upon, among other things, the prevailing state of the container vessel market when the vessels are available for employment, which can be affected by consumer demand for products shipped in containers. If the container vessel market is in a period of sustained depression when we take delivery of the container vessels, we may be unable to operate the vessels profitably.

The size of the container vessel orderbook is large relative to historical levels and will result in the increase in the size of the world container vessel fleet over the next few years. An over-supply of container vessel capacity, particularly in conjunction with a reduced level of demand for container shipping, may result in a further reduction of charter rates.

Charterhire rates for drybulk carriers are volatile and may further decrease in the future, which may adversely affect our earnings.

We currently own and operate a fleet of 11 drybulk carriers consisting of five Supramax drybulk carriers and six Handysize drybulk carriers. Four of the Handysize drybulk carriers are employed on short-term time charters. In addition, we have entered into agreements for the construction of an additional Handysize drybulk carrier that is scheduled to be delivered to us in the first quarter of 2013.

This downturn in drybulk charter rates and their volatility, which has resulted from the economic dislocation worldwide and the disruption of the credit markets during 2008 and 2009, have had a number of adverse consequences for drybulk shipping, including, among other things, an absence of financing for vessels; a less active second-hand market for the sale of vessels; low charter rates, particularly for vessels employed in the spot market; widespread loan covenant defaults in the drybulk shipping industry; and declaration of bankruptcy by some operators and shipowners as well as charterers.

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The occurrence of one or more of these events could adversely affect our business, results of operations, cash flows, financial condition and ability to pay dividends to shareholders and repay debt. There can be no assurance that the drybulk charter market will recover over the next several months and the market could continue to decline further.

If the drybulk shipping market remains depressed in the future, our earnings and available cash flow may decrease. Our ability to re-charter our vessels on the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the drybulk shipping market.

Volatility in the international shipping and offshore markets may cause our customers to be unable to pay charterhire to us.

Our customers, including Frontline, are subject to volatility in the shipping and offshore markets that affects their ability to operate the vessels and offshore drilling units they charter from us at a profit. Our customers successful operation of our vessels and drilling units in the charter market will depend on, among other things, their ability to obtain profitable charters. We cannot assure you that future charters will be available to our customers at rates sufficient to enable them to meet their obligations to make charterhire payments to us. As a result, our revenues and results of operations may be adversely affected. These factors include:

- global and regional economic and political conditions;
- supply and demand for oil and refined petroleum products, which is affected by, among other things, competition from alternative sources of energy;
- supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;
- developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances that cargoes are transported;
- environmental concerns and regulations;
- weather;
- the number of newbuilding deliveries;
- the scrapping rate of older vessels; and
- changes in production of crude oil, particularly by OPEC and other key producers.

Tanker charter rates also tend to be subject to seasonal variations, with demand (and therefore charter rates) normally higher in winter months in the northern hemisphere.

The market values of our vessels and drilling units may decrease, which could limit the amount of funds that we can borrow or trigger certain financial covenants under our current or future credit facilities and we may incur a loss if we sell vessels or drilling units following a decline in their market value.

During the period a vessel or drilling unit is subject to a charter, we will not be permitted to sell it to take advantage of increases in vessel or drilling unit values without the charterers agreement. Conversely, if the charterers were to default under the charters due to adverse market conditions, causing a termination of the charters, it is likely that the fair market value of our vessels would also be depressed.

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The fair market values of our vessels and drilling units have generally experienced high volatility. According to shipbrokers, the market prices for secondhand drybulk carriers, for example, have decreased sharply from their recent historically high levels and may be less than the carrying value on our consolidated financial statements.

The fair market value of our vessels and drilling units may increase and decrease depending on a number of factors including, but not limited to, the prevailing level of charter rates and dayrates, general economic and market conditions affecting the international shipping and offshore drilling industries, types, sizes and ages of vessels and drilling units, supply and demand for vessels and drilling units, availability of or developments in other modes of transportation, competition from other shipping companies, cost of newbuildings, governmental or other regulations and technological advances.

In addition, as vessels and drilling units grow older, they generally decline in value. If the fair market value of our vessels and drilling units declines, we or our subsidiaries may not be in compliance with certain provisions of our credit facilities and we may not be able to refinance our debt, obtain additional financing or make distributions to our shareholders and our subsidiaries may not be able to make distributions to us. The prepayment of certain credit facilities may be necessary to cause us to maintain compliance with certain covenants in the event that the value of our vessels or drilling units fall below certain levels.

Additionally, if we sell one or more of our vessels or drilling units at a time when vessel and drilling unit prices have fallen and before we have recorded an impairment adjustment to our consolidated financial statements, the sale price may be less than the vessel s or drilling unit s carrying value on our consolidated financial statements, resulting in a loss and a reduction in earnings. Furthermore, if vessel and drilling unit values fall significantly, we may have to record an impairment adjustment in our financial statements, which could adversely affect our financial results and condition.

We are subject to certain risks with respect to our counterparties on contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

From time to time, we enter into, among other things, charter parties with our customers, newbuilding contracts with shipyards, credit facilities with banks, guarantees, interest rate swap agreements, currency swap agreements, total return bond swaps, and total return equity swaps. Such agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us 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 maritime and offshore industries, the overall financial condition of the counterparty, charter rates and dayrates received for specific types of vessels and drilling units, and various expenses. In addition, in depressed market conditions, our charterers and customers may no longer need a vessel or drilling unit that is currently under charter or contract, or may be able to obtain a comparable vessel or drilling unit at a lower rate. As a result, charterers and customers may seek to renegotiate the terms of their existing charter parties and drilling contracts, or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Please see Recent and Other Developments.

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We may have to pay tax on U.S. source income, which would reduce our earnings and cash flows.

Under the U.S. Internal Revenue Code of 1986, as amended, or the Code, 50% of our gross income and that of our vessel owning or chartering subsidiaries that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be characterized as U.S. source shipping income. Such income will be subject to a 4% U.S. federal income tax without allowance for deduction, unless we qualify for exemption from tax under Section 883 of the Code and the applicable Treasury Regulations promulgated thereunder.

We believe that we and each of our subsidiaries will, both before and after this offering, qualify for this statutory exemption and we intend to take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S. source shipping income. Please see Taxation Taxation of the Company s Operating Income Exemption of Operating Income from U.S. Federal Income Taxation. In addition, changes in the Code, the Treasury Regulations or the interpretation thereof by the IRS or the courts could adversely affect our ability to qualify for such exemption.

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

A change in interest rates could materially and adversely affect our financial performance.

As of September 30, 2012, we and our consolidated subsidiaries had approximately $1.5 billion in floating rate debt outstanding under our credit facilities, and a further approximately $1.3 billion in unconsolidated floating rate debt held by wholly-owned subsidiaries accounted for under the equity method. Although we use interest rate swaps to manage our interest rate exposure and have interest rate adjustment clauses in some of our chartering agreements, we are exposed to fluctuations in interest rates. For a portion of our floating rate debt, if interest rates rise, interest payments on our floating rate debt that have not been effectively swapped into fixed rates would increase.

As of September 30, 2012, we and our consolidated subsidiaries had entered into interest rate swaps to fix the base interest rate on approximately $0.9 billion of our outstanding indebtedness at 3.10%, and we have also entered into interest rate swaps to fix the interest on approximately $0.9 billion of the outstanding indebtedness of our equity-accounted subsidiaries.

An increase in interest rates could cause us to incur additional costs associated with our debt service, which may materially and adversely affect our results of operations. Our maximum exposure to interest rate fluctuations on our outstanding debt at September 30, 2012, was approximately $931 million, including our equity-accounted subsidiaries. A one percentage change in interest rates would at most increase or decrease interest expense by approximately $9.0 million per year as of September 30, 2012. The maximum figure does not take into account that certain of our charter contracts include interest adjustment clauses, whereby the charter rate is adjusted to reflect the actual interest paid on a deemed outstanding debt related to the assets on charter. At September 30, 2012, approximately $1.4 billion of our floating rate debt

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was subject to such interest adjustment clauses, including our equity-accounted subsidiaries. Of this amount, a total of approximately $1.0 billion was subject to interest rate swaps and the balance of approximately $435 million remained on a floating rate basis under such adjustment clauses, effectively decreasing our economical exposure to floating rate debt to approximately $525 million.

The interest rate swaps that have been entered into by us and our subsidiaries are derivative financial instruments that effectively translate floating rate debt into fixed rate debt. U.S. GAAP requires that these derivatives be valued at current market prices in our financial statements, with increases or decreases in valuations reflected in results of operations or, if the instrument is designated as a hedge, in other comprehensive income. Changes in interest rates give rise to changes in the valuations of interest rate swaps and could adversely affect results of operations and other comprehensive income.

We are highly leveraged and subject to restrictions in our financing agreements that impose constraints on our operating and financing flexibility.

We have significant indebtedness outstanding under our 8.5% Senior Notes due 2013, our 3.75% Senior Unsecured Convertible Notes due 2016, our NOK500 million Senior Unsecured Bonds due 2014 and our NOK600 million Senior Unsecured Bonds due 2017. We have also entered into loan facilities that we have used to refinance existing indebtedness and to acquire additional vessels. We may need to refinance some or all of our indebtedness on maturity of our Senior Notes, bonds or loan facilities and to acquire additional vessels in the future. We cannot assure you that we will be able to do so on terms acceptable to us or at all. If we cannot refinance our indebtedness, we will have to dedicate some or all of our cash flows, and we may be required to sell some of our assets, to pay the principal and interest on our indebtedness. In such a case, we may not be able to pay dividends to our shareholders and may not be able to grow our fleet as planned. We may also incur additional debt in the future.

Our loan facilities and the indentures for our Senior Notes and bonds subject us to limitations on our business and future financing activities, including:

- limitations on the incurrence of additional indebtedness, including issuance of additional guarantees;
- limitations on incurrence of liens;
- limitations on our ability to pay dividends and make other distributions; and
- limitations on our ability to renegotiate or amend our charters, management agreements and other material agreements.

Further, our loan facilities contain financial covenants that require us to, among other things:

- provide additional security under the loan facility or prepay an amount of the loan facility as necessary to maintain the fair market value of our vessels securing the loan facility at not less than specified percentages (ranging from 100% to 140%) of the principal amount outstanding under the loan facility;
- maintain available cash on a consolidated basis of not less than $25 million;
- maintain positive working capital on a consolidated basis; and
- maintain a ratio of total liabilities to adjusted total assets of less than 0.80.

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Under the terms of our loan facilities, we may not make distributions to our shareholders if we do not satisfy these covenants or receive waivers from the lenders. We cannot assure you that we will be able to satisfy these covenants in the future.

Due to these restrictions, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders permission when needed. This may prevent us from taking actions that are in our best interests.

Our debt service obligations require us to dedicate a substantial portion of our cash flows from operations to required payments on indebtedness and could limit our ability to obtain additional financing, make capital expenditures and acquisitions, and carry out other general corporate activities in the future. These obligations may also limit our flexibility in planning for, or reacting to, changes in our business and the shipping industry or detract from our ability to successfully withstand a downturn in our business or the economy generally. This may place us at a competitive disadvantage to other less leveraged competitors.

If we enter into charter agreements or drilling contracts or engage in certain other activities with countries or government-controlled entities or customers associated with countries that are subject to restrictions imposed by the U.S. government, or engage in certain other activities, our ability to conduct business and access U.S. capital markets and our reputation and the market for the notes and our common shares could be adversely affected.

From time to time in the past, in what we believe were conducted in compliance with then applicable sanctions and embargo laws, our vessels made port calls and our drilling units operated in countries that were subject to sanctions and embargoes imposed by the U.S. government and other authorities and/or identified by the U.S. government or other authorities as state sponsors of terrorism, such as Cuba, Iran, Sudan and Syria. 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. In 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 expanded the application of the prohibitions to additional activities of companies such as ours and introduced 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. 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. On July 30, 2012, President Obama signed Executive Order 13622, which authorized sanctions for, amongst other activities, (i) knowingly, on or after July 30, 2012, engaging in a significant transaction for the purchase or acquisition of petroleum, petroleum products or petrochemical products from Iran, and (ii) materially assisting, sponsoring or providing financial, material, or technological support for, or goods or services in support of, the National Iranian Oil Company, the Naftiran Intertrade Company, or the Central Bank of Iran, or the purchase or acquisition of U.S. bank notes or precious metals by the Government of Iran. Sanctions available under Executive Order 13622 for the activities listed under (i) above include, amongst others, denial of financing by the U.S. Export-Import Bank, limitations on the amount of loans or credits available from U.S. financial institutions and prohibition of U.S. federal procurements from sanctioned persons. For the activities listed under

(ii) above, Executive Order 13622 authorizes the blocking of assets. On August 10, 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012 (the Act) which created new sanctions and strengthened existing sanctions. Among other things, the Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran s petroleum or petrochemical sector. The 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.

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 notes may adversely affect the price at which our notes trade. 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 notes may be adversely affected if we engage in certain other activities, such as entering into drilling contracts 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 the notes offered hereby and our common shares may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Risks Related to the Notes and Our Common Shares

The notes are effectively subordinated to our secured debt and any liabilities of our subsidiaries.

The notes will rank senior in right of payment to any of our future indebtedness that is expressly subordinated in right of payment to the notes; equally in right of payment with any of our existing and future liabilities that are not so subordinated; effectively junior in right of payment to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of our subsidiaries.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt will be available to pay obligations on the notes only after the secured debt has been repaid in full. There may not be sufficient assets remaining to pay amounts due on any or

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all of the notes then outstanding. The indenture governing the notes does not prohibit us from incurring additional senior debt or secured debt, nor does it prohibit any of our subsidiaries from incurring additional debt.

As of September 30, 2012, on an as adjusted basis after giving effect only to this offering and the use of proceeds thereof, we, including our unconsolidated subsidiaries, would have had approximately $3.3 billion in aggregate principal amount of indebtedness outstanding, of which approximately $2.6 billion would have been secured. The notes will be effectively junior to such secured indebtedness to the extent of the value of the assets securing such indebtedness. As of the same date, we had entered into interest rate swap contracts with a combined outstanding principal amount of approximately $1.8 billion.

The notes are our obligations only and our operations are conducted through, and substantially all of our assets are held by, our subsidiaries.

The notes are our obligations exclusively and are not guaranteed by any of our subsidiaries. A substantial portion of our consolidated assets is held by our subsidiaries. Accordingly, our ability to service our debt, including the notes, depends on the results of operations of our subsidiaries and upon the ability of such subsidiaries to provide us with cash, whether in the form of dividends, loans or otherwise, to pay amounts due on our obligations, including the notes. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the notes or to make any funds available for that purpose. In addition, dividends, loans or other distributions to us from such subsidiaries may be subject to contractual and other restrictions and are subject to other business considerations.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may still incur substantially more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We will not be restricted under the terms of the indenture governing the notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing our ability to make payments on the notes when due. Our existing credit facilities restrict our ability to incur additional indebtedness, including secured indebtedness, but if the facilities mature or are repaid, we may not be subject to such restrictions under the terms of any subsequent indebtedness.

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There is a risk that U.S. tax authorities could treat us as a passive foreign investment company, which would have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation will be treated as a passive foreign investment company, or PFIC, for U.S. 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 , but income from bareboat charters does constitute passive income.

U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, 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 and possibly with respect to the gain, if any, they derive from the sale or other disposition of the notes. Please see Taxation U.S. Federal Income Taxation of U.S. Holders Passive Foreign Investment Company Status and Significant Tax Consequences .

We may be a PFIC for the 2013 taxable year or a future taxable year depending upon the fair market value of our assets. Furthermore, if our income from our time charters is considered to be passive rental income, rather than income from the performance of services, we will be considered a PFIC. We have received an opinion from Seward & Kissel LLP that it is more likely than not that our income from time charters will not be treated as passive rental income for purposes of determining whether we are a PFIC. Correspondingly, we believe that the assets that we own and operate in connection with the production of such income do not constitute passive assets for purposes of determining whether we are a PFIC. This position is principally based upon the positions that (1) our time charter income will constitute services income, rather than rental income, and (2) Frontline Management (Bermuda) Ltd., a subsidiary of Frontline, or Frontline Management, which provides services to most of our time-chartered vessels, will be respected as a separate entity from the Frontline Charterers, with which it is affiliated. Nevertheless, for the 2013 taxable year and future taxable years, depending upon the relative amounts of income we derive from our various assets as well as their relative fair market values, we may be treated as a PFIC.

We note that there is no direct legal authority under the PFIC rules addressing our current and expected method of operation. Accordingly, no assurance can be given that the U.S. Internal Revenue Service, or the IRS, or a court of law will accept our position, and there is a significant risk that the IRS or a court of law could determine that we are a PFIC. Furthermore, even if we would not be a PFIC under the foregoing tests, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations were to change. Depending upon the relative amount of income we derive from our various assets as well as their relative fair market values, we may be treated as a PFIC for any taxable year.

If we are treated as a PFIC for any taxable year, we will inform investors of our status and we will provide investors with the information necessary to make and maintain a qualified electing fund election. However, this election may not be made until the notes are converted into common shares, and the unavailability of such election may result in adverse U.S. federal income tax consequences to holders. See the discussion under Taxation U.S. Federal Income Taxation of U.S. Holders Passive Foreign Investment Company Status and Significant Tax Consequences . If the IRS or a court of law were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders and possibly the holders of our notes would face adverse U.S. federal income tax consequences. For example, U.S. non-corporate shareholders would not be eligible for preferential tax rates on dividends that we pay.

Recent regulatory actions may adversely affect the trading price and liquidity of the notes.

We expect that many investors in, and potential purchasers of, the notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the notes. Investors that employ a convertible arbitrage strategy with respect to convertible debt instruments typically implement that strategy by selling short the common shares underlying the convertible notes and dynamically adjusting their short position while they hold the notes. Investors may also implement this strategy by entering into swaps on our common shares in lieu of or in addition to short selling the common shares. As a result, any specific rules regulating equity swaps or short selling of securities or other governmental action that interferes with the ability of market participants to effect short sales or equity swaps with respect to our common shares could adversely affect the ability of investors in, or potential purchasers of, the notes to conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the notes. This could, in turn, adversely affect the trading price and liquidity of the notes.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common shares). In particular, Rule 201 of SEC Regulation SHO generally restricts short selling when the price of a covered security triggers a circuit breaker by falling 10% or more from the security s closing price as of the end of regular trading hours on the prior day. If this circuit breaker is triggered, short sale orders can be displayed or executed for the remainder of that day and the following day only if the order price is above the current national best bid, subject to certain limited exceptions. Because our common shares are a covered security, these Rule 201 restrictions, if triggered, may interfere with the ability of investors in, and potential purchasers of, the notes, to effect short sales in our common shares and conduct a convertible arbitrage strategy.

The SEC has also approved a pilot program allowing securities exchanges and the Financial Industry Regulatory Authority, Inc. (FINRA) to halt trading in securities included in the S&P 500 Index, Russell 1000 Index and certain exchange traded funds and notes if the price of any such security moves 10% or more from a sale price in a five-minute period (the single stock circuit breaker program). Beginning on August 8, 2011, the single stock circuit breaker program was expanded to include all other NMS stocks, and imposes a trading halt in these additional stocks in the event of any price movement of 30% or 50% (or more), depending upon the trading price of the stock. The single stock circuit breaker program is currently set to expire on February 4, 2013. The SEC also recently approved two proposals submitted by national securities exchanges and FINRA. One initiative is the Limit Up-Limit Down plan, which will replace the single stock circuit breaker program and require securities exchanges, alternative trading systems, broker-dealers and other trading centers to establish policies and procedures that prevent the execution of trades and the display of offers from occurring outside of a specified price band. If bid or offer quotations are at the far limit of the price band for more than 15 seconds, trading in that security will be subject to a five-minute trading pause. The Limit Up-Limit Down plan is scheduled to go into effect on a one-year pilot basis on February 4, 2013.

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The second initiative will change existing stock exchange and FINRA rules that establish a market-wide circuit breaker system. The existing market-wide circuit breaker system provides for specified market-wide halts in trading of stock for certain periods following specified market declines. The changes will lower the percentage-decline thresholds for triggering a market-wide trading halt and shorten the amount of time that trading is halted. Market declines under the new system will be measured by reference to the S&P 500 Index rather than the Dow Jones Industrial Average, and the trigger thresholds will be calculated daily rather than quarterly. The changes to the market-wide circuit breaker system are scheduled to go into effect on a one-year pilot basis on February 4, 2013.

The restrictions on trading imposed by the single stock circuit breaker program, the market-wide circuit breaker system and, when effective, the Limit Up-Limit Down plan may interfere with the ability of investors in, and potential purchasers of, the notes to effect short sales in our common shares and conduct a convertible arbitrage strategy.

The enactment of the Dodd-Frank Act on July 21, 2010 also introduced regulatory uncertainty that may impact trading activities relevant to the notes. This legislation will require many over the-counter swaps and security-based swaps to be centrally cleared through regulated clearinghouses and traded on exchanges or comparable trading facilities. In addition, swap dealers, security-based swap dealers, major swap participants and major security-based swap participants will be required to comply with margin and capital requirements as well as public reporting requirements to provide transaction and pricing data on both cleared and uncleared swaps. These requirements could adversely affect the ability of investors in, or potential purchasers of, the notes to maintain a convertible arbitrage strategy with respect to the notes (including increasing the costs incurred by such investors in implementing such strategy). This could, in turn, adversely affect the trading price and liquidity of the notes. We cannot predict how the SEC and other regulators will ultimately implement this legislation or the magnitude of the effect that this legislation will have on the trading price or liquidity of the notes. Although the direction and magnitude of the effect that the amendments to Regulation SHO, FINRA and securities exchange rule changes and/or implementation of the Dodd-Frank Act may have on the trading price and the liquidity of the notes will depend on a variety of factors, many of which cannot be determined at this time, past regulatory actions have had a significant impact on the trading prices and liquidity of convertible debt instruments. For example, between July 2008 and September 2008, the SEC issued a series of emergency orders placing restrictions on the short sale of the common shares of certain financial services companies. The orders made the convertible arbitrage strategy that many convertible debt investors employ difficult to execute and adversely affected both the liquidity and trading price of convertible debt instruments issued by many of the financial services companies subject to the prohibition. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the notes to effect short sales of our common shares, including the amendments to Regulation SHO, FINRA and exchange rule changes and the implementation of the Dodd-Frank Act, could similarly adversely affect the trading price and the liquidity of the notes.

Volatility in the market price and trading volume of our common shares could adversely impact the trading price of the notes.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common shares could fluctuate significantly for many reasons, including in response to the risks described in this section, elsewhere in this prospectus supplement or the documents we have incorporated by reference in this prospectus supplement or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements

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by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common shares would likely adversely impact the trading price of the notes. The market price of our common shares could also be affected by possible sales of our common shares by investors who view the notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common shares. This trading activity could, in turn, affect the trading prices of the notes.

We may not have the ability to raise the funds necessary to settle conversions of the notes or to repurchase the notes upon a change of control event.

Holders of the notes will have the right to require us to repurchase their notes in cash upon the occurrence of a change of control event at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, *plus* accrued and unpaid interest, if any, to, but not including, the purchase date, as described under Description of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event. In addition, upon conversion of the notes, unless we elect to deliver solely common shares to settle such conversion, we will be required to make cash payments in respect of the notes being converted as described in under Description of Notes Conversion of Notes Settlement Upon Conversion.

However, we may not have enough available cash or be able to obtain financing at the time we are required to repurchases of notes surrendered therefor or notes being converted. In addition, our ability to repurchase the notes or to pay cash upon conversions of the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the change of control event itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

The accounting method for convertible debt securities that may be settled in cash, such as the notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer s economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period s amortization of the debt discount and the instrument s coupon interest, which could adversely affect our reported or future financial results, the trading price of our common shares and the trading price of the notes.

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In addition, under certain circumstances, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of common shares that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

Holders of notes will not be entitled to any rights with respect to our common shares, but will be subject to all changes made with respect to them to the extent that our satisfaction of our conversion obligation includes delivery of common shares.

Holders of notes will not be entitled to any rights with respect to our common shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common shares) prior to the conversion date relating to such notes (if we have elected to settle the relevant conversion by delivering solely common shares) or the last trading day of the relevant conversion period (if we elect to pay and deliver, as the case may be, a combination of cash and common shares in respect of the relevant conversion), but holders of notes will be subject to all changes affecting our common shares. For example, if an amendment is proposed to our memorandum of association or bye-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder s conversion of its notes (if we have elected to settle the relevant conversion by delivering solely common shares) or the last trading day of the relevant conversion period (if we elect to pay and deliver, as the case may be, a combination of cash and common shares in respect of the relevant conversion), such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common shares.

Upon conversion of the notes, you may receive less valuable consideration than expected because the value of our common shares may decline after you exercise your conversion right but before we settle our conversion obligation.

Under the notes, a converting holder will be exposed to fluctuations in the value of our common shares during the period from the date such holder surrenders notes for conversion until the date we settle our conversion obligation.

Upon conversion of the notes, we have the option to pay or deliver, as the case may be, cash, our common shares, or a combination of cash and our common shares (except for conversions during the period beginning on the issuance of a call option notice and ending at 5:00 p.m. (New York City time) on the business day immediately preceding the redemption date, which shall be settled in common shares). If we elect to satisfy our conversion obligation in cash or a combination of cash and our common shares, the amount of consideration that you will receive upon conversion of your notes will be determined by reference to the daily VWAP (as defined herein) of our common shares for each VWAP trading day in a 50 VWAP trading day conversion period. Accordingly, if the price of our common shares decreases during this period, the amount and/or value of consideration you receive will be adversely affected. In addition, if the market price of our common shares at the end of such period is below the average of the daily VWAPs of our common shares during such period, the value of any of our common shares that you will receive in satisfaction of our conversion obligation will be less than the value used to determine the number of common shares that you will receive.

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Upon conversion beginning on the 55th scheduled VWAP trading day or if we elect to settle the notes at maturity using our common shares, under certain circumstances you may not receive the settlement amount until after maturity.

If we elect to settle the notes at maturity using our common shares, or if you convert during the period beginning on the 55th scheduled VWAP trading day immediately preceding the stated maturity date and we have elected to satisfy our conversion obligation in cash or a combination of cash and common shares, you may not receive the settlement amount until after the stated maturity date if there occurs a market disruption event on one or more VWAP trading days during the 50 VWAP trading day conversion period or 50 VWAP trading day period for calculating current value.

The notes are not protected by restrictive covenants.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a change of control event or other corporate transaction involving us except to the extent described under Description of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event, Description of Notes General Covenants Mergers and Description of Notes General Covenants De-mergers.

The adjustment to the conversion price for notes converted in connection with a change of control event may not adequately compensate you for any lost value of your notes as a result of such transaction.

If a change of control event occurs prior to the maturity date, we will decrease the conversion price in the event of a conversion in connection with such change of control event. The decrease in the conversion price will be determined based on the date on which the specified corporate transaction becomes effective, as described below under Description of Notes Conversion of Notes Adjustment to Conversion Price and Holder Option to Require Repurchase upon a Change of Control Event. The adjustment to the conversion price for notes converted in connection with a change of control event may not adequately compensate you for any lost value of your notes as a result of such transaction.

The conversion price may not be adjusted for all dilutive events.

The conversion price is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends to all or substantially all holders of our common shares, the issuance of certain rights or warrants to all or substantially all holders of our common shares, subdivisions or combinations of our common shares, distributions of capital stock, indebtedness, or assets to holders of all or substantially all of our common shares, cash dividends on our common shares and certain issuer tender or exchange offers for our common shares as described under Description of Notes Conversion of Notes Conversion Price Adjustments. However, the conversion price will not be adjusted for other events, such as a third-party tender or exchange offer or issuances of common shares for cash that may adversely affect the trading price of the notes or our common shares. An event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion price.

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Some significant restructuring transactions and significant changes in the composition of our board may not constitute a change of control event, in which case we would not be obligated to offer to repurchase the notes.

Upon the occurrence of a change of control event, you have the right to require us to repurchase your notes. However, the change of control event provisions will not afford protection to holders of notes in the event of other transactions that could adversely affect the notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings, or certain mergers or acquisitions or significant changes in the composition of our board may not constitute a change of control event requiring us to repurchase the notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the notes, even if one of these transactions increases the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of notes.

You may be subject to tax if we make or fail to make certain adjustments to the conversion price even though you do not receive a corresponding cash distribution.

The conversion price is subject to adjustment in certain circumstances, including the payment of cash dividends. If the conversion price is adjusted as a result of a distribution that is taxable to our common shareholders, such as a cash dividend, U.S. investors will be deemed to have received a dividend subject to U.S. federal income tax without the receipt of any cash to the extent of our current or accumulated earnings and profits (determined under U.S. tax principles). In addition, a failure to adjust (or to adjust adequately) the conversion price after an event that increases your proportionate interest in us could be treated as a deemed taxable dividend to you. If a change of control event occurs on or prior to the maturity date, we will decrease the conversion price for notes converted in connection with the change of control event. Such decrease may also be treated as a distribution subject to U.S. federal income tax as a dividend. See Taxation.

Future sales, or availability for sale, of our common shares by shareholders could depress the market price of our common shares.

Sales of a substantial number of common shares in the public market, including sales by any selling shareholder, or the perception that large sales could occur or the conversion into common shares of our $125 million aggregate principal amount of 3.75% Senior Unsecured Convertible Notes due 2016 or the perception that any such conversion could occur or the issuance, at our election, of our common shares (and cash) at maturity if we exercise the share settlement option of such convertible notes or the notes offered hereby, or the perception that such issuances could occur, could depress the market price of our common shares. Such future sales, or perception thereof, could also impair our ability to raise capital through future offerings of equity or equity-linked securities. As of January 22, 2013, we had 85,250,000 common shares outstanding.

Concurrently with this offering of notes, up to 6,060,606 borrowed shares are being offered, by means of separate prospectus supplement and accompanying prospectus, by the share borrower, which is an affiliate of one of the underwriters of this offering of notes. The share borrower will borrow the borrowed shares from SFLC. SFLC will borrow the shares it lends to the share borrower from Hemen Holding Ltd., an affiliate of ours and our largest shareholder. 4,242,424 of the 6,060,606 borrowed shares will be initially offered at $16.50 per share (we refer to these as the fixed-price borrowed shares) and up to the remaining 1,818,182 borrowed shares are expected to be subsequently sold at prevailing market prices at the time of sale or at negotiated prices.

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The closing of this offering of notes is contingent upon the closing of the offering of fixed-price borrowed shares and the closing of the concurrent offering of fixed-price borrowed shares is contingent upon the closing of this offering of notes.

Conversion of the notes may dilute the ownership interest of existing shareholders, including holders who had previously converted their notes.

To the extent we issue common shares upon conversion of the notes, the conversion of some or all of the notes will dilute the ownership interests of existing shareholders. Any sales in the public market of common shares issuable upon such conversion could adversely affect prevailing market prices of common shares. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common shares.

The price of our common shares historically has been volatile. This volatility may affect the price at which you could sell the common shares you receive upon conversion of your notes, if any, and the sale of substantial amounts of our common shares could adversely affect the price of our common shares.

The trading price and volume of our common shares has been and may continue to be subject to large fluctuations. The market price and volume of our common 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 products we sell;
- 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 common shares, and the trading price of the notes, regardless of our operating performance. To the extent that the price of our common shares declines, our ability to raise funds through the issuance of equity or otherwise use our common shares as consideration will be reduced. These factors may limit our ability to implement our operating and growth plans.

Changes in our dividend policy could adversely affect holders of our common shares.

Any dividend on our common shares that we declare is at the discretion of our board of directors and subject to the requirements of Bermuda law. We cannot assure you that our dividend will not be reduced or eliminated in the future. Our profitability and corresponding ability to pay dividends is substantially affected by amounts we receive through charter hire and profit sharing payments from our charterers. Our entitlement to profit sharing payments, if any, is based on the financial performance of our vessels which is outside of our control. If our charter hire and profit sharing payments decrease substantially, we may not be able to continue to pay dividends at present levels, or at all. We are also subject to contractual limitations on our ability to pay dividends pursuant to certain debt agreements, and we may agree to additional limitations in the future. Additional factors that could affect our ability to pay dividends include statutory and contractual limitations on the ability of our subsidiaries to pay dividends to us, including under current or future debt arrangements.

The effect of the sale of our common shares in the concurrent offering may be to lower the market price of our common shares.

Concurrently with this offering of notes, up to 6,060,606 borrowed shares are being offered, by means of separate prospectus supplement and accompanying prospectus, by the share borrower, which is an affiliate of one of the underwriters of this offering of notes. The share borrower will borrow the borrowed shares from SFLC under the SFLC Share Lending Agreement. SFLC will borrow the shares it lends to the share borrower from Hemen Holding Ltd., an affiliate of ours and our largest shareholder, under the Hemen Share Lending Agreement. 4,242,424 of the 6,060,606 borrowed shares will be initially offered at $16.50 per share (we refer to these as the fixed-price borrowed shares) and up to the remaining 1,818,182 borrowed shares are expected to be subsequently sold at prevailing market prices at the time of sale or at negotiated prices. The borrowed shares are being borrowed by the share borrower under the SFLC Share Lending Agreement. Neither we, nor SLFC nor Hemen Holding Ltd. will receive any proceeds from the borrowed shares. All borrowed shares (or identical shares or, in certain circumstances, the cash value thereof) must be returned to SFLC on or about the maturity date of the notes, or, if earlier, on or about the date as of which all of the notes cease to be outstanding as a result of redemption, repurchase, conversion or other acquisition for value (or earlier in certain other circumstances). See Description of Share Lending Agreement.

We have been further advised by Deutsche Bank Securities Inc. that it, or its affiliates, intend to use the short position created by the share loan and the short sales of the borrowed shares to facilitate transactions by which investors in the notes may hedge their investments in the notes (or our other convertible notes) through short sales or privately negotiated derivatives transactions. The existence of the SFLC Share Lending Agreement, the short sales of our common shares effected in connection with the sale of the notes, and the related derivatives transactions, or any unwind of such short sales or derivatives transactions, could cause the market price of our common shares to be lower over the term of the SFLC Share Lending Agreement than it would have been had we not entered into that agreement, due to the effect of the increase in the number of our outstanding common shares being traded in the market or otherwise. For example, in connection with any cash settlement of any such derivative transaction, the underwriters or their affiliates may purchase our common shares and the note investors may sell our common shares, which could temporarily increase, temporarily delay a decline in, or temporarily decrease, the market price of our common shares. The market price of our common shares could be further negatively affected by these or other short sales of our common shares, including other sales by the purchasers of the notes hedging their investment therein.

Adjustments by purchasers of the notes of their hedging positions in our common shares and the expectation thereof may have a negative effect on the market price of our common shares.

Our common shares that are being offered in the concurrent offering are expected to be used by investors in the notes and our other convertible notes to establish or maintain hedge positions with respect to our common shares through short sale transactions or privately negotiated derivatives transactions. The number of our common shares offered in the concurrent offering may be more or less than the number of common shares that will be needed in such hedging transactions. Any buying or selling of our common shares by those investors to adjust their hedging positions in connection with this offering or in the future may affect the market price of our common shares.

Because we are a foreign corporation, you may not have the same rights as a shareholder in a U.S. corporation has.

We are a Bermuda exempted company. Bermuda law may not as clearly establish your rights and the fiduciary responsibilities of our directors as do statutes and judicial precedent in some jurisdictions in the United States. In addition, most of our directors and officers are not resident in the United States and the majority of our assets are located outside of the United States. As a result, investors may have more difficulty in protecting their interests and enforcing judgments in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

We cannot assure you that an active trading market will develop for the notes.

Prior to this offering, there has been no trading market for the notes, and we do not intend to apply to list the notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. We have been informed by the underwriters that they intend to make a market in the notes after the offering is completed. However, the underwriters may cease their market-making at any time without notice. In addition, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure you that an active trading market will develop for the notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case you may not be able to sell your notes at a particular time or you may not be able to sell your notes at a favorable price.

Any adverse rating of the notes may cause their trading price to fall.

We do not intend to seek a rating on the notes. However, if a rating service were to rate the notes and if such rating service were to lower its rating on the notes below the rating initially assigned to the notes or otherwise announces its intention to put the notes on credit watch, the trading price of the notes could decline.

We may use the net proceeds of this offering for purposes with which you do not agree.

We intend to use the net proceeds of this offering to redeem or repurchase in the open market, in negotiated transactions or otherwise, all of our outstanding 8.5% Senior Notes due 2013. To the extent that we are not able to use the net proceeds from this offering to redeem or repurchase this indebtedness, we may use such proceeds for other purposes with which you may not agree. Pending the application of the net proceeds of this offering to redeem or repurchase our 8.5% Senior Notes due 2013, we may invest such proceeds on a short-term basis, which may not yield returns comparable to our reduced financing costs resulting from our redemption or repurchase of 8.5% Senior Notes due 2013. See Use of Proceeds.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $344.1 million, after deducting the underwriters discount and estimated fees and expenses payable by us. We intend to use:

- Approximately $225.0 million to redeem or repurchase in the open market, in negotiated transactions or otherwise, all of the outstanding 8.5% Senior Notes due 2013; and

- Approximately $119.1 million for general corporate purposes, including working capital.

The 8.5% Senior Notes due 2013 mature on December 15, 2013 and bear interest at 8.5% per year.

Pending the use of the net proceeds from this offering, we plan to invest the proceeds in a variety of capital preservation investments, including interest-bearing obligations and certificates of deposit.

This offering is being conducted in connection with the concurrent offering of the borrowed shares. The closing of this offering of notes pursuant to this prospectus supplement and the accompanying prospectus is contingent upon the closing of the offering of the fixed-price borrowed shares, and the closing of the concurrent offering of the fixed-price borrowed shares is contingent upon the closing of the offering of the notes hereunder.

Neither we, nor SFLC nor Hemen Holding Ltd. will receive any proceeds from the sale of the borrowed shares in the concurrent offering.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2012:

- on an actual basis;

- on an adjusted basis giving effect to gross proceeds to us of $89.3 million from the issuance of 6,000,000 common shares in an underwritten public offering; gross proceeds to us of $105.4 million from the issuance of the NOK600 million aggregate principal amount senior unsecured bond due 2017; gross proceeds of $53.2 million from the secured term loan facility relating to two car carriers; the early repayment of $66.0 million of debt related to two secured term loan facilities in advance of the regularly scheduled payment date in January 2013; the purchase of $51.4 million of our 8.5% Senior Notes due 2013; and dividend payments of $66.5 million on December 28, 2012; and

- as further adjusted for this offering and the application of the proceeds therefrom.

There have been no other significant adjustments to our capitalization since September 30, 2012. This table should be read in conjunction with the section of this prospectus supplement entitled Use of Proceeds, the unaudited condensed consolidated financial statements and the related notes for the nine months ended September 30, 2012, included in our report on Form 6-K filed with the Commission on January 24, 2013 and incorporated by reference herein, and the consolidated financial statements and related notes included in our annual report for the year ended December 31, 2011 on Form 20-F filed with the Commission on April 27, 2012 and incorporated by reference herein.

	September 30, 2012		
(In thousands of U.S. dollars)	**Actual**	**As Adjusted**	**As Further Adjusted**
Cash and cash equivalents	$ 66,818	$ 130,780	$ 258,014
Debt (Principal balance):			
Secured Bank Debt	$ 1,375,075	$ 1,362,275	$ 1,362,275
8.5% Senior Notes due 2013	274,209	222,766	
NOK500 million Senior Unsecured Bonds due 2014	76,247	76,247	76,247
NOK600 million Senior Unsecured Bonds due 2017		105,375	105,375
3.75% Senior Unsecured Convertible Notes due 2016	125,000	125,000	125,000
3.25% Convertible Senior Notes due 2018 offered hereby(1)			350,000
Total debt(2)	$ 1,850,531	$ 1,891,663	$ 2,018,897
Shareholders equity(3)	$ 909,380	$ 932,210	$ 932,210
Total capitalization(4)	$ 2,693,093	$ 2,693,093	$ 2,693,093

(1) Disclosed at face value, subject to a final accounting determination following the completion of this offering.
(2) The total debt numbers do not include $1.262 billion in debt held in our associated subsidiaries the majority of which is non-recourse to us.
(3) 125,000,000 common shares authorized par value $1.00 per share; as of September 30, 2012, 79,225,000 common shares issued and outstanding on an actual basis; 85,250,000 common shares issued and outstanding on an as adjusted and as further adjusted basis; no new common shares will be issued in the concurrent offering; does not reflect the issuance of any common shares upon conversion of the notes offered hereby or the 3.75% Senior Unsecured Convertible Notes due 2016.
(4) The total capitalization equals total debt plus shareholders equity less cash and cash equivalents.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our unaudited ratio of earnings to fixed charges for each of the preceding five fiscal years and the nine months ended September 30, 2012. The Company does not have any preferred shares outstanding and therefore does not pay any preference security dividends.

	For The Years Ended December 31,					For the Nine Months Ended September 30,
	2007	2008	2009	2010	2011	2012
(In thousands of U.S. dollars, except ratios)						
Earnings:						
Net income	$ 167,707	$ 181,611	$ 192,598	$ 165,712	$ 131,175	$ 134,737
Add: Fixed charges	131,525	128,795	117,653	101,740	103,816	71,233
Less: Interest capitalized	1,124	1,603	578	308	438	266
Total earnings	$ 298,108	$ 308,803	$ 309,673	$ 267,144	$ 234,553	$ 205,704
Fixed charges:						
Interest expensed and capitalized	$ 128,167	$ 125,018	$ 112,146	$ 96,704	$ 96,685	$ 66,897
Interest Portion of Rental Expense						
Amortization and write-off of capitalized expenses relating to indebtedness	3,358	3,777	5,507	5,036	7,131	4,336
Total fixed charges	$ 131,525	$ 128,795	$ 117,653	$ 101,740	$ 103,816	$ 71,233
Ratio of earnings to fixed charges	2.27x	2.40x	2.63x	2.63x	2.26x	2.89x

(1) Interest portion of rental expense at an appropriate interest factor.

For purposes of computing the consolidated ratio of earnings to fixed charges, earnings consist of net income available to common shareholders plus interest expense and any amortization and write-off of capitalized expenses relating to indebtedness. Fixed charges consist of interest expense and capitalized, the interest portion of rental expense and amortization and write-off of capitalized expenses relating to indebtedness.

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DIVIDEND POLICY

Our board of directors adopted a policy in May 2004 in connection with our public listing, whereby we seek to pay a regular quarterly dividend, the amount of which is based on our contracted revenues and growth prospects. Our goal is to increase our quarterly dividend as we grow the business, but the timing and amount of dividends, if any, is at the sole discretion of our board of directors and will depend upon our operating results, financial condition, cash requirements, restrictions in terms of financing arrangements and other relevant factors subject to Bermuda law. Under Bermuda law, a company s board of directors may not declare or pay dividends from time to time if there are reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than its liabilities. There are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in or out of Bermuda or to pay dividends to U.S. investors who are holders of our common shares.

We have paid dividends for 36 consecutive quarters including the dividend payment of $0.39 per share in respect of the quarter ending September 30, 2012 and a special accelerated dividend of $0.39 per share in respect of the quarter ended December 31, 2012, both of which were paid on December 28, 2012 to shareholders of record on December 20, 2012. There will be no additional dividend paid in respect of the quarter ended December 31, 2012. Please see Risk Factors Changes in our dividend policy could adversely affect holders of our common shares.

For the years ended December 31, 2009, 2010 and 2011 and for the nine months ended September 30, 2012, we paid aggregate dividends in cash and in kind to our shareholders in the amounts of $111.1 million ($1.50 per share), $129.5 million ($1.64 per share), $122.6 million ($1.55 per share) and $152.0 million ($1.86 per share), respectively. Set forth below is a breakdown of the dividends we have paid in respect of 2009, 2010, 2011 and 2012:

Payment Date	Amount per Share	
2009		
January 7, 2009	$	0.60
April 17, 2009	$	0.30(1)
July 6, 2009	$	0.30(1)
October 16, 2009	$	0.30(1)
2010		
January 27, 2010	$	0.30(1)
March 30, 2010	$	0.30
June 10, 2010	$	0.33
September 30, 2010	$	0.35
December 30, 2010	$	0.36
2011		
March 29, 2011	$	0.38
June 29, 2011	$	0.39
September 29, 2011	$	0.39
December 29, 2011	$	0.39
2012		
March 28, 2012	$	0.30
June 28, 2012	$	0.39
September 28, 2012	$	0.39
December 28, 2012	$	0.78(2)

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(1) Shareholders were provided with the choice of receiving this dividend payment in cash or newly issued common shares. The number of new shares issued pursuant to these dividend payments is provided in our annual report on Form 20-F for the year ended December 31, 2011 under the heading Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Equity .

(2) Includes the dividend payment of $0.39 per share in respect of the quarter ending September 30, 2012 and the special accelerated dividend payment of $0.39 per share in respect of the quarter ended December 31, 2012, both of which were paid on December 28, 2012 to shareholders of record on December 20, 2012.

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PRICE RANGE OF OUR COMMON SHARES

Our common shares trade on The New York Stock Exchange under the symbol SFL. The high and low prices of our common shares on The New York Stock Exchange are presented for the periods listed below.

You should carefully review the high and low prices of our common shares in the tables for the months, quarters and years indicated under the heading Item 9. The Offer and Listing in our annual report on Form 20-F for the year ended December 31, 2011, which is incorporated by reference herein.

For the Year Ended	**High**	**Low**
2012	$ 17.94	$ 9.13
For the Quarter Ended		
March 31, 2012	$ 15.91	$ 9.13
June 30, 2012	$ 16.55	$ 12.39
September 30, 2012	$ 17.94	$ 13.85
December 31, 2012	$ 16.73	$ 14.31
For the Month Ended		
July 2012	$ 15.96	$ 13.85
August 2012	$ 16.40	$ 14.12
September 2012	$ 17.94	$ 15.55
October 2012	$ 16.22	$ 14.76
November 2012	$ 16.24	$ 14.06
December 2012	$ 16.73	$ 15.93
January 2013 (through and including January 24, 2013)	$ 17.71	$ 16.78

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Our Relationship with the Fredriksen Group

Our principal shareholder, Hemen Holding Ltd. and other related companies, or Hemen, are also the main shareholders of a number of other large publicly traded companies involved in various sectors of the shipping and oil services industries, which we refer to together as the Fredriksen Group.

We were formed in 2003 as a wholly-owned subsidiary of Frontline, a Fredriksen Group entity, and were partially spun off from Frontline in 2004. Frontline is one of the world s leading international owners and operators of tanker vessels. As of June 30, 2012, Frontline Ltd. owned and operated a fleet of 57 vessels, consisting of 38 VLCCs, 15 Suezmaxes and four OBOs. Most of our tanker vessels and our OBO are chartered to subsidiaries of Frontline, including Frontline Shipping Limited and Frontline Shipping II Limited, which we refer to collectively as the Frontline Charterers, under longer-term time charters that have remaining terms that range from two to 14 years. The Frontline Charterers, in turn, charter our vessels to third parties. The daily base charter rates payable to us under the charters have been fixed in advance and will decrease as our vessels age.

We also employ some of our assets through other members of the Fredriksen Group: (i) three of our drilling units are currently chartered to subsidiaries of Seadrill Limited, or Seadrill, including Seadrill Deepwater Charterer Ltd., or Seadrill Deepwater, Seadrill Offshore AS, or Seadrill Offshore, and Seadrill Polaris Ltd., or Seadrill Polaris, which we refer to collectively as the Seadrill Charterers, (ii) our OBO is commercially managed by a subsidiary of Golden Ocean Group Limited, and (iii) six offshore supply vessels are chartered to subsidiaries of Deep Sea Supply, PLC, including DESS PSV Limited and DESS Cyprus Limited.

Through our vessel-owning subsidiaries we have entered into fixed rate management agreements with Frontline Management with respect to our vessels that are on time charter to Frontline. Under these management agreements, Frontline Management is responsible for all technical management of the vessels and receive a fixed fee of $6,500 per day per vessel. We and our vessel-owning subsidiaries have also entered into charter ancillary agreements with the Frontline Charterers and Frontline. Under these agreements we are entitled to receive annual profit sharing payments to the extent that the average daily time charter equivalent rates realized by the Frontline Charterers exceed certain rates. Please see Risk Factors The amount of the profit sharing payment we receive under our charters with the Frontline Charterers, if any, and our ability to pay our ordinary quarterly dividend, may depend on prevailing spot market rates, which are volatile. In addition, we have entered into an administrative services agreement with Frontline Management under which they provide us with certain administrative support services including, among other things, corporate governance and accounting services. We have agreed to reimburse them for reasonable third party costs, if any, advanced on our behalf.

Kate Blankenship, Hans Petter Aas and Cecilie Fredriksen, members of our board of directors, also serve on the boards of one or more Fredriksen Group entities, including Frontline, Seadrill and Golar LNG Limited (NASDAQ: GLNG), Golden Ocean Group Limited (OSE: GOGL) and Knightsbridge Tankers Limited (NASDAQ: VLCCF).

On or prior to the closing of this offering, Hemen Holding Ltd. will lend up to 6,060,606 of our common shares to SFLC, our wholly-owned subsidiary, pursuant to the Hemen Share Lending Agreement. SFLC will lend these common shares, which we refer to as the borrowed

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shares, to Deutsche Bank AG, London Branch, an affiliate of the underwriter for the common shares offering, by means of a separate prospectus supplement and accompanying prospectus. Neither we, nor SFLC nor Hemen Holding Ltd. will receive any proceeds from the sale of the borrowed shares in the concurrent offering. The closing of this offering of the notes pursuant to this prospectus supplement and the accompanying prospectus is contingent upon the closing of the