

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

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from

Commission file number 000-50113

..... **Golar LNG Limited**
(Exact name of Registrant as specified in its charter)

..... Golar LNG Limited
(Translation of Registrant's name into English)

..... Bermuda
(Jurisdiction of incorporation or organization)

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

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None

Securities registered or to be registered pursuant to section 12(g) of the Act.

..... Common Shares, par value \$1.00
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

..... None

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

.....65,562,000 Common Shares, par value \$1.00.....

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934

Yes No ☒

Note – Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer.....Accelerated filer..... ☒Non-accelerated filer.....

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 ☒

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PART III

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This document contains assumptions, expectations, projections, intentions and beliefs about future events, in particular under Item 4, “Information on the Company - Our Business Strategy” and Item 5, “Operating and Financial Review and Prospects”. These statements are intended as “forward-looking statements.” We may also from time to time make forward-looking statements in our periodic reports to the United States Securities and Exchange Commission, other information sent to our stockholders, and 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.

All statements in this document that are not statements of historical fact are forward-looking statements. Forward-looking statements include, but are not limited to, such matters as:

- future operating or financial results;
- statements about future, pending or recent acquisitions, business strategy, areas of possible expansion, and expected capital spending or operating expenses;
- statements about LNG market trends, including charter rates, development of a spot market, factors affecting supply and demand, and opportunities for the profitable trading of LNG;
- expectations about the availability of vessels to purchase, the time which it may take to construct new vessels, or vessels' useful lives; and
- our ability to obtain additional financing.

When used in this document, words such as “believe,” “intend,” “anticipate,” “estimate,” “project,” “forecast,” “plan,” “potential,” “will,” “may,” “should,” and “expect” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

We undertake no obligation to publicly update or revise any forward-looking statements contained in this document, 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 document might not occur, and our actual results could differ materially from those anticipated in these forward-looking statements.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated and combined financial and other data summarize our historical consolidated and combined financial information. We derived the information as at December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005 from our audited Consolidated Financial Statements included in Item 18 of this annual report on Form 20-F, prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

The selected income statement data with respect to the years ended December 31, 2002 and 2001 and the selected balance sheet data as at December 31, 2003, 2002 and 2001, has been derived from audited combined and consolidated financial statements prepared in accordance with U.S. GAAP not included herein. We are a holding company that was formed on May 10, 2001. We acquired our liquefied natural gas, or LNG, operations from Osprey Maritime Limited, or Osprey, a company indirectly controlled by our Chairman and President and major shareholder, John Fredriksen. The LNG operations were a fully integrated business of Osprey prior to our acquisition of them. Accordingly, the following financial information for the period that includes the five months to May 31, 2001 has been derived from the financial statements and accounting records of Osprey and reflects significant assumptions and allocations. Our financial position, results of operations and cash flows could have differed from those that would have resulted if we had operated autonomously or as an entity independent of Osprey in the period for which historical financial data is presented for the five months to May 31, 2001 below and, similarly may not be indicative of our future operating results or financial performance.

The following table should also be read in conjunction with Item 5. “Operating and Financial Review and Prospects” and the Company’s Consolidated Financial Statements and Notes thereto included herein.

	<u>At or for the Fiscal Year Ended</u> <u>December 31</u>				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<i>(in thousands of \$, except number of shares, per common share data and fleet data)</i>					
Income Statement Data:					
Total operating revenues	171,042	163,410	132,765	130,611	114,223
Vessel operating expenses (1)	37,215	35,759	30,156	28,061	24,537
Voyage expenses (5)	4,594	2,561	2,187	-	-
Administrative expenses	12,219	8,471	7,138	6,127	8,232
Restructuring costs	1,344	-	-	-	1,894
Depreciation and amortization	50,991	40,502	31,147	31,300	31,614
Operating income	64,679	76,117	62,137	65,123	47,946
Net financial expenses	(39,319)	(25,304)	(15,140)	(40,367)	(41,617)
Income before equity in net earnings of investee, income taxes and minority interests	25,360	50,813	46,997	24,756	6,329
Income taxes and minority interests	(9,323)	(7,995)	(7,427)	(2,381)	1,963
Equity in net earnings of investee	18,492	13,015	-	-	-
Net income	34,529	55,833	39,570	27,137	4,366
Earnings per common share					
- basic (2)	0.53	0.85	0.68	0.48	0.08
- diluted (2)	0.50	0.84	0.68	0.48	0.08
Cash dividends per common share	-	-	-	-	-
Weighted average number of shares - basic	65,568	65,612	58,533	56,012	56,012
Weighted average number of shares - diluted (2)	65,733	65,797	58,623	56,022	56,019
Balance Sheet Data (at end of year):					
Cash and cash equivalents	62,227	51,598	117,883	52,741	57,569
Restricted cash and short-term investments	49,448	41,953	32,095	12,760	14,163
Amounts due from related parties	17	294	180	281	261
Long-term restricted cash	696,308	714,802	623,179	-	-
Equity in net assets of non-consolidated investee	65,950	48,869	12,176	-	-
Newbuildings	111,565	145,233	207,797	291,671	132,856
Vessels and equipment, net	533,008	371,867	211,098	617,583	641,371
Vessels under capital lease, net	676,036	706,516	553,385	-	-
Total assets	2,230,695	2,110,329	1,783,968	987,935	855,991
Current portion of long-term debt	67,564	66,457	61,331	48,437	41,053
Current indebtedness due to related parties	-	-	-	32,703	85,278
Current portion of obligations under capital	2,466	2,662	-	-	-
Long-term debt	758,183	636,497	593,904	629,173	483,276
Long-term obligations under capital leases	801,500	842,853	616,210	-	-
Minority interest	27,587	26,282	18,706	13,349	25,820
Stockholders' equity	434,554	402,770	338,801	196,136	174,397
Common shares outstanding (2)	65,562	65,612	65,612	56,012	56,012
Fleet Data (unaudited)					
Number of vessels at end of year (3)	10	9	7	6	6
Average number of vessels during year (3)	10	8.33	6.34	6	6
Average age of vessels (years)	15.3	15.9	19.3	21.4	20.4
Total calendar days for fleet	3,645	3,023	2,315	2,190	2,190
Total operating days for fleet (4)	2,976	2,660	2,140	2,166	2,060
Average daily time charter equivalent earnings (5)	\$46,200	\$54,900	\$57,300	\$59,000	\$53,600
Average daily vessel operating costs (6)	\$10,210	\$11,800	\$13,000	\$12,800	\$11,200

Footnotes

- (1) Vessel operating expenses are the direct costs associated with running a vessel including crew wages, vessel supplies, routine repairs, maintenance and insurance. In addition, they include an allocation of overheads allocable to vessel operating expenses.
- (2) Since our financial results for the period that includes the five months to May 31, 2001, were “carved out” of those of Osprey, we did not record any specific share capital for the period before we acquired Osprey’s LNG assets and operations. To provide a measurement of earnings per share for those periods, we use for basic earnings per share the 12,000 shares issued in connection with the formation of Golar on May 10, 2001 and the subsequent issuance of 56 million shares in our Norwegian placement. Basic earnings per share is computed based on the income available to common shareholders and the weighted average number of shares outstanding. The computation of diluted earnings per share assumes the conversion of potentially dilutive instruments.
- (3) In each of the periods presented above, we had a 60% interest in one of our vessels and a 100% interest in our remaining vessels.
- (4) The operating days for our fleet is the total number of days in a given period that the vessels were in our possession less the total number of days off-hire. We define days off-hire as days spent on repairs, drydockings, special surveys and vessel upgrades or awaiting employment during which we do not earn charter hire.
- (5) The majority of our vessels are operated under time charters. However some of our newer vessels operated under voyage charters during 2003 and 2004. Under a time charter, the charterer pays substantially all of the vessel voyage costs whereas under a voyage charter, the vessel owner pays such costs. However, we may also incur voyage related expenses when positioning or repositioning vessels before or after the period of a time charter. Vessel voyage costs are primarily fuel and port charges. Accordingly, charter income from a voyage charter would be greater than that from an equally profitable time charter to take account of the owner’s payment of vessel voyage costs. In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of average daily time charter equivalent earnings, or “TCEs”. For time charters, this is calculated by dividing time charter revenues by the number of calendar days minus days for scheduled off-hire. Where we are paid a fee to position or reposition a vessel before or after a time charter, this additional revenue, less voyage expenses, is included in the calculation of net time charter revenues. We perform this calculation on a vessel by vessel basis. For voyage charters, TCE is calculated by dividing voyage revenues, net of vessel voyage costs, by the number of calendar days minus days for scheduled off-hire. Net charter revenues (non-GAAP measure), the numerator of the TCE calculation, provides more meaningful information to us about the operating revenues generated from our various charters than gross revenues, the most directly comparable GAAP measure. Net revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages.

The following table reconciles our net revenues to total revenues for the years ended December 31, 2005, 2004, and 2003. For each of the years ended December 31, 2002 and 2001 we did not earn any voyage revenues and did not incur any voyage expenses.

(in thousands of \$)	2005	2004	2003
Total revenues	171,042	163,410	132,765
Voyage expenses	(4,594)	(2,561)	(2,187)
Net revenues	166,448	160,849	130,578

Voyage related expenses can also be incurred when our vessels are off hire. This principally occurs during periods of commercial waiting time when a small amount of fuel is consumed whilst the vessel is idle.

- (6) We calculate average daily vessel operating costs by dividing vessel operating costs by the number of calendar days. We do this calculation on a vessel by vessel basis.

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Some of the following risks relate principally to our business or to the industry in which we operate. Other risks relate principally to the securities market and ownership of our shares. Any of these risks, or any additional risks not presently known to us or that we currently deem immaterial, could significantly and adversely affect our business, our financial condition, our operating results and the trading price of our common shares.

Risks Related to our Business

We generate a substantial majority of our revenue under seven long-term agreements with two customers, and the unanticipated loss of one or more of these agreements or either of these customers would likely interrupt our related cash flow.

We receive a substantial majority of our revenue from seven long-term charters with two large and established customers. In the year ended December 31, 2005, BG Group plc, or BG, accounted for 51.2% and Pertamina (the state owned oil and gas company of Indonesia) accounted for 37.2% of our total operating revenues, respectively. Pertamina chartered two of our vessels during 2005 and BG chartered five of our vessels during 2005. All of these charters have fixed terms, but might nevertheless be lost in the event of unanticipated developments such as a customer's breach. Our customers may terminate their charters with us if, among other events, the relevant vessel is lost or damaged beyond repair. The unanticipated loss of any of these charters or either customer would likely interrupt our related cash flow because we cannot be sure that we would be able to enter into attractive replacement charters at short notice. A persistent and continued interruption of our cash flow could, in turn, substantially and adversely affect our financial condition.

Completion of our newbuilding program and investment in new projects is dependent on our obtaining additional financing.

We have installment payments to make relating to the construction cost of one newbuilding still under construction, which is due to be delivered in 2007 and in respect of a contract to convert an existing vessel into a floating storage and regasification unit ('FSRU'). As of June 29, 2006, we believe we have sufficient facilities to meet our anticipated funding needs until June 2007. We currently do not have sufficient facilities to meet the final delivery instalment, in respect of our unfinanced newbuilding hull number 2244, due in June 2007 and additional facilities of \$108 million will be required to meet this commitment. We have successfully financed five newbuilding without long-term charter coverage within the last three years. It is standard in the shipping industry to finance between 50% and 80% of the purchase price of vessels, or construction cost in the case of newbuildings, through bank financing. In the case of vessels that have charter coverage, the debt finance percentage may increase significantly. If we were to obtain 50% debt financing to cover the installments due on our remaining unfinanced newbuilding, this would equate to additional finance of approximately \$80 million of the \$108 million required. For further information concerning our future financing plans, see Item 5 "Operating and Financial Review and Prospects, Liquidity and Capital Resources - Newbuilding Contracts and Capital Commitments". While we believe we will be able to arrange financing for the full amount of newbuilding payments due and have sufficient facilities to meet commitments totalling \$50 million under our FSRU project contract, to the extent we do not timely obtain necessary financing, the completion of our newbuilding and FSRU project could be delayed or we could suffer financial loss, including the loss of all or a portion of the progress payments we had made to the shipyard and in relation to the newbuilding contract any deficiency if the shipyard is not able to recover its costs from the sale of the newbuilding.

We are considering various alternatives for the employment of our newbuildings, failure to find profitable employment for them could adversely affect our operations.

We currently have two vessels; the *Golar Frost* (our newbuilding delivered in April 2004) and the *Golar Winter* (our newbuilding delivered in June 2004), on short-term charters and one newbuilding under construction not committed to medium or long-term charter contracts. We plan to find medium or long-term charters for these vessels or alternatively utilise them within some of the LNG infrastructure projects we are developing. In the case of the *Golar Frost*, if our “Livorno” project is successful it is anticipated that this vessel will be used as a floating LNG terminal. If we cannot obtain profitable employment for these vessels, our earnings will suffer. If we are unable to secure long-term charter coverage for our remaining unfinanced newbuilding hull 2244, we may be unable to obtain the financing necessary to complete that newbuilding. In addition, whether or not we employ our newbuildings profitably, we must service the debt that we incur to finance them as well as pay for operating costs.

Our charters with Shell have variable rates and certain termination rights.

Three of our vessels are time chartered to Shell, *Gracilis* (renamed, was *Golar Viking*), *Grandis* and *Granosa* under five year charter agreements. However, the rates we can earn from these charters are variable relative to the market and Shell, as well as us, have certain termination rights. In the event that Shell does not employ the vessels for their own use, they will market the vessels for use by third parties. If Shell cannot find employment for these ships there could be periods where the vessels incur commercial waiting time and do not earn revenues. If these vessels are not employed profitably or the charters are terminated our cashflows could be seriously impacted.

If we do not accomplish our strategic objective of profitably entering into other areas of the LNG industry, we may incur losses and our strategy to continue growing and increasing operating margins may not be realized.

A part of our strategy reflects our assessment that we should be able to expand profitably into areas of the LNG industry other than the carriage of LNG. We have not previously been involved in other LNG industry businesses and our expansion into these areas may not be profitable and we may incur losses including losses in respect of expenses incurred in relation to project development. Our plan to consider opportunities to integrate vertically into upstream and downstream LNG activities depends materially on our ability to identify attractive partners and projects and obtain project financing at a reasonable cost.

In addition to project development costs, we have contracted to convert one of our vessels, which may be the *Golar Spirit* as its charter ends at the end of 2006, into a floating storage and regasification unit (“FSRU”). The total cost of this investment is approximately \$50 million. As yet we have no employment for this FSRU. If we cannot find employment our investment may be worthless and our cash flows may be significantly impacted. Additionally, it is possible that the use of the vessel as an FSRU may require us to terminate the *Golar Spirit*’s lease, whilst we would be able to retain use of the vessel the loss of this financing would add to the cost of the investment.

Our loan and lease agreements impose restrictions that may adversely affect our earnings or may prevent us from taking actions that could be in our shareholders’ best interest.

Covenants in our loan and lease agreements limit our ability to:

- merge into or consolidate with any other entity or sell or otherwise dispose of all or substantially all of their assets;
- make or pay equity distributions;
- incur additional indebtedness;
- incur or make any capital expenditure; or
- materially amend, or terminate, any of our current charter contracts or management agreements.

If the ownership interest in us of John Fredriksen, our chairman, and his affiliated entities falls below 25% of our share capital, a default of some of our loan agreements and lease agreements to which we are a party would occur. Similarly, if we were to be in any other form of default which we could not remedy, such as payment default,

our lessors, having legal title to our leased vessels, or our lenders, who have mortgage over some of our vessels, could be entitled to sell our vessels in order to repay our debt and or lease liabilities.

Covenants in our loan and lease agreements may effectively prevent us from paying dividends should our Board of directors wish to do so and may require us to obtain permission from our lenders and lessors to engage in some other corporate actions. Our lenders' and lessors' interests may be different from those of our shareholders and we cannot guarantee investors that we will be able to obtain our lenders' and lessors' permission when needed. This may adversely affect our earnings and prevent us from taking actions that could be in our shareholders' best interests.

If we do not maintain the financial ratios contained in our loan and lease agreements or we are in any other form of default such as payment default, we could face acceleration of the due date of our debt and the loss of our vessels.

Our loan and lease agreements require us to maintain specific financial levels and ratios, including minimum amounts of available cash, ratios of current assets to current liabilities (excluding current long-term debt), ratios of net debt to earnings before interest, tax, depreciation and amortization and the level of stockholders' equity. Although we currently comply with these requirements, if we were to fall below these levels we would be in default of our loans and lease agreements and the due date of our debt could be accelerated and our lease agreements terminated, which could result in the loss of our vessels.

Provisions in our loan and lease agreements may limit our flexibility.

In addition to the general restrictions, our loan agreements and UK vessel lease agreements place certain restrictions on our ability to charter our vessels without the consent of the relevant lender or lessor. In addition the lease agreements in respect of six of our vessels limit our ability to enter into time charters other than with BG and Pertamina, who do not have credit ratings of at least BBB+, unless we post additional security over and above the letters of credit already provided as security for our lease obligations. This will impact us when these vessels finish their long-term charters. These restrictions could limit our operational flexibility and negatively impact our financial position or cash flows in the future.

Eight of our vessels are financed by UK tax leases. In the event of any adverse tax rate changes or rulings or in the event of a lease termination we may be required to make additional payments to the UK vessel lessor, which could adversely affect our results and financial position.

In the event of any adverse tax rate changes or rulings, or in the event that we terminate one or more of our leases, we would be required to return all or a portion of, or in certain circumstances significantly more than, the upfront cash benefits that we have received, together with fees that were financed in connection with our lease financing transactions, post additional security or make additional payments to our lessors. The upfront benefits we have received equates to the cash inflow we received in connection with the six leases we entered into during 2003 (in total approximately £41 million British pounds).

Servicing our debt and lease agreements substantially limits our funds available for other purposes.

A large part of our cash flow from operations must go to paying principal and interest on our debt and lease agreements. As of December 31, 2005, our net total indebtedness (including capital lease obligations) was \$822 million and our ratio of net indebtedness to total capital was 0.64. As of March 31, 2006 our net indebtedness was approximately \$898 million and in June 2006 we drew down additional debt of \$120 million on delivery of our latest newbuilding, *Granosa*. We may also incur additional debt of at least as much as \$108 million to fund completion of our remaining unfinanced newbuilding. We may also incur additional indebtedness to fund our possible expansion into other areas of the LNG industry, for example in respect of our FSRU project. Debt payments reduce our funds available for expansion into other parts of the LNG industry, working capital, capital expenditures and other purposes. In addition, our business is capital intensive and requires significant capital outlays that result in high fixed costs. We cannot assure investors that our existing and future contracts will provide revenues adequate to cover all of our fixed and variable costs.

It may be difficult to serve process on or enforce a United States judgment against us, our officers, our directors or some of our experts or to initiate an action based on United States federal or state securities laws outside of the United States.

We are a Bermuda corporation and our executive offices are located outside of the United States. Our officers and directors reside outside of the United States. In addition, substantially all of our assets and the assets of our officers, directors and some of our experts are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons or enforcing a judgment obtained in a U.S. court to the extent assets located in the United States are insufficient to satisfy the judgment. In addition, there is uncertainty as to whether the courts outside of the United States would enforce judgments of United States courts obtained against us or our officers and directors or entertain original actions predicated on the civil liability provisions of the United States federal or state securities laws. As a result, it may be difficult for you to enforce judgments obtained in United States courts against our directors, officers and non-U.S. experts or to bring an action against our directors, officers or non-U.S. experts outside of the United States that is based on United States federal or state securities law.

We may not be exempt from U.S. taxation on our U.S. source shipping income, which would reduce our net income and cash flow by the amount of the applicable tax.

We currently believe we are exempt from tax under Section 883 of the U.S Internal Revenue Code (“Code”) in effect throughout 2005.

If we, for whatever reason, were not eligible for exemption from tax under Code Section 883, we would be subject to a four percent tax on our U.S. source shipping income, which is comprised of 50 percent of our shipping income attributable to the transport of cargoes to or from United States ports. In the absence of such exemption, our potential tax liability for the calendar years 2003, 2004 and 2005 would have been \$571,000, \$880,000 and \$627,000 respectively.

We may be unable to attract and retain key management personnel in the LNG industry, which may negatively impact the effectiveness of our management and our results of operation.

Our success depends to a significant extent upon the abilities and the efforts of our senior executives, and particularly John Fredriksen, our Chairman and Tor Olav Trøim, for the management of our activities and strategic guidance. While we believe that we have an experienced management team, the loss or unavailability of one or more of our senior executives, and particularly Mr. Fredriksen or Mr. Trøim, for any extended period of time could have an adverse effect on our business and results of operations.

If construction of the LNG carrier we have ordered and which is yet to be delivered were to be substantially delayed or left incomplete, or there was substantial delay in completion of the conversion of one of our vessels to a FSRU our earnings and financial condition could suffer.

We have a binding contract for the construction of one new LNG carrier, or newbuilding, by an established Korean shipyard, which have yet to be delivered. While the shipbuilding contract contains a liquidated damages clause requiring the shipyard to refund a portion of the purchase price if delivery of a vessel is delayed more than 30 days, any such delay could adversely affect our earnings and our financial condition. In addition, if the shipyard was unable to deliver the vessel on time, we might be unable to perform related short or long-term charters and our earnings and financial condition could suffer. Furthermore, we are actively looking for employment for our vessel which is being converted into a FSRU. Any substantial delay in the conversion of our vessel into a FSRU could mean we will not be able to satisfy potential employment and our cashflow and earnings could suffer.

If we are treated as a passive foreign investment company, a U.S. investor in our common shares would be subject to disadvantageous rules under U.S. tax laws.

If we are treated as a passive foreign investment company in any year, U.S. holders of our shares would be subject to unfavorable U.S. federal income tax treatment. We do not believe that we were a passive foreign investment company in 2005 or will be in any future year. However, passive foreign investment company classification is a factual determination made annually and thus may be subject to change if the portion of our income derived from other passive sources, including the spot trading of LNG for our own account, were to develop

or to increase substantially. Moreover, the Internal Revenue Services may disagree with our position that time charters do not give rise to passive income for purposes of the passive foreign investment company rules. Accordingly, there is a possibility that we could be treated as a passive foreign investment company for 2005 or for any future year. The passive foreign investment company rules are discussed in more detail in Item 10 of this annual report under the heading "Additional Information; Taxation - U.S. Taxation of U.S. Holders".

Terrorist attacks, such as the attacks on the United States on September 11, 2001, and other acts of violence or war may affect the financial markets and our business, results of operations and financial condition.

Terrorist attacks such as the attacks on the United States on September 11, 2001 and the United States' continuing response to these attacks, as well as the threat of future terrorist attacks, continues to cause uncertainty in the world financial markets. The conflict in Iraq may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets, including the energy markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Future terrorist attacks, may also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenue, and costs.

An increase in costs could materially and adversely affect our financial performance.

Our vessel operating expenses depend on a variety of factors including crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, many of which are beyond our control and affect the entire shipping industry. These may increase vessel operating expenses further. If costs continue to rise, that could materially and adversely affect our results of operations.

An increase in interest rates could materially and adversely affect our financial performance

At December 31, 2005 we had a total long-term debt and net capital lease obligations outstanding of \$908 million. As at March 31, 2006 we had a total long-term debt and net capital lease obligations of \$1,003 million of which currently \$373 million is floating rate debt. We also use interest rate swaps to manage interest rate risk. As at March 31, 2006 our interest rate swap arrangements effectively fix the interest rate exposure on \$630 million of floating rate bank debt and capital lease obligation. If interest rates rise significantly, that could materially and adversely affect our results of operations. Increases and decreases in interest rates will affect the cost of floating rate debt but may also affect the mark to market valuation of interest rate swaps which will also affect our results. Additionally, to the extent that our lease obligations are secured by restricted cash deposits, our exposure to interest rate movements are hedged to a large extent. However, movements in interest rates may require us to place more cash into our restricted deposits and this could also materially and adversely affect our results of operations.

An adverse foreign exchange movement between US dollars against other currencies could materially affect our financial performance.

We may be exposed to foreign currency exchange fluctuations as a result of expenses paid by certain subsidiaries in currencies other than U.S. dollars, such as British pounds (GBP), in relation to our administrative office in the UK, operating expenses incurred in a variety of foreign currencies and Singapore dollars, among others, in respect of our FSRU conversion contract. If the US dollar weakens significantly this could increase our expenses and therefore could have a negative effect to our financial results.

Conversely, seven of our vessels are financed by UK tax leases, which are denominated in British pounds. The majority of our British pound capital lease obligations are hedged by British pound cash deposits securing the lease obligations or by currency swap. However, this is not a perfect hedge and a significant strengthening of the US dollar could give rise to an increase in our financial expenses and could materially affect our financial results (see Item 11- Foreign currency risk).

We have entered into a total return swap transaction in respect of our shares and a decrease in our share price could adversely affect our financial results.

In October 2005, we entered into a 12 month equity swap agreement with the Bank of Nova Scotia under which they may acquire up to 3.2 million of our shares. The agreement is structured so that upon termination Scotia will either pay to us or receive from us an amount equal to the movement in our share price times the number of shares acquired. In the event that our share price falls materially below the level at which Scotia make their purchases during the course of the swap, the swap's mark to market valuation will increase our financial expenses and therefore could affect our results.

During 2003 and 2004 we acquired 21% of the share capital of Korea Line Corporation, a Korean shipping company listed on the Korean Stock Exchange, at a cost of \$34 million. The value of these shares could decline and we may lose all or a portion of our investment.

The value of our investment in Korea Line Corporation ("Korea Line") could be impacted by, amongst other things, the future results of Korea Line as well as general Korean stock market movement and other events over which we have no control.

Risks Related to the LNG Shipping Industry

Risks involved with operating ocean-going vessels could affect our business and reputation, which could adversely affect our revenues.

The operation of an ocean-going vessel carries inherent risks. These risks include the possibility of:

- Marine disaster;
- Piracy;
- Environmental accidents; and
- Business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes, or adverse weather conditions.

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable LNG carrier operator.

Over time charter rates for LNG carriers may fluctuate substantially. If rates happen to be lower at a time when we are seeking a charter for a vessel, our earnings will suffer.

Charter rates for LNG carriers fluctuate over time as a result of changes in the supply-demand balance relating to current and future LNG carrier capacity. This supply-demand relationship largely depends on a number of factors outside our control. The LNG market is closely connected to world natural gas prices and energy markets, which we cannot predict. A substantial or extended decline in natural gas prices could adversely affect our charter business as well as our business opportunities. Our ability from time to time to charter or re-charter any vessel at attractive rates will depend on, among other things, the prevailing economic conditions in the LNG industry.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

If we are in default on some kinds of obligations, such as those to our crew members, suppliers of goods and services to our vessels or shippers of cargo, these parties may be entitled to a maritime lien against one or more of our vessels. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. In a few jurisdictions, claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay to have the arrest lifted. Under some of our present charters, if the vessel is arrested or detained for as little as 14 days as a result of a claim against us, we may be in default of our charter and the charterer may terminate the charter.

The LNG transportation industry is competitive and if we do not continue to compete successfully, our earnings could be adversely affected.

Although we currently generate a majority of our revenue under long-term contracts, the LNG transportation industry is competitive, especially with respect to the negotiation of long-term charters. Furthermore, new competitors have entered the market and further new competitors with greater resources could enter the industry and operate larger fleets through consolidations, acquisitions, or the purchase of new vessels, and may be able to offer lower charter rates and more modern fleets. If we do not continue to compete successfully, our earnings could be adversely affected. Competition may also prevent us from achieving our goal of profitably expanding into other areas of the LNG industry.

Shipping companies generally must conduct operations in many parts of the world, and accordingly their vessels are exposed to international risks, which could reduce revenue or increase expenses.

Shipping companies, including those that own LNG carriers, conduct global operations. Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism and other efforts to disrupt shipping. The terrorist attacks against targets in the United States on September 11, 2001, the military response by the United States and the conflict in Iraq may increase the likelihood of acts of terrorism worldwide. Acts of terrorism, regional hostilities or other political instability could affect LNG trade patterns and reduce our revenue or increase our expenses. Further, we could be forced to incur additional and unexpected costs in order to comply with changes in the laws or regulations of the nations in which our vessels operate. These additional costs could have a material adverse impact on our operating results, revenue, and costs.

Our insurance coverage may not suffice in the case of an accident or incident.

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disaster and property loss caused by adverse weather conditions, mechanical failures, human error, hostilities and other circumstances or events. The transportation of LNG is subject to the risk of LNG leakage and business interruptions due to political circumstances in foreign countries, hostilities and labor strikes. The occurrence of one or more of these events may result in lost revenues and increased costs for us.

We carry insurance to protect against the accident-related risks involved in the conduct of our business and environmental damage and pollution insurance. However, we cannot assure investors that we have adequately insured ourselves against all risks, that any particular claim will be paid out of such insurance or that we will be able to procure adequate insurance coverage at commercially reasonable rates or at all in the future. More stringent environmental regulations that are currently being considered or that may be implemented in the future may result in increased costs for insurance against the risks of environmental damage or pollution. Our insurance policies contain deductibles for which we will be responsible. They also contain limitations and exclusions that, although we believe them to be standard in the shipping industry, may increase our costs or lower our profits. Moreover, if the mutual insurance protection and indemnity association that provides our tort insurance coverage were to suffer large unanticipated claims related to the vessel owners, including us, that it covers, we could face additional insurance costs.

If any of our LNG carriers discharged fuel oil into the environment, we might incur significant liability that would increase our expenses.

As with all vessels using fuel oil for their engines, international environmental conventions, laws and regulations, including United States' federal laws, apply to our LNG carriers. If any of the vessels that we own or operate were to discharge fuel oil into the environment, we could face claims under these conventions, laws and regulations. We must also carry evidence of financial responsibility for our vessels under these regulations. United States law also permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and a number of states have enacted legislation providing for unlimited liability for oil spills.

Any future changes to the laws and regulations governing LNG carrier vessels could increase our expenses to remain in compliance.

The laws of the nations where our vessels operate as well as international treaties and conventions regulate the production, storage, and transportation of LNG. While we believe that we comply with current regulations of the International Maritime Organization, or IMO, any future non-compliance could subject us to increased liability, lead to decreases in available insurance coverage for affected vessels and result in the denial of access to, or detention in, some ports. Furthermore, in order to continue complying in the future with United States federal and state laws and regulations as then in force, or with then current regulations adopted by the IMO, and with any other future regulations, we may be forced to incur additional costs relating to such matters as LNG carrier construction, maintenance and inspection requirements, development of contingency plans for potential leakages and insurance coverage.

Risks Related to our Common Shares

Our Chairman may have the ability to effectively control the outcome of significant corporate actions.

John Fredriksen, our chairman, and his affiliated entities beneficially own 46.75% of our outstanding common shares. As a result, Mr. Fredriksen and his affiliated entities have the potential ability to effectively control the outcome of matters on which our shareholders are entitled to vote, including the election of all directors and other significant corporate actions.

Because we are a Bermuda corporation, you may have less recourse against us or our directors than shareholders of a U.S. company have against the directors of that U.S. Company.

Because we are a Bermuda company the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders in other jurisdictions. Among these differences is a Bermuda law provision that permits a company to exempt a director from liability for any negligence, default, or breach of a fiduciary duty except for liability resulting directly from that director's fraud or dishonesty. Our bye-laws provide that no director or officer shall be liable to us or our shareholders unless the director's or officer's liability results from that person's fraud or dishonesty. Our bye-laws also require us to indemnify a director or officer against any losses incurred by that director or officer resulting from their negligence or breach of duty except where such losses are the result of fraud or dishonesty. In addition, under Bermuda law the directors of a Bermuda company owe their duties to that company, not to the shareholders. Bermuda law does not generally permit shareholders of a Bermuda company to bring an action for a wrongdoing against the company, but rather the company itself is generally the proper plaintiff in an action against the directors for a breach of their fiduciary duties. These provisions of Bermuda law and our bye-laws, as well as other provisions not discussed here, may differ from the law of jurisdictions with which investors may be more familiar and may substantially limit or prohibit shareholders ability to bring suit against our directors.

Investor confidence and the market price of our common stock may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002, which will require us to include in our annual report on Form 20-F our management's report on, and assessment of the effectiveness of, our internal controls over financial reporting. In addition, our independent registered public accounting firm will be required to attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. These requirements will first apply to our annual report for the fiscal year ending December 31, 2006. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, we will not be in compliance with all of the requirements imposed by Section 404. Any failure to comply with Section 404 could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common stock. We believe the total cost of our initial compliance and the future ongoing costs of complying with these requirements may be substantial.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a LNG Shipping company formed on May 10, 2001. We currently own and/or operate a fleet of twelve liquefied natural gas, or LNG, carriers (or vessels), of which one was delivered in January 2006 and one in

June 2006. We are engaged in the acquisition, ownership, operation and chartering of LNG carriers through our subsidiaries. We operate eleven of our vessels through wholly-owned subsidiaries and we have a 60% interest in the owning company of a vessel, the *Golar Mazo*. We have also entered into contracts for the construction of one additional LNG carrier, which we expect to take delivery in June 2007. Seven of our LNG carriers are currently employed under long-term charter contracts, two LNG carriers are currently employed on short-term charters and three vessels are employed on medium term five-year market related charters with Shell.

We are incorporated under the laws of the Islands of Bermuda and maintain our principal executive headquarters at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda. Our telephone number at that address is (+1) 441-295-4705. Our principal administrative offices are located at 30 Marsh Wall, London, United Kingdom.

Our business was originally founded in 1946 as Gotaas-Larsen Shipping Corporation. Gotaas-Larsen entered the LNG shipping business in 1970 and was acquired by Osprey Maritime Limited, then a Singapore listed publicly traded company, in 1997. In August 2000, World Shipholding Ltd., a company indirectly controlled by John Fredriksen, our chairman and president, commenced an acquisition of Osprey. World Shipholding gained a controlling interest of more than 50% of Osprey in November 2000 and increased this interest to over 90% in January 2001. World Shipholding completed its acquisition in May 2001, at which time Osprey was delisted from the Singapore Stock Exchange.

On May 21, 2001, we acquired the LNG shipping interests of Osprey, which included one newbuilding contract and an option for a further newbuilding contract. We also entered into a purchase agreement with Seatankers Management Company Ltd., a company indirectly controlled by John Fredriksen, to purchase its one newbuilding contract for an LNG carrier and its options to build three new LNG carriers. Two of the newbuilding options have since been exercised and two have expired.

We listed on the Oslo Stock Exchange in July 2001 and on Nasdaq in December 2002.

On 18 June 2003, Osprey transferred its assets and liabilities, and consequently its holding of our shares, to World Shipholding. As of that date World Shipholding held 50.01% of our issued and outstanding share capital. World Shipholding currently owns 46.75% of our issued and outstanding common shares.

In July 2003 we issued 5.6 million shares via a direct offering raising \$55.2 million and in December 2003 we issued a further 4.0 million shares via a direct offering raising \$51.0 million.

In August 2003 we took delivery of our first newbuilding, the *Methane Princess*. In September 2003 we signed a contract for the construction of a fifth newbuilding together with the option for two further newbuildings. In February 2004 we exercised one of the options and signed a sixth newbuilding contract. In August 2004 we exercised the remaining option for our seventh newbuilding. In April 2004 we took delivery of our second newbuilding, the *Golar Winter*, and in June 2004 we took delivery of our third newbuilding, the *Golar Frost*. In January 2005 we took delivery of our fourth newbuilding, the *Gracilis*. In January 2006 we took delivery of our fifth newbuilding, the *Grandis* and in June 2006 we took delivery of our sixth newbuilding, the *Granosa*.

As at December 31, 2003 we had invested \$12.2 million in Korea Line Corporation, a Korean shipping company listed on the Korean stock exchange. During the first six months of 2004 we purchased additional shares at a cost of \$21.9 million. As at December 31, 2004 and 2005 we owned 21% of Korea Line.

In December 2005, we signed an agreement with Keppel Shipyard Limited of Singapore for the first ever conversion of an exiting LNG carrier into an LNG Floating Storage and Regasification Unit (FSRU). The conversion will be made based on relevant DNV class rules and international standards. Our market survey has discovered several specific opportunities for the FSRU.

In April 2006 we invested \$5.1 million to purchase 13.95 million shares in Liquefied Natural Gas Limited ("LNGL") an Australian publicly listed company. Furthermore, in June 2006 we acquired a further 9.05 million shares for a consideration of \$3.5 million following approval by LNGL's shareholders. After both purchases, we have become LNGL's largest shareholder with 19.83% holding.

B. Business Overview

We are a leading independent owner and operator of liquid natural gas (or “LNG”) vessels. We have a fleet of twelve LNG vessels (including one delivered in January 2006 and one in June 2006) and a further vessel under construction, which we expect to take delivery in June 2007. We are also seeking to develop our business in other areas of the LNG supply chain, in particular innovative marine based solutions such as floating LNG regasification terminals.

The Natural Gas Industry

Natural gas is one of the world’s fastest growing energy sources and is likely to continue to be so for at least the next 20 years. Already responsible for approximately 25% of the world’s energy supply, the International Energy Outlook, or IEO, projects that demand for natural gas will rise by approximately 2.3% per annum over the next two decades. According to the IEO, unprecedented growth in new gas fired power plants are expected to provide a substantial part of this incremental demand.

The rate of growth of natural gas consumption has been almost twice that of oil consumption during the last decade. The primary factors contributing to the growth of natural gas demand include:

- *Costs:* Technological advances and economies of scale have lowered capital expenditure requirements.
- *Environmental:* Natural gas is a clean-burning fuel. It produces less carbon dioxide and other pollutants and particles per unit of energy production than coal, fuel oil and other common hydrocarbon fuel sources.
- *Demand from Power Generation:* According to the IEO, natural gas is the fastest growing fuel source for electricity generation worldwide accounting for almost 50% of the total incremental growth in world-wide natural gas consumption.
- *Market Deregulation:* Deregulation of the gas and electric power industry in the United States, Europe and Japan, has resulted in new entrants and an increased market for natural gas.
- *Significant Natural Gas Reserves:* Approximately half of the world’s remaining hydrocarbon reserves are natural gas.
- *Emerging economies:* Projected average increases in emerging economies consumption of natural gas of up to 4.1% per year up to 2025 are forecast by the IEO as compared to 2.3% per annum average growth for transitional economies and 0.6% per annum for mature economies.

The LNG Industry

Overview

LNG is liquefied natural gas, produced by cooling natural gas to -163°C (-256° Fahrenheit), or just below the boiling point of LNG’s main constituent, methane. LNG is produced in liquefaction plants situated around the globe near gas deposits. In its liquefied state, LNG occupies approximately 1/600th the volume of its gaseous state. Liquefaction makes it possible to transport natural gas efficiently and safely by sea in specialized vessels known as LNG carriers. LNG is stored at atmospheric pressure in cryogenic tanks. LNG is converted back to natural gas in regasification plants by raising its temperature.

The first LNG project was developed in the mid-1960s and by the mid-1970s LNG had begun to play a larger role as energy companies developed remote gas reserves that could not be served by pipelines in a cost-efficient manner. The LNG industry is highly capital intensive and has historically been characterised by long-term contracts. The long-term charter of LNG carriers to carry the LNG is, and remains, an integral part of almost every project.

Over the last 10 years, LNG consumption has shown sustained annual growth of approximately 6.7% per year. The Energy Information Administration of the United States Department of Energy forecasts annual growth of LNG imports into the United States through 2025 amounting to approximately 8-10% per year.

Production

There are three major regional areas that supply LNG. These are (i) Southeast Asia, including Australia, Malaysia, Brunei and Indonesia, (ii) the Middle East, including Qatar, Oman and United Arab Emirates (with facilities planned in Iran and Yemen), and (iii) the Atlantic Basin countries, including Algeria, Libya, Nigeria and Trinidad with facilities under construction in Egypt and Norway and planned in Equatorial New Guinea, Angola and Venezuela. Qatar, Oman, Trinidad and Nigeria have all begun large scale LNG production in recent years. The expansion of existing LNG production facilities is one of the major sources of growth in LNG production and most projects with gas reserves available are considering growth of production.

Consumption

The two major geographic areas that dominate worldwide consumption of LNG are East Asia; including Japan, which remains by far the biggest importer in the world, South Korea and Taiwan; and Europe, specifically Spain, France, Italy, Belgium and Turkey. East Asia currently accounts for approximately 63 % of the global LNG market while Europe accounts for approximately 25 %. The United States presently accounts for approximately 9 % of the global LNG market, a decrease of 2 % in 2005.

There are currently 14 LNG importing countries with about 50 importing terminals. Japan and South Korea are currently the two largest importers of LNG, accounting for approximately 58 % of the world total LNG imports in 2005. Almost all natural gas consumption in Japan and South Korea is based on LNG imports.

The cost of constructing LNG import facilities has decreased in real terms. This has helped small or low volume markets such as Puerto Rico, Turkey and Greece to receive imports on a cost-effective basis.

Five LNG import terminals operate in the United States, namely; Lake Charles, Louisiana, Boston, Massachusetts, Elba Island, Georgia and Cove Point, Maryland and the offshore terminal, Gulf Gateway. Expansion plans exist for the Lake Charles (up to 1.8 bcf/day), Elba Island (up to 1.7 bcf/day) and Cove Point (1.8 bcf/day) facilities and in addition many companies are currently pursuing more than 30 possible onshore regasification plants aimed at significantly increasing domestic import capacity. However, it is unlikely that the majority of these plants will be constructed, due to cost and environmental restrictions.

The LNG Fleet

As of end of February 2006, the world LNG carrier fleet consisted of 204 LNG carriers with a total capacity of approximately 19.5 million cubic meters (cbm). The average age of the fleet was approximately 14 years. Currently there are orders for around 138 new LNG carriers with expected delivery dates through to 2010.

The current 'standard' size for LNG carriers is approximately 155,000 cubic meters ('cbm'), up from 125,000 cbm during the 1970's. To assist with transportation unit cost reduction the average size of vessels is rising steadily and there are fairly advanced plans for vessels of up to 250,000 cbm. There are also some smaller LNG carriers, mainly built for dedicated short distance trades. Apart from one, all the newbuildings to be delivered from 2006 through 2008 are 137,000 cbm or more. The cost of LNG carriers has fluctuated from \$280 million in the early 1990s to approximately \$205 - \$220 million currently for the current standard size depending on the mode of propulsion.

LNG carriers are designed for an economic life of approximately 40 years. Therefore all but a very few of the LNG carriers built in the 1970s still actively trade. In recent contract renewals, LNG vessels have been placed under time charters with terms surpassing those vessels' 40th anniversaries, which demonstrates the economic life for such older vessels. As a result, limited scrapping of LNG carriers has occurred or is likely to occur in the near future. In view of the fact that LNG is much less of a pollutant than other products such as oil and given that more has tended to be spent on maintenance of LNG vessels than oil tankers, the pressure to phase out older vessels has been much less than for crude oil tankers. We cannot, however, say that such pressure will not begin to build in the future.

The current worldwide maximum production capacity of shipyards for LNG carriers is in the region of 40 ships a year after rapid expansion of production facilities over the past 5 years, particularly in Korea. The actual output depends upon the relative cost of LNG ships to other vessels and the relative demand for both. The construction period for an LNG carrier is approximately 30-34 months. However, based on current yard availability, the earliest delivery date for a new LNG vessel ordered today is likely to be in 2009. Any new project/trade with LNG vessel demand before then will have to rely on third party vessels until potential new orders can be delivered.

Our Business Strategy

We are a leading independent owner and operator of LNG vessels and, we believe, the only shipping company dedicated exclusively to LNG transportation. Our objective is to provide safe, reliable and efficient LNG transportation services to our customers and to use this as the foundation to fulfil our vision of becoming an industry leader in LNG transportation services and of expansion into other profitable areas of the LNG chain. Our strategy is therefore to grow, expand and diversify our LNG shipping operations, concentrating on our existing customers whilst offering the same high level of service to selected new customers.

In respect of our shipping operations we intend to build on our relationships with existing customers and continue to develop relationships with those who require a shipping partner for whom LNG transportation is the core business. We aim to earn higher margins through maintaining strong service-based relationships combined with flexible and innovative LNG supply solutions. We believe our customers will have the confidence to place their 'shipping risk' with us on the basis that our core business is safe and reliable ship operation, while theirs is the profitable sale or purchase of LNG.

In furtherance of our strategy to enhance our core margins we are actively seeking opportunities to invest upstream and downstream in the LNG supply chain, where our shipping assets and our 30 years of industry experience can add value. We believe we can achieve this aim while at the same time diversifying our sources of income from LNG and thereby strengthen the Company.

We are investing in both established LNG operations and technologies as well as newly developing technologies, such as offshore liquefaction and regasification operations. We continue to focus on floating energy solutions and the provision of the associated shipping services as a major area for business development and are in various stages of investigation and discussion with respect to several other prospective projects.

Specific projects we have been working on include the following:

- We have been working on an Offshore Regasification project near Livorno, Italy. A government decree approving the project was issued in February 23, 2006. It is anticipated that the project will use the Golar Frost as a floating terminal by installing regasification equipment on board the vessel and permanently mooring her off the coast of Italy.
- We have invested \$3 million in TORP Technology AS ("TORP"), which holds the rights to the "Hiload LNG Re-gasification Technology" developed by Remora Technology AS. TORP has applied for a permit to build an offshore LNG regasification terminal, to be located 60 miles off the Alabama coast.
- We have also made the decision to convert one of our existing Moss design LNG vessels into a FSRU in anticipation of a demand that we see developing. We are actively looking at several other project opportunities, which include the provision of technical marine and LNG expertise for other technically innovative projects.
- During the first quarter of 2006, we signed an agreement with Liquefied Natural Gas Limited ("LNGL"), an Australian publicly listed company, to subscribe for 23 million of its shares in two tranches. In April 2006, we purchased 13.95 million shares and in June 2006 we acquired a further 9.05 million shares, following approval by LNGL's shareholders. After both purchases, we will become LNGL's largest shareholder with a 19.83% holding. LNGL is a company focused on acting as a link between previously discovered but uncommercial gas reserves and potential new energy markets. Aside from our anticipation that our investment will increase in value, we will also aim to tender for any shipping requirements LNGL might require in the future.

Our Strategic position and competitive strengths.

We believe we have established ourselves as a leading independent owner and operator of LNG ships. Listed below are what we believe to be our key competitive strengths:

- *Operational excellence:* We are an experienced and professional provider of LNG shipping that places value on operating to the highest industry standards of safety, reliability and environmental performance.

- *Customer relationships:* Our success is directly linked to the service and value we deliver to our customers. Our customers and partners include some of the biggest participants in the LNG market: BG Group, Pertamina, Royal Dutch Shell (“Shell”) and Chinese Petroleum Corporation.
- *Secure cash flow:* Seven of our existing twelve ships are on long-term charters which provides us with a relatively secure and stable cash flow and provides the financial platform for us to grow and expand.
- *LNG shipping experience:* We have 30 years of experience of operating LNG ships and we have access to a large pool of experienced LNG crew.
- *Newbuildings:* We currently have available new vessels uncommitted to long-term charters. This provides us with the opportunity to respond quickly to the developing needs of our customers.
- *Technical and Commercial experience and expertise:* With our existing assets, extensive experience and significant technical and commercial expertise we are able to quickly take advantage of market opportunities as they arise and offer innovative solutions to our customers’ needs.

Customers

We have long-term customer relationships with two large participants in the LNG industry, and most of our revenues have been derived from these two customers, namely BG Group and its subsidiaries, and Pertamina, the state-owned oil and gas company of Indonesia. In addition we have recently entered into time charter agreements with Royal Dutch Shell in respect of three of our ships.

We and our predecessors have had charters with Pertamina since 1989. Our revenues from Pertamina were \$63.7 million in 2005, \$65.6 million in 2004 and \$61.9 million in 2003. This constitutes 37.3%, 40.1% and 47% of our revenues for those years, respectively. BG has chartered LNG carriers from us and our predecessors since 2000. Our revenue from BG was \$87.5 million in 2005, \$82.2 million in 2004 and \$64.8 million in 2003, constituting 51.2%, 50.3% and 49% of our revenues for those years respectively. BG currently charters five vessels from us.

We have continued to develop relationships with other major players in the LNG world. The charter of three of our vessels to Shell on five-year charters on a market related basis, is a significant extension of our relationship base and an important strategic link with Shell who are the longest standing and largest operators in the LNG market. Other commercial relationships we have developed include those with other customers Sonatrach of Algeria and MISC of Malaysia.

Competition

While virtually all of the existing world LNG carrier fleet is still committed to long-term charters, there is competition for employment of vessels whose charters are expiring and vessels that are under construction. Competition for long-term LNG charters is based primarily on price, vessel availability, size, age and condition of the vessel, relationships with LNG carrier users and the quality, LNG experience and reputation of the operator. In addition, vessels coming off charter and newly constructed vessels may operate in the emerging LNG carrier spot market that covers short-term charters of one year or less.

While we believe that we are the only independent LNG carrier owner and operator that focuses solely on LNG, other independent shipping companies also own and operate LNG carriers and have new vessels under construction. These companies include Bergesen DY ASA (Norway), Exmar S.A. (Belgium) and Teekay LNG Partners, L.P. Three Japanese ship owning groups, Mitsui O.S.K. Lines, Nippon Yusen Kaisha and K Line, all of whom used to provide LNG shipping services exclusively to Japanese LNG companies, are now aggressively moving into the western markets. New competitors have also recently entered the market and include Maran Navigation of Greece, A P Moller of Denmark, Teekay Shipping of Canada, Overseas Shipholding Group of USA and Pronav ship management, and all have shown significant intent to compete in the LNG shipping market. There are other owners who may also attempt to participate in the LNG market if possible.

In addition to independent LNG operators, some of the major oil and gas producers, including Royal Dutch/Shell, BP Amoco, and BG who own LNG carriers and are reported to have contracted for the construction of new LNG carriers.

As discussed above we are considering strategic opportunities in other areas of the LNG industry. To the extent we do expand into new businesses, there can be no assurance that we will be able to compete successfully in those areas. Our new businesses may involve competitive factors that differ from those in the carriage of LNG and may include participants that have greater financial strength and capital resources than us.

Our Fleet

Current Fleet

We currently lease eight LNG carriers under long-term leases, we own three vessels and we have a 60% interest in another LNG carrier through a joint arrangement with the Chinese Petroleum Corporation, the Taiwanese state oil and gas company. Two of our vessels serve routes between Indonesia and Taiwan and South Korea, while five are involved in the transportation of LNG from facilities in the Middle East, North Africa and Trinidad to ports principally in the United States and Europe but also Japan. Two of our vessels are currently operating on short-term charters.. In December 2005, we signed three five-year charter agreements with Shell. In January 2006, the *Grandis* commenced its charter followed by the *Gracilis* in March 2006 and the *Granosa* in June 2006 upon its delivery.

The following table lists the LNG carriers in our current fleet:

Vessel Name	Year of Delivery	Capacity, cbm.	Current Charterer	Current Charter Expiration
<i>Hilli</i>	1975	125,000	BG	2011
<i>Gimi</i>	1976	125,000	BG	2010
<i>Golar Freeze</i>	1977	125,000	BG	2008
<i>Khannur</i>	1977	125,000	BG	2009
<i>Golar Spirit</i>	1981	128,000	Pertamina	2006
<i>Golar Mazo</i> ¹	2000	135,000	Pertamina	2017
<i>Methane Princess</i>	2003	138,000	BG	2024
<i>Golar Winter</i>	2004	138,000	Short-term charters	2006
<i>Golar Frost</i>	2004	137,000	Short-term charters	2006
<i>Gracilis</i>	2005	140,000	Shell	2011
<i>Grandis</i>	2006	145,700	Shell	2011
<i>Granosa</i>	2006	145,700	Shell	2011

¹ We own a 60% interest in the *Golar Mazo* with the remaining 40% owned by Chinese Petroleum Corporation.

Our currently trading fleet represents approximately 6% of the worldwide fleet by number of vessels.

Newbuildings

We have entered into newbuilding contracts for the delivery of seven LNG carriers since the beginning of 2001 six of which have already been delivered. The following table summarizes our newbuilding currently under construction, which has a capacity of 145,700 cbm:

<u>Hull number</u>	<u>Shipbuilder</u>	<u>Expected Delivery Date</u>
2244	Daewoo	June 2007

The selection of and investment in newbuildings is a key strategic decision for us. We believe that our experience in the shipping industry has equipped our senior management with the ability to determine when to acquire options for newbuildings and when to order the construction of newbuildings and the scope of those constructions. Our senior management has established relationships with several shipyards, and this has enabled us to access the currently limited shipyard slots to build LNG carriers.

Our Charters

Seven of our current LNG carriers are on long-term time charters to LNG producers and importers. These charters generally provide us with stable income and cash flows.

Pertamina Charters. Two of our vessels, the *Golar Mazo* and the *Golar Spirit*, are chartered by Pertamina, the state-owned oil and gas company of Indonesia. The *Golar Mazo*, which we jointly own with the Chinese Petroleum Corporation, transports LNG from Indonesia to Taiwan under an 18-year time charter that expires at the end of 2017. The *Golar Spirit* is employed on a 20-year time charter that expires at the end of 2006. Pertamina has options to extend the *Golar Mazo* charter for two additional periods of five years each.

Under the Pertamina charters, the operating and drydocking costs of the vessel are borne by Pertamina on a cost pass-through basis. Pertamina also pay for hire of the vessels during scheduled drydockings up to a specified number of days for every two to three year period.

BG Charters. BG, through its subsidiaries, charters five of our vessels on long-term time charters. These vessels, the *Golar Freeze*, *Khannur*, *Gimi*, *Hilli* and the *Methane Princess* each transport LNG from export facilities in the Middle East and Atlantic Basin nations to ports on the east coast of the United States, Europe and Japan. BG determines the trading routes of these vessels. The *Golar Freeze* commenced a five-year charter with BG on March 31, 2003. The charter for the *Khannur* expires in the third quarter of 2009, the charter for the *Gimi* expires in the fourth quarter of 2010 and the charter for the *Hilli* expires in the first quarter of 2011. The charter for the *Methane Princess* commenced in February 2004 and is for 20 years and therefore expires in 2024.

Our charterers may suspend their payment obligations under the charter agreements for periods when the vessels are not able to transport cargo for various reasons. These periods, which are also called off-hire periods, may result from, among other causes, mechanical breakdown or other accidents, the inability of the crew to operate the vessel, the arrest or other detention of the vessel as the result of a claim against us, or the cancellation of the vessel's class certification. The charters automatically terminate in the event of the loss of a vessel.

Shell Charters. Shell Tankers UK Ltd currently charter three of our vessels on five-year charters. The rates we earn from these charters are market related, and therefore variable. As with all our other charters we may suffer periods of off-hire when the vessel is unable to transport cargo, however there is also the possibility of periods when we will not receive charter hire in the event that Shell have no requirement for a given vessel in a given period and cannot sub-charter it to a third party. Although this structure effectively leaves the company open to market risk we believe that our utilisation rate (i.e. the number of days for which we are paid hire in any given period) will be improved. Shell's international gas and LNG trading structures afford significantly more opportunity to create and sustain ongoing vessel utilisation than is available to a stand-alone shipping company.

The five-year charter periods on the respective vessels commenced in January 2006 (*Grandis*), March 2006 (*Gracilis*) and June 2006 (*Granosa*), and are thus scheduled to terminate in 2011. The charters allow for the parties to discuss variation of the terms of the agreements after one year in the event that the structure does not fulfil the original intentions of both Golar and Shell, which includes the right to terminate the charters if the parties do not reach agreement. In addition Shell continues to have termination rights throughout the charter period.

We have also appointed Shell Transport and Shipping Company (STASCO) as our third party managers for these three vessels.

Charter Renewal Options

Pertamina Charters. Pertamina has the option to extend the charter of the *Golar Mazo* for up to ten years by exercising the right to extend for one or two additional five-year periods. Pertamina must give two years notice of any decision to extend. The revenue during the period of charter extension will be subject to adjustments based on our actual operating costs during the period of the extension.

BG Charters. With the exception of the *Golar Freeze* charter, each of the BG charters, including the charter for the *Methane Princess*, is subject to outstanding options on the part of BG to extend those charters for two five-year periods. The hire rates for *Khannur*, *Gimi* and *Hilli* will be increased from January 1, 2010 onwards and thereafter subject to adjustments based on escalation of 3% per annum of the operating costs of the vessel.

Golar Management (UK) Limited and Ship Management

Subsidiaries of Golar Management (UK) Limited, or Golar Management, a wholly owned subsidiary of ours, operate eight of our vessels under long-term leases. Golar Management, which has offices in London, also provides commercial, operational and technical support and supervision and accounting and treasury services to us.

Prior to February 2005, Golar Management provided all services related to the management of our vessels other than some of our crewing activities. Since February 2005, Golar Management has subcontracted to three internationally recognised third party ship management companies day-to-day vessel management activities including routine maintenance and repairs; arranging supply of stores and equipment; ensuring compliance with applicable regulations, including licensing and certification requirements and engagement and provision of qualified crews. Ultimate responsibility for the management of our vessels, however, remains with Golar Management.

Our three third party ship managers are Thome Ship Management (Singapore), Barber Ship Management (Oslo) and STASCO (London). Our decision to employ third party managers was driven by our need to secure long-

term high quality seafaring workforce for a growing fleet. We recognized that external ship management companies have access to larger pools of officers that can be trained to become LNG officers. With the expansion of the global LNG fleet, a shortage of well-qualified officers is considered a significant threat to operators in this shipping segment. Our decision was also influenced by our requirement to improve technical teams geographic coverage, given our fleet trade world-wide, and to be able to take advantage of economies and efficiencies of scale afforded by these managers.

Ship Maintenance

We are focused on operating and maintaining our LNG carriers to the highest safety and industry standards and at the same time maximizing revenue from each vessel. It is our policy to have our crews perform planned maintenance on our vessels while underway, to reduce time required for repairs during drydocking. This will reduce the overall off-hire period required for dockings and repairs. Since we generally do not earn hire from a vessel while it is in drydock we believe that the additional revenue earned from reduced off-hire periods outweighs the expense of the additional crew members or subcontractors.

The upgrading program to refurbish and modernize our 1970s built liquefied natural gas carriers was largely completed with the drydocking of *Khannur* in March 2005. The *Hilli*, *Gimi*, *Khannur* and *Golar Freeze* have now all been fitted with, among other things, modern cargo monitoring and control equipment. In addition these vessels are undergoing a ballast tank re-coating programme whilst in service. The completion of the ballast tank refurbishing program has been delayed somewhat but we expect it will be completed by end of 2006, for two vessels, with the remaining two expected to be completed mid to end of 2007.

We anticipate that the upgrading program will allow us to operate each of these vessels to their 40th anniversary. We believe that the capital expenditure of this program will result in lower maintenance costs and improved performance in the future. We also believe this program will help us maintain our proven safety record and ability to meet customer expectations. Indeed, performance has improved significantly over the last two years, mainly due to the reduction in technical problems and unplanned off-hire.

Insurance

The operation of any vessel, including LNG carriers, has inherent risks. These risks include mechanical failure, personal injury, collision, property loss, vessel or cargo loss or damage and business interruption due to political circumstances in foreign countries or hostilities. In addition, there is always an inherent possibility of marine disaster, including explosion, spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

We believe that our present insurance coverage is adequate to protect us against the accident related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage consistent with standard industry practice. However, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

We have obtained hull and machinery insurance on all our vessels against marine and war risks, which include the risks of damage to our vessels, salvage or towing costs, and also insure against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we will be responsible. We have also arranged additional total loss coverage for each vessel. This coverage, which is called hull interest and freight interest coverage, provides us additional coverage in the event of the total loss of a vessel.

We have also obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer will pay us the daily rate agreed in respect of each vessel for each day, in excess of a certain number of deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 240 days. The number of deductible days varies from 14 days for the new ships to 30 days for the older ships, depending on the type of damage; machinery or hull damage.

Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a mutual protection and indemnity association, or P&I club. This includes third-party liability and other expenses related to the injury or death of crew members, passengers and other third-party persons, loss or damage to cargo, claims arising from collisions with other vessels or from contact with jetties or wharves and other damage to other third-party property, including pollution arising from oil or other

substances, and other related costs, including wreck removal. Subject to the capping discussed below, our coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The thirteen P&I clubs that comprise the International Group of Protection and Indemnity Clubs insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I club has capped its exposure in this pooling agreement so that the maximum claim covered by the pool and its reinsurance would be approximately \$4.25 billion per accident or occurrence. We are a member of Gard and Skuld P&I Clubs. As a member of these P&I clubs, we are subject to a call for additional premiums based on the clubs' claims record, as well as the claims record of all other members of the P&I clubs comprising the International Group. However, our P&I clubs have reinsured the risk of additional premium calls to limit our additional exposure. This reinsurance is subject to a cap, and there is the risk that the full amount of the additional call would not be covered by this reinsurance.

Environmental and other Regulations

Governmental and international agencies extensively regulate the handling and carriage of LNG. These regulations include international conventions and national, state and local laws and regulations in the countries where our vessels operate or where our vessels are registered. We cannot predict the ultimate cost of complying with these regulations, or the impact that these regulations will have on the resale value or useful lives of our vessels. Various governmental and quasi-governmental agencies require us to obtain permits, licenses and certificates for the operation of our vessels. Although we believe that we are substantially in compliance with applicable environmental laws and regulations and have all permits, licenses and certificates required for our operations, future non-compliance or failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

A variety of governmental and private entities inspect our vessels on both a scheduled and unscheduled basis. These entities, each of which may have unique requirements and each of which conducts frequent vessel inspections, include local port authorities, such as the U.S. Coast Guard, harbor master or equivalent, classification societies, flag state, or the administration of the country of registry, charterers, terminal operators and LNG producers.

All our third party Ship Managers are certified to the International Standards Organization (ISO) Environmental Standard for the management of the significant environmental aspects associated with the ownership and operation of a fleet of liquefied natural gas carriers. This certification requires that the Company commit managerial resources to act on its environmental policy through an effective management system.

Regulation by the International Maritime Organization

The International Maritime Organization (IMO) is a United Nations agency that provides international regulations affecting the practices of those in shipping and international maritime trade. The requirements contained in the International Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO, govern our operations. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and also describing procedures for responding to emergencies. Our Ship Managers each hold a Document of Compliance for operation of Gas Carriers.

The ISM Code requires that vessel operators obtain a safety management certificate, issued by each flag state, for each vessel they operate. This certificate evidences onboard compliance with code requirements. No vessel can obtain a certificate unless its shore-based manager has also been awarded and maintains a Document of Compliance, issued under the ISM Code. Each of the vessels in our fleet has received a safety management certificate.

Vessels that transport gas, including LNG carriers, are also subject to regulation under the International Gas Carrier Code, or IGC, published by the IMO. The IGC provides a standard for the safe carriage of LNG and certain other liquid gases by prescribing the design and construction standards of vessels involved in such carriage. Compliance with the IGC must be evidenced by a Certificate of Fitness for the Carriage of Liquefied Gases of Bulk. Each of our vessels is in compliance with the IGC and each of our newbuilding contracts requires that the vessel receive certification that it is in compliance with applicable regulations before it is delivered. Non-compliance with the IGC or other applicable IMO regulations, may subject a shipowner or a bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

The IMO also promulgates ongoing amendments to the international convention for the Safety of Life at Sea 1974 and its protocol of 1988, otherwise known as SOLAS. This provides rules for the construction of ships and regulations for their operation with respect to safety issues. It requires the provision of lifeboats and other life-saving appliances, requires the use of the Global Maritime Distress and Safety System which is an international radio equipment and watchkeeping standard, afloat and at shore stations, and relates to the Treaty on the Standards of Training and Certification of Watchkeeping Officers, or STCW, also promulgated by IMO. Flag states, which have ratified the Convention and the Treaty generally, employ the classification societies, which have incorporated SOLAS and STCW requirements into their class rules, to undertake surveys to confirm compliance.

The most recent directive from the IMO, issued in the wake of increased worldwide security concerns, is the International Security Code for Ports and Ships (ISPS). The objective of the ISPS, which came into effect on July 1, 2004, is to detect security threats and take preventive measures against security incidents affecting ships or port facilities. Our Ship Managers have developed Security Plans, appointed and trained Ship and Office Security Officers and all ships have been certified to meet the new ISPS Code.

Environmental Regulation—OPA/CERCLA

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for environmental protection and clean up of oil spills. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial waters and the two hundred nautical mile exclusive economic zone of the United States. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, applies to the discharge of hazardous substances whether on land or at sea. While OPA and CERCLA would not apply to the discharge of LNG, they may affect us because we carry oil as fuel and lubricants for our engines, and the discharge of these could cause an environmental hazard. Under OPA, vessel operators, including vessel owners, managers and bareboat or “demise” charterers, are “responsible parties” who are all liable regardless of fault, individually and as a group, for all containment and clean-up costs and other damages arising from oil spills from their vessels. These “responsible parties” would not be liable if the spill results solely from the act or omission of a third party, an act of God or an act of war. The other damages aside from clean-up and containment costs are defined broadly to include:

- natural resource damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, profits or earnings capacity;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA limits the liability of responsible parties for vessels other than crude oil tankers to the greater of \$600 per gross ton or \$500,000 per vessel. These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party’s gross negligence or wilful misconduct. These limits likewise do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. This limit is subject to possible adjustment for inflation. OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states, which have enacted their own legislation, have not yet issued implementing regulations defining shipowners’ responsibilities under these laws.

CERCLA, which also applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million. As with OPA, these limits of liability do not apply where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party’s gross negligence or wilful misconduct or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We anticipate that we will be in compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels will call.

OPA requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under OPA. The U.S. Coast

Guard has enacted regulations requiring evidence of financial responsibility in the amount of \$900 per gross ton for vessels other than oil tankers, coupling the OPA limitation on liability of \$600 per gross ton with the CERCLA liability limit of \$300 per gross ton. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one vessel is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the vessel having the greatest maximum liability under OPA/CERCLA. Each of our shipowning subsidiaries that has vessels trading in U.S. waters has applied for, and obtained from the U.S. Coast Guard National Pollution Funds Center, three-year certificates of financial responsibility, supported by guarantees which we purchased from an insurance-based provider. We believe that we will be able to continue to obtain the requisite guarantees and that we will continue to be granted certificates of financial responsibility from the U.S. Coast Guard for each of our vessels that is required to have one.

Environmental Regulation—Other

Most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law. The European Union has proposed regulations, which, if adopted, may regulate the transmission, distribution, supply and storage of natural gas and LNG at land based facilities. It is not clear what form these regulations, if adopted, would take.

Inspection by Classification Societies

Every seagoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of that particular class of vessel as laid down by that society.

For maintenance of the class certificate, regular and extraordinary surveys of hull, machinery, including the electrical plant and any special equipment classed, are required to be performed by the classification society, to ensure continuing compliance. Most vessels are drydocked twice during a five-year class cycle for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a “recommendation” which must be rectified by the shipowner within prescribed time limits. The classification society also undertakes on request of the flag state other surveys and checks that are required by the regulations and requirements of that flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as “in class” by a classification society, which is a member of the International Association of Classification Societies. All of our vessels have been certified as being “in class”. The *Golar Mazo* is certified by Lloyds Register, and our other vessels are each certified by Det norske Veritas, both are members of the International Association of Classification Societies.

In-House Inspections

The ship managers carry out inspections of the ships on a regular basis; both at sea and while the vessels are in port, while we carry out inspection and ship audits to verify conformity with managers’ reports. In addition we have contracted a specialist company to carry out annual inspections. The results of these inspections, which are conducted both in port and underway, result in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, safety and crew welfare. Based in part on these evaluations, we create and implement a program of continual maintenance for our vessels and their systems.

C. Organizational Structure

As is customary in the shipping industry, we own, lease and operate our vessels, and our newbuildings while under construction, through separate subsidiaries. With the exception of the *Golar Mazo*, the *Golar Frost*, *Gracilis* and the *Granosa*, we lease our vessels from lessors, who are all subsidiaries of UK Banks. We own a 100% interest in the owning subsidiary of our newbuilding yet to be delivered. We own the *Golar Mazo* in a joint arrangement with the Chinese Petroleum Corporation in which we own 60% and Chinese Petroleum owns the remaining 40% of the vessel owning company.

The table below lists each of our significant subsidiaries, the subsidiaries’ purpose, or the vessel it owns, leases or operates, and its country of incorporation as at June 29, 2006. Unless otherwise indicated, we own 100% of each subsidiary.

Subsidiary	Jurisdiction of Incorporation	Purpose
Golar Gas Holding Company Inc.	Republic of Liberia	Holding Company and leases five vessels
Golar Maritime (Asia) Inc.	Republic of Liberia	Holding Company
Gotaas-Larsen Shipping Corporation	Republic of Liberia	Holding Company
Oxbow Holdings Inc.	British Virgin Islands	Holding Company
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia	Owns <i>Golar Mazo</i>
Golar LNG 2215 Corporation	Republic of Liberia	Leases <i>Methane Princess</i>
Golar LNG 1444 Corporation	Republic of Liberia	Owns <i>Golar Frost</i>
Golar LNG 1460 Corporation	Republic of Liberia	Owns <i>Gracilis</i>
Golar LNG 2220 Corporation	Republic of Liberia	Leases <i>Golar Winter</i>
Golar LNG 2234 Corporation	Republic of Liberia	Owns <i>Granosa</i>
Golar LNG 2244 Corporation	Republic of Liberia	Owns newbuilding Hull 2244
Golar LNG 2226 Corporation	Marshall Islands	Leases <i>Grandis</i>
Golar International Ltd.	Republic of Liberia	Vessel management
Gotaas-Larsen International Ltd.	Republic of Liberia	Vessel management
Golar Management Limited	Bermuda	Management
Golar Maritime Limited	Bermuda	Management
Golar Management (UK) Limited	United Kingdom	Management
Golar Freeze (UK) Limited	United Kingdom	Operates <i>Golar Freeze</i>
Golar Khannur (UK) Limited	United Kingdom	Operates <i>Khannur</i>
Golar Gimi (UK) Limited	United Kingdom	Operates <i>Gimi</i>
Golar Hilli (UK) Limited	United Kingdom	Operates <i>Hilli</i>
Golar Spirit (UK) Limited	United Kingdom	Operates <i>Golar Spirit</i>
Golar 2215 (UK) Limited	United Kingdom	Operates <i>Methane Princess</i>
Golar Winter (UK) Limited	United Kingdom	Operates <i>Golar Winter</i>
Golar 2226 (UK) Limited	United Kingdom	Operates <i>Grandis</i>
Golar FSRU 1 Corporation	Marshall Islands	Contracted for the conversion of a vessel to a floating storage regasification unit ("FSRU")

D. Property, Plant and Equipment

The Company's Vessels

The following tables set forth the fleet that we operate and the newbuilding that we have on order:

<u>Vessel</u>	<u>Delivered</u>	<u>Capacity cbm.</u>	<u>Flag</u>	<u>Current Charterer</u>	<u>Current Charter Expiration</u>
Granosa	2006	145,700	MI	Shell	2011
Grandis	2006	145,700	IOM	Shell	2011
Gracilis	2005	140,000	MI	Shell	2011
Golar Frost	2004	137,000	LIB	Short-term charters	2006
Golar Winter	2004	138,000	UK	Short-term charters	2006
Methane Princess	2003	138,000	UK	BG	2024
Golar Mazo	2000	135,000	LIB	Pertamina	2017
Golar Spirit	1981	128,000	MI	Pertamina	2006
Golar Freeze	1977	125,000	UK	BG	2008
Khannur	1977	125,000	UK	BG	2009
Gimi	1976	125,000	UK	BG	2010
Hilli	1975	125,000	UK	BG	2011

<u>Newbuilding</u>	<u>Expected Date of Delivery</u>	<u>Capacity cbm.</u>	<u>Flag</u>	<u>Charterer</u>	<u>Current Charter Expiration</u>
Hull No. 2244	June 2007	145,700	-	n/a	n/a

Key to Flags:

LIB – Liberian, UK – United Kingdom, MI – Marshall Islands, IOM – Isle of Man

We do not own any interest in real property. We sublease approximately 8,000 square feet of office space in London for our ship management operations.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview and Background

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes, and the other financial information included elsewhere in this document. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion includes forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those contained in the forward-looking statements.

Current Business

Our activities are currently focused on the chartering of our LNG carriers and the development of LNG supply chain projects and potential investments, in particular offshore regasification terminals. Seven of our twelve vessels are on fixed long-term charters, which provide us with stable and predictable cash flows for the majority of our business. One of these long-term time charters expires at the end of 2006.

The following table sets out our current long-term charters, and their expirations:

Vessel Name	Approximate Annual Charter Hire	Current Charter Expiration	Charterers Renewal Option Periods
<i>Golar Mazo (1)</i>	\$31 million / year	2017	5 years plus 5 years
<i>Golar Spirit (2)</i>	\$21 million / year	2006	None
<i>Khannur</i>	\$15.3 million / year	2009	5 years plus 5 years
<i>Golar Freeze</i>	\$19.6 million / year	2008	None
<i>Gimi</i>	\$15.3 million / year	2010	5 years plus 5 years
<i>Hilli</i>	\$15.3 million / year	2011	5 years plus 5 years
<i>Methane Princess</i>	\$24.3 million / year	2024	5 years plus 5 years

- (1) On a wholly owned basis and excluding operating cost recovery from charterer (see below).
- (2) Excludes operating cost recovery from charterer (see below).

The long-term contracts for the *Golar Spirit* and *Golar Mazo* are time charters but the economic terms are analogous to bareboat contracts, under which the vessels are paid a fixed rate of hire, being the rate in the above table, and the vessel operating costs are borne by the charterer on a cost pass through basis. These contracts contain no escalation clauses.

During 2005 three of our vessels, *Golar Winter*, *Golar Frost* and *Gracilis*, operated on short-term charters in the spot market under an agreement with Exmar Marine NV (“Exmar”) who made available one vessel to the arrangement. The vessels were jointly marketed for short-term charters of up to two years. Net hire from all vessels (i.e. after deduction of voyage related expenses) was distributed equally amongst the vessels. Operating costs and debt service cost were excluded from the calculations of net hire i.e. they remained each company’s responsibility. This arrangement was terminated as at December 31, 2005.

Earnings from our vessels in the spot market in 2004 and the arrangement with Exmar during 2005 were negatively impacted by an excess supply of vessels over demand. This imbalance was largely created by a lack of available LNG spot cargoes coupled with the delay of a number of new LNG production projects which led to several LNG vessels, including ours, lying idle for periods of time.

In December of 2005 we entered into five-year time charters with Shell in respect of three of our vessels. The five-year charter periods on the respective vessels commenced in January 2006 (*Grandis*), March 2006 (*Gracilis*) and June 2006 (*Granosa*). The charter rates in respect of these vessels are market related and therefore variable. In the event that Shell does not employ the vessels for their own use, they will market the vessels for use by third parties. If Shell cannot find employment for these ships there could be periods where the vessels have commercial waiting time and do not earn revenues. Whilst we expect utilisation of these vessels to improve as a result of the charters to Shell this is not guaranteed. The charters parties have certain mutual termination rights after one year and Shell continue to have termination rights throughout the charter period.

Vessels may operate under different charter arrangements including time charters, voyage charters and bareboat charters, although time charters are most common within the LNG shipping industry. A time charter is a contract for the use of a vessel for a specific period of time at a specified daily rate, although they may also include fees to position the vessel prior to the charter period commencing or to reposition the vessel after the charter period. Under a time charter, the charterer pays substantially all of the vessel voyage costs during the charter period, which consist primarily of fuel and port charges. A bareboat charter is also a contract for the use of a vessel for a specific period of time at a specified daily rate but the charterer pays the vessel operating costs as well as voyage costs. Operating costs include crew wages, vessel supplies, routine repairs, maintenance, lubricating oils and insurance. A voyage charter is generally for a specific voyage but the charterer does not pay the voyage costs. We define charters for a period of less than one year as short-term, charters for a period of between one and four years as medium-term and charters for a period of more than four years as long-term.

The following table sets out the employment of the LNG carriers now owned and/or operated by us during the period 2001 to 2005.

Vessel Name	2001 to 2005
<i>Golar Mazo</i>	Long-term time charter to Pertamina commenced on delivery in January 2000
<i>Golar Spirit</i>	Long-term time charter to Pertamina which ends at the end of 2006
<i>Khannur</i>	Long-term time charter with BG from December 2000
<i>Golar Freeze</i>	Medium-term time charter with BG from November 2000 and long-term time charter with BG from March 2003.
<i>Gimi</i>	Short-term charters until start of long-term time charter with BG in May 2001
<i>Hilli</i>	Long-term time charter with BG from September 2000
<i>Methane Princess</i>	Delivered in August 2003. Short-term charters until start of long-term time charter with BG in February 2004.
<i>Golar Winter</i>	Delivered in April 2004. Short-term charters during 2004 and within Exmar arrangement in 2005. Periods of commercial waiting time between charters.
<i>Golar Frost</i>	Delivered in June 2004. Short-term charters during 2004 and within Exmar arrangement in 2005. Periods of commercial waiting time between charters.
<i>Gracilis</i>	Delivered in January 2005. Short-term charters and part of Exmar arrangement in 2005. Periods of commercial waiting time between charters. Charter with Shell (market rate) from March 2006

During the latter part of 2003 and first half of 2004 we acquired, through market purchases, 21% of the shares in the Korean shipping company Korea Line Corporation (“Korea Line”), which is listed on the Seoul Stock Exchange. Korea Line owns two modern LNG carriers on long-term charters to KOGAS and also has a smaller ownership (less than 15%) in four other large LNG carriers. Korea Line also owns around 20 drybulk vessels and also charters in additional drybulk vessels for use in its drybulk chartering business. We originally had seen the investment in Korea Line as an opportunity to develop a positive relationship with a leading Korean shipping company, which could lead to further LNG business development. However, to date no business has materialised from the relationship.

During the first quarter of 2005 we undertook a reorganisation of our technical fleet management operation. The aim of this reorganization was to improve the service level to our customers and to secure a long-term high quality seafaring workforce. We have enlisted the services of two leading international ship managers to run two offices, one in Singapore (Thome Ship Management) to cover ships operating principally in the Asia

Pacific market and one in Oslo (Barber Ship Management) to cover ships operating in the Atlantic market. The new offices will be responsible for the day-to-day operation of our ships. Since this reorganization we have additionally appointed Shell's ship management arm (STASCO) to assist with the day-to-day technical management of our ships on charter to Shell.

Possible Future LNG Industry Business Activities

We currently have two vessels and one newbuilding not committed to current contracts. We plan to find medium or long-term charters for these vessels or alternatively utilise them within some of the LNG infrastructure projects we are developing.

In the meantime these two vessels are available for trade in the short-term or "spot" market. The LNG spot market has only recently developed and it is at an early stage. Rates payable in this market may be uncertain and volatile. The supply and demand balance for LNG carriers is also uncertain. During 2004 and 2005, as noted above, the excess supply of vessels over demand has negatively impacted our results. During the first part of 2006 utilisation and rates in the spot market are somewhat improved from 2005 but we cannot be sure this improvement will be sustained. The earnings from our vessels on charter to Shell will also be impacted by the development of charter rates and demand in the spot market. These factors could also influence the results of operations from spot market activities and the Shell charters beyond 2006.

All future possible LNG activities are also dependant on our management's decisions regarding the utilization of our assets. In the longer term, results of operations may also be affected by strategic decisions by management as opportunities arise to make investments in LNG logistics infrastructure facilities to secure access to markets as well as to take advantage of potential industry consolidation.

Since June 2002, we have been working with the Italian offshore and contracting company Saipem SPA with regard to the joint marketing and development of Floating Storage and Regasification Units, or FSRU's. The concept is based on the conversion of a Moss type LNG carrier ('Moss type' is in reference to the type and shape of the cargo tanks), either existing or newly built. Saipem provide the engineering design and technical expertise whilst we contribute by identifying suitable LNG carriers as well as providing maritime expertise.

The first project identified as a potential user of an FSRU was in Italy off the coast of Livorno and since 2002 we have been working with Saipem and Cross Energy S.R.L. ("Cross") on this project. In February 2006, the project company Offshore LNG Toscana ("OLT") was advised that the government decree approving the terminal had been granted. Local Italian energy utility Amga and Spanish energy utility Endesa are supporting the project and have taken an ownership interest in OLT. Work is now ongoing in respect of the logistical and commercial aspects of the project. The ultimate size of our investment has yet to be determined, but the permitting process for this project has been based on the *Golar Frost* and it is therefore anticipated that this vessel will be utilised in the project if it is successful.

Again in conjunction with Saipem SPA we have been developing a floating power generating plant (FPGP). The concept is based on the conversion of an existing LNG carrier by installing combined cycle gas turbine generators capable of producing around 240 megawatts of power, which is carried ashore via sub-sea cables. In this regard we have applied to the Cyprus Energy Regulatory Authority for licences to construct and operate an FPGP to supply electricity to the Cypriot market. Although at an early stage of development we see this as a logical extension of the floating regasification and storage projects, as noted above, that we have been working on. The application process has been delayed somewhat whilst clarification is sought with respect to recently proposed legislation covering the importation, storage and use of LNG. The legislation is currently still going through the normal review process prior to enactment and therefore has not yet been passed into law. Discussions are ongoing with the Cyprus Electricity Regulatory Authority (CERA) as to whether this future legislation has an impact on the Company's application to construct and operate an electricity power station off the coast of Cyprus. This process will take some time as it involves government departments other than CERA and will require legal interpretation of the relevant legislation. The ultimate size of our potential investment has yet to be determined. There are, however, ongoing expenses related to the development of this project and our expenditure on this project in 2005 amounted to \$0.5 million, which was charged to the income statement.

In January 2005, we announced that we had signed a heads of agreement with Remora Technology to invest \$3 million in TORP Technology and acquire an option to use 33.4% of the capacity of TORP's offshore regasification terminal. TORP Technology holds the rights to the HiLoad LNG Re-gasification and is planning to build an offshore LNG regasification terminal, which could be operational in 2009. The HiLoad LNG Re-

gasification unit is a floating L-shaped terminal that docks onto the LNG carrier using the patented friction based attachment system (rubber suction cups) creating no relative motion between the carrier and the terminal. The HiLoad LNG Re-gasification unit is equipped with standard regasification equipment (LNG loading arms, pumps and vaporizers) and can accommodate any LNG carrier. The terminal uses seawater for heating the LNG, saving fuel costs. In February 2005, in accordance with the heads of agreement we invested \$3 million into TORP Technology in a share issue. We currently hold a 16.1% interest in TORP Technology. On January 12, 2006, TORP Technology filed an application for a permit to build an offshore LNG regasification terminal, to be located 60 miles off the Alabama coast. In addition to work on the permitting process with USCG, work is now underway marketing the terminal with the aim of securing long-term user agreements. The ultimate size of our potential investment has yet to be determined.

In December 2005, we signed a contract with Keppel Shipyard Limited of Singapore for the first ever conversion of an existing LNG carrier into an LNG Floating Storage and Regasification Unit (FSRU). When the conversion is completed, expected to be in the second or third quarter of 2007, it will be the first of its type in the world. The conversion will be made based on relevant DNV class rules and international standards. Golar LNG will work in partnership with Keppel Shipyard on the engineering, procurement and construction of the project. The full concept is based on well-proven and working technology. Stationed offshore, and through a sub-sea pipeline, the FSRU will be capable of a throughput of 2.75 BSCM per annum. The cost of this conversion is estimated to be \$50 million, of which \$1.6 million was incurred in 2005. We have had a numbers of enquiries from and discussions with various parties with regard to this FSRU but as yet we have no firm business. As the *Golar Spirit* finishes its long-term charter at the end of 2006 we may use this vessel in this project.

In December 2005 we signed a shareholders' agreement with The Egyptian Natural Gas Holding Company and HK Petroleum Services in respect of the setting up of a jointly owned company named Egyptian Petroleum Services Company S.A.E. ("EPSC") for the development of hydrocarbon business and in particular LNG related business. We have expensed a total of \$1 million as at December 31, 2005 in connection with this project as fees for the development of the framework for the project, the shareholders' agreement and the setting up of the Company. Further fees of \$1 million will be payable if and when the project company concludes a material commercial business transaction. EPSC was incorporated in March 2006 and will have an issued share capital of \$10 million. Of this amount 10% was payable on incorporation with a further 15% payable within three months from the date of registration of the Company in the commercial Register. Payment of the remaining value shall be made within three years at dates to be decided by EPSC's Board of Directors. We have 50% of the voting rights and a 45% economic interest in EPSC, but would take 50% of EPSC's losses. The ultimate size of our potential investment has yet to be determined.

Factors Affecting Our Results

The principal factors that have affected, and are expected to continue to affect, our business are:

- The employment of our vessels, daily charter rates and the number of unscheduled off-hire days
- Non-utilization for vessels not subject to charters
- Vessel operating expenses
- Administrative expenses
- Pension expenses
- Useful lives of our fleet and the related depreciation and amortization expense
- Net financial expenses including mark to market charges for interest rate, foreign currency and equity swaps, interest rates and foreign exchange gains or losses that arise on the translation of our lease obligations and the cash deposits that secure them.
- Equity in net earnings of investee
- The success or failure of the LNG infrastructure projects that we are working on or may work in the future

Operating revenues are primarily generated by charter rates paid for our short-term, medium-term and long-term charters and are therefore related to both our ability to secure continuous employment for our vessels as well as the rates that we secure for these charters. Seven of our currently trading vessels are fixed on long-term time charters with either fixed or predictable hire rates, although one of these charters finishes at the end of 2006. Three of our vessels are on charters with market related rates and a further two are currently trading in the spot or short-term market. Market rates can vary dramatically and are difficult to predict from one charter to the next.

The number of days that our vessels earn hire substantially influences our results. Our vessels may be out of service, that is, off-hire, for three main reasons: scheduled drydocking or special survey or maintenance, which we refer to as scheduled off-hire; days spent waiting for a charter, which we refer to as commercial waiting time and unscheduled repairs or maintenance, which we refer to as unscheduled off-hire. Generally, for vessels that are under a time charter, hire is paid for each day that a vessel is available for service. However, two of our long-term charters provide for an allowance of a specified number of days every two to three years that our vessels may be in drydock, for one vessel the allowance is fixed whilst the other vessel will only be placed off-hire if the number of days in drydock every two years exceeds that allowance. The shipping industry uses average daily time charter earnings, or TCE, to measure revenues per vessel in dollars per day for vessels on charters. We calculate TCE by taking time charter revenues, or voyage revenues, net of voyage expenses, recognized rateably over the period of the voyage, earned and dividing by the number of days in the period less scheduled off-hire.

We attempt to minimize unscheduled off-hire by conducting a program of continual maintenance for our vessels. The charter coverage we have had for our vessels resulted in a minimal number of waiting days in 2003. In 2004, we took delivery of two newbuildings (*Golar Frost* and *Golar Winter*) neither of which is committed to long or medium term charter contracts. The *Golar Winter* was fixed on a short-term charter for most of 2004 but the *Golar Frost* incurred significant commercial waiting time in 2004. In January 2005, we took delivery of a third vessel not committed to a charter, the *Gracilis*, and all three vessels have incurred significant commercial waiting time during 2005. These three vessels together with one of Exmar's vessels formed the group of vessels in the arrangement we had with Exmar during 2005 as noted under 'current business' above. Exmar's vessel was on charter for periods during 2005 but also had periods of waiting time. This arrangement was terminated as at December 31, 2005. In January 2006 and June 2006, we took delivery of the *Grandis* and *Granosa* respectively and both vessels commenced five-year charters with Shell. *Gracilis* commenced a five year charter with Shell in March 2006. The Shell charter rates are variable in accordance with the market and are not therefore predictable and also effectively liable to periods of commercial waiting time. The *Golar Frost* and the *Golar Winter* currently remain on the spot market and both vessels have been employed for the majority of time during the first quarter of 2006. However, the spot market is unpredictable and these and the Shell vessels will be subject to variable charter rates and commercial waiting time.

Voyage expenses are primarily expenses such as fuel and port charges, which are paid by us under voyage charters. Under time charters our customers pay for such voyage expenses. However, we may incur voyage related expenses when positioning or repositioning vessels before or after the period of a time charter. Accordingly voyage expenses will vary depending on the number of vessels we have operating on voyage charters. We also incur some voyage expenses, principally a small amount of fuel costs whilst idle, when our vessels are in periods of commercial waiting time, i.e. not on charter.

Vessel operating expenses include direct vessel operating costs associated with running a vessel and an allocation of shore-based overhead costs directly related to vessel management. Since outsourcing our day-to-day technical management function to third party ship managers during the first half of 2005, this allocation of internal cost has effectively been replaced by third party management fees. Vessel operating costs include crew wages, which are the most significant component, vessel supplies, routine repairs, maintenance, lubricating oils and insurance. Accordingly, the level of this operating cost is directly related to the number of vessels we operate. Operating expenses also include the costs associated with the pension scheme we maintain for some of our seafarers (the Marine Scheme). Although this scheme is now closed to new entrants the cost of provision of this benefit will vary with the movement of actuarial variables and the value of the pension fund assets.

Administrative expenses are composed of general corporate overhead including personnel costs, legal and professional fees, costs associated with project development, corporate services, public filing fees, property costs and other general administration costs. Historically, we have incurred costs associated with the development of various projects and we expect to incur further costs in the future. For the years ended December 31, 2005, 2004 and 2003 these costs included as part of administrative expenses were \$2.1 million, \$0.5 million and \$1.5 million respectively.

Administrative expenses also include the costs associated with the pension scheme we maintain for some of our office-based employees (the UK Scheme). Although this scheme is now closed to new entrants the cost of provision of this benefit will vary with the movement of actuarial variables and the value of the pension fund assets.

Restructuring expenses refers to employment severance costs of approximately \$1.3 million as a result of redundancies at our London and Bilbao offices during the year ended December 31, 2005. This followed our announcement in January 2005 of our decision to outsource our day-to-day fleet management activities to established third party ship managers. In connection with this restructuring we have opened a branch in Oslo.

Depreciation and amortization expense, or the periodic cost charged to our income for the reduction in usefulness and long-term value of our ships, is also related to the number of vessels we own or operate under long term capital leases. We depreciate the cost of our owned vessels, less their estimated residual value, and amortize the amount of our capital lease assets, over their estimated useful lives on a straight-line basis. We amortize our deferred drydocking costs over two to five years based on each vessel's next anticipated drydocking. No charge is made for depreciation of newbuildings until they are delivered. We amortize our office equipment and fittings over three to six years based on estimated economic useful life. Income derived from sale and subsequently leased assets is deferred and amortized in proportion to the amortization of the leased assets.

Interest expense depends on the overall levels of borrowing we incur and may significantly increase when we acquire or lease ships or on the delivery of newbuildings. During a newbuilding construction period, interest expense incurred is capitalized in the cost of the newbuilding. Interest expense may also change with prevailing interest rates although interest rate swaps or other derivative instruments may reduce the effect of these changes. Currently \$135 million of debt under our Methane Princess facility has a fixed interest rate. Furthermore, \$495 million of our floating rate debt and capital lease obligations is currently swapped to a fixed rate, and we may enter into further interest rate swap arrangements if this is considered to be advantageous to us. Interest income will depend on prevailing interest rates and the level of our cash deposits and restricted cash deposits.

Other financial items comprise financing fee arrangement costs, amortization of deferred financing costs, market valuation adjustments for interest rate, currency and equity swap derivatives and foreign exchange gains/losses. The market valuation adjustment for our interest rate and currency derivatives may have a significant impact on our results of operations and financial position although it does not impact our liquidity. Foreign exchange gains and losses, which were minimal prior to 2003 as our activities are primarily denominated in US dollars, have since increased principally due to the lease finance transactions that we entered into during 2003 and 2004, which are all denominated in British Pounds. Foreign exchange gains or losses arise due to the retranslation of our capital lease obligations and the cash deposits securing those obligations. Any gain or loss represents an unrealised gain and will arise over time as a result of exchange rate movements. Our liquidity position will only be affected to the extent that we choose or are required to withdraw monies from or pay additional monies into the deposits securing our capital lease obligations or if the leases are terminated. We have also entered into a currency swap of our lease obligation in respect of the *Golar Winter*. The lease is denominated in British Pounds (GBP) but is not fully hedged by a GBP cash deposit. We have therefore swapped our obligation to pay rentals in GBP for an obligation to pay USD at a fixed rate of exchange. In October 2005, we entered into a 12 month equity swap agreement with the Bank of Nova Scotia under which they may acquire up to 3.2 million of our shares. The agreement is structured so that upon termination Scotia will either pay to us or receive from us an amount equal to the movement in our share price times the number of shares acquired. In the event that our share price falls materially below the level at which Scotia make their purchases during the course of the swap, the swap's mark to market valuation will increase our financial expenses.

Equity in net earnings of investee refers to our interest in Korea Line Corporation (Korea Line). Korea Line is a Korean Shipping company listed on the Korean Stock Exchange. As of December 31, 2003 we had an interest of 10% in Korea Line and initially accounted for the investment as an investment "available for sale". From June 2004 through to December 31, 2005 we had an interest of 21%. As a result of the increase in our level of ownership, which has given us the ability to exercise significant influence over Korea Line, we changed to the equity method of accounting for the investment. Our future equity in net earnings of investee will depend on the results of Korea Line and our level of investment.

Since many of the above key items are directly related to the number of LNG carriers we own or lease and their financing, the acquisition or divestment of additional vessels and entry into additional newbuilding contracts would cause corresponding changes in our results.

Although inflation has had a moderate impact on operating expenses, interest costs, drydocking expenses and corporate overheads, management does not expect inflation to have a significant impact on direct costs in the current and foreseeable economic environment other than potentially in relation to insurance costs and crew costs. It

is anticipated that insurance costs, which have risen considerably over the last three years, may well continue to rise over the next few years. Two of our vessels charters are based on operating cost pass through and a third has an insurance cost pass through and so we will be protected from the full impact of such increases. LNG transportation is a specialized area and the number of vessels is increasing rapidly. There will therefore be an increased demand for a qualified crew and this has and may continue to put inflationary pressure on crew costs. Only the two vessels on full cost pass through charters would be protected from any crew cost increases although one of these charters expires at the end of 2006.

A number of factors could substantially affect the results of operations of our core long-term charter LNG shipping business as well as the future expansion of any spot market business or the projects we are developing. These factors include the pricing and level of demand and supply for natural gas and specifically LNG. Other uncertainties that could also substantially affect these results include changes in the number of new LNG importing countries and regions and availability of surplus LNG from projects around the world, as well as structural LNG market changes allowing greater flexibility and enhanced competition with other energy sources.

Critical Accounting Policies

The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following is a discussion of the accounting policies applied by the Company that are considered to involve a higher degree of judgement in their application. See Note 2 to the Company's audited Consolidated Financial Statements and Notes thereto included herein for details of the Company's significant accounting policies.

Vessels and Depreciation and Amortization

The cost of the Company's vessels, less the estimated residual value, is depreciated, (owned vessels) or amortized (leased vessels) on a straight-line basis over the vessels' remaining economic useful lives. Management estimates the useful life of the Company's vessels to be 40 years and this is a common life expectancy applied in the LNG shipping industry. If the estimated economic useful life is incorrect, an impairment loss could result in future periods.

Our vessels are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing the recoverability of our vessels' carrying amounts, we must make assumptions regarding estimated future cash flows and estimates in respect of residual or scrap value. We estimate those future cashflows based on the existing service potential of our vessels, which on average for our fleet extends over a 27-year period. We have assumed that we will be able to renew our time charter contracts at their existing or lower rates rather than at escalated rates, and that the costs of operating those vessels reflects our average operating costs experienced historically. Factors we consider important which could affect recoverability and trigger impairment include significant underperformance relative to expected operating results and significant negative industry or economic trends.

We follow a traditional present value approach, whereby a single set of future cash flows is estimated. If the carrying value of a vessel were to exceed the undiscounted future cash flows, we would write the vessel down to its fair value, which is calculated by using a risk-adjusted rate of interest. We believe that the carrying value of many of our vessels is below their fair value because we allocated negative goodwill to certain of the vessels associated with our acquisition from Osprey. Since inception, our vessels have not been impaired.

Time Charters

We account for time charters of vessels to our customers as operating leases and record the customers' lease payments as time charter revenues. We evaluate each contract to determine whether or not the time charter should be treated as an operating or capital lease, which involves estimates about our vessels' remaining economic useful lives, the fair value of our vessels, the likelihood of a lessee renewal or extension, incremental borrowing rates and other factors.

Our estimate of the remaining economic useful lives of our vessels is based on the common life expectancy applied to similar vessels in the LNG shipping industry. The fair value of our vessels is derived from our estimate of expected present value, and is also benchmarked against open market values considering the point of view of a potential buyer. The likelihood of a lessee renewal or extension is based on current and projected demand and prices

for similar vessels, which is based on our knowledge of trends in the industry, historic experience with customers in addition to knowledge of our customers' requirements. The incremental borrowing rate we use to discount expected lease payments and time charter revenues are based on the rates at the time of entering into the agreement.

A change in our estimates might impact the evaluation of our time charters, and require that we classify our time charters as capital leases, which would include recording an asset similar to a loan receivable and removing the vessel from our balance sheet. The lease payments to us would reflect a declining revenue stream to take into account our interest carrying costs, which would impact the timing of our revenue stream.

Capital Leases

We have sold several of our vessels to, and subsequently leased the vessels from UK financial institutions that routinely enter into finance leasing arrangements. We have accounted for these arrangements as capital leases. As identified in our critical accounting policy for time charters, we make estimates and assumptions in determining the classification of our leases. In addition, these estimates, such as incremental borrowing rates and the fair value or remaining economic lives of the vessels, impact the measurement of our vessels and liabilities subject to the capital leases. Changes to our estimates could affect the carrying value of our lease assets and liabilities, which could impact our results of operations. To illustrate, if the incremental borrowing rate had been lower than our initial estimate this would result in a higher lease liability being recorded due to a lower discount rate being applied to its future lease rental payments.

We have also recorded deferred credits in connection with some of these lease transactions. The deferred credits represent the upfront cash inflow derived from undertaking financing in the form of UK leases. The deferred credits are amortized over the remaining economic lives of the vessels to which the leases relate on a straight-line basis. The benefits under lease financings are derived primarily from tax depreciation assumed to be available to lessors as a result of their investment in the vessels. If that tax depreciation ultimately proves not to be available to the lessor, or is clawed back from the lessor (e.g. on a change of tax law or adverse tax ruling), the lessor will be entitled to adjust the rentals under the relevant lease so as to maintain its after tax position, except in limited circumstances. Any increase in rentals is likely to affect our ability to amortize the deferred credits, increase our interest cost and consequently could have a negative impact on our results and operations and our liquidity.

Pension Benefits

The determination of our defined benefit pension obligations and expense for pension benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 23 of the notes to our Consolidated Financial Statements included in this annual report and include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation. In accordance with U.S. generally accepted accounting principles, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect our recognized expense and recorded obligation in such future periods. We are guided in selecting our assumptions by our independent actuaries and, while we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension obligations and our future pensions expense.

Recently Issued Accounting Standards and Securities and Exchange Commission Rules

FAS 151

In November 2004 the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 151, Inventory Costs—an amendment of ARB No. 43, Chapter 4 (revised) (FAS 151). FAS 151 amends the guidance in ARB No. 43, Chapter 4, 'Inventory Pricing,' to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). FAS 151 requires that those items be recognized as current-period charges. In addition, FAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We will adopt FAS 151 on January 1, 2006. The new standard is not expected to have material impact on the Company's results of operations and financial position.

FAS 123R

In December 2004 the FASB issued Financial Accounting Standard No. 123R, Share-Based Payment (FAS 123R). FAS 123R requires that companies expense the value of employee stock options and other awards. FAS 123R allows companies to choose an option-pricing model that appropriately reflects their specific circumstances and the economics of their transactions, and allows companies to select from three transition methods for adoption of the provisions of the standard. We will adopt FAS 123R effective January 1, 2006. The Company has determined that this will not have an immediate impact upon Golar's financial statements because no employee stock options and other awards were issued in each of the three years ended December 31, 2005 and as at December 31, 2003 all of Golar's stock options were fully vested. The impact of adoption of SFAS 123(R) on the results of operations for the year ending December 31, 2006 cannot be predicted at this time because it will depend on the level of share based payments granted in the future.

FAS 153

In December 2004 the FASB issued Financial Accounting Standard No. 153, Exchanges of Nonmonetary Assets (FAS 153). FAS 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. We will adopt FAS 153 for nonmonetary exchanges occurring on or after January 1, 2006. The new standard is not expected to have material impact on the Company's results of operations and financial position.

FAS 154

In May 2005, the FASB issued Financial Accounting Standard No. 154, Accounting Changes and Error Corrections (FAS 154). FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, the Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, the Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. We will adopt FAS 154 for accounting changes and corrections of errors made beginning January 1, 2006.

EITF Issue 05-6

In June 2005, the EITF reached consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements". EITF Issue 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF Issue 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations and financial position.

FSP FIN No. 45-3

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FSP FIN No. 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" by adding minimum revenue guarantees to the list of examples of contracts to which FIN No. 45 applies. Under FSP FIN No. 45-3, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FSP FIN No. 45-3 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

Results of operations

Our results for the years ended December 31, 2005, 2004 and 2003 were affected by several key factors:

- the delivery of four newbuildings, the *Methane Princess* in August 2003, the *Golar Winter* in April 2004, the *Golar Frost* in June 2004 and the *Gracilis* in January 2005;
- lease finance arrangements that we entered into during 2003 and 2004; and
- equity accounting of our acquisition of equity securities in Korea Line Corporation during 2003, 2004; and 2005.
- Our vessels not on long-term charters affected by commercial waiting time.
- the movement in mark to market valuations of our derivative instruments
- restructuring expenses and project expenses

The impact of these factors is discussed in more detail below.

Year ended December 31, 2005, compared with the year ended December 31, 2004

Operating Revenues

(in thousands of \$)	2005	2004	Change	Change
Time charter revenues	171,008	159,854	11,154	7%
Voyage charter revenues	-	2,412	(2,412)	(100%)
Vessel management fees	34	1,144	(1,110)	-97%
Total Operating revenues	171,042	163,410	7,632	5%
Average time charter equivalent earnings	46,200	54,900	(8,700)	-16%

The increase in revenues from 2004 to 2005 is driven by two key factors. Firstly by additional vessels added to the fleet generating additional revenue and secondly, offsetting this, additional commercial waiting time incurred in 2005. The decrease in voyage charter revenues was mainly due to our ships trading in the spot market operating under time charter contracts during 2005 rather than voyage charters. The financial year 2005 has also been affected by the existence of the pool arrangement with Exmar.

The *Golar Winter* and the *Golar Frost* were additions to the fleet following their delivery from the shipyards in April 2004 and June 2004 respectively. The *Gracilis* was delivered in early January 2005. The available trading days from these three vessels in 2005 and 2004 was therefore 1,090 and 559 days respectively. Commercial waiting days were 612 for 2005 and 206 for 2004 or 56% and 30% of available trading days respectively for these three vessels. In 2004 another vessel, the *Methane Princess*, also suffered 46 days waiting time prior to the commencement of its long-term charter with BG Group.

The earnings of the *Golar Winter*, *Golar Frost* and the *Gracilis* have also been affected in 2005 by the pool arrangement with Exmar. This arrangement commenced in October 2004 and ended in December 2005.

The total revenues generated by the *Golar Winter*, *Golar Frost* and the *Gracilis* in 2005 were \$19.8 million as compared to \$16.2 million in 2004.

Revenues are also affected by the offhire associated with scheduled drydockings which incur off-hire of somewhere between 25 and 50 days depending on the length of the required docking and the time it takes to get to the shipyard. Two drydocks took place in 2004 whilst there was only one in 2005. Unscheduled off-hire for repairs was limited to a few days in both years.

Vessel Operating Expenses

(in thousands of \$)	2005	2004	Change	Change
Vessel operating expenses	37,215	35,759	1,456	4%

The increase in vessel operating expenses is mainly due to the addition of the *Golar Winter* and the *Golar Frost* to our fleet during 2004 and the *Gracilis* in January 2005. However, this has been partially offset by the reduction in average daily operating costs, which has been caused by the reduction in the average age of the fleet. It is generally cheaper to operate new ships than it is to operate older ships. In the years ended December 31, 2005 and 2004, the average daily operating costs of our vessels were \$10,210 and \$11,800, respectively.

Our average daily operating costs have also declined as a result of the reduction in ship management related cost. Prior to April of 2005 we allocated an amount of overheads, onshore costs such as technical and operational staff support, information technology and legal, accounting and corporate costs attributable to vessel operations, to vessel operating expenses. Subsequent to our reorganisation of our technical management function and the outsource of day-to-day technical functions to third party managers we no longer allocate overhead cost but rather incur third party management fees which effectively represent the cost of a similar resource. The amount of overhead we allocated to vessel operating expenses in 2004 was \$1,124 per vessel day. In 2005 the amount of overhead allocated in respect of the first three months of the year together with the external management fees for the balance of the year equates to a cost of \$603 per vessel per day.

Upward pressure remains on crew and in particular insurance costs, which were increased in 2005 on a like for like basis.

Voyage expenses

<i>(in thousands of \$)</i>	2005	2004	Change	Change
Voyage expenses	4,594	2,561	2,033	79%

Voyage expenses increased in 2005 as compared to 2004 even though voyage revenues decreased by 100% from \$2.4 million in 2004 to \$nil in 2005. Our vessels operated mostly under time charters during 2004 and 2005 albeit that some of these time charters were for short periods of time. Under a time charter the charterer pays voyage costs, mainly fuel costs, themselves. As soon as the time charter finishes or when the vessel is waiting for employment (commercial waiting time) these costs are payable by us. Therefore, whilst there was less voyage charter revenue in 2005 voyage expenses were incurred for the periods of commercial waiting, in respect of our vessels not on long-term charters, which has meant voyage costs have actually increased. The level of voyage expenses we incur will be largely dependent on the number of vessels we have operating on voyage charters and the amount of commercial waiting time we have.

Administrative & Restructuring Expenses

<i>(in thousands of \$)</i>	2005	2004	Change	Change
Administrative expenses	12,219	8,471	3,748	44%
Restructuring expenses	1,344	-	1,344	N/a

Administrative expenses have increased significantly in 2005. Whilst some of this increase was due to overall general cost increases, including additional accounting and auditing costs associated with Sarbanes Oxley Act compliance, the increase is mainly due to project related expenses. We incurred costs amounting to \$2.2 million in respect of the various projects that we are developing that we have expensed to administrative expenses. These costs related in particular to the Cyprus FPGP project, the FSRU conversion contract with Keppel and our agreements and joint development in Egypt.

A significant proportion of our administrative expenses are incurred in British Pounds (GBP) at our office in London. Movements in the exchange rate of the U.S. dollar against GBP will therefore impact our future administrative expenses. The movement in the average exchange rate was not however materially significant between 2004 and 2005 in terms of its impact on administrative expenses.

As noted above, since February 2005 we have employed two third party ship managers to assist with our day-to-day fleet management activities. This has resulted in the loss of some staff in our London and Bilbao offices and the related restructuring cost expensed during 2005 was \$1.3 million. The reduction in staff numbers has reduced our salary costs in 2005, however, as a large part of these costs were allocated to vessel operating expenses, because the staff in question were part of the internal ship management function, the net impact on administrative expenses has not been significant.

Depreciation and Amortisation

(in thousands of \$)	2005	2004	Change	Change
Depreciation and amortisation	50,991	40,502	10,489	26%

Depreciation and amortisation has increased due to the addition of the *Golar Winter* and the *Golar Frost* to the fleet part way through 2004 and the *Gracilis* in January 2005 as well as an increase in drydock amortisation as a result of drydocks that took place in 2004 and 2005.

Net Financial Expenses

(in thousands of \$)	2005	2004	Change	Change
Interest income from capital lease restricted cash	32,933	30,509	2,424	8%
Other interest income	2,720	1,370	1,350	99%
Interest Income	35,653	31,879	3,774	12%
Capital lease interest expense	(39,664)	(33,850)	5,814	17%
Other debt related interest expense	(42,815)	(28,137)	14,678	52%
Interest Expense	(82,479)	(61,987)	20,492	33%
Mark-to-market adjustments for interest swap	14,125	5,581	8,544	153%
Net foreign currency adjustments for re-translation of lease related balances and mark-to-market adjustments for lease related currency swap derivatives	(4,011)	1,496	(5,507)	(368%)
Mark-to-market adjustments for equity swap derivative	1,313	-	1,313	N/a
Other	(3,920)	(2,273)	(1,647)	(73%)
Other Financial Items, net	7,507	4,804	2,703	56%

The increase in lease deposit interest income is due to moderately higher deposit balances as a result of the finance lease transaction that we entered into in April 2004 in respect of the *Golar Winter*. It is also due to moderately higher British Pound interest rates in 2005, with an average received rate of 4.76% as compared to 4.58% in 2004; our lease deposit balances being held in British Pounds. Other interest income has increased as a result of higher US dollar interest rates partly offset by slightly lower average cash holdings.

Capital lease interest expense has increased due to higher interest rates but also because of the addition of the *Golar Winter* lease in April 2004; i.e. there was a full year's interest in 2005 but only 9.5 months in 2004.

The addition of the *Golar Winter* lease has affected both lease interest expense and interest income. However, whilst the leases we entered into during 2003 had cash deposits similar in amount to their respect lease obligation the *Golar Winter* lease deposit partially securing the lease obligations is significantly less than the lease obligation itself. Therefore the addition of the *Golar Winter* lease has had a bigger impact on lease interest expense than it has on lease deposit interest income.

Debt interest has increased because of additional debt incurred during 2004 and 2005 and because of increased US dollar interest rates. Long-term and short-term debt obligations were \$703 million as at December 31, 2004 and \$826 million as at December 31, 2005. The increase is due to the addition of the \$120 million *Gracilis* (previously known as the *Golar Viking*) loan in January 2005 together with an additional \$58 million in respect of the refinancing of the Golar Gas Holdings loan in March 2005 (as discussed further under 'Liquidity and Capital Resources'); offset by debt repayments of \$55 million, excluding the refinancing repayment in respect of the Golar Gas Holdings loan.

Mark-to-market adjustments for interest swap derivatives have resulted in increased gains in 2005 as compared to 2004. This is mainly due to the increase in long-term swap rates. In addition we entered into an additional \$215 million of interest rate swaps during 2005, which contributed a mark-to market gain of \$3.8 million.

Foreign exchange gains and losses arise as a result of the retranslation of our capital lease obligations, the cash deposits securing those obligations and the movement in the fair value of the currency swap used to hedge the *Golar Winter* lease transaction. The gain in 2004 was mainly due to the depreciation of the US dollar against British

Pounds and in 2005 the loss is mainly due to an appreciation of the US dollar against British Pounds. Of the \$4 million net foreign exchange loss in 2005, a loss of \$19.7 million (2004: \$6.7 million gain) arose in respect of the mark-to-market valuation of the currency swap representing the movement in the fair value. This swap hedges the currency risk arising from lease rentals due in respect of the *Golar Winter* GBP lease rental obligation, by translating GBP payments into US dollar payments at a fixed GBP/USD exchange rate (i.e. Golar receives GBP and pays US dollars). The loss arose due to the appreciation of the US dollar against the British Pound during the year. This loss represents an unrealised loss. The gain on retranslation of the lease obligation in respect of the *Golar Winter* lease, which this swap hedges, was \$18.5 million (2004: \$7.6 million loss). This gain also represents an unrealised gain.

In October 2005, we established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia ("BNS") in connection with a share buy back scheme of ours as discussed further below under 'Liquidity and Capital Resources – Derivatives'. The gain of \$1.4 million represents the mark-to-market valuation of this derivative.

Other items represent, among other things, bank charges and the amortisation of debt related expenses. The increase in 2005 is due to the write off of \$1.8 million of financing fees as a result of the refinancing of the Golar Gas Holdings loan in March 2005.

Minority Interest and Income Taxes

<i>(in thousands of \$)</i>	2005	2004	Change	Change
Minority interest	8,505	7,575	930	12%
Income taxes	818	420	398	95%

Minority interest, consisting of the 40% interest in the *Golar Mazo*, increased as a result of higher net income of the *Golar Mazo* owning subsidiary company. This increase was partly due to slightly improved operating results and partly because of a greater gain on the mark-to-market movement of the *Golar Mazo* interest swap in 2005. Income taxes relate to the taxation of our UK management operations and also UK based vessel operating companies we established subsequent to April 2003. Our income tax charge is expected to increase as a function of the number of vessels we operate in the UK and the profitability of the UK companies.

Equity in net earnings of investee

<i>(in thousands of \$)</i>	2005	2004	Change	Change
Equity in net earnings of investee	18,492	13,015	5,477	42%

During the first half of 2004 we increased our interest in Korea Line Corporation ("Korea Line") from 10% at December 31, 2003 to 21% by June 2004. In accordance with Accounting Principles Board Opinion No.18 "The Equity Method of Accounting for Investments in Common Stock" we changed our accounting treatment of the investment to the equity method of accounting to reflect our ability to exercise significant influence over the investee subsequent to December 31, 2003. The investment had previously been accounted for as "available for sale". The year ended December 31, 2004 was the first year in which we have included a share of earnings in Korea Line. Korea Line operates in the drybulk market, as well as operating some LNG vessels, and charters out its own vessels as well as chartered in vessels on short-term and long-term contracts. During 2004 and the first half of 2005 Korea Line capitalized on a good drybulk market and made significantly more operating profit than in 2003. Their LNG vessels, as well as some of their other vessels, are on long-term charters and therefore produce steady returns. During the second half of 2005 the drybulk market has declined and charter rates have reduced significantly and in the third quarter of 2005 they actually made a loss. Overall the net result of Korea Line was the same in 2004 as it was in 2005 even though operating profits were higher in 2004. The reason for this is primarily that a new shipping tax system has been introduced in Korea and so Korea Line's tax charge in 2005 is greatly reduced from that in 2004. The reason why our share of earnings in 2005 is higher than in 2004 when their net results were very similar for both years is that we built up our shareholding from 10% at the beginning of 2004 to 21% by June 2004. The fact that our percentage share was lower for this period and that Korea Line made the majority of the year's profit during the first half of 2004 has meant that we actually have a lower share of net earnings in 2004 as compared to 2005.

Net Income

As a result of the foregoing, we earned net income of \$34.5 million in 2005, reduced from \$55.8 million in 2004.

Year ended December 31, 2004, compared with the year ended December 31, 2003

Operating Revenues

Total operating revenues of \$163.4 million were \$30.6 million, or 23%, higher in 2004 as compared to 2003. Although there was an increase in the total number of off-hire days incurred in 2004 compared to 2003, this was offset by earnings from the addition of the *Golar Winter* and the *Golar Frost* to the fleet in April 2004 and June 2004 respectively, and a full year's earnings from the *Methane Princess*, delivered in August 2003. The increased number of off-hire days in 2004 was mainly due to the commercial waiting time in respect of the two newbuildings *Golar Winter* and *Golar Frost* following their delivery during the year, in addition to off-hire incurred by the *Methane Princess* as a result of waiting and positioning time prior to entering its long term charter with BG in the year. Revenues earned by the *Methane Princess* during 2003 were derived from voyage charters. Whilst the newbuildings commercial waiting time increased the overall number of off-hire days they still made a positive contribution to revenues therefore, although total revenues increased during 2004, average revenue per vessel reduced from an average daily time charter equivalent rate of \$57,300 in 2003 to \$54,900 in 2004.

Vessel Operating Expenses

Vessel operating expenses increased 19% from \$30.2 million in 2003 to \$35.8 million in 2004. This was mainly because of the addition of the *Golar Winter* and the *Golar Frost* to our fleet, which contributed \$4.3 million of the increase and the *Methane Princess* trading for a full year, which contributed a further \$1.8 million. This was partly offset by our six other vessels' expenses being approximately \$0.5 million lower than 2004. In the years ended December 31, 2004 and 2003, the average daily operating costs of our vessels were \$11,829 and \$13,000, respectively. Our daily operating costs declined because it is generally cheaper to operate new ships than it is to operate older ships. Included in these amounts are \$1,124 per day and \$928 per day, respectively of overheads allocable to vessel operating expenses. These are onshore costs such as technical and operational staff support, information technology and legal, accounting and corporate costs attributable to vessel operations. These costs are allocated based on internal cost studies, which management believes are reasonable estimates.

Voyage expenses

Voyage expenses increased 17% from \$2.2 million in 2003 to \$2.6 million in 2004 even though voyage revenues decreased by 74% from \$9.1 million in 2003 to \$2.4 million in 2004. During 2003 our first newbuilding the *Methane Princess* operated under voyage charters from delivery in August 2003 until the end of the year. In contrast, our vessels were mostly under time charters during 2004 albeit that some of these time charters were for short periods of time. Under a time charter the charterer pays voyage costs, mainly fuel costs, themselves. As soon as the time charter finishes or when the vessel is waiting for employment (commercial waiting time) these costs are payable by us. Therefore, whilst less voyage charters were performed in 2004 voyage expenses were incurred for the periods of commercial waiting in respect of our newbuildings in 2004, which meant voyage costs actually increased. The level of voyage expenses we incur is largely dependent on the number of vessels we have operating on voyage charters.

Administrative Expenses

Administrative expenses increased 19% from \$7.1 million in 2003 to \$8.5 million in 2004. The increase was mainly due to higher salary and employee benefit costs due to increased head count and salary increases; additional costs incurred as a result of our accounting and auditing requirements in respect of our associate Korea Line and a general increase of expenses arising in particular as a result of a 7.8% appreciation of the British Pound ("GBP") against the US Dollar. A significant proportion of our administrative expenses are incurred in GBP at our office in London. Movement in the exchange rate of the US dollar against GBP will therefore impact our future administrative expenses. These significant increases were offset in part by a reduction of \$1.8 million in the charge in respect of our share of costs in the Baja project.

Depreciation and Amortization

Depreciation and amortization increased 30% from \$31.1 million in 2003 to \$40.5 million in 2004. The increase was due to the addition of the *Golar Winter* and the *Golar Frost* to the fleet in the year and the full year impact of the *Methane Princess*, which was delivered mid 2003.

Net Financial Expenses

Interest income was \$31.9 million and \$14.8 million for the years ended December 31, 2004 and 2003, respectively. Interest income includes an amount of \$30.5 million in 2004 and \$14.1 million in 2003 attributable to fixed cash deposits, which secure our capital lease obligations. Interest expense was \$62.0 million and \$37.2 million for the years ended December 31, 2004 and 2003, respectively. The expense includes an amount of \$33.9 million in 2004 and \$14.6 million in 2003 attributable to our capital lease obligations. The increase in both income and expense is due to the finance lease transactions that we entered into during 2003 and the *Golar Winter* lease entered into in 2004, in addition to debt finance for the *Golar Frost* entered into during 2004 and in respect of the *Methane Princess*, which was entered into during 2003. Other financial items decreased \$2.3 million from net income of \$7.2 million for the year ended December 31, 2003 to net income of \$4.8 million in the year ended December 31, 2004. The change was primarily due to the decline in the fair value of interest rate swaps, from a gain of \$6.4 million in 2003 compared with a gain of \$5.6 million in 2004, and a decrease of \$1.5 million in net foreign exchange gains from \$3.0 million in 2003 compared with \$1.5 million in 2004. Foreign exchange gains and losses arise as a result of the retranslation of our capital lease obligations, the cash deposits securing those obligations and the movement in the fair value of the currency swap used to hedge the *Golar Winter* lease transaction. Of the \$1.5 million net foreign exchange gain in 2004, a gain of \$6.7 million (2003: \$nil) arose in respect of the mark to market valuation of the currency swap representing the movement in the fair value. This swap entered into hedges the currency risk arising from lease rentals due in respect of the *Golar Winter* GBP lease rental obligation, by translating GBP payments into US dollar payments at a fixed GBP/USD exchange rate (i.e. Golar receives GBP and pays US dollars). The gain arose due to the appreciation of the British Pound against the US Dollar during the year. This gain represents an unrealised gain.

Minority Interest and Income Taxes

Minority interest, consisting of the 40% interest in the *Golar Mazo*, marginally increased from a charge of \$7.0 million in 2003 to a charge of \$7.6 million in 2004. Income taxes relate to the taxation of our UK management operations and also UK based vessel operating companies we established subsequent to April 2003. Our income tax charge is expected to increase as a function of the number of vessels we operate in the UK and the profitability of the UK companies.

Equity in net earnings of investee

During the first half of 2004 we increased our interest in Korea Line Corporation from 10% at December 31, 2003 to 21% by June 2004. In accordance with Accounting Principles Board Opinion No.18 "The Equity Method of Accounting for Investments in Common Stock" we changed our accounting treatment of the investment to the equity method of accounting to reflect our ability to exercise significant influence over the investee subsequent to December 31, 2003. The investment had previously been accounted for as "available for sale". The year ended December 31, 2004 is the first year in which we have included a share of earnings in Korea Line Corporation. Korea Line operates in the drybulk market, as well as operating some LNG vessels, and charters out its own vessels as well as chartered in vessels on short-term and long-term contracts. Korea Line capitalized on a good drybulk market during 2004 and their operating profit more than doubled from 2003.

Net Income

As a result of the foregoing, we earned net income of \$58.6 million in 2004, increased from \$39.6 million in 2003.

B. Liquidity and Capital Resources

Liquidity

We operate in a capital intensive industry and we have historically financed our purchase of LNG carriers and other capital expenditures through a combination of borrowings from and leasing arrangements with commercial banks, cash generated from operations and equity capital. Our liquidity requirements relate to servicing our debt, funding our newbuilding program, funding investments, including the equity portion of investments in vessels and investment in the development of our project portfolio, funding working capital and maintaining cash reserves against fluctuations in operating cash flows.

Revenues from our time charters are received monthly in advance. Inventory requirements, consisting primarily of fuel, lubricating oil and spare parts, are low due to the major cost, fuel, of these items being paid for by the charterer under time charters. We believe our current resources are sufficient to meet our working capital requirements for our current business; however, our newbuildings, currently consisting of a committed contract for

a vessel currently under construction, and the development of our project portfolio, in particular our FSRU conversion project will result in increased financing and working capital requirements. Payments for our newbuilding are made as construction progresses in accordance with our contract with the shipyard. The financing of our projects and newbuilding is discussed further below.

We may also require additional working capital in relation to our two vessels operating in the spot market depending on their employment and possibly in respect of the three ships we will have chartered to Shell as these charters are at market related rates.

During the first quarter of 2006 our approximate average daily cash breakeven rates for our four vessels exposed to the spot market was approximately \$37,000 per day. These are the daily rates our vessels must earn to cover payment of budgeted operating costs, estimated interest costs and scheduled loan and lease principal repayments. These rates do not take into account balloon repayments on the maturity of loans, which we expect to refinance with new loans.

We believe we have sufficient facilities to meet our anticipated funding needs until June 2007. As of June 2007, we will also need additional facilities of \$108 million to meet the delivery installment commitment in respect of newbuilding vessel hull number 2244 due to be delivered in June 2007. It is standard in the shipping industry to finance between 50% and 80% of the purchase price of vessels, or construction cost in the case of newbuildings, through traditional bank or lease financing. In the case of vessels that have term charter coverage, the debt finance percentage may increase significantly. If we were to obtain 50% debt financing of the cost of our remaining unfinanced newbuilding, this would result in additional financing of approximately \$80 million of the \$108 million required.

It is intended that the funding of this commitment will come from a combination of cash and investments, debt finance, and cash flow from operations. Alternatively, if market and economic conditions favor equity financing, we may raise additional equity. Within the past two years we have raised bank and lease finance in respect of five vessels without time charter contract commitments for between 60% and 70% of the capital cost of the vessel or on average approximately \$115 million per ship. This fact and the general discussions we have had with a number of banks and others with whom we have a close relationship, leads us to believe that we will be able to secure sufficient facilities to meet these commitments. Details of our capital commitments are detailed below.

Our funding and treasury activities are conducted within corporate policies to maximize investment returns while maintaining appropriate liquidity for our requirements. Cash and cash equivalents are held primarily in US dollars with some balances held in British pounds. We have not made use of derivative instruments other than for interest rate and currency risk management purposes, except in the case of our equity swap which is discussed further below under "Derivatives".

The following table summarizes our cash flows from operating, investing and financing activities:

	Year Ended December 31,		
	2005	2004	2003
<i>(in millions of \$)</i>			
Net cash provided by operating activities	71.0	82.0	60.1
Net cash used in investing activities	(213.2)	(356.1)	(658.5)
Net cash provided by financing activities	152.8	207.8	663.6
Net increase (decrease) in cash and cash equivalents	10.6	(66.3)	65.1
Cash and cash equivalents at beginning of year	51.6	117.9	52.7
Cash and cash equivalents at end of year	62.2	51.6	117.9

In addition to our cash and cash equivalents noted above, as at December 31, 2005, 2004 and 2003 we had short-term restricted cash of \$49.4 million, \$42.0 million and \$32.1 million, respectively that represents balances retained on restricted accounts in accordance with certain lease and loan requirements, and for 2005, certain requirements in respect of our equity swap. These balances act as security for and over time are used to repay lease and loan obligations. Our long-term restricted cash balances were \$696.3 million, \$714.8 million and \$623.2 million as at December 31, 2005, 2004 and 2003 respectively. These balances act as security for our capital lease obligations and the majority is released over time in line with the repayment of our lease obligations.

Cash generated from operations increased in 2004 from 2003 largely due to the addition of the *Golar Winter* and *Methane Princess* to the fleet. The *Golar Winter* was delivered in April 2004 and employed under a short-term charter, the *Methane Princess*, delivered in August 2003, traded for the majority of 2004 under its long-term charter. This was partly offset by the delivery of the *Golar Frost* in June 2004, which effectively traded at a loss during 2004. In 2005 cash generated from operations decreased principally because of the commercial waiting time incurred by our newly delivered vessels. Whilst the *Methane Princess* traded throughout 2005 on her long-term charter, the *Golar Winter*, *Golar Frost* and the *Gracilis* (delivered in January 2005) suffered a substantial amount of commercial waiting time and therefore traded at a loss.

Net cash used in investing activities has principally been in respect of our newbuilding program together with the funding of deposits to provide security for capital lease obligations. Our investment in our newbuildings, principally purchase installments, was \$140.0 million, \$278.6 million and \$77.8 million for 2005, 2004 and 2003 respectively. Our deposits made to provide security for capital lease obligations were \$64.4 million \$47.2 million and \$562.3 million for 2005, 2004 and 2003 respectively. The vast majority of the funds for these deposits came from related financing activities. We invested \$12.2 million in the purchase of equity securities in Korea Line Corporation in 2003 and a further \$21.9 million in 2004. In 2005 we invested \$3.0 million in TORP technology. Our other investing cash flows relate to additions to vessels and equipment, which amount to \$5.7 million, \$8.2 million and \$6.3 million for 2005, 2004 and 2003 respectively.

Net cash provided by financing activities is principally generated from funds from new debt and lease finance offset by debt repayments. As noted above a proportion (and a significant proportion in 2003) of our new debt and lease finance has been used to make deposits to provide security for the obligations. In addition we raised equity finance in 2003 as noted below.

In 2005, we drew down a total of \$420 million of which \$120 million related to the financing for the *Gracilis* and \$300 million was in respect of the refinancing of an existing loan. We also received \$44.8 million in respect of lease financing arrangements in relation to the *Grandis*, all of which was invested as a pre-delivery security deposit. We made debt repayments of \$297.2 million, \$242.2 million of which related to the refinancing and new \$300 million loan noted above. We also repurchased 50,000 of our shares during 2005 at a cost of \$0.7 million.

In 2004, we drew down a total of \$110 million in debt in relation to the *Golar Frost* and received proceeds of \$163.7 million from lease financing arrangements in relation to the *Golar Winter*. Repayments of debt totalled \$62.3 million in 2004. During 2003, we drew down a total of \$506.1 million in debt and received proceeds from lease financing arrangements of \$616.3 million. Repayments of debt totalled \$561.2 million in 2003, of which \$32.7 million was to a related party. Furthermore, during 2003, we raised \$106.2 million from the issue of 9.6 million shares in two separate offerings, 5.6 million shares in July 2003 and 4.0 million in December 2003.

Long-Term Debt

Mazo facility

In November 1997 Osprey entered into a loan facility of \$214.5 million secured by a mortgage on the vessel *Golar Mazo*, which we refer to as the Mazo facility. This facility, which we assumed from Osprey, bears floating rate interest of LIBOR plus a margin. The loan is repayable in bi-annual installments that commenced on June 28, 2001. The balance of the facility, on a 100% basis, as at December 31, 2005 totalled \$154.0 million. In connection with the Mazo facility, Osprey entered into a collateral agreement with the banking consortium and a bank trust company. This agreement requires that certain cash balances, representing interest and principal payments for defined future periods, be held by the trust company during the period of the loan.

In connection with the Mazo facility, Osprey entered into interest rate swaps to reduce the impact of changes in interest rates. Gains and losses due to the changes in the fair value of the interest rate swaps are recorded in the income statement.

Golar Gas Holding facility, Golar LNG facility and Golar LNG subordinated facility

In May 2001, we entered into a secured loan facility with a banking consortium for an amount of \$325.0 million, which we referred to as the Golar LNG facility. The Golar LNG facility was first refinanced in April 2003, with cash, in connection with a lease finance arrangement for five vessels, as discussed further below, and an amount of \$265 million was provided by the same syndicate of banks; we referred to this loan as the New Golar LNG facility. The amount outstanding on the old facility at the time of the first refinancing was \$282.5 million and accordingly a net \$17.5 million was repaid.

In October 2002, we entered into a secured subordinated loan facility with a banking consortium for an amount of \$60.0 million, which we referred to as the Golar LNG subordinated facility. This loan was also first refinanced in April 2003. The new second priority loan, which we referred to as the New Golar LNG subordinated facility, was also for an amount of \$60 million provided by the same syndicate of banks.

In March 2005, a subsidiary of ours, Golar Gas Holding Company Inc. (GGHC) entered into a refinancing transaction in respect of the New Golar LNG Facility and the New Golar LNG subordinated facility. The new first priority loan, which we refer to as the Golar Gas Holding Facility, is for an amount of \$300 million. The total amount outstanding under the old facility at the time of refinancing was \$242.3 million. The loan accrues floating interest at a rate per annum equal to the aggregate of LIBOR plus a margin. The loan has a term of six years and is repayable in 24 quarterly installments and a final balloon payment of \$79.4 million payable on April 14, 2011.

The Golar Gas Holding Facility is secured by mortgages on the vessels *Golar Spirit*, *Khannur*, *Gimi*, *Hilli* and *Golar Freeze*, executed by the UK Lessor of the vessels in favour of our subsidiary, GGHC, and by a mortgage transfer executed by GGHC in favour of the lending banks. The new loan contains similar provisions to the old loans in respect of restrictions and financial covenants.

Methane Princess facility

On December 31, 2001, we signed a loan agreement with Lloyds TSB Bank Plc to finance 100% of the cost of one of our newbuildings, *the Methane Princess*, after we secured a 20-year charter for this vessel, which we refer to as the Methane Princess facility (previously referred to as the 2215 facility). In August 2003, prior to the delivery of the vessel we refinanced this facility in connection with a lease finance arrangement in respect of the *Methane Princess*. The new facility is also for \$180 million, with the same bank and has a similar repayment profile. It accrues a floating rate of interest of LIBOR plus a margin up to the date the vessel was delivered to the Charterer under the BG Charter and thereafter at LIBOR plus a reduced margin determined by reference to Standard and Poors ("S&P") rating of the Charterer from time to time. The margin could increase if the rating for the Charterer at any time fell below an S&P rating of "B". As at June 29, 2006, \$135 million of debt in respect of the Methane Princess facility was fixed interest rate debt. Of the \$135 million, \$115 million is fixed until 2015, \$10 million until 2009 and \$10 million until 2007, at a current weighted average rate of 4.5% (excluding margin).

Golar Frost facility

In March 2004, we entered into a secured loan facility with a banking consortium for an amount of \$110.0 million, in respect of the *Golar Frost*, which we refer to as the Golar Frost Facility. The loan accrues floating interest at a rate per annum equal to the aggregate of LIBOR plus a margin. The loan has a term of three years and is repayable in five semi-annual installments together with a final balloon payment of \$102.6 million. In June 2004 we drew down on the loan to finance the delivery of the *Golar Frost*. As noted above under 'Possible future activities' if the Livorno project goes ahead the *Golar Frost* will be utilised and we would expect it to be refinanced as part of the project. If the project does not go ahead we would expect to refinance this facility. In June 2006, the banking consortium approved certain changes to this facility, which included amongst other things an extension of the term of the loan for a period of 12 months to June 2008.

Gracilis (previously known as the Golar Viking) facility

In January 2005, we entered into a secured loan facility for an amount of \$120.0 million, for the purpose of financing our newbuilding, the *Gracilis*, which we refer to as the Gracilis facility. The facility bears a floating rate of interest of LIBOR plus a margin, has an initial term of five years and is repayable in 20 quarterly installments, commencing in April 2005 and a final balloon payment of \$100 million.

After these transactions, at December 31, 2005, we had total long-term debt outstanding of \$825.7 million, compared with \$703.0 million and \$655.2 million at December 31, 2004 and 2003, respectively.

The outstanding debt of \$825.7 million as of December 31, 2005 was repayable as follows:

Year ending December 31,
(in millions of \$)

2006	67.6
2007	166.4
2008	64.3
2009	66.1
2010	165.2

In April 2006, we entered into a secured loan facility for an amount of \$120.0 million, for the purpose of financing the *Granosa*, which was drawn down in June 2006 upon delivery of the newbuilding. We refer to this facility as the Granosa facility. The facility bears a floating rate of interest of LIBOR plus a margin, has an initial term of five years and is repayable in 20 quarterly installments, commencing in July 2006 and a final balloon payment of \$90.8 million.

The margins we pay under our current loan agreements over and above LIBOR at a fixed or floating rate currently range from 0.80% to 1.7%.

Capital Lease Obligations

Five ship leases

In April 2003 we entered into a lease finance arrangement, which we refer to as the Five Ship Leases, in respect of five of our vessels (*Golar Spirit*, *Golar Freeze*, *Hilli*, *Gimi* and *Khannur*), with a subsidiary of a major UK bank, which we refer to as the UK Lessor. We sold five 100% owned subsidiaries which owned the relevant vessels, to the UK Lessor and received a cash sum of \$452.6 million through refinancing, by the UK Lessor, of debt owed by the five subsidiary companies to us. Each of the five companies now owned by the UK Lessor subsequently entered into 20 year leases with a subsidiary of ours, Golar Gas Holding Company Inc., or GGHC, who in turn sub-leased the vessels to five UK subsidiary companies newly incorporated by us for the purpose of taking over the business of operating one each of the above named vessels.

We used \$325 million of the proceeds we received together with \$17.5 million of our cash reserves to repay two existing loans, the Golar LNG facility and the Golar LNG subordinated facility. The outstanding amounts of these loans upon repayment were \$282.5 million and \$60 million respectively. We then drew down on two new facilities; \$265 million secured by a mortgage executed by the UK Lessor in favour of our subsidiary GGHC as security for the Lessor's obligations to pay certain sums to GGHC under the lease agreements and by a mortgage transfer executed by GGHC in favour of the lending banks; and \$60 million secured by a similar but second priority mortgage. The total proceeds from the new loans of \$325 million together with \$89.5 million of the proceeds from the lease finance arrangement were used to make deposits with two banks amounting to \$414.5 million who then issued letters of credit securing GGHC's obligations under the leases amounting to the present value of rentals due under the leases. Lease rentals are payable quarterly. At the end of each quarter the required deposit to secure the present value of rentals due under the leases will be recalculated taking into account the rental payment due at the end of the quarter. The surplus funds released as a result of the reduction in the required deposit are available to pay the lease rentals due at the end of the same quarter. After making this deposit and settling all outstanding fees relating to the transaction the cash inflow was approximately \$32.5 million.

Methane Princess lease

In August 2003, we entered into a lease finance arrangement in respect of our first newbuilding the *Methane Princess*, to which we refer to as the Methane Princess Lease. We arranged a new \$180 million loan facility in respect of the *Methane Princess* (Methane Princess facility) as noted above and at the same time novated our shipbuilding contract to a subsidiary of a UK bank (UK Lessor) under the terms of which the UK Lessor advanced an amount equal to the amounts already paid by us under the shipbuilding contract to the Shipyard who in turn repaid us the same amount. We subsequently entered into a 30-year lease agreement in respect of the vessel with the UK Lessor. We used monies drawn down from the Methane Princess facility (secured by a mortgage executed by the UK Lessor in favor of us as security for the UK Lessor's obligations to pay certain sums to us under the lease agreement and by a mortgage transfer executed by us in favour of the lending bank) together with some of our own cash reserves to make deposits with a bank ("LC Bank") who then issued a letter of credit securing our obligations to the UK Lessor. We used the monies refunded by the Shipyard under the novation agreement together with our own cash to repay the original loan in respect of the *Methane Princess*. Upon delivery of the vessel and payment of the final delivery installment the total advanced by the UK Lessor was \$163.7 million and the amount placed on deposit with the LC Bank was \$143.9 million. After settling all outstanding fees relating to the transaction the cash inflow was approximately \$18.5 million.

Golar Winter lease

In April 2004, we signed a lease agreement in respect our second newbuilding, the *Golar Winter*, to which we refer to as the Golar Winter Lease, with another UK bank (the 'Winter Lessor') for a primary period of 28 years. The vessel was also delivered in April 2004. Under the agreement we received an amount of \$166 million. Our

obligations to the Lessor under the lease are secured by (inter alia) a letter of credit provided by another UK bank (the 'LC Bank'). We deposited \$39 million with the LC bank as security for the letter of credit at the same time we entered into the lease. The effective amount of net financing received is therefore \$127 million before fees and expenses.

In common with the Five Ship Leases and the Methane Princess Lease the Golar Winter Lease is denominated in British pounds. However, unlike these other leases the cash deposits securing the lease obligations are significantly less than the lease obligation itself. The value of the deposit used to obtain a letter of credit to partly secure the lease obligation in respect of the *Golar Winter* as of December 31, 2005 was \$45.3 million. In order to hedge the currency risk arising from the GBP lease rental obligation we have entered into a 28 year currency swap, to swap all lease rental payments into US dollars at a fixed GBP/USD exchange rate, (i.e. Golar receives GBP and pays US dollars).

Grandis (previously known as Hull 2226) lease

In April 2005, we signed a lease agreement in respect of our newbuilding, hull number 2226 (*Grandis*), to which we refer to as the Grandis Lease, with another UK bank (the 'Grandis Lessor') for a primary period of 30 years. Under the agreement we received an amount of \$150 million of which \$47 million was received in April 2005 with the remainder received on delivery of the vessel in January 2006. Our obligations to the lessor under the lease are secured by (inter alia) by a letter of credit provided by another UK bank ('the LC bank'). This letter of credit is secured by a cash deposit of \$45 million which we deposited at the same time as entering into the lease. In common with the Golar Winter Lease, the cash deposit securing the lease obligation in respect of the Grandis Lease is significantly less than the lease obligation itself. However, unlike the Golar Winter Lease, our lease obligation in respect of the Grandis and the associated cash deposit are denominated in USD. The effective amount of net financing is therefore \$105 million, before fees and expenses.

As at 31 December 2005, the Company is committed to make minimum rental payments under capital lease, as follows:

Year ending December 31,	Five ship Leases	Methane Princess Lease	Golar Winter Lease	Grandis Lease	Total
<i>(in thousands of \$)</i>					
2006	22,083	6,180	10,983	2,240	41,486
2007	24,988	6,501	10,983	2,862	45,334
2008	26,237	6,794	10,983	2,862	46,876
2009	27,549	7,089	10,983	2,862	48,483
2010	28,927	7,384	10,983	2,862	50,156
2011 and later	710,158	328,401	236,136	76,718	1,351,413
Total minimum lease payments	839,942	362,349	291,051	90,406	1,583,748
Less: Imputed interest	(387,486)	(206,448)	(141,273)	(44,575)	(779,782)
Present value of minimum lease payments	452,456	155,901	149,778	45,831	803,966

The profiles of the Five Ship Leases are such that the lease liability continues to increase until 2008 and thereafter decreases over the period to 2023 being the primary term of the leases. The value of deposits used to obtain letters of credit to secure the lease obligations as of December 31, 2005 was \$470.2 million.

The profile of the Methane Princess Lease is such that the lease liability continues to increase until 2014 and thereafter decreases over the period to 2034 being the primary term of the lease. The value of the deposit used to obtain letters of credit to secure the lease obligations as of December 31, 2005 was \$161.5 million.

For all our leases other than our latest lease in respect of the *Grandis*, lease rentals include an interest element that is accrued at a rate based upon GBP LIBOR. In relation to the Winter Lease, we have converted our GBP LIBOR interest obligation to USD LIBOR by entering into the cross currency swap referred to above. We receive interest income on our restricted cash deposits at a rate based upon GBP LIBOR for the Five Ship leases and the Methane Princess lease, and based upon USD LIBOR for the Winter Lease. Our lease obligation in respect of the *Grandis* and the associated cash deposit are denominated in USD. Seven of our leases are therefore denominated in British pounds. The majority of this British pound capital lease obligation is hedged by British pound cash deposits securing the lease obligations or by currency swap. This is not however a perfect hedge and so the movement in currency exchange rate between the US dollar and the British pound will affect our results (see Item 11- Foreign currency risk).

In the event of any adverse tax rate changes or rulings, or in the event of a termination, we would be required to return all or a portion of, or in certain circumstances significantly more than, the upfront cash benefits that we have received, together with the fees that were financed in connection with our lease financing transactions, post additional security or make additional payments to our lessors which would increase the obligations noted above. The upfront benefits we have received equates to the cash inflow we received in connection with the six leases we entered into during 2003 (in total approximately £41 million British pounds).

Debt and lease restrictions

Our existing financing agreements (debt and leases) impose operation and financing restrictions on us which may significantly limit or prohibit, among other things, our ability to incur additional indebtedness, create liens, sell capital shares of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, transfer funds from subsidiary companies to us, enter into time or consecutive voyage charters or pay dividends without the consent of our lenders and lessors. In addition, our lenders and lessors may accelerate the maturity of indebtedness under our financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence of certain events of default, including our failure to comply with any of the covenants contained in our financing agreements. Various debt and lease agreements of the Company contain covenants that require compliance with certain financial ratios. Such ratios include equity ratio, working capital ratios and earnings to net debt ratio covenants, minimum net worth covenants, minimum value clauses, and minimum free cash restrictions in respect of our subsidiaries and us. With regards to cash restrictions we have covenanted to retain at least \$25 million of cash and cash equivalents. As of December 31, 2005, 2004 and 2003, we complied with all covenants of our various debt and lease agreements.

In addition to mortgage security, some of our debt is also collateralized through pledges of shares by guarantor subsidiaries of Golar.

Derivatives

We use financial instruments to reduce the risk associated with fluctuations in interest rates. We have a portfolio of interest rate swaps that exchange or swap floating rate interests to fixed rates, which from a financial perspective hedge obligations to make payments based on floating interest rates. We do not hold or issue instruments for speculative or trading purposes. As at December 31, 2005 our interest rate swap agreements effectively fix our floating interest rate exposure on \$494.5 million of floating rate debt, although \$105 million of these swaps relate to lease obligations incurred after December 31, 2005. Our swap agreements have expiry dates between 2007 and 2015 and have fixed rates of between 3.03% and 6.43%.

As noted above (see 'Golar Winter Lease') we have entered into a currency swap to hedge an exposure to British pounds in respect of the Golar Winter Lease.

In October 2005, we established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia ("BNS") in connection with a share buy back scheme of ours, whereby BNS may acquire an amount of shares up to a maximum of 3.2 million in us during the accumulation period, and we carry the risk of fluctuations in the share price of those acquired shares. BNS is compensated at their cost of funding plus a margin. As at December 31, 2005, BNS has acquired a total of 600,000 Golar shares under the Programme at an average price of \$11.04. The gain of \$1.4 million represents the mark-to-market valuation of this derivative. In June 2006, BNS acquired a further 470,000 Golar shares at an average price of \$13.26.

Newbuilding Contracts and Capital Commitments

As of December 31, 2005, we had contracts to build three new LNG carriers. We took delivery of our fifth newbuilding, the *Grandis*, in January 2006, which was financed by a lease finance arrangement noted above. Our sixth newbuilding, the *Granosa*, was delivered to us on June 16, 2006. As at June 29, 2006, we therefore have one newbuilding still under construction with amounts outstanding and payable under the contracts totalling approximately \$147 million, excluding financing costs, which are due in installments over the period to June 2007.

In December 2005 we entered into a contract for the conversion of an existing LNG carrier into an FSRU. The conversion cost is estimated to be \$50 million of which \$6.1 million has been paid to date.

As noted above, two of our newbuildings have been delivered since December 31, 2005. The following table sets out as at December 31, 2005 and June 29, 2006 the estimated timing of the remaining commitments under our

present contracts noted above. Actual dates for the payment of installments may vary due to progress of the construction/conversion.

(in millions of \$)	June 29, 2006	December 31, 2005
2006	29.6	271.3
2007	145.5	145.5
Total	175.1	416.8

We will need additional financing for our capital commitments as discussed above under “Liquidity and Capital Resources – Liquidity”.

Our senior management evaluates funding alternatives depending on the prevailing market conditions. We anticipate that the additional financing required to fund the completion of the remaining newbuilding construction costs will come from a combination of additional debt and lease financing, cash reserves and cash from operations, supplemented by equity proceeds as circumstances may warrant or permit. It is standard in the shipping industry to finance between 50% and 80% of the construction cost of newbuildings or the market value of vessels through traditional bank financing and in the case of vessels that have charter coverage the debt finance percentage may increase significantly. We would make such borrowings as needed while construction, or conversion in the case of the FSRU, proceeds. Alternatively, if market and economic conditions favor equity financing at any such time, we may use somewhat less debt and instead raise equity to fund a larger portion of these costs. Currently, we are seeking a mixture of long-term, medium-term and short-term charters for our newbuilding hull number 2244 to be delivered in June 2007 and for our FSRU. The charter coverage of a newbuilding and our FSRU may affect our ability to finance its completion.

C. Research and Development, Patents and Licenses

Not applicable

D. Trend Information

See our discussion above under ‘overview and background’.

E. Off-Balance Sheet Arrangements

We are committed to make rental payments under operating leases for office premises under operating leases. The future minimum rental payments under our non-cancellable operating leases for office premises are disclosed below in the tabular disclosure of contractual obligations.

F. Contractual Obligations

The following table sets forth our contractual obligations for the periods indicated as at December 31, 2005:

(in millions of \$)	Total Obligation	Due in 2006	Due in 2007 - 2008	Due in 2009 – 2010	Due Thereafter
Long-Term Debt (3)	825.7	67.6	230.7	231.3	296.1
Interest commitments on long-term debt (5)	187.6	43.2	63.5	40.8	40.1
Capital Lease Obligations (1)	804.0	-	2.8	10.0	791.2
Interest commitments on capital lease obligations	779.8	43.1	89.4	88.6	558.7
Operating Lease Obligations	0.7	0.2	0.4	0.1	-
Purchase Obligations					
Newbuildings	368.4	252.6	115.8	-	-
FSRU conversion (4)	48.4	18.7	29.7	-	-
Egyptian venture (6)	5.0	1.3	3.7	-	-
Other Long-Term Liabilities (2)	-	-	-	-	-
Total	3,019.6	426.7	536.0	370.8	1,686.1

- (1) In the event of any adverse tax rate changes or rulings our lease obligations could increase significantly (see discussion above under “Capital Lease Obligations”).
- (2) Our consolidated balance sheet as of December 31, 2005 includes \$85 million classified as "Other long-term liabilities" of which \$60 million represents deferred credits related to our capital lease transactions and \$25 million represents liabilities under our pension plans. These liabilities have been excluded from the above table as the timing and/or the amount of any cash payment is uncertain. See Note 26 of the Notes to Consolidated Financial Statements for additional information regarding our other long-term liabilities.
- (3) As of December 31, 2005, taking into account the hedging effect of our interest rate swaps, \$278 million of our long-term debt and capital lease obligations, net of restricted cash deposits, was floating rate debt which accrued interest based on USD LIBOR, and \$630 million of debt accrued interest at a fixed interest rate.
- (4) This refers to the contracted conversion costs of an existing LNG vessel into a LNG Floating Storage Regasification Unit (“FSRU”).
- (5) Our interest commitment on our long-term debt is calculated based on an assumed average USD LIBOR of 6% and taking into account our various margin rates and interest rate swaps associated with each debt.
- (6) In December 2005, we signed a shareholders’ agreement in connection with the setting up of a jointly owned company to be named Egyptian Petroleum Services Company S.A.E (“EPSC”), which was to be established to develop hydrocarbon business and in particular LNG related business in Egypt. As at December 31, 2005, we were committed to subscribe for common shares in EPSC for a total consideration of \$5,000,000. An initial amount of \$500,000 was payable on incorporation of EPSC in March 2006, with a further \$750,000 and \$3,750,000 payable within three months of incorporation and three years of incorporation respectively at dates to be determined by EPSC’s Board of Directors.

Furthermore, as at December 31, 2005, we had a commitment to pay \$1 million to a third party, contingent upon the conclusion of a material commercial business transaction by EPSC as consideration for work performed in connection with the setting up and incorporation of EPSC. This liability has been excluded from the above table as the timing of any cash payment is uncertain.

A total of \$237.2 million of newbuilding obligations due in 2006 have been financed and paid during the period to June 29, 2006. Of this amount, \$103 million and \$104 million were in respect of the final installments for the *Grandis* and *Granosa*, respectively. *Grandis* was financed by way of a drawdown in January 2006 from an existing lease finance arrangement. *Granosa*’s final installment was paid by drawing down from the *Granosa* loan facility (see Item 5B – Liquidity and Capital Resources).

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Information concerning each of our directors and executive officers as at June 29, 2006 is set forth below.

Name	Age	Position
John Fredriksen	62	Chairman of the Board, President and Director
Tor Olav Trøim	43	Deputy Chairman of the Board, Vice President and Director
Kate Blankenship	41	Director
Frixos Savvides	54	Director
Gary Smith	50	Chief Executive Officer of Golar Management
Graeme McDonald	49	Group Technical Director of Golar Management
Graham Robjohns	41	Chief Financial Officer of Golar Management
Charlie Peile	52	Head of Commercial of Golar Management
Olav Eikrem	50	General Manager of the Fleet of Golar Management
Georgina Sousa	56	Company Secretary

Biographical information with respect to each of our directors and executive officers is set forth below.

John Fredriksen has served as the chairman of our board of directors, our president and a director since our inception in May 2001. He has been the chief executive officer, chairman of the board, president and a director of Frontline Ltd, or Frontline, since 1997. Frontline is a Bermuda based tanker owner and operator listed on the New York Stock Exchange, the London Stock Exchange and the Oslo Stock Exchange. Mr. Fredriksen has served for over nine years as a director of Seatankers Management Co. Ltd, a ship operating company and an affiliate of the Company's principal shareholder. Mr. Fredriksen indirectly controls World Shipholding, a Cyprus Company who is our principal shareholder. Mr. Fredriksen has been a director of Golden Ocean Group Limited, or Golden Ocean, a Bermudian company listed on the Oslo Stock Exchange, since November 2004. Mr Fredriksen has been a director of SeaDrill Limited, or SeaDrill, a Bermudan company listed on the Oslo Stock Exchange, since May 2005.

Tor Olav Trøim has served as our vice-president and a director since our inception in May 2001 and served as our chief executive officer from May 2001 to April 2006. He has been the vice president and a director of Frontline since 1996. He also served as deputy chairman of Frontline Ltd. in 1997. Until April 2000, Mr. Trøim was the chief executive officer of Frontline Management AS, a management company that is a subsidiary of Frontline Ltd. Mr. Trøim also serves as a consultant to Seatankers and since May 2000, has been a director and vice-chairman of Knightsbridge Tankers Limited, a Bermuda company listed on the Nasdaq National Market. He is a director of Aktiv Inkasso ASA, a Norwegian Oslo Stock Exchange listed company, Golden Ocean and SeaDrill. Mr. Trøim has been President and Chief Executive Officer of Ship Finance International Limited, or Ship Finance, a Bermuda company listed on the New York Stock Exchange, since October 15, 2003. Prior to his service with Frontline, from January 1992, Mr. Trøim served as managing director and a member of the board of directors of DNO AS, a Norwegian oil company.

Kate Blankenship has served as a director since July 2003 and was Company Secretary from our inception in 2001 until November 2005. She served as our chief accounting officer from May 2001 until May 31, 2003. She has been a director of Frontline since August 2003 and served as the chief accounting officer and secretary until October 2005. She has also been chief financial officer of Knightsbridge Tankers Ltd since August 2000 and secretary of Knightsbridge since December 2000. Since October 2003, she has served as a director of Ship Finance. Mrs. Blankenship has been a director of Golden Ocean since November 2004 and a director of SeaDrill since May 2005. She is a member of the Institute of Chartered Accountants in England and Wales.

Frixos Savvides joined the company as a director in August 2005. Mr. Savvides was a founder of the audit firm PKF Savvides and Partners in Cyprus and held the position of Managing Partner until 1999 when he became Minister of Health of the Republic of Cyprus. He held this office until 2003. Mr. Savvides is currently a senior independent business consultant, and holds several Board positions including his recent appointment as Vice Chairman of Cyprus Airways. Mr. Savvides has been a director of Frontline since July 31, 2005. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Gary Smith joined as our new Chief Executive Officer in March 2006. Mr. Smith has an extensive background in the petroleum industry. Most recently Mr. Smith worked for STASCO (Shell Trading & Shipping Co) in London in the position of General Manager Commercial Shipping. In this position he worked closely with all existing Shell LNG projects and LNG trading activities and supported the development of several new LNG projects. Mr. Smith also served as President and Director of SIGGTO (Society of International Gas Tanker & Terminal Operators) during the period from 2002 to 2005.

Graeme McDonald is our Group Technical Director. He was previously general manager of the fleet, a position he held with Osprey, since 1998. He has worked in the shipping industry since 1973 and held various positions with Royal Dutch Shell companies, including manager of LNG shipping services at Shell International Trading and Shipping Company Ltd. and manager of LNG marine operations at Shell Japan Ltd.

Graham Robjohns has served as our Group Financial Controller since May 2001, as our Chief Accounting Officer since June 1, 2003 and as our Chief Financial Officer since November 2005. He was financial controller of Osprey Maritime (Europe) Ltd from March 2000 to May 2001. From 1992 to March 2000 he worked for Associated British Foods Plc. and then Case Technology Ltd (Case), both manufacturing businesses, in various financial management positions and as a director of Case. Prior to 1992, he worked for PricewaterhouseCoopers in their corporation tax department. He is a member of the Institute of Chartered Accountants in England and Wales.

Charlie Peile was appointed in September 2003 as Executive Vice President and Head of Commercial. He was, for three years prior to that, Director of LNG Shipping Solutions, the leading LNG advisory and consultancy company. For a short period prior to that he was Managing Director of Stephenson Clarke Ltd., a ship owning company based in Newcastle upon Tyne. He was with Gotaas-Larsen, Golar's predecessors, from 1981 until 1997, for the last seven

years of which he was Vice President Commercial, with special responsibility for LNG. He has been a member of the Institute of Chartered Shipbrokers since 1977.

Olav Eikrem joined the company in October 2003 as General Manager Fleet. Mr. Eikrem has an MSc degree in Mechanical Engineering from the Norwegian Institute of Technology and is a Chief Engineer by profession. From 1997 to 2003 Mr. Eikrem was Senior Manager and Director of Thome Ship Management, Singapore, responsible for management of various different types of merchant ships. Prior 1997, he was Fleet Manager of Knutsen OAS Shipping, a Norwegian specialist shuttle tanker operator and as Fleet Manager / Technical Superintendent of Jo Tankers. Mr Eikrem has several years sea-going service in the capacity as engineer and other positions onboard and has worked at shipyards in Norway.

Georgina E. Sousa has served as Secretary of the Company and its subsidiaries since November 30, 2005. She is currently Vice-President-Corporate Services of Consolidated Services Limited, a Bermuda Management Company having joined the firm in 1993 as Manager of Corporate Administration. From 1976 to 1982 she was employed by the Bermuda law firm of Appleby, Spurling & Kempe as a Company Secretary and from 1982 to 1993 she was employed by the Bermuda law firm of Cox & Wilkinson as Senior Company Secretary.

B. Compensation

For the year ended December 31, 2005, we paid to our directors and executive officers (eight persons) aggregate cash compensation of \$1,229,324 and an aggregate amount of \$100,620 for pension and retirement benefits.

C. Board Practices

Our directors do not receive any benefits upon termination of their directorships. The Board established an audit committee in July 2005, which comprises two members, Kate Blankenship and Frixos Savvides, who are also both Company Directors. Except for an audit committee the Board does not have any other committees.

Exemptions from certain Nasdaq corporate governance rules

Nasdaq rules permit Nasdaq to provide exemptions from the Nasdaq corporate governance standards to a foreign issuer when those standards are contrary to a law, rule or regulation of any public authority exercising jurisdiction over such issuer or contrary to generally accepted business practices in the issuer's country of domicile. In accordance with Nasdaq rules and regulations we are relying on an exemption from certain corporate governance standards that are contrary to law, rules regulations or generally accepted business practices of Bermuda. The exemption, and the practices that we follow, are described below:

- In keeping with Bermuda law and the rules of the Oslo Stock Exchange, we are exempt from Nasdaq's requirement to maintain three independent directors. We currently have one member of the Board of Directors who is independent according to Nasdaq's standards for independence.
- In keeping with common practices among companies listed on the Oslo Stock Exchange, we are exempt from certain Nasdaq requirements regarding our audit committee. The Company's management is responsible for the proper and timely preparation of the Company's annual reports which are audited by independent auditors.
- In lieu of a compensation committee comprised of independent directors, the full Board of Directors determines compensation.
- In lieu of nomination committee comprised of independent directors, the full Board of Directors regulates nominations.

D. Employees

As of December 31, 2005, we employed approximately 15 people in our offices in London and Oslo. We contract with independent ship managers to manage, operate and to provide crew for our vessels. We also employ approximately 570 seagoing employees of which 43 are employed directly by us and 527 are employed through our independent ship managers.

E. Share ownership

The following table sets forth information as of June 29, 2006, regarding the total amount of common shares owned by all of our officers and directors on an individual basis: The beneficial interests of our Directors and officers in the common shares of the Company as of June 29, 2006, were as follows:

<u>Director or Officer</u>	<u>Common Shares of \$1.00 each</u>	<u>Percentage of Common Shares Outstanding</u>
John Fredriksen*	30,652,000	46.75%
Tor Olav Trøim	--	--
Gary Smith	--	--
Graeme McDonald	--	--
Charles Peile	195	**
Olav Eikrem	--	--
Graham Robjohns	500	**
Kate Blankenship	5,000	**
Frixos Savvides	--	--
Georgina Sousa	--	--

* Mr. Fredriksen does not own any of our shares directly. The shares shown next to Mr. Fredriksen's name are held by World Shipholding Ltd. See Item 7, "Major Shareholders and Related Party Transactions." World Shipholding Ltd. is wholly-owned by Greenwich Holdings Limited, which is, in turn, indirectly controlled by Mr. Fredriksen.

** Less than one %

In addition to the above shareholdings, as of June 29, 2006, Mr. Trøim has a forward contract with an obligation to buy 200,000 of our shares. The contracts, which were acquired in the open market, became effective on May 30, 2006.

Option Plan

Our Board of directors adopted the Golar LNG Limited Employee Share Option Plan in February 2002. The plan authorizes our board to award, at its discretion, options to purchase our common shares to employees of Golar LNG Limited, and any of its subsidiaries, who are contracted to work more than 20 hours per week and to any director of Golar LNG Limited or its subsidiaries.

Under the terms of the plan, our Board may determine the exercise price of the options, provided that the exercise price per share is not lower than the then current market value. No option may be exercised prior to the first anniversary of the grant of the option except that the option will become immediately exercisable if the option holder's employment is terminated (other than for cause) or in the event of the option holder's death. All options will expire on the tenth anniversary of the option's grant or at such earlier date as the board may from time to time prescribe. The Plan will expire ten years from its date of adoption.

As of June 29, 2006, two million of the authorized and unissued common shares were reserved for issue pursuant to subscription under options granted under the Company's share option plan.

Details of share options held by the Company's Directors and officers at June 29, 2006 are set out in the following table:

<u>Director or Officer</u>	<u>Number of Common Shares Subject to Option</u>	<u>Exercise Price per Ordinary Share</u>	<u>Expiration Date</u>
John Fredriksen	*200,000	\$5.75	July 2011
	** <u>300,000</u>	\$14.80	January 2011
	<u>500,000</u>		
Tor Olav Trøim	*100,000	\$5.75	July 2011
	** <u>150,000</u>	\$14.80	January 2011
	<u>250,000</u>		

Frixos Savvides	**75,000	\$14.80	January 2011
Kate Blankenship	**75,000	\$14.80	January 2011
Charlie Peile	**75,000	\$14.80	January 2011
Graeme McDonald	**75,000	\$14.80	January 2011
Graham Robjohns	**75,000	\$14.80	January 2011
Olav Eikrem	**75,000	\$14.80	January 2011
Gary Smith	***200,000	\$13.14	June 2011

* These options vested in July 2002.

** These options were granted in January 2006 and vest over a period of 3 years.

*** These options were granted in June 2006 and vest over a period of 3 years.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The Company is indirectly controlled by another corporation (see below). The following table presents certain information regarding the current ownership of the common shares with respect to (i) each person who is known by the Company to own more than 5% of the Company's outstanding common shares; and (ii) all directors and officers as a group as of June 29, 2006.

Owner	Common Shares	
	Amount	Per cent
World Shipholding Ltd. (1)	30,652,000	46.75%
All Directors and Officers as a group (nine persons)	30,657,695	46.76%

(1) Our Chairman, John Fredriksen, indirectly controls World Shipholding Ltd.

Our major shareholders have the same voting rights as all other holders of our Common Shares.

The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

As at June 13, 2006, 2,782,745 of the Company's common shares are held by 18 holders of record in the United States.

B. Related party transactions

There are no provisions in our Memorandum of Association or Bye-Laws regarding related party transactions. However, our management's policy is to enter into related party transactions solely on terms that are at least equivalent to terms we would be able to obtain from unrelated third parties. The Bermuda Companies Act of 1981 provides that a company, or one of its subsidiaries, may enter into a contract with an officer of the company, or an entity in which an officer has a material interest, if the officer notifies the Directors of its interest in the contract or proposed contract. The related party transactions that we have entered into are discussed below.

Seatankers Management Company. Seatankers is indirectly controlled by John Fredriksen. In the years ended December 31, 2005 and 2004, Seatankers has provided us with insurance administration services. In the years ended December 31, 2005 and 2004, management fees to Seatankers of \$35,000 per annum have been incurred by Golar. As at December 31, 2005 and 2004 no amounts were due to Seatankers in respect of these fees incurred. In addition, certain amounts have been recharged at cost between both companies. As at December 31, 2005 the Company owed \$230,000 to Seatankers (2004: \$258,000) in respect of these recharges.

Greenwich Holdings Limited. Greenwich is indirectly controlled by our chairman, John Fredriksen. During 2001 and we obtained loans from Greenwich totalling \$85.3 million and \$16.3 million during 2001 and 2002 respectively. During 2003 these loans were fully repaid. In the year ended December 31, 2003, we paid interest of \$779,000, to Greenwich in respect of these loan facilities. At December 31, 2005 no interest due to Greenwich was outstanding (2004: \$nil).

Frontline Management (Bermuda). Frontline Management is a subsidiary of Frontline, a publicly listed company, and is indirectly controlled John Fredriksen. With effect from June 1, 2001, we entered into an agreement

with Frontline Management (Bermuda) Ltd. pursuant to which Frontline Management provides budgetary and accounting support services, maintains our corporate records, technical vessel supervision services, ensures our compliance with applicable laws and requirements and assists us with corporate finance matters.

In the years ended December 31, 2005 and 2004, we have incurred management fees to Frontline of \$90,300 and \$235,200, respectively. As at December 31, 2005 and 2004 no amounts were due to Frontline in respect of these management fees and costs incurred. In addition, certain amounts have been recharged at cost between both the companies. As at December 31, 2005 an amount of \$640,000 (2004: \$177,000 due from Frontline) was owed to Frontline in respect of these recharges.

We believe that the compensation we pay to Frontline Management for its administrative and management services is not more than the price we would have paid to third parties in an arm's-length transaction and are under terms similar to those that would be arranged with other parties.

Faraway Maritime Limited. During the years ended December 31, 2005, 2004 and 2003 Faraway Maritime Shipping Inc., which is 60% owned by us and 40% owned by China Petroleum Corporation ("CPC"), paid dividends totalling \$18 million, \$nil and \$4.2 million, respectively.

Graeme McDonald. Golar Management held a promissory note executed by Mr. McDonald, an officer of the Company, on April 21, 1998, under which Mr. McDonald promised to pay to Golar Management the principal sum of £20,900 in monthly installments of £318. The note carried an interest rate of 3%. Payments under the note commenced in May 1998 and the principal balance as of December 31, 2003 and 2002 was £1,158 and £4,974 or approximately \$2,000 and \$9,000, respectively. The promissory note was repaid in full during early 2004.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information

See Item 18.

Legal Proceedings

There are no legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us, our financial condition, profitability, liquidity or our results of operations. From time to time in the future we or our subsidiaries may be subject to various legal proceedings and claims in the ordinary course of business.

Dividend Distribution Policy

Any future dividends declared will be at the discretion of the board of directors and will depend upon our financial condition, earnings and other factors. Our ability to declare dividends is also regulated by Bermuda law, which prohibits us from paying dividends if, at the time of distribution, we will not be able to pay our liabilities as they fall due or the value of our assets is less than the sum of our liabilities, issued share capital and share premium.

In addition, since we are a holding company with no material assets other than the shares of our subsidiaries through which we conduct our operations, our ability to pay dividends will depend on our subsidiaries' distributing to us their earnings and cash flow. Some of our loan agreements limit or prohibit our and our subsidiaries' ability to make distributions to us without the consent of our lenders.

B. Significant Changes

None

ITEM 9. THE OFFER AND LISTING

A. Listing Details and Markets

Not applicable except for Item 9.A. 4. and Item 9. C.

Our common shares have traded on the Oslo Stock Exchange (OSE) since July 12, 2001 under the symbol "GOL" and on the Nasdaq National Market since December 12, 2002 under the symbol "GLNG".

The following table sets forth, for the five most recent fiscal years from July 12, 2001 and for the first quarter of 2006, the high and low prices for the common shares on the Oslo Stock Exchange and the Nasdaq National Market.

	OSE		NASDAQ	
	High	Low	High	Low
First Quarter 2006	NOK102.00	NOK87.25	\$15.29	\$12.90
Fiscal year ended December 31				
2005	NOK98.50	NOK66.00	\$15.75	\$10.31
2004	NOK125.50	NOK85.50	\$18.66	\$12.31
2003	NOK99.00	NOK35.00	\$14.95	\$5.00
2002	NOK62.00	NOK35.00	\$7.75	\$6.00
2001	NOK65.00	NOK37.00	-	-

The following table sets forth, for each full financial quarter for the two most recent fiscal years from January 1, 2004, the high and low prices of the common shares on the Oslo Stock Exchange and the Nasdaq National Market.

OSE	OSE		NASDAQ	
	High	Low	High	Low
Fiscal year ended December 31, 2005				
First quarter	NOK98.50	NOK78.00	\$15.75	\$12.50
Second quarter	NOK86.75	NOK72.00	\$13.37	\$11.46
Third quarter	NOK93.00	NOK77.50	\$14.50	\$11.98
Fourth quarter	NOK90.00	NOK66.00	\$13.63	\$10.31
	OSE		NASDAQ	
	High	Low	High	Low
Fiscal year ended December 31, 2004				
First quarter	NOK125.50	NOK94.50	\$18.36	\$14.26
Second quarter	NOK108.50	NOK85.75	\$15.71	\$12.31
Third quarter	NOK110.00	NOK93.50	\$15.83	\$13.11
Fourth quarter	NOK121.25	NOK85.50	\$18.66	\$13.83

The following table sets forth, for the most recent six months, the high and low prices for our common shares on the OSE and the Nasdaq National Market.

	OSE		NASDAQ	
	High	Low	High	Low
May 2006	NOK89.00	NOK91.75	\$14.38	\$12.00
April 2006	NOK91.75	NOK82.00	\$14.34	\$12.79
March 2006	NOK96.00	NOK87.25	\$14.45	\$13.16
February 2006	NOK100.25	NOK89.25	\$15.00	\$12.90
January 2006	NOK102.00	NOK89.00	\$15.29	\$13.23
December 2005	NOK90.00	NOK79.00	\$13.63	\$11.67

* On May 31, 2006, the exchange rate between the Norwegian Kroner and the US dollar was NOK6.10 to one U.S. Dollar.

ITEM 10. ADDITIONAL INFORMATION

This section summarizes our share capital and the material provisions of our Memorandum of Association and Bye-Laws, including rights of holders of our shares. The description is only a summary and does not describe everything that our Articles of Association and Bye-Laws contain. The Memorandum of Association and the Bye Laws of the Company has previously been filed as Exhibits 1.1 and 1.2, respectively to the Company's Registration

Statement on Form 20-F, (File No. 000-50113) filed with the Securities and Exchange Commission on November 27, 2002, and are hereby incorporated by reference into this Annual Report.

A. Share capital

Not Applicable

B. Memorandum of Association and Bye-Laws

Our Memorandum of Association and Bye-laws. The object of our business, as stated in Section six of our Memorandum of Association, is to engage in any lawful act or activity for which companies may be organized under The Companies Act, 1981 of Bermuda, or the Companies Act, other than to issue insurance or re-insurance, to act as a technical advisor to any other enterprise or business or to carry on the business of a mutual fund. Our Memorandum of Association and Bye-laws do not impose any limitations on the ownership rights of our shareholders.

Under our Bye-laws, annual shareholder meetings will be held in accordance with the Companies Act at a time and place selected by our board of directors. The quorum at any annual or general meeting is equal to one or more shareholders, either present in person or represented by proxy, holding in the aggregate shares carrying 33 1/3% of the exercisable voting rights. The meetings may be held at any place, in or outside of Bermuda, that is not a jurisdiction which applies a controlled foreign company tax legislation or similar regime. Special meetings may be called at the discretion of the board of directors and at the request of shareholders holding at least one-tenth of all outstanding shares entitled to vote at a meeting. Annual shareholder meetings and special meetings must be called by not less than seven days' prior written notice specifying the place, day and time of the meeting. The board of directors may fix any date as the record date for determining those shareholders eligible to receive notice of and to vote at the meeting.

Directors. Our directors are elected by a majority of the votes cast by the shareholders in general meeting. The quorum necessary for the transaction of the business of the board of directors may be fixed by the board but unless so fixed, equals those individuals constituting a majority of the board of directors who are present in person or by proxy. Executive directors serve at the discretion of the board of directors.

The minimum number of directors comprising the board of directors at any time shall be two. The board of directors currently consists of four directors. The minimum and maximum number of directors comprising the Board from time to time shall be determined by way of an ordinary resolution of the shareholders of the Company. The shareholders may, at general meeting by ordinary resolution, determine that one or more vacancies in the board of directors be deemed casual vacancies. The board of directors, so long as a quorum remains in office, shall have the power to fill such casual vacancies. Each director will hold office until the next annual general meeting or until his successor is appointed or elected. The shareholders may call a Special General Meeting for the purpose of removing a director, provided notice is served upon the concerned director 14 days prior to the meeting and he is entitled to be heard. Any vacancy created by such a removal may be filled at the meeting by the election of another person by the shareholders or in the absence of such election, by the board of directors.

Subject to the provisions of the Companies Act, a director of a company may, notwithstanding his office, be a party to or be otherwise interested in any transaction or arrangement with that company, and may act as director, officer, or employee of any party to a transaction in which the company is interested. Under our Bye-laws, provided an interested director declares the nature of his or her interest immediately thereafter at a meeting of the board of directors, or by writing to the directors as required by the Companies Act, a director shall not by reason of his office be held accountable for any benefit derived from any outside office or employment. The vote of an interested director, provided he or she has complied with the provisions of the Companies Act and our Bye-laws with regard to disclosure of his or her interest, shall be counted for purposes of determining the existence of a quorum.

Dividends. Holders of common shares are entitled to receive dividend and distribution payments, pro rata based on the number of common shares held, when, as and if declared by the board of directors, in its sole discretion. Any future dividends declared will be at the discretion of the board of directors and will depend upon our financial condition, earnings and other factors.

As a Bermuda exempted company, we are subject to Bermuda law relating to the payment of dividends. We have been advised by Bermuda counsel, Appleby, Spurling & Kempe, that we may not pay any dividends if, at the time the dividend is declared or at the time the dividend is paid, there are reasonable grounds for believing that, after giving effect to that payment;

- we will not be able to pay our liabilities as they fall due; or

- the realizable value of our assets, is less than an amount that is equal to the sum of our
 - (a) liabilities,
 - (b) issued share capital, which equals the product of the par value of each common share and the number of common shares then outstanding, and
 - (c) share premium, which equals the aggregate amount of consideration paid to us for such common shares in excess of their par value.

In addition, since we are a holding company with no material assets, and conduct our operations through subsidiaries, our ability to pay any dividends to shareholders will depend on our subsidiaries' distributing to us their earnings and cash flow. Some of our loan agreements currently limit or prohibit our subsidiaries' ability to make distributions to us and our ability to make distributions to our shareholders.

C. Material contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years immediately preceding the date of this Annual Report:

Five ship leases

In April 2003 we entered into a lease finance arrangement in respect of five of our LNG carriers with a subsidiary of a major UK bank, to which we refer as the UK Lessor. The five vessels are the *Golar Spirit*, *Golar Freeze*, *Hilli*, *Gimi* and *Khannur*. As part of the UK vessel lease arrangement, we sold five of our vessel-owning subsidiaries that owned the relevant vessels to the UK Lessor and received a cash sum of \$452.6 million through refinancing, by the UK Lessor, of debt owed by the five subsidiaries to us. Each of the five companies, now owned by the UK Lessor, subsequently entered into 20 year leases with Golar Gas Holding Company Inc., or GGHC, a wholly owned subsidiary of ours. GGHC in turn subleased the vessels to five UK subsidiary companies newly incorporated by us for the purpose of assuming the business of operating each of the these vessels. While the UK Lessor has legal title to the vessels, the lease are all bareboat charters that give us complete operational control over, and responsibility for, the vessels. In addition, on expiration of the leases, we act as exclusive sales agent for the UK vessel lessor and receive 99.9 per cent of the net proceeds in the form of a rebate to us of lease rentals. However, we may not time charter the vessels to charterers, other than BG and Pertamina that have credit ratings below BBB+, without the UK Lessor's consent.

We used \$325 million of the proceeds that we received together with \$17.5 million of our cash reserves to repay two existing loans, the Golar LNG facility and the Golar LNG subordinated facility. The outstanding amounts of these loans upon repayment were \$282.5 million and \$60 million respectively. We then drew down on two new facilities; \$265 million secured by a mortgage executed by the UK Lessor in favour of our subsidiary GGHC as security for the lessor's obligations to pay certain sums to GGHC under the vessel lease agreements and by a mortgage transfer executed by GGHC in favour of the lending banks; and \$60 million secured by a similar but second priority mortgage. The total proceeds from the new loans of \$325 million together with \$89.5 million of the proceeds from the vessel lease finance arrangement were used to make deposits with two banks amounting to \$414.5 million. These banks then issued letters of credit securing our obligations under the vessel leases amounting to the present value of rentals due under the leases. Lease rentals are payable quarterly. At the end of each quarter the required deposit to secure the present value of rentals due under the UK vessel leases will be recalculated taking into account the rental payment due at the end of the quarter. The surplus funds released as a result of the reduction in the required deposit are available to pay the UK vessel lease rentals due at the end of the same quarter. After making this deposit and settling all outstanding fees relating to the transaction, our approximate cash inflow was approximately \$32.5 million.

Each of the five UK vessel leases is for a period of 20 years that may be extended by us annually thereafter as long as the vessels remain seaworthy, and we are not otherwise in default of the leases. The principal security is comprised of two cash deposits with two different banks that have issued letters of credit securing our obligations under the UK vessel leases. The deposits are equal to the net present value of the minimum lease payments. In addition to the letters of credit the UK Lessor's security includes a guarantee from us and a third priority; pledge of the capital stock of our shipowning subsidiaries that have subleased the vessels from GGHC, and an assignment of those vessels' earnings, insurance, and charters to the UK Lessor. We have also indemnified the UK Lessor against, among other things, increases in tax costs. We may terminate the UK vessel leases by paying the UK Lessor a termination rental in such an amount as will reduce the Lessor's investment balance, after taking into account all tax effects, to zero. The UK vessel leases provide that we will receive 99.9% of the net proceeds of any sale of the

vessels by the UK Lessor in the form of a rebate of lease rentals, subject to claims by third parties, our lenders, and the UK Lessor itself. If we terminate the UK vessel leases within the first five years we would be liable to a termination fee which would also be charged against the net proceeds. In addition, we have agreed to indemnify the UK Lessor for any adverse tax consequences or rulings, which could result in our returning all or a portion of the cash inflow that we have received, posting additional security, or making other payments to the UK Lessor.

The UK vessel lease agreements and related documents also contain a number of restrictive covenants that are similar to those of our Golar Gas Holding Facility. Violation of those covenants and termination of the UK vessel leases could result in the sale of the vessels at that time. As the leases contain a right of quiet enjoyment in favour of BG and Pertamina, if there were a default and UK lease termination, the price realized on sale of the vessels could depend in part on whether potential buyers deem the assumption of the BG and Pertamina charters advantageous at the time.

Golar Gas Holding Facility

In March 2005, we entered into a refinancing in respect of five of our vessels with a banking consortium in respect of the New Golar LNG Facility and the New Golar LNG subordinated facility. The new first priority loan, or Golar Gas Holding Facility, is for an amount of \$300 million. The loan accrues floating interest at a rate per annum equal to the aggregate of LIBOR plus a margin. The loan has a term of six years and is repayable in 24 quarterly installments and a final balloon payment of \$79.4 million payable on April 14, 2011.

This facility is secured by a mortgage executed by the Lessor, who leases the vessels to us, in favour of our subsidiary GGHC as security for the Lessor's obligations to pay certain sums to GGHC under the lease agreements and by a mortgage transfer executed by GGHC in favour of the lending banks. Additionally, the mortgages of the Golar Gas Holding Facility are secured by a guarantee from us, a pledge of the capital stock of our shipowning subsidiaries, and an assignment of our vessels' earnings, insurance, and the vessels' charters to the lenders. The loan agreement and related documents also contain a number of restrictive covenants that, subject to specified exceptions, limit our ability and the ability of Golar Gas Holding Company and our shipowning subsidiaries' to among other things:

- merge into or consolidate with another entity or sell or otherwise dispose of all or substantially all of our assets;
- make or pay equity distributions;
- incur additional indebtedness;
- incur or make any capital expenditure, other than capital expenditures for vessel upgrades required by our charterers;
- materially amend, or terminate, any of our current charter contracts or management agreements; and
- enter into any business other than owning the shipowning companies, in the case of Golar Gas Holding Company, and owning and operating the ships, in the case of the shipowning subsidiaries.

The agreement also contains an event of default if, among other things, John Fredriksen and his affiliated entities cease to be the beneficial or legal owner of at least 25% of our common shares except where the dilution is as a result of the introduction of additional capital.

D. Exchange Controls

None

E. Taxation

The following discussion is based upon the provisions of the United States Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed United States Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report.

Taxation of Operating Income: In General

United States Taxation of our Company

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered to be 50% derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. We do not engage in transportation that gives rise to 100% U.S. source income.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to U.S. federal income tax.

Unless exempt from U.S. taxation under Section 883 of the Code we will be subject to U.S. federal income taxation, in the manner discussed below, to the extent our shipping income is derived from sources within the United States.

Based upon our anticipated shipping operations, our vessels will be operated in various parts of the world, including to or from U.S. ports. For the three calendar years 2003, 2004 and 2005, the U.S. source income that we derived from our vessels trading to U.S. ports was \$14,283,000, \$22,005,000 and \$15,675,000, respectively, and the potential U.S. federal income tax liability resulting from this income, in the absence of our qualification for exemption from taxation under Section 883 and the treaty, as described below, would have been \$571,320, \$880,000 and \$627,000, respectively.

Application of Code Section 883

With effect commencing the calendar year 2005, we have made special U.S. tax elections in respect of all our vessel-owning or vessel-operating subsidiaries incorporated in the United Kingdom that are potentially subject to U.S. federal income tax on shipping income derived from sources within the United States. The effect of such elections is to ignore or disregard the subsidiaries for which elections have been made as separate taxable entities.

The ensuing discussion is applicable to, and references to “subsidiaries” shall mean, only those of our subsidiaries that are incorporated under the laws of jurisdictions other than the United Kingdom. Under Section 883 of the Code and the final regulations promulgated thereunder that came into effect for the calendar year 2005, we, and each of our subsidiaries, will be exempt from U.S. taxation on our respective U.S. source shipping income, if both of the following conditions are met:

- we and each subsidiary are organized in a qualified foreign country which is one that grants an equivalent exemption from tax to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883, which we refer to as “the country of organization requirement”; and
- either
 - more than 50% of the value of our stock is treated as owned, directly or indirectly, by individuals who are “residents” of qualified foreign countries, which we refer to as the “ownership requirement”; or
 - our stock is “primarily and regularly traded on an established securities market” in our country of organization, another qualified foreign country, or the United States, which we refer to as the “publicly-traded requirement.”

The U.S. Treasury Department has recognized (i) Bermuda, our country of incorporation and (ii) the country of incorporation of each of our subsidiaries that has earned shipping income from sources within the United States, as a qualified foreign country. Accordingly, we and each such subsidiary satisfy the country of organization requirement.

Due to the public nature of our shareholdings, we do not believe that we will be able to substantiate that we satisfy the “ownership requirement”. However, as described below, we believe that we will be able to satisfy the “publicly-traded requirement.”

Our stock was “primarily traded” on the Oslo Stock Exchange, an established securities market in a qualified foreign country, during 2005. The final regulations provide, in pertinent part, that our stock will not be considered to be “regularly traded” on an established securities market for any taxable year in which 50% or more of the outstanding shares of our stock, by vote and value, is owned, for more than half the days of the taxable year, by persons who each own 5% or more of the vote and value of the outstanding shares of that stock, known as the

“5% override rule”. The 5% override rule will not apply, however, if we can establish that individual residents of qualified foreign countries, which we refer to as “qualified shareholders”, own sufficient shares of our stock to preclude non-qualified shareholders from owning 50% or more of the total vote and value of our stock for more than half the number of days during the taxable year which we refer to as the “5% override exception”.

Based on our public shareholdings for 2005, we were not subject to the 5% override rule for 2005. Therefore, we believe that we satisfy the publicly-traded requirement and we and each of our subsidiaries are entitled to exemption from U.S. federal income tax under Section 883 in respect of our respective U.S.-source shipping income.

However, if we were to be subject to the 5% override rule in the future (as a result of changes in ownership of our shares), it may be difficult for us to establish that we qualify for the 5% override exception. If we were not eligible for the exemption under Section 883, our U.S.-source shipping income would be subject to U.S. federal income tax as described in more detail below.

Taxation in Absence of Internal Revenue Code Section 883

To the extent the benefits of Section 883 are unavailable with respect to any item of U.S. source income earned by us or by our subsidiaries, such U.S.-source shipping income would be subject to a 4% tax imposed by Code Section 887 on a gross basis, without benefit of deductions. Since under the sourcing rules described above, no more than 50% of the shipping income earned by us or our subsidiaries would be derived from U.S. sources, the maximum effective rate of U.S. federal income tax on such shipping income would never exceed 2 percent. For the calendar year 2005, we and our subsidiaries would be subject to tax under Code Section 887 in the aggregate amount of \$627,000.

Gain on Sale of Vessels

If we and our subsidiaries qualify for exemption from tax under Section 883 in respect of our respective U.S. source shipping income, the gain on the sale of any vessel earning such U.S. source income should likewise be exempt from tax under Section 883. If we and our subsidiaries are unable to qualify for exemption from tax under Section 883, the owner and seller of such vessel may be considered to be engaged in the conduct of a U.S. trade or business. As a result, any U.S. source gain on the sale of a vessel may be partly or wholly subject to U.S. federal income tax as “effectively connected” income at a combined rate of up to 54.5%. However, to the extent circumstances permit, we intend to structure sales of our vessels in such a manner, including effecting the sale and delivery of vessels outside of the United States, so as to not give rise to U.S. source gain.

U.S. Taxation of U.S. Holders

The term “U.S. holder” means a beneficial owner of our common shares that is a U.S. citizen or resident, U.S. corporation or other U.S. entity taxable as a corporation, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the U.S. is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust and owns our common shares as a capital asset, generally, for investment purposes.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common shares, you are encouraged to consult your tax advisor.

Distributions

Any distributions made by us with respect to our common shares to a U.S. holder will generally constitute dividends, to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. We expect that dividends paid by us to a non-corporate U.S. holder will be eligible for preferential U.S. federal income tax rates (through 2010) provided that the U.S. non-corporate holder has owned our stock for more than 60 days in the 121-day period beginning 60 days before the date on which our stock becomes ex-dividend. However, there is no assurance that any dividends paid by us will be eligible for these preferential rates in the hands of a non-corporate U.S. holder. Any dividends paid by us, which are not eligible for these preferential rates will be taxed as ordinary income to a non-corporate U.S. holder.

Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. holder’s tax basis in his common shares on a dollar-for-dollar basis and thereafter as capital gain.

Sale, Exchange or other Disposition of Our Common Shares

Subject to the discussion below under “Passive Foreign Investment Company,” a U.S. holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized by the U.S. holder from such sale, exchange or other disposition and the U.S. holder’s tax basis in the common shares. Such gain or loss will be treated as long-term capital gain or loss if the U.S. holder’s holding period in our stock is greater than one year at the time of the sale, exchange or other disposition. A U.S. holder’s ability to deduct capital losses is subject to certain limitations.

Passive Foreign Investment Company

Notwithstanding the above rules regarding distributions and dispositions, special rules may apply to some U.S. holders (or to the direct or indirect beneficial owners of some non-U.S. holders) if we are treated as a “passive foreign investment company” for United States federal income tax purposes. We will be a “passive foreign investment company” if either:

- at least 75% of our gross income in a taxable year is passive income; or
- at least 50% of our assets in a taxable year (averaged over the year and generally determined based upon value) are held for the production of, or produce, passive income.

For purposes of determining whether we are a passive foreign investment company, we will be treated as earning and owning the income and assets, respectively, of any of our subsidiary corporations in which we own 25% or more of the value of the subsidiary’s stock. To date, our subsidiaries and we have derived most of our income from time and voyage charters, and we expect to continue to do so. This income should be treated as services income, which is not passive income for passive foreign investment company purposes.

On the basis of the above, we believe that we are not currently a passive foreign investment company and do not expect to be a passive foreign investment company in the foreseeable future. However, there can be no assurance that we will not become a passive foreign investment company in any year.

If we become a passive foreign investment company (and regardless of whether we remain a passive foreign investment company), each U.S. holder who is treated as owning our shares during any period in which we are so classified, for purposes of the passive foreign investment company rules would be liable to pay tax, at the then highest applicable income tax rates on ordinary income, plus interest, upon certain excess distributions and upon disposition of our shares including, under certain circumstances, a disposition pursuant to an otherwise tax free reorganization, as if the distribution or gain had been recognized ratably over the U.S. holder’s entire holding period of our shares. An excess distribution generally includes dividends or other distributions received from a passive foreign investment company in any taxable year of a U.S. holder to the extent that the amount of those distributions exceeds 125% of the average distributions made by the passive foreign investment company during a specified base period. The tax at ordinary rates and interest would not be imposed if the U.S. holder makes a mark-to-market election, as discussed below. Furthermore, any distributions paid by us to a U.S. non-corporate holder would not be eligible for the preferential federal income tax rates described above under “Distributions.”

In some circumstances, shareholder in a passive foreign investment company may avoid the unfavorable consequences of the passive foreign investment company rules by making a qualified electing fund election. However, a U.S. holder cannot make a qualified electing fund election with respect to us unless we comply with certain reporting requirements and we do not intend to provide the required information.

If we become a passive foreign investment company and, provided that, as is currently the case, our shares are regularly traded on a “qualified exchange,” a U.S. holder may make a mark-to-market election with respect to our shares. Under the election, any excess of the fair market value of the shares at the close of any tax year over the U.S. holder’s adjusted basis in the shares is included in the U.S. holder’s income as ordinary income. In addition, the excess, if any, of the U.S. holder’s adjusted basis at the close of any taxable year over fair market value is deductible in an amount equal to the lesser of the amount of the excess or the net mark-to-market gains on the shares that the U.S. holder included in income in previous years. If a U.S. holder makes a mark-to-market election after the beginning of its holding period, the U.S. holder does not avoid the interest charge rule discussed above with respect to the inclusion of ordinary income attributable to periods before the election.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the U.S. to you will be subject to information reporting requirements. Such payments will also be subject to “backup withholding” if you are a non-corporate U.S. holder and you:

- fail to provide an accurate taxpayer identification number;
- are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or
- in certain circumstances, fail to comply with applicable certification requirements.

Backup withholding is not an additional tax. Rather you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by filing a refund claim with the U.S. Internal Revenue Service, provided that the required information is furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable

G. Statements by Experts

Not applicable

H. Documents on display

Our Registration Statement effective became effective on November 29, 2002 and we are now subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements we will file reports and other information with the SEC. These materials, including this document and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Commission at 100 Fifth Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. 20549. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

I. Subsidiary Information

Not applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange risks and equity price risk. We enter into a variety of derivative instruments and contracts to maintain the desired level of exposure arising from these risks. We do not enter into derivative instruments for speculative or trading purposes. Since adoption of FAS 133, certain economic hedge relationships no longer qualify for hedge accounting due to the extensive documentation and strict criteria of the standard. Our policy is to hedge our exposure to risks, where possible, within boundaries deemed appropriate by management.

A discussion of our accounting policies for derivative financial instruments is included in Note 1 to our Consolidated Financial Statements. Further information on our exposure to market risk is included in Note 28 to the Consolidated Financial Statements.

The following analyses provide quantitative information regarding our exposure to foreign currency exchange rate risk, interest rate risk, and equity price risk. There are certain shortcomings inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously.

Interest rate risk. A significant portion of our long-term debt and capital lease obligations is subject to adverse movements in interest rates. Our interest rate risk management policy permits economic hedge relationships in order to reduce the risk associated with adverse fluctuations in interest rates. We use interest rate swaps and fixed rate debt to manage the exposure to adverse movements in interest rates. Interest rate swaps are used to convert floating rate debt obligations to a fixed rate in order to achieve an overall desired position of fixed and floating rate debt. Credit exposures are monitored on a counterparty basis, with all new transactions subject to senior management approval.

As of December 31, 2005 and 2004 the notional amount of the interest rate swaps outstanding in respect of our debt and net capital lease obligation was \$494.5 million (of which \$105 million relates to capital lease

obligations incurred in January 2006) and \$293.7 million, respectively and the amount of debt with a fixed rate of interest was \$135 million in 2005 and 2004. The principal of the loans and net capital lease obligations outstanding as of December 31, 2005 and 2004 was \$907.7 million and \$805.0 million, respectively. Based on our floating rate debt at December 31, 2005, a one percentage point increase in the floating interest rate would increase interest expense by \$4.2 million per annum. For disclosures of the fair value of the derivatives and debt obligations outstanding as of December 31, 2005 and 2004, see Note 28 to the Financial Statements.

Foreign currency risk. Except in the course of our vessel leases, the majority of our transactions, assets and liabilities are denominated in U.S. dollars, our functional currency. Periodically, we may be exposed to foreign currency exchange fluctuations as a result of expenses paid by certain subsidiaries in currencies other than U.S. dollars, such as British pounds (GBP), in relation to our administrative office in the UK, operating expenses incurred in a variety of foreign currencies and Singapore dollars, among others, in respect of our FSRU conversion contract. Based on our ongoing GBP expenses for 2005 a 10% depreciation of the US Dollar against GBP would increase our expenses by approximately \$0.8 million.

We are exposed to some extent in respect of the lease transactions we entered into during the year ended December 31, 2003, which are both denominated in GBP, although these are hedged by the GBP cash deposits that secure these obligations. We use cash from the deposits to make payments in respect of our leases. Gains or losses that we incur are unrealised unless we choose or are required to withdraw monies from or pay additional monies into the deposits securing our capital lease obligations. Among other things movements in interest rates give rise to a requirement for us to make adjustments to the amount of GBP cash deposits. Based on these lease obligations and related cash deposits as at December 31, 2005, a 10% appreciation in the US Dollar against GBP would give rise to an increase in our financial expenses of approximately \$2.3 million.

In April 2004 we entered into a lease arrangement in respect of the *Golar Winter* (as noted above), the obligation in respect of which is also denominated in GBP. However, the cash deposit, which secures the letter of credit, which is used to secure the lease obligation, is significantly less than the lease obligation itself. We refer to this as a 'funded' lease. We are therefore exposed to currency movements on the difference between the lease obligation and the cash deposit, approximately \$104 million as at December 31, 2005. In order to hedge this exposure we entered into a currency swap with a bank, which is also our lessor, to exchange our GBP payment obligations into US dollar payment obligations. We could be exposed to a currency fluctuation risk if we terminated this lease.

Equity swap risk. As a result of our equity swap (see Liquidity and Capital resources – Derivatives) we are effectively exposed to the movement in our share price in respect of 600,000 of our shares as at December 31, 2005 and 1,070,000 shares as at June 29, 2006. A 10% depreciation in our share price as of December 31, 2005 would result in an increase in our financial expenses of approximately \$800,000.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

ITEM 13. DIVIDEND ARREARAGES AND DELINQUENCIES

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None

ITEM 15. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the principal executive officers and principal financial officers concluded that the Company's disclosure controls and procedures are effective in alerting them timely to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) Not Applicable

(c) Not Applicable

(d) Changes in internal controls over financial reporting

There have been no changes in internal controls over financial reporting (identified in connection with management's evaluation of such internal controls over financial reporting) that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 16. RESERVED

ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Kate Blankenship, a director, qualifies as an audit committee financial expert and is independent, in accordance with SEC Rule 10a-3 pursuant to Section 10A of the Exchange Act.

ITEM 16 B. CODE OF ETHICS.

The Company has adopted a Code of Ethics, filed as Exhibit 14.1 to this Annual Report that applies to all employees. Furthermore, a copy of our Code of Ethics can be found in our website (www.golarlng.com).

ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(a) Audit Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements for the two most recent fiscal years.

Fiscal year ended December 31, 2005	\$1,876,775
Fiscal year ended December 31, 2004	\$1,120,672

(b) Audit –Related Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services in respect of assurance and related services rendered by the principal accountant related to the performance of the audit or review of the Company's financial statements which have not been reported under Audit Fees above. These services comprise assurance work in connection with financing and other agreements.

Fiscal year ended December 31, 2005	\$0
Fiscal year ended December 31, 2004	\$125,672

(c) Tax Fees

The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

Fiscal year ended December 31, 2005	\$0
Fiscal year ended December 31, 2004	\$0

(d) All Other Fees

For the fiscal years ended December 31, 2005 and 2004, there have been no professional services rendered by the principal accountant for services other than audit fees, audit-related fees and tax fees set forth above.

(e) Audit Committee's Pre-Approval Policies and Procedures

The Company's Board of Directors has adopted pre-approval policies and procedures in compliance with paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X that require the Board to approve the appointment of the independent auditor of the Company before such auditor is engaged and approve each of the audit and non-audit related services to be provided by such auditor under such engagement by the Company. All services provided by the principal auditor in 2005 were approved by the Board pursuant to the pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In February 2005, the Company, through market purchases acquired 50,000 of its common shares. The following table shows the monthly stock repurchase activity:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program
Month of Repurchase				
February 2005	50,000	NOK 85.22	-	-

In October 2005, the Board of the Company approved a share buyback scheme and in connection with this established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia ("BNS"), whereby the latter may acquire an amount of shares up to a maximum of 3.2 million in the Company during the accumulation period, and the Company carries the risk of fluctuations in the share price of those acquired shares. BNS is compensated at their cost of funding plus a margin. As at December 31, 2005 BNS has acquired a total of 600,000 Golar shares under the Programme at an average price of \$11.04. In June 2006, BNS acquired a further 470,000 Golar shares at an average price of \$13.26.

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

We specifically incorporate by reference in response to this item the report of the independent registered public accounting firm, the consolidated financial statements and the notes to the consolidated financial statements appearing on pages F-1 through F-38.

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual report:

Number	Description of Exhibit
1.1*	Memorandum of Association of Golar LNG Limited as adopted on May 9, 2001, incorporated by reference to Exhibit 1.1 of the Company's Registration Statement on Form 20-F, filed with the SEC on November 27, 2002, File No. 000-50113 (the "Original Registration Statement").
1.2*	Bye-Laws of Golar LNG Limited as adopted on May 10, 2001, incorporated by reference to Exhibit 1.2 of the Company's Original Registration Statement.
1.3*	Certificate of Incorporation as adopted on May 11, 2001, incorporated by reference to Exhibit 1.3 of the Company's Original Registration Statement.
1.4*	Articles of Amendment of Memorandum of Association of Golar LNG Limited as adopted by our shareholders on June 1, 2001 (increasing the Company's authorized capital), incorporated by reference to Exhibit 1.4 of the Company's Original Registration Statement.
4.1*	Loan Agreement, between Golar LNG 2215 Corporation and Lloyds TSB Bank, Plc, dated December 31, 2001, incorporated by reference to Exhibit 4.1 of the Company's Original Registration Statement.
4.2*	Loan Agreement, between Faraway Maritime Shipping Company and Bank of Taiwan dated November 26, 1997, incorporated by reference to Exhibit 4.3 of the Company's Original Registration Statement.
4.3*	Golar LNG Limited Stock Option Plan, incorporated by reference to Exhibit 4.6 of the Company's Original Registration Statement.
4.4*	Management Agreement between Golar LNG Limited and Frontline Management (Bermuda) Limited, dated February 21, 2002, incorporated by reference to Exhibit 4.8 of the Company's Original Registration Statement.
4.5	Five Ship Leases Agreement, between Golar Gas Holding Company, Inc. and Sovereign Finance Plc, dated April 8, 2003.
4.6	Loan Agreement, between Golar Gas Holding Company, Inc. and Citibank N.A, Nordea Bank Norge ASA, Den norske Bank ASA and Fortis Bank (Nederland) N.V, dated March 21, 2005.
8.1	Golar LNG Limited subsidiaries
11.1	Golar LNG Limited Code of Ethics.
12.1	Certification of the Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Executive Officer.
13.2	Certification under Section 906 of the Sarbanes-Oxley act of 2002 of the Principal Financial Officer.
15.1	Korea Line Corporation financial statements provided pursuant to Regulation S-X, Rule 3-09.

* Incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

.....Golar LNG Limited
(Registrant)

Date June 29, 2006.....

By/s/ Graham Robjohns
Graham Robjohns
Principal Financial and Accounting Officer

Exhibit 8.1

Subsidiary	Jurisdiction of Incorporation
Golar Gas Holding Company Inc.	Republic of Liberia
Golar Maritime (Asia) Inc.	Republic of Liberia
Gotaas-Larsen Shipping Corporation	Republic of Liberia
Oxbow Holdings Inc.	British Virgin Islands
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia
Golar LNG 2215 Corporation	Republic of Liberia
Golar LNG 1444 Corporation	Republic of Liberia
Golar LNG 1460 Corporation	Republic of Liberia
Golar LNG 2220 Corporation	Republic of Liberia
Golar LNG 2234 Corporation	Republic of Liberia
Golar LNG 2244 Corporation	Republic of Liberia
Golar LNG 2226 Corporation	Marshall Islands
Golar International Ltd.	Republic of Liberia
Gotaas-Larsen International Ltd.	Republic of Liberia
Golar Management Limited	Bermuda
Golar Maritime Limited	Bermuda
Aurora Management Inc. (90% ownership)	Republic of Liberia
Golar Management (UK) Limited	United Kingdom
Golar Freeze (UK) Limited	United Kingdom
Golar Khannur (UK) Limited	United Kingdom
Golar Gimi (UK) Limited	United Kingdom
Golar Hilli (UK) Limited	United Kingdom
Golar Spirit (UK) Limited	United Kingdom
Golar 2215 (UK) Limited	United Kingdom
Golar Winter (UK) Limited	United Kingdom
Golar 2226 (UK) Limited	United Kingdom
Golar FSRU 1 Corporation	Marshall Islands

GOLAR LNG LIMITED
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Golar LNG Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Golar LNG Limited and its subsidiaries (the "Company") at December 31, 2005 and 2004, and the results of their operations and their cash flows for the years ended December 31, 2005, 2004, and 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
West London, United Kingdom
June 29, 2006

Golar LNG Limited**Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003***(in thousands of \$, except per share data)*

	Note	2005	2004	2003
Operating revenues				
Time charter revenues		171,008	159,854	122,198
Voyage charter revenues		-	2,412	9,062
Vessel management fees		34	1,144	1,505
Total operating revenues		171,042	163,410	132,765
Operating expenses				
Vessel operating expenses		37,215	35,759	30,156
Voyage expenses		4,594	2,561	2,187
Administrative expenses		12,219	8,471	7,138
Restructuring expenses	6	1,344	-	-
Depreciation and amortization		50,991	40,502	31,147
Total operating expenses		106,363	87,293	70,628
Operating income		64,679	76,117	62,137
Financial income (expenses)				
Interest income		35,653	31,879	14,800
Interest expense		(82,479)	(61,987)	(37,157)
Other financial items, net	7	7,507	4,804	7,217
Net financial expenses		(39,319)	(25,304)	(15,140)
Income before equity in net earnings of investee, income taxes and minority interest		25,360	50,813	46,997
Minority interest in net income of subsidiaries		(8,505)	(7,575)	(7,052)
Income taxes	8	(818)	(420)	(375)
Equity in net earnings of investee	11	18,492	13,015	-
Net income		34,529	55,833	39,570
Earnings per share	9			
Basic		\$0.53	\$0.85	\$0.68
Diluted		\$0.50	\$0.84	\$0.68

The accompanying notes are an integral part of these financial statements.

Golar LNG Limited**Consolidated Statements of Comprehensive Income for the years ended December 31, 2005, 2004 and 2003***(in thousands of \$)*

	Note	2005	2004	2003
Net income		34,529	55,833	39,570
Other comprehensive (loss) income, net of tax:				
Recognition of minimum pension liability	23	(2,211)	6,235	(3,102)
Unrealized gains on marketable securities held by investee		133	-	-
Other comprehensive (loss) income		(2,078)	6,235	(3,102)
Comprehensive income		32,451	62,068	36,468

The accompanying notes are an integral part of these financial statements.

Golar LNG Limited
Consolidated Balance Sheets as of December 31, 2005 and 2004
(in thousands of \$)

	Note	2005	2004
ASSETS			
Current Assets			
Cash and cash equivalents		62,227	51,598
Restricted cash and short-term investments	19	49,448	41,953
Trade accounts receivable	12	351	572
Other receivables, prepaid expenses and accrued income	13	12,573	11,574
Amounts due from related parties	14	17	294
Inventories		4,974	3,556
Total current assets		129,590	109,547
Restricted cash	19	696,308	714,802
Equity in net assets of non-consolidated investee	11	65,950	48,869
Newbuildings	15	111,565	145,233
Vessels and equipment, net	16	533,008	371,867
Vessels under capital leases, net	17	676,036	706,516
Deferred charges	18	7,629	6,720
Other non-current assets	20	10,609	6,775
Total assets		2,230,695	2,110,329
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	24	67,564	66,457
Current portion of obligations under capital leases	25	2,466	2,662
Trade accounts payable		1,165	2,940
Accrued expenses	21	20,605	17,054
Amounts due to related parties		886	374
Other current liabilities	22	31,307	26,407
Total current liabilities		123,993	115,894
Long-term liabilities			
Long-term debt	24	758,183	636,497
Obligations under capital leases	25	801,500	842,853
Other long-term liabilities	26	84,878	86,033
Total liabilities		1,768,554	1,681,277
Commitments and contingencies (See Note 31)			
Minority interest		27,587	26,282
Stockholders' equity			
Share capital 65,562,000 (2004: 65,612,000) common shares of \$1.00 each outstanding	27	65,562	65,612
Additional paid-in capital		210,665	210,779
Accumulated other comprehensive income		(5,948)	(3,737)
Retained earnings		164,275	130,116
Total stockholders' equity		434,554	402,770
Total liabilities and stockholders' equity		2,230,695	2,110,329

The accompanying notes are an integral part of these financial statements.

Golar LNG Limited
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
(in thousands of \$)

	Note	2005	2004	2003
Operating activities				
Net income		34,529	55,833	39,570
Adjustments to reconcile net income to net cash				
Provided by operating activities:				
Depreciation and amortization		50,991	40,502	31,147
Amortization of deferred charges		3,035	1,270	1,574
Undistributed earnings of non-consolidated investee		(16,948)	(12,844)	-
Income attributable to minority interests		8,505	7,575	7,052
Unrealized foreign exchange (gains) losses		(15,709)	5,161	(2,993)
Drydocking expenditure		(9,373)	(13,299)	(12,737)
Trade accounts receivable		221	916	(1,488)
Inventories		(1,571)	(353)	(721)
Prepaid expenses, accrued income and other assets		4,823	(2,201)	(13,149)
Amount due from/to related companies		789	(340)	59
Trade accounts payable		(1,775)	(2,166)	2,105
Accrued expenses		7,505	(16)	9,863
Interest element included in long-term lease obligations		7,351	6,321	2,660
Other current liabilities		(1,347)	(4,331)	(2,865)
Net cash provided by operating activities		71,026	82,028	60,077
Investing activities				
Additions to newbuildings	15	(140,028)	(278,560)	(77,783)
Additions to vessels and equipment		(5,700)	(8,232)	(6,308)
Long-term restricted cash		(56,953)	(37,515)	(543,643)
Investment in unlisted investments	20	(3,000)	-	-
Investment in associated companies		-	(21,948)	(12,176)
Restricted cash and short-term investments		(7,495)	(9,858)	(18,605)
Net cash used in investing activities		(213,176)	(356,113)	(658,515)
Financing activities				
Proceeds from long-term debt	24	420,000	110,000	506,128
Proceeds from long-term capital lease obligations	25	44,800	163,715	616,298
Repayments of long-term capital lease obligations		(3,004)	(894)	-
Repayments of long-term debt		(297,206)	(62,281)	(528,505)
Repayment of long-term debt due to related parties		-	-	(32,703)
Financing costs paid		(3,944)	(2,740)	(2,140)
Dividends paid to minority shareholders	29	(7,200)	-	(1,695)
Payments to repurchase equity	27	(667)	-	-
Proceeds from issuance of equity net of issuance costs		-	-	106,197
Net cash provided by financing activities		152,779	207,800	663,580
Net increase (decrease) in cash and cash equivalents		10,629	(66,285)	65,142
Cash and cash equivalents at beginning of period		51,598	117,883	52,741
Cash and cash equivalents at end of period		62,227	51,598	117,883
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest paid, net of capitalized interest		35,643	34,592	36,551
Income taxes paid		568	356	66

The accompanying notes are an integral part of these financial statements.

Golar LNG Limited
Consolidated Statements of Changes in Stockholders' Equity for the years ended
December 31, 2005, 2004 and 2003
(in thousands of \$, except number of shares)

	Note	Share Capital	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2002		56,012	112,281	(6,870)	34,713	196,136
Issue of ordinary shares, net of issuance costs	27	9,600	96,597	-	-	106,197
Net income		-	-	-	39,570	39,570
Other comprehensive loss		-	-	(3,102)	-	(3,102)
Balance at December 31, 2003		65,612	208,878	(9,972)	74,283	338,801
Net income		-	-	-	55,833	55,833
Other comprehensive gain		-	-	6,235	-	6,235
Equity in gain on disposal of treasury shares by investee		-	1,901	-	-	1,901
Balance at December 31, 2004		65,612	210,779	(3,737)	130,116	402,770
Net income		-	-	-	34,529	34,529
Other comprehensive loss		-	-	(2,078)	-	(2,078)
Repurchase of ordinary shares	27	(50)	(247)	-	(370)	(667)
Balance at December 31, 2005		65,562	210,532	(5,815)	164,275	434,554

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements (continued)

Golar LNG Limited

Notes to Consolidated Financial Statements

1. GENERAL

Golar LNG Limited (the “Company” or “Golar”) was incorporated in Hamilton, Bermuda on May 10, 2001 for the purpose of acquiring the liquefied natural gas (“LNG”) shipping interests of Osprey Maritime Limited (“Osprey”) and of Seatankers Management Co. Ltd (“Seatankers”), which were controlled by Mr. John Fredriksen. Mr. Fredriksen is a Director, the Chairman and President of Golar. As of December 31, 2005 World Shipholding Limited, a company indirectly controlled by Mr. John Fredriksen owned 46.75 per cent (2004: 42.7 per cent) of Golar.

As of December 31, 2005 the Company operated a fleet of ten (December 31, 2004: nine) LNG carriers, seven of which are under long-term charter contracts. Additionally, as of December 31, 2005, the Company was building three new LNG carriers. Since December 31, 2005 the Company has taken delivery of two of these newbuildings. The Company currently leases eight (December 31, 2005: seven) of its vessels under long-term lease agreements and has a 100 per cent ownership interest in three vessels (December 31, 2005: two) and a 60 per cent ownership interest in one (December 31, 2005: one) other vessel, the *Golar Mazo*. As of June 29, 2006 the remaining newbuilding is being built at a cost of \$162 million excluding financing costs. This newbuild is scheduled to be delivered in June 2007.

The financial statements have been prepared on a going concern basis of accounting. As of June 29, 2006 the Company believes it will have sufficient facilities to meet its anticipated funding needs throughout 2006 and through to June 2007. The Company will need additional facilities of \$108 million to meet commitments in respect of its as yet unfinanced newbuilding hull number 2244, due for delivery in June 2007. The construction contract includes penalty clauses for non-payment of installments, which could result in the shipyard retaining the vessel with no refund to Golar for advance payments previously made. The Company has successfully financed five newbuilding vessels without long-term charter coverage within the last three years. Based on this success and experience, among other things, the Company believes that it will be able to obtain sufficient facilities to meet its newbuilding commitments as they fall due.

2. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with accounting principles generally accepted in the United States. Investments in companies in which the Company directly or indirectly holds more than 50 per cent of the voting control are consolidated in the financial statements, as well as certain variable interest entities in which the Company is deemed to be subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns, or both. All inter-company balances and transactions have been eliminated.

Investments in companies in which the Company holds between 20 per cent and 50 per cent of an ownership interest, and over which the Company exercises significant influence, are accounted for using the equity method. The Company records its investments in equity-method investees on the consolidated balance sheets as “Equity in net assets of non-consolidated investee” and its share of the investees’ earnings or losses in the consolidated statements of operations as “Equity in net earnings of investee”. The difference, if any, between the purchase price and the book value of the Company’s investments in equity method investees is included in the accompanying consolidated balance sheets in “Equity in net assets of non-consolidated investee”.

Notes to Consolidated Financial Statements (continued)

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and expense recognition

Revenues include minimum lease payments under time charters, income from voyage charters, fees for repositioning vessels as well as the reimbursement of certain vessel operating and drydocking costs.

Revenues generated from time charters, which are classified as operating leases by the Company, are recorded over the term of the charter as service is provided. Reimbursement for drydocking costs is recognized evenly over the period to the next drydocking, which is generally between two to five years.

Revenues under voyage charters and single voyage time charters where there is an associated repositioning fee, are recognized ratably over the duration of the voyage on a discharge-to-discharge basis. Under this basis, voyage revenue is recognized evenly over the period from departure of a vessel from its last discharge port to departure from the next discharge port.

Under voyage charters, expenses unique to a particular voyage such as fuel expenses and port charges are paid by the Company and have been recorded as voyage expenses within operating expenses. Under time charters, such voyage expenses are paid by the Company's customers. Estimated losses under a voyage charter are provided for in full at the time such losses become evident. Voyage related expenses, principally fuel, may also be incurred when positioning or repositioning the vessel before or after the period of time charter and during periods when the vessel is not under charter or is offhire, for example when the vessel is undergoing repairs. These expenses are recognised as incurred.

Revenues generated from management fees are recorded ratably over the term of the contract as service is provided.

Revenue includes amounts receivable from loss of hire insurance, which is recognized on an accruals basis, to the value of \$223,000, \$nil and \$2,843,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Vessel operating expenses, which are recognized when incurred, include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Vessel operating expenses also include an allocation of administrative overheads that relate to vessel operating activity which includes certain technical and operational support staff for the vessels, information technology, legal, accounting, and corporate costs. These costs are allocated based on internal cost studies, which management believes are reasonable estimates. For the years ended December 31, 2005, 2004 and 2003, \$720,000, \$3,252,750 and \$2,375,000 have been allocated to vessel operating costs, respectively.

Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues are allocated to the pool participants according to an agreed formula. The formula used to allocate net pool revenues allocates revenues to pool participants on the basis of the number of days a vessel operates in the pool. The same revenue and expenses principles stated above are applied in determining the pool's net pool revenues. The pool arrangements require the participants to pay and account for voyage expenses, and distribute pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. The Company accounts for pool revenues allocated by these pools as "Time charter revenues" in its statement of operations. The Company was party to a pool arrangement with Exmar Marine NV, which commenced

Notes to Consolidated Financial Statements (continued)

in October 2004 and ended in December 2005. The Company's share of the pool revenues for the year ended December 31, 2005 was approximately \$12 million.

Cash and cash equivalents

The Company considers all demand and time deposits and highly liquid investments with original maturities of three months or less to be equivalent to cash.

Restricted cash and short-term investments

Restricted cash and short-term investments consist of bank deposits, which may only be used to settle certain pre-arranged loan or lease payments and deposits made in accordance with its contractual arrangements under the Equity Swap Line facility (See note 27). The Company considers all short-term investments as held to maturity in accordance with Statement of Financial Accounting Standards No.115 "Accounting for Certain Investments in Debt and Equity Securities". These investments are carried at amortized cost. The Company places its short-term investments primarily in fixed term deposits with high credit quality financial institutions.

Inventories

Inventories, which are comprised principally of fuel, lubricating oils and ship spares, are stated at the lower of cost or market value. Cost is determined on a first-in, first-out basis.

Newbuildings

The carrying value of newbuildings represents the accumulated costs to the balance sheet date, which the Company has had to pay by way of purchase installments, and other capital expenditures together with capitalized loan interest. No charge for depreciation is made until the vessel is delivered.

Vessels and equipment

Vessels and equipment are stated at cost less accumulated depreciation. The cost of vessels and equipment less the estimated residual value is depreciated on a straight-line basis over the assets' remaining useful economic lives.

Refurbishments costs incurred during the period are capitalized as part of vessels and equipment. Refurbishment costs are costs that appreciably increase the capacity, or improve the efficiency or safety of vessels and equipment. Also included in vessels and equipment is drydocking expenditure which is capitalized when incurred and amortized over the period until the next anticipated drydocking, which is generally between two and five years. For vessels that are newly built or acquired the consideration paid is allocated between drydocking and other vessels costs to reflect the different useful lives of the component assets.

Useful lives applied in depreciation are as follows:

Vessels	40 years
Deferred drydocking expenditure	two to five years
Office equipment and fittings	three to six years

Vessels and equipment under capital lease

The Company leases certain vessels under agreements that are classified as capital leases. Depreciation of vessels under capital lease is included within depreciation and amortization expense in the statement of operations. Vessels under capital lease are depreciated on a straight-line basis over the vessels' remaining economic useful lives, based on a useful life of 40 years.

Notes to Consolidated Financial Statements (continued)

Refurbishment costs incurred during the period are capitalized as part of vessels and equipment under capital lease. Refurbishment costs are costs that appreciably increase the capacity, or improve the efficiency or safety of vessels and equipment under capital lease. Also included in vessels and equipment under capital lease, is drydocking expenditure which is capitalized when incurred and amortized over the period until the next anticipated drydocking, which is generally between two and five years. For vessels that are newly built or acquired, the consideration paid is allocated between drydocking and other vessel costs to reflect the different useful lives of the component assets.

Deferred credit from capital leases

In accordance with Statement of Financial Accounting Standard (“SFAS”) No.28 “Accounting for sales with leasebacks”, income derived from the sale of subsequently leased assets is deferred and amortized in proportion to the amortization of the leased assets. Amortization of deferred income is offset against depreciation and amortization expense in the statement of operations.

Impairment of long-lived assets

Long-lived assets that are held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Deferred charges

Costs associated with long-term financing, including debt arrangement fees, are deferred and amortized over the term of the relevant loan. Amortization of deferred loan costs is included in Other Financial Items.

Unlisted investments

Unlisted investments in which the Company holds less than a 20 per cent interest and in which it does not have the ability to exercise significant influence over the investee are initially recorded at cost and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company records these investments within Other long term assets in the consolidated balance sheet.

Derivatives

The Company enters into interest rate swap transactions from time to time to hedge a portion of its exposure to floating interest rates. These transactions involve the conversion of floating rates into fixed rates over the life of the transactions without an exchange of underlying principal. In addition from time to time the Company enters into foreign currency swap contracts to reduce risk from foreign currency fluctuations.

Hedge accounting is used to account for these swaps provided certain hedging criteria are met. The Company applies SFAS 133, “Accounting for Derivatives and Hedging Activities”, which requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. In order to qualify for hedge accounting under SFAS 133, certain criteria and detailed documentation requirements must be met. As the Company's current interest rate swap and foreign currency swap contracts do not meet the criteria for hedge accounting, changes in their fair value are recorded each period in current earnings. Where the fair value of an interest rate or foreign currency swap agreements are a net liability the derivative instrument is classified as a current liability. Where the fair value of an interest rate swap or foreign currency swap

Notes to Consolidated Financial Statements (continued)

agreement is a net asset the derivative instrument is classified as a non-current asset, except if the current portion is a liability, in which case the current portion is presented as a current liability.

In October 2005, the Company established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line (See note 27) whereby the counter party may acquire an amount of up to 3.2 million shares in the Company, and the Company carries the risk of fluctuations in the share price of those acquired shares. The fair value of the Equity Swap is recognised as an asset or liability with the change in fair values recognised in the consolidated statement of operations.

The Company does not enter into derivative contracts for speculative or trading purposes.

Foreign currencies

The Company's functional currency is the U.S. dollar as all revenues are received in U.S. dollars and a majority of the Company's expenditures are made in U.S. dollars. The Company reports in U.S. dollars.

Transactions in foreign currencies during the year are translated into U.S. dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction and translation gains or losses are included in the consolidated statements of operations.

Stock-based compensation

The Company will adopt FASB No. 123R, "Share Based Payment" ("SFAS 123R") beginning January 1, 2006. Currently under SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), disclosures of stock-based compensation arrangements with employees are required and companies are encouraged, but not required, to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company currently accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees". Had compensation costs been calculated and accounted for in accordance with the fair value method recommended in SFAS 123, there would have been no difference to the Company's net income and earnings per share for the years ending December 31, 2005, 2004 and 2003 respectively, since at December 31, 2002, all of the Company's stock options had fully vested.

Earnings per share

Basic earnings per share ("EPS") is computed based on the income available to common stockholders and the weighted average number of shares outstanding for basic EPS. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments (See note 9).

Pensions

Defined benefit pension costs, assets and liabilities are recognized in accordance with SFAS 87 "Employer's Accounting for Pensions", which requires adjustment of the significant actuarial assumptions annually to reflect current market and economic conditions. Under SFAS 87, part of the deficit of plan obligations over plan assets has been recognised in the balance sheet, with the remainder of the unrecognised actuarial losses spread over the employees' remaining service lifetimes. A minimum liability is recognized equal to the amount by which the accumulated benefit obligation exceeds the fair value of the plan assets. The pension benefit obligation is calculated by using a projected unit credit method.

Defined contribution pension costs represents the contributions payable to the scheme in respect of the accounting period.

Notes to Consolidated Financial Statements (continued)

Capital Leases

Leased vessels have been accounted for as capital leases in accordance with SFAS 13 "Accounting for Leases". Obligations under capital leases are carried at the present value of future minimum lease payments, and the asset balance is amortized on a straight-line basis over the remaining life economic useful lives of the vessels. Interest expense is calculated at a constant rate over the term of the lease.

Income Taxes

Income taxes are based on income before taxes. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

3. SUBSIDIARIES AND INVESTMENTS

The following table lists the Company's principal subsidiaries and their purpose as at December 31, 2005. Unless otherwise indicated, we own 100 per cent of each subsidiary.

Name	Jurisdiction of Incorporation	Purpose
Golar Gas Holding Company Inc.	Republic of Liberia	Holding Company and leases five vessels
Golar Maritime (Asia) Inc.	Republic of Liberia	Holding Company
Gotaas-Larsen Shipping Corporation	Republic of Liberia	Holding Company
Oxbow Holdings Inc.	British Virgin Islands	Holding Company
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia	Owens <i>Golar Mazo</i>
Golar LNG 2215 Corporation	Republic of Liberia	Leases <i>Methane Princess</i>
Golar LNG 1444 Corporation	Republic of Liberia	Owens <i>Golar Frost</i>
Golar LNG 1460 Corporation	Republic of Liberia	Owens <i>Gracilis</i> (previously known as the <i>Golar Viking</i>)
Golar LNG 2220 Corporation	Republic of Liberia	Leases <i>Golar Winter</i>
Golar LNG 2234 Corporation	Republic of Liberia	Owens <i>Granosa</i>
Golar LNG 2244 Corporation	Republic of Liberia	Owens newbuilding Hull 2244
Golar LNG 2226 Corporation	Marshall Islands	Leases <i>Grandis</i>
Golar International Ltd.	Republic of Liberia	Vessel management
Gotaas-Larsen International Ltd.	Republic of Liberia	Vessel management
Golar Management Limited	Bermuda	Management
Golar Maritime Limited	Bermuda	Management
Golar Management (UK) Limited	United Kingdom	Management

Notes to Consolidated Financial Statements (continued)

Golar Freeze (UK) Limited	United Kingdom	Operates <i>Golar Freeze</i>
Golar Khannur (UK) Limited	United Kingdom	Operates <i>Khannur</i>
Golar Gimi (UK) Limited	United Kingdom	Operates <i>Gimi</i>
Golar Hilli (UK) Limited	United Kingdom	Operates <i>Hilli</i>
Golar Spirit (UK) Limited	United Kingdom	Operates <i>Golar Spirit</i>
Golar Winter (UK) Limited	United Kingdom	Operates <i>Golar Winter</i>
Golar 2215 (UK) Limited	United Kingdom	Operates <i>Methane Princess</i>
Golar FSRU 1 Corporation	Marshall Islands	Contracted for the conversion of a vessel to a Floating Storage Regasification Unit ("FSRU")

4. ADOPTION OF NEW ACCOUNTING STANDARDS

FAS 151

In November 2004 the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 151, Inventory Costs—an amendment of ARB No. 43, Chapter 4 (revised) (FAS 151). FAS 151 amends the guidance in ARB No. 43, Chapter 4, 'Inventory Pricing,' to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). FAS 151 requires that those items be recognized as current-period charges. In addition, FAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company will adopt FAS 151 on January 1, 2006. The new standard is not expected to have a material impact on the Company's results of operations and financial position.

FAS 123R

In December 2004 the FASB issued Financial Accounting Standard No. 123R, Share-Based Payment (FAS 123R). FAS 123R requires that companies expense the value of employee stock options and other awards. FAS 123R allows companies to choose an option-pricing model that appropriately reflects their specific circumstances and the economics of their transactions, and allows companies to select from three transition methods for adoption of the provisions of the standard. The Company will adopt FAS 123R effective January 1, 2006. The Company has determined that this will not have an initial impact upon Golar's financial statements because no employee stock options and other awards were issued in each of the three years ended December 31, 2005 and as at December 31, 2003 all of Golar's stock options were fully vested. The impact of adoption of SFAS 123(R) on the results of operations for the year ending December 31, 2006 cannot be predicted at this time because it will depend on the level of share based payments granted in the future.

Notes to Consolidated Financial Statements (continued)

FAS 153

In December 2004 the FASB issued Financial Accounting Standard No. 153, Exchanges of Nonmonetary Assets (FAS 153). FAS 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company will adopt FAS 153 for nonmonetary exchanges occurring on or after January 1, 2006. The new standard is not expected to have material impact on the Company's results of operations and financial position.

FAS 154

In May 2005, the FASB issued Financial Accounting Standard No. 154, Accounting Changes and Error Corrections (FAS 154). FAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, the Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, the Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. The Company will adopt FAS 154 for accounting changes and corrections of errors made beginning January 1, 2006.

EITF Issue 05-6

In June 2005, the EITF reached consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements". EITF Issue 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF Issue 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations and financial position.

FSP FIN No. 45-3

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FSP FIN No. 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" by adding minimum revenue guarantees to the list of examples of contracts to which FIN No. 45 applies. Under FSP FIN No. 45-3, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FSP FIN No. 45-3 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

5. SEGMENTAL INFORMATION

The Company has not presented segmental information as it considers it operates in one reportable segment, the LNG carrier market. During 2005, 2004 and 2003, the vast majority of the Company's fleet operated under time charters and in particular with two charterers, Pertamina and BG Group plc. In time

Notes to Consolidated Financial Statements (continued)

charters, the charterer, not the Company, controls the choice of which routes the Company's vessel will serve. These routes can be worldwide. Accordingly, the Company's management, including the chief operating decision makers, does not evaluate the Company's performance either according to customer or geographical region.

Revenues in each of the years ended December 31, 2005, 2004 and 2003 from Pertamina, the state-owned oil and gas company of Indonesia and BG Group plc, headquartered in the United Kingdom, were \$63.7 million and \$87.5 million; \$65.6 million and \$82.2 million; and \$61.9 million and \$64.8 million respectively.

6. RESTRUCTURING EXPENSES

Restructuring expenses of \$1.3 million in the year ended December 31, 2005 consist of employment severance costs for management and administrative employees in London amounting to \$1.0 million and \$0.3 million in respect of Bilbao. These costs were incurred in connection with the reorganization of the Company's technical fleet operations. The Company entered into management contracts with two established third party ship managers in Singapore and Oslo to assist with the day-to-day operations of the Company's eleven LNG carriers. The restructuring resulted in 30 Golar employees being made redundant. The total cost of \$1.3 million represents amounts paid during the year, and accordingly, there is no outstanding liability relating to the restructuring at December 31, 2005.

7. OTHER FINANCIAL ITEMS, NET

<i>(in thousands of \$)</i>	2005	2004	2003
Amortization of deferred financing costs	(3,080)	(1,273)	(1,574)
Financing arrangement fees and other costs	(703)	(818)	(107)
Mark to market adjustment for interest rate derivatives (See note 28)	14,125	5,581	6,401
Mark to market adjustment for foreign currency derivatives (See note 28)	(19,720)	6,656	-
Market to market adjustment for equity swap derivatives (See note 28)	1,313	-	-
Foreign exchange gain (loss) on capital lease obligations and related restricted cash	15,709	(5,160)	2,993
Foreign exchange loss on operations	(137)	(182)	(496)
	<u>7,507</u>	<u>4,804</u>	<u>7,217</u>

Amortization of deferred financing costs includes an amount of \$1.8 million for the year ended December 31, 2005. This represents the write-off of deferred financing charges as a result of the refinancing of the Golar Gas Holdings loan in March 2005 (See note 24).

8. TAXATION

Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2016.

Notes to Consolidated Financial Statements (continued)

United States

Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the Company operating the ships meets certain requirements. Among other things, in order to qualify for this exemption, the company operating the ships must be incorporated in a country which grants an equivalent exemption from income taxes to U.S. citizens and U.S. corporations and must be more than 50 per cent owned by individuals who are residents, as defined, in such country or another foreign country that grants an equivalent exemption to U.S. citizens and U.S. corporations. The management of the Company believes that by virtue of the above provisions, it was not subject to tax on its U.S. source income.

A reconciliation between the income tax expense resulting from applying the U.S. Federal statutory income tax rate and the reported income tax expense has not been presented herein as it would not provide additional useful information to users of the financial statements as the Company's net income is subject to neither Bermuda nor U.S. tax.

United Kingdom

Current taxation of \$818,000, \$420,000 and \$375,000 for the years ended December 31, 2005, 2004 and 2003 respectively relates to taxation of the operations of the Company's United Kingdom subsidiaries. Taxable revenues in the UK are generated by UK subsidiary companies of Golar and comprise management fees received from third parties and other Golar group companies as well as revenues from the operation of seven of Golar's vessels. These vessels are sub-leased from other non-UK Golar companies, which in turn are leased from financial institutions. The statutory tax rate in the UK is 30%. The Company records deferred income taxes to reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded deferred tax assets of \$147,000 and \$119,000 at December 31, 2005 and 2004, respectively which have been classified as non-current and included within other long-term assets (See note 20). These assets relate to differences for depreciation and pension liabilities.

Other jurisdictions

No tax has been levied on income derived from the Company's subsidiaries registered in Liberia, the Marshall Islands and the British Virgin Islands.

Deferred income tax assets are summarized as follows:

<i>(in thousands of \$)</i>	2005	2004
Deferred tax assets, gross	677	661
Valuation allowances	(530)	(542)
Deferred tax assets, net	147	119

The valuation allowances on deferred tax assets decreased by \$12,000 (2004: \$298,000). In future periods, depending upon the financial results, managements' estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

9. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2005 has been calculated with reference to the weighted average number of common shares in issue during the year. The computation of diluted EPS for the years ended December 31, 2005, 2004 and 2003, assumes the conversion of potentially dilutive instruments.

Notes to Consolidated Financial Statements (continued)

The components of the numerator for the calculation of basic and diluted EPS are as follows:

<i>(in thousands of \$)</i>	2005	2004	2003
Net income available to stockholders – basic	34,529	55,833	39,570
Dilutive effect of investee's convertible bonds and bonds with stock warrants	(1,726)	(394)	-
	32,803	55,439	39,570

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

<i>(in thousands)</i>	2005	2004	2003
Basic earnings per share:			
Weighted average number of common shares outstanding	65,568	65,612	58,533
Diluted earnings per share:			
Weighted average number of common shares outstanding	65,568	65,612	58,533
Effect of dilutive share options	165	185	90
	65,733	65,797	58,623

10. OPERATING LEASES

Rental income

The minimum future revenues to be received on time charters as of December 31, 2005 were as follows:

Year ending December 31, <i>(in thousands of \$)</i>	Total
2006	141,036
2007	118,250
2008	106,514
2009	94,515
2010	91,258
2011 and later	589,486
Total	1,141,059

The long-term contracts for two of the Company's vessels are time charters but the economic terms are analogous to bareboat contracts, under which the vessels are paid a fixed rate of hire and the vessel operating costs are borne by the charterer on a costs pass through basis. The pass through of operating costs is not reflected in the minimum lease revenues set out above.

The cost and accumulated depreciation of vessels leased to third parties at December 31, 2005 were \$1,039.9 million and \$163.5 million respectively and at December 31, 2004 were \$1,033.2 million and \$122.2 million respectively.

Notes to Consolidated Financial Statements (continued)

Rental expense

The Company is committed to make rental payments under operating leases for office premises. The future minimum rental payments under the Company's non-cancellable operating leases are as follows:

Year ending December 31, (in thousands of \$)	Total
2006	183
2007	190
2008	196
2009	100
Total minimum lease payments	669

Total rental expense, net of provision, for operating leases was \$305,000, \$1,431,000 and \$2,025,000 for the years ended December 31, 2005, 2004 and 2003, respectively. In addition total sublease income was \$nil, \$1,103,000 and \$1,161,000 for the years ended December 31, 2005, 2004 and 2003, respectively. The sublease income related to a sublease arrangement in respect of former office space that the Company no longer occupied. The lease and the sublease ended in November 2004.

11. EQUITY IN NET ASSETS OF NON-CONSOLIDATED INVESTEE

Equity in net assets of non-consolidated investee relates to the Company's 21.09% investment in Korea Line Corporation ("KLC") as at December 31, 2005 (2004: 21.09%), which is accounted for using the equity method. KLC is a shipping company listed on the Korea stock exchange.

(in thousands of \$)	2005	2004
Cost	34,124	34,124
Equity in net earnings of investee	31,507	13,015
Share of other reserves movement in investee	2,034	1,901
Less dividends received	(1,715)	(171)
Equity in net assets of non-consolidated investee	65,950	48,869

As at December 31, 2003, the Company's investment in KLC amounted to 9.94% of the investee's issued share capital, which had been acquired at a cost of \$12,176,000 following a series of step acquisitions during the fourth quarter of 2003. At March 31, 2004 following additional purchases of common shares in KLC, at a cost of \$11,351,000, the Company's interest increased by 5.77% to 15.71%. By May 2004, after further purchases of common shares in KLC, at a cost of \$10,597,000, the Company's interest had increased by 5.38% to 21.09%. The excess of the fair value of the Company's share of net assets acquired over consideration paid, amounted to \$11,276,000 and has been allocated as a pro rata reduction to the fair value of the investee's long lived assets.

As at December 31, 2005, the market value of this investment calculated by reference to the quoted market price was \$54.5 million (2004: \$72.8 million).

For the years ended December 31, 2005 and 2004, the Company's additional paid in capital includes the Company's share of KLC's gain on disposal of KLC's treasury shares to third parties of \$nil and \$1,901,000 respectively.

As at December 31, 2005 and December 31, 2004 KLC had outstanding convertible securities and warrants that, if in the aggregate were converted and exercised, would have reduced the Company's

Notes to Consolidated Financial Statements (continued)

interest in KLC to 18.4%. If the Company did not have the ability to exercise significant influence over KLC and as a result did not account for the investment using the equity method then the Company's share of net earnings of KLC of \$18.5 million and \$13.0 million for the years ended December 31, 2005 and 2004 respectively would not have been recognised. However, dividends received from KLC of \$1,544,000 and \$171,000 for the years ended December 31, 2005 and 2004 respectively would be recognised in the income statement.

12. TRADE ACCOUNTS RECEIVABLE

As at December 31, 2005 trade accounts receivable are presented net of allowances for doubtful accounts amounting to \$18,000 (2004: \$nil).

13. OTHER RECEIVABLES, PREPAID EXPENSES AND ACCRUED INCOME

<i>(in thousands of \$)</i>	2005	2004
Other receivables	3,279	1,868
Mark to market equity swaps valuation (See note 28)	1,313	-
Prepaid expenses	845	2,345
Accrued interest income	7,136	7,361
	<u>12,573</u>	<u>11,574</u>

Other receivables at December 31, 2005 includes the net amount receivable of \$404,000 (2004: \$219,000) under the Company's loss of hire insurance policy relating to a period of off-hire in respect of one vessel due to required repairs. Other receivables as at December 31, 2005 also includes the net amount receivable of \$297,000 (2004: \$1,001,000) under the Company's hull and machinery insurance policy relating to repair costs incurred by the Company for four vessels. Insurance claim receivables are recognized when the facts and circumstances support the legal recovery of a previously incurred loss and management believes it is probable that the claims will be recovered.

14. DUE FROM RELATED COMPANIES

Amounts due from related companies as at December 31, 2005 and 2004 of \$17,000 and \$294,000, respectively, represent the recharge of expenses and rebates and seconded staff costs.

15. NEWBUILDINGS

<i>(in thousands of \$)</i>	2005	2004
Purchase price installments	103,603	133,200
Interest and other costs capitalized	7,962	12,033
	<u>111,565</u>	<u>145,233</u>

The amount of interest capitalized in relation to newbuildings was \$4,410,000 and \$7,268,000 for the years ended December 31, 2005 and 2004, respectively.

The Company took delivery of one newbuilding during the year ended December 31, 2005, the *Gracilis*, which was delivered to the Company on January 6, 2005. The total cost of the *Gracilis* of \$174,945,000 has been transferred to vessels and equipment (See note 16).

In April 2005, the Company entered into a leasing transaction in respect of hull number 2226 (*Grandis*). The Company novated the *Grandis* newbuilding contract prior to completion of construction and leased the vessel from the same financial institution in the UK ("The Grandis Lease"). The cost of the

Notes to Consolidated Financial Statements (continued)

newbuilding included in the amount above as of December 31, 2005 was \$48,016,000. The vessel was not delivered from the yard until January 2006.

16. VESSELS AND EQUIPMENT, NET

<i>(in thousands of \$)</i>	2005	2004
Cost	572,252	398,052
Accumulated depreciation	(39,244)	(26,185)
Net book value	533,008	371,867

As at December 31, 2005 Golar owned three vessels (2004: two).

Drydocking costs of \$5,042,000 and \$3,140,000 are included in the cost amounts above as of December 31, 2005 and 2004 respectively. Accumulated amortization of those costs as of December 31, 2005 and 2004 were \$1,981,000 and \$1,691,000 respectively.

Included in the above amounts, as at December 31, 2005 and 2004 is equipment with a net book value of \$96,000 and \$585,000, respectively.

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was \$14,890,000, \$8,526,000 and \$12,658,000 respectively.

As at December 31, 2005 and 2004 vessels with a net book value of \$532,912,000 and \$371,282,000 respectively were pledged as security for certain debt facilities (See note 24).

17. VESSELS UNDER CAPITAL LEASES, NET

<i>(in thousands of \$)</i>	2005	2004
Cost	812,695	806,260
Accumulated depreciation and amortization	(136,659)	(99,744)
Net book value	676,036	706,516

As at December 31, 2005 Golar operated seven (2004: seven) vessels under capital leases. These leases are in respect of two refinancing transactions undertaken during 2003 and a lease financing transaction during 2004.

Drydocking costs of \$35,428,000 and \$32,168,000 are included in the cost amounts above as of December 31, 2005 and 2004 respectively. Accumulated amortization of those costs at December 31, 2005 and 2004 were \$21,506,000 and \$12,988,000 respectively.

Amortization expense for vessels under capital leases for the years ended December 31, 2005, 2004 and 2003 was \$39,801,000, \$35,942,000 and \$21,143,000 respectively.

18. DEFERRED CHARGES

Deferred charges represent financing costs, principally bank fees that are capitalized and amortized to other financial items over the life of the debt instrument. The deferred charges are comprised of the following amounts:

Notes to Consolidated Financial Statements (continued)

<i>(in thousands of \$)</i>	2005	2004
Debt arrangement fees and other deferred financing charges	9,814	9,956
Accumulated amortization	(2,185)	(3,236)
	7,629	6,720

19. RESTRICTED CASH AND INVESTMENTS

The Company's short-term and long-term restricted cash and investment balances in respect of its debt and lease obligations and equity swap facility are as follows:

<i>(in thousands of \$)</i>	2005	2004
Total security lease deposits for lease obligations	721,971	743,889
Restricted cash relating to the Mazo facility	11,308	12,866
Restricted cash relating to the Equity swap facility	12,477	-
	745,756	756,755

As at December 31, 2005, the value of deposits used to obtain letters of credit to secure the obligations for the lease arrangements described in note 25 was \$722.0 million (2004: \$743.9 million). These security deposits are referred to in these financial statements as restricted cash and earn interest based upon GBP LIBOR for the Five Ship Leases and the Methane Princess Lease and based upon USD LIBOR for both the Golar Winter and Grandis Lease. The Company's restricted cash balances in respect of its lease obligations are as follows:

<i>(in thousands of \$)</i>	2005	2004
Five Ship Leases security deposits	470,156	523,518
Methane Princess Lease security deposits	161,505	178,847
Golar Winter Lease security deposits	45,302	41,524
Grandis Lease security deposits	45,008	-
Total security deposits for lease obligations	721,971	743,889
Included in short-term restricted cash and short-term investments	(25,663)	(29,087)
Long-term restricted cash	696,308	714,802

The analysis of short-term restricted cash and short-term investments at December 31, 2005 and 2004 is as follows:

<i>(in thousands of \$)</i>	2005	2004
Short term lease security deposits	25,663	29,087
Restricted cash and short-term investments relating to the Mazo facility (See note 24)	11,308	12,866
Restricted cash relating to the Equity swap facility (See note 27)	12,477	-
Short-term restricted cash and short-term investments	49,448	41,953

Notes to Consolidated Financial Statements (continued)

20. OTHER –NON-CURRENT ASSETS

<i>(in thousands of \$)</i>	2005	2004
Deferred tax asset (See note 8)	147	119
Other investments	3,000	-
Mark to market foreign currency swaps valuation (See note 28)	-	6,656
Mark to market interest rate swaps valuation (See note 28)	5,886	-
Other long-term assets	1,576	-
	10,609	6,775

Other investments relate to the Company's \$3,000,000 investment in TORP Technology AS ("TORP Technology"), which was acquired in February 2005. TORP Technology is a Norwegian registered unlisted company, which is involved in the construction of an offshore regasification terminal in the US Gulf of Mexico. As at December 31, 2005 the Company's investment in TORP Technology amounted to a 16.1% equity interest in the investee's issued share capital. The Company did not estimate the fair value of this investment because there have been no identified events or changes in circumstances that would have a significant adverse effect on its fair value.

Other long-term assets relate to an advance of \$1,576,000 due to Keppel Shipyard Limited on signing of a contract in December 2005, to convert an existing LNG carrier into a LNG Floating Storage Regasification Unit ("FSRU"). As at December 31, 2005 no work had commenced (See note 30).

21. ACCRUED EXPENSES

<i>(in thousands of \$)</i>	2005	2004
Vessel operating and drydocking expenses	2,820	4,420
Administrative expenses	2,627	1,581
Interest expense	14,086	9,742
Provision for financing arrangement fees and other costs	485	1,011
Provision for tax	587	300
	20,605	17,054

22. OTHER CURRENT LIABILITIES

<i>(in thousands of \$)</i>	2005	2004
Deferred drydocking and operating cost revenue	5,162	4,398
Marked to market interest rate swaps valuation	7,075	15,314
Marked to market foreign currency swaps valuation	13,064	-
Provision for project costs	-	1,247
Other provisions	25	577
Deferred credits from capital lease transactions (See note 26)	3,964	3,964
Other creditors	2,017	907
	31,307	26,407

23. PENSIONS

Defined contribution scheme

The Company operates a defined contribution scheme. The pension cost for the period represents contributions payable by the Company to the scheme. The charge to net income for the year ended December 31, 2005, 2004 and 2003 was \$262,000, \$156,000 and \$158,000 respectively.

Notes to Consolidated Financial Statements (continued)

Defined benefit schemes

The Company has two defined benefit pension plans both of which are closed to new entrants but which still cover certain employees of the Company. Benefits are based on the employee's years of service and compensation. Net periodic pension plan costs are determined using the Projected Unit Credit Cost method. The Company's plans are funded by the Company in conformity with the funding requirements of the applicable government regulations. Plan assets consist of both fixed income and equity funds managed by professional fund managers.

The Company uses a measurement date of December 31 for its pension plans.

The components of net periodic benefit costs are as follows:

<i>(in thousands of \$)</i>	2005	2004	2003
Service cost	652	1,186	1,162
Interest cost	2,624	3,102	3,440
Expected return on plan assets	(1,457)	(1,706)	(2,005)
Recognized actuarial loss	326	827	751
Net periodic benefit cost	2,145	3,409	3,348

The change in benefit obligation and plan assets and reconciliation of funded status as of December 31 are as follows:

<i>(in thousands of \$)</i>	2005	2004
Reconciliation of benefit obligation:		
Benefit obligation at January 1	47,904	54,243
Service cost	652	1,186
Interest cost	2,624	3,102
Actuarial loss (gain)	3,130	(6,379)
Foreign currency exchange rate changes	(1,051)	736
Benefit payments	(4,153)	(4,984)
Curtailment effect	(24)	-
Benefit obligation at December 31	49,082	47,904

In January 2005, the Company announced a reorganization of its technical fleet management operations, which resulted in a number of redundancies, of which six were active members of the UK Pension Scheme. The effect of the restructuring was a reduction of \$24,000 in the UK pension scheme's benefit obligation for the year ended December 31, 2005.

The accumulated benefit obligation at December 31, 2005 and 2004 was \$47.8 million and \$46.6 million, respectively.

<i>(in thousands of \$)</i>	2005	2004
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	24,058	24,735
Actual return on plan assets	1,797	2,094
Employer contributions	1,598	1,687
Foreign currency exchange rate changes	(813)	526
Benefit payments	(4,153)	(4,984)
Fair value of plan assets at December 31	22,487	24,058

Notes to Consolidated Financial Statements (continued)

Deficit of plan assets over projected benefit obligation (1)	(26,595)	(23,846)
Unrecognized actuarial loss	7,224	5,073
Net amount recognized	(19,371)	(18,773)

Employer contributions and benefits paid under the pension plans include \$1,598,000 and \$1,687,000 paid from employer assets during the year ended December 31, 2005 and 2004 respectively.

(1) The Company's plans are composed of two plans that are both under funded at December 31, 2005 and December 31, 2004.

The details of these plans are as follows:

	December 31, 2005			December 31, 2004		
	UK Scheme	Marine scheme	Total	UK scheme	Marine scheme	Total
<i>(in thousands of \$)</i>						
Accumulated benefit obligation	(9,149)	(38,657)	(47,806)	(8,796)	(37,772)	(46,568)
Projected benefit obligation	(9,315)	(39,767)	(49,082)	(9,291)	(38,613)	(47,904)
Fair value of plan assets	7,381	15,106	22,487	6,990	17,068	24,058
Funded status	(1,934)	(24,661)	(26,595)	(2,301)	(21,545)	(23,846)

The amounts recognized in the Company's balance sheet as of December 31 were as follows:

<i>(in thousands of \$)</i>	2005	2004
Accrued benefit liability	(25,319)	(22,510)
Minimum pension liability	5,948	3,737
Net amount recognized	(19,371)	(18,773)

The asset allocation for the Company's Marine scheme at December 31, 2005 and 2004, and the target allocation for 2006, by asset category follows:

Marine scheme	Target allocation		
	2006 (%)	2005 (%)	2004 (%)
Equity	30 – 65	39	59
Bonds	10 – 50	25	38
Other	20 – 40	34	3
Cash	-	2	-
Total	100	100	100

The asset allocation for the Company's UK scheme at December 31, 2005 and 2004, and the target allocation for 2006, by asset category follows:

UK scheme	Target allocation		
	2006 (%)	2005 (%)	2004 (%)
Equity	80	80	80
Bonds	20	20	20
Total	100	100	100

Notes to Consolidated Financial Statements (continued)

The Company's investment strategy is to balance risk and reward through the selection of professional investment managers and investing in pooled funds.

The Company is expected to make the following contributions to the schemes during the year ended December 31, 2006, as follows:

<i>(in thousands of \$)</i>	UK scheme	Marine scheme
Employer contributions	344	1,320

The Company is expected to make the following pension disbursements as follows:

<i>(in thousands of \$)</i>	UK scheme	Marine scheme
2006	200	2,900
2007	190	3,000
2008	190	3,100
2009	350	3,100
2010	470	3,200
2011-2015	2,080	17,300

The weighted average assumptions used to determine the benefit obligation for the Company's plans at December 31 are as follows:

	2005	2004
Discount rate	5.4%	5.7%
Rate of compensation increase	3.7%	2.8%

The weighted average assumptions used to determine the net periodic benefit cost for the Company's plans for the year ended December 31 are as follows:

	2005	2004
Discount rate	5.7%	5.9%
Expected return on plan assets	6.4%	7.6%
Rate of compensation increase	2.8%	2.8%

The overall expected long-term rate of return on assets assumption used to determine the net periodic benefit cost for the Company's plans for the years ending December 31, 2005 and 2004 is based on the weighted average of various returns on assets using the asset allocation as at the beginning of 2005 and 2004. For equities and other asset classes, the Company has applied an equity risk premium over ten year governmental bonds.

24. DEBT

<i>(in thousands of \$)</i>	2005	2004
Total long-term debt due to third parties	825,747	702,954
Less: current portion of long-term debt due to third parties	(67,564)	(66,457)
Long-term debt	758,183	636,497

Notes to Consolidated Financial Statements (continued)

The outstanding debt as of December 31, 2005 is repayable as follows:

Year ending December 31, (in thousands of \$)	
2006	67,564
2007	166,387
2008	64,294
2009	66,148
2010	165,263
2011 and later	296,091
Total	825,747

The Company's debt is denominated in U.S. dollars and bears floating interest rates except for \$135 million of debt at December 31, 2005 and 2004 in respect of the Methane Princess facility which bears fixed interest rates. The weighted average interest rate as of December 31, 2005 and 2004 was 4.98 per cent and 4.68 per cent, respectively. The fixings in respect of the Methane Princess facility have varying maturity dates from 2007 to 2015 and as of December 31, 2005 the weighted average fixed interest rate was 5.35 per cent (2004: 5.76 per cent).

At December 31, 2005, the Company's debt was as follows:

(in thousands of \$)		Maturity date
Mazo facility	154,018	2013
Methane Princess facility	168,129	2015
Golar Gas Holding facility	280,000	2011
Golar Frost facility	106,600	2007
Gracilis facility	117,000	2010
	825,747	

Mazo facility

The Mazo facility was assumed by the Company in May 2001 and the amount originally drawn down under the facility totalled \$214.5 million. The loan is secured on the vessel *Golar Mazo*. The facility bears floating interest rate of LIBOR plus a margin and repayments are due six monthly and commenced on June 28, 2001. The debt agreement requires that certain cash balances, representing interest and principal repayments for defined future periods, be held by a trust company during the period of the loan. These balances are referred to in these financial statements as restricted cash.

Golar Gas Holding facility

In May 2001 the Company entered into a secured loan facility with a banking consortium for an amount of \$325 million and in October 2002 entered into a secured subordinated loan facility for an amount of \$60 million. These loans were first re-financed in April 2003 and again in March 2005 when a subsidiary of the Company, Golar Gas Holding Company Inc., entered into a refinancing transaction with a banking consortium in respect of these loans. The new first priority loan (the "Golar Gas Holding facility") is for an amount of \$300 million. The total amount outstanding at the time of the refinancing was \$242.3 million. The loan accrues floating interest at a rate per annum equal to the aggregate of LIBOR plus a margin. The loan has a term of six years and is repayable in 24 quarterly installments with a final balloon payment of \$79.4 million due on April 14, 2011. The loan is secured by the assignment to the lending banks of a mortgage given to Golar by the lessor of the five vessels that are part of the Five Ship Leases (See note 25).

Notes to Consolidated Financial Statements (continued)

Methane Princess facility

In December 2001 the Company signed a loan agreement with a bank for the purpose of financing newbuilding hull number 2215 (*Methane Princess*) for an amount of \$180 million. In August 2003, prior to the delivery of the *Methane Princess* the Company refinanced this facility. The new facility (the “Methane Princess facility”) was also for \$180 million, with the same bank and is repayable in monthly installments with a final balloon payment of \$116.4 million payable on August 25, 2015. The loan accrues a floating rate of interest of LIBOR plus a margin determined by reference to Standard and Poors (“S&P”) rating of the Charterer from time to time. The margin can increase if the rating for the Charterer at any time falls below an S&P rating of “B”. As at December 31, 2005, interest on \$135 million of debt in respect of the Methane Princess facility was fixed, of which \$55 million was fixed in 2002, \$50 million in 2003 and \$30 million in 2004. The fixings have varying maturity dates from 2007 to 2015, as of December 31, 2005 the weighted average interest rate was 5.35 per cent (including margin). The loan is secured by the assignment to the lending bank of a mortgage given to Golar by the lessor of the Methane Princess Lease (See note 25).

Golar Frost facility

In June 2004 the Company signed a loan agreement with a banking consortium for an amount of \$110.0 million for the purpose of financing newbuilding hull number 1444, the *Golar Frost*, which is secured by a mortgage on this vessel. The facility bears floating interest rate of LIBOR plus a margin and repayments are due six monthly with a final balloon payment of \$102.6 million payable on June 15, 2007. Repayments on the loan commenced on December 15, 2004. In June 2006, the banking consortium approved certain changes to this facility, which included amongst other things, an extension of the term of the loan for a period of 12 months to June 15, 2008.

Gracilis (previously known as the Golar Viking) facility

In January 2005 the Company signed a loan agreement with a bank for an amount of \$120.0 million for the purpose of financing newbuilding hull number 1460, the *Gracilis*, which is secured by a mortgage on this vessel. The facility bears floating interest rate of LIBOR plus a margin and repayments are due quarterly with a final balloon payment of \$101.0 million payable on January 6, 2010. Repayments on the loan commenced on April 6, 2005.

As of December 31, 2005 the margins Golar pays under its loan agreements over and above LIBOR at a fixed or floating rate range from 0.80 per cent to 1.7 per cent (2004: 0.865 per cent to 2.0 per cent).

Certain of the Company’s debt is collateralized by ship mortgages and, in the case of some debt, pledges of shares by each guarantor subsidiary. The existing financing agreements impose operation and financing restrictions which may significantly limit or prohibit, among other things, the Company’s ability to incur additional indebtedness, create liens, sell capital shares of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, enter into time or consecutive voyage charters or pay dividends without the consent of the Lenders. In addition, Lenders may accelerate the maturity of indebtedness under financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence of certain events of default, including a failure to comply with any of the covenants contained in the financing agreements. Various debt agreements of the Company contain certain covenants, which require compliance with certain financial ratios. Such ratios include equity ratio covenants and minimum free cash restrictions. As of December 31, 2005 and 2004 the Company complied with the debt covenants of its various debt agreements.

Notes to Consolidated Financial Statements (continued)

25. CAPITAL LEASES

<i>(in thousands of \$)</i>	2005	2004
Total long-term obligations under capital leases	803,966	845,515
Less: current portion of obligations under capital leases	(2,466)	(2,662)
Long term obligations under capital leases	801,500	842,853

As at December 31, 2005 Golar operated seven (2004: seven) vessels under capital leases. These leases are in respect of two refinancing transactions undertaken during 2003 and a lease financing transaction during 2004. Additionally, as at December 31, 2005 one undelivered newbuilding was also subject to a capital lease.

The first leasing transaction, which took place in April 2003, was the sale of five 100 per cent owned subsidiaries to a financial institution in the United Kingdom (UK). The subsidiaries were established in Bermuda specifically to own and operate one LNG vessel as their sole asset. Simultaneous to the sale of the five entities, Golar leased each of the five vessels under five separate lease agreements (“Five Ship Leases”).

The second leasing transaction, which occurred in August 2003, was in relation to the newbuilding, the *Methane Princess*. The Company novated the *Methane Princess* newbuilding contract prior to completion of construction and leased the vessel from the same financial institution in the UK (“The Methane Princess Lease”).

The third leasing transaction, which occurred in April 2004, was in relation to the newbuilding, the *Golar Winter*. The Company novated the *Golar Winter* newbuilding contract prior to completion of construction and leased the vessel from a financial institution in the UK (“The Golar Winter Lease”).

The fourth leasing transactions, which occurred in April 2005, was in relation to hull number 2226 (*Grandis*). The Company novated the *Grandis* newbuilding contract prior to completion of construction and leased the vessel from the same financial institution in the UK (“The Grandis Lease”).

Golar’s obligations to the lessors under the Five Ship Leases and Methane Princess Lease are primarily secured by letters of credit (“LC”) provided by other banks. Golar’s obligations to the lessor of the Golar Winter Lease and Grandis Lease are partly secured by a LC. Details of the security deposits provided by Golar to the banks providing the LC’s are given in note 19.

As at 31 December 2005, the Company is committed to make quarterly minimum rental payments under capital leases, as follows:

Year ending December 31, <i>(in thousands of \$)</i>	Five ship leases	Methane Princess lease	Golar Winter lease	Grandis lease	Total
2006	22,083	6,180	10,983	2,240	41,486
2007	24,988	6,501	10,983	2,862	45,334
2008	26,237	6,794	10,983	2,862	46,876
2009	27,549	7,089	10,983	2,862	48,483
2010	28,927	7,384	10,983	2,862	50,156
2011 and later	710,158	328,401	236,136	76,718	1,351,413
Total minimum lease payments	839,942	362,349	291,051	90,406	1,583,748
Less: Imputed interest	(387,486)	(206,448)	(141,273)	(44,575)	(779,782)
Present value of minimum lease payments	452,456	155,901	149,778	45,831	803,966

Notes to Consolidated Financial Statements (continued)

The profiles of the Five Ship Leases are such that the lease liability continues to increase until 2008 and thereafter decreases over the period to 2023 being the primary term of the leases. The interest element of the lease rentals is accrued at a rate based upon floating British Pound (GBP) LIBOR.

The profile of the Methane Princess Lease is such that the lease liability continues to increase until 2014 and thereafter decreases over the period to 2034 being the primary term of the lease. The interest element of the lease rentals is accrued at a rate based upon floating British Pound (GBP) LIBOR.

The Golar Winter Lease is for a primary period of 28 years, expiring in April 2032. The lease liability is reduced by lease rentals from inception. The interest element of the lease rentals is accrued at a rate based upon floating rate British Pound (GBP) LIBOR.

In common with the Five Ship Leases and the Methane Princess Lease the Golar Winter Lease is denominated in British Pounds. However, unlike these other leases the cash deposits securing the lease obligations are significantly less than the lease obligation itself. In order to hedge the currency risk arising from re-translation of the GBP lease rental obligation into US dollars, the Company entered into a 28 year currency swap in April 2004 to hedge all lease rental payments under the Golar Winter Lease into US dollars at a fixed GBP/USD exchange rate. In addition at December 31, 2005 the Company had entered into interest rate swaps of \$115 million (2004: \$85 million) to fix the interest rate in respect of its Golar Winter lease obligations for a period ranging from three to ten years.

The Grandis Lease is for a primary period of 30 years, expiring January 2036. The lease liability is reduced by lease rentals from inception. The interest element of the lease rentals is accrued at a rate based upon floating rate USD LIBOR. In contrast to the Company's other leases the Grandis lease obligation and the cash deposits securing the lease obligation are denominated in USD. However, in common with the Golar Winter Lease, upon delivery and draw down of the balance from the lessor, the cash deposits securing the lease obligation will be significantly less than the lease obligation itself.

The Company determined that the entities that owned the vessels were variable interest entities in which Golar had a variable interest and was the primary beneficiary. Upon transferring the vessels to the financial institutions, Golar measured the subsequently leased vessels at the same amounts as if the transfer had not occurred, which was cost less accumulated depreciation at the time of transfer.

26. OTHER LONG-TERM LIABILITIES

<i>(in thousands of \$)</i>	2005	2004
Pension obligations (See note 23)	25,319	22,510
Deferred credits from capital lease transactions	59,559	63,523
	84,878	86,033

Deferred credits from capital lease transactions

<i>(in thousands of \$)</i>	2005	2004
Deferred credits from capital lease transactions	74,121	74,121
Less: Accumulated amortization	(10,598)	(6,634)
	63,523	67,487
Short-term (See note 22)	3,964	3,964
Long-term	59,559	63,523
	63,523	67,487

Notes to Consolidated Financial Statements (continued)

In connection with the Five Ship Leases and the Methane Princess Lease entered into in the year ended December 31, 2003 (See note 25), the Company recorded an amount representing the difference between the net cash proceeds received upon sale of the vessels and the present value of the minimum lease payments. The amortization of the deferred credit for the year is offset against depreciation and amortization expense in the statement of operations. The deferred credits represent the upfront benefits derived from undertaking finance in the form of UK leases. The deferred credits are amortized over the remaining estimated useful economic lives of the vessels to which the leases relate on a straight-line basis.

27. SHARE CAPITAL AND SHARE OPTIONS

The Company was incorporated on May 10, 2001 and 12,000 common shares of \$1.00 par value each were issued to the initial shareholder. In May 2001, the Company issued 56,000,000 common shares at a price of \$5.00 per share in a placement in Norway subscribed to by approximately 130 financial investors. These shares were issued partly to finance the acquisition of the LNG interest of Osprey as described in note 1.

In July 2003, the Company completed a direct equity offering of 5,600,000 common shares in a placement in Norway, towards international institutional investors at a price of \$10.20 per share. In December 2003, the Company further issued 4,000,000 common shares at a price of \$13.11 per share.

In February 2005, the Company, through market purchases, acquired 50,000 common shares at a price of NOK 85.22 (\$13.34) per share, for the purpose of cancellation. The total consideration paid amounted to \$667,000. The Company held the shares until cancellation in March 2006, which resulted in a reduction of total issued and outstanding shares of the Company to 65,562,000. As at December 31, 2005 the shares were accounted for as retired stock and accordingly the purchase price of the shares totalling \$667,000 has been deducted from shareholders' equity by reducing share capital, additional paid in capital and retained earnings have been reduced by \$50,000, \$247,000 and \$370,000 respectively.

In October 2005, the Board of the Company approved a share buy back scheme and in connection with this established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with the Bank of Nova Scotia ("BNS"), whereby the latter may acquire an amount of shares up to a maximum of 3.2 million in the Company during the accumulation period, and the Company carries the risk of fluctuations in the share price of those acquired shares. BNS is compensated at their cost of funding plus a margin. As at December 31, 2005, BNS has acquired a total of 600,000 Golar shares under the Programme at an average price of \$11.04. The Equity Swap Line facility agreement requires that an amount of cash be deposited with BNS during the accumulation period as security. As at December 31, 2005 \$12.5 million was held on deposit and is referred to in these financial statements as short-term restricted cash.

At December 31, 2005 and December 31, 2004, authorized and issued share capital is as follows:

Authorized share capital:

<i>(in thousands of \$)</i>	2005	2004
100,000,000 common shares of \$1.00 each	100,000	100,000

Notes to Consolidated Financial Statements (continued)

Issued share capital:

<i>(in thousands of \$)</i>	2005	2004
65,562,000 (2004: 65,612,000) outstanding issued common shares of \$1.00 each	65,562	65,612

In July 2001 the Company's Board of Directors approved the grant of options to eligible employees to acquire an aggregate amount of up to 2,000,000 shares in the company.

In July 2001 the Company's Board of Directors granted options to certain directors and officers to acquire 400,000 shares at a subscription price of \$5.75 per share. These options vested on July 18, 2002 and are exercisable for a maximum period of nine years following the first anniversary date of the grant.

No options were granted, exercised or cancelled in the year ended December 31, 2005 and 2004. At December 31, 2005 and 2004, 300,000 options were outstanding and were exercisable.

Under the terms of the Company's employee share option scheme, which was approved by the Company's Board of Directors in February 2002, options may be granted to any director or eligible employee of the Company or its subsidiaries. All options will expire on the tenth anniversary of the option's grant or at such earlier date as the Board of Directors may from time to time prescribe. The exercise price for the options may not be less than the average of the fair market value of the underlying shares for the three trading days before the date of grant. The Company authorized 2,000,000 shares to be issued under the scheme, and the number of shares granted under the scheme may not in any ten year period exceed seven per cent of the issued share capital of the Company. No consideration is payable for the grant of an option. As at December 31, 2005 and 2004 no options had been granted under the employee share option scheme.

As discussed in note 32, subsequent to the year ended December 31, 2005, the Company's Board of Directors granted options to certain directors and employees of the Company and its subsidiaries to acquire 1,258,000 shares in the Company.

28. FINANCIAL INSTRUMENTS

Interest rate risk management

In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company has entered into swaps that convert floating rate interest obligations to fixed rates, which from an economic perspective hedge the interest rate exposure. The Company does not hold or issue instruments for speculative or trading purposes. The counterparties to such contracts are major banking and financial institutions. Credit risk exists to the extent that the counterparties are unable to perform under the contracts; however the Company does not anticipate non-performance by any of its counterparties.

The Company manages its debt and capital lease portfolio with interest rate swap agreements in U.S. dollars to achieve an overall desired position of fixed and floating interest rates. The Company has entered into the following interest rate swap transactions involving the payment of fixed rates in exchange for LIBOR:

Notes to Consolidated Financial Statements (continued)

<i>Instrument</i> (in thousands of \$)	Notional Amount		Maturity Dates	Fixed Interest Rates
	December 31, 2005	December 31, 2004		
Interest rate swaps:				
Receiving floating, pay fixed	494,518	293,707	2007 – 2015	3.03% to 6.43%

At December 31, 2005, the notional principal amount of the debt and capital lease obligations outstanding subject to such swap agreements was \$494.5 million (2004: \$293.7 million).

Foreign currency risk

The majority of the vessels' gross earnings are receivable in U.S. dollars. The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. However, the Company incurs expenditure in other currencies. Certain capital lease obligations and related restricted cash deposits of the Company are denominated in British Pounds. There is a risk that currency fluctuations will have a negative effect on the value of the Company's cash flows.

A net foreign exchange loss of \$4.0 million arose in the year ended December 31, 2005 (2004: \$1.5 million gain) as a result of the retranslation of the Company's capital lease obligations and the cash deposits securing those obligations net of the gain (2004: loss) on the currency swap referred to below. The net loss arose due to the depreciation of the British Pound against the U.S. Dollar during the year. This net loss represents an unrealized loss and does not therefore materially impact the Company's liquidity. Further foreign exchange gains or losses will arise over time in relation to Golar's capital lease obligations as a result of exchange rate movements. Gains or losses will only be realized to the extent that monies are, or are required to be withdrawn or paid into the deposits securing our capital lease obligations or if the leases are terminated.

As described in note 25, in April 2004, the Company entered into a lease arrangement in respect of the *Golar Winter*, the obligation in respect of which is denominated in GBP. In this transaction the restricted cash deposit, which secures the letter of credit given to the lessor to secure part of Golar's obligations to the lessor, is much less than the obligation and therefore, unlike the Five Ship Leases and the Methane Princess Lease, does not provide a natural hedge. In order therefore to hedge this exposure the Company entered into a currency swap with a bank, who is also the lessor, to exchange GBP payment obligations into U.S. dollar payment obligations as set out in the table below. The swap hedges the full amount of the GBP lease obligation and the restricted cash deposit is denominated in U.S dollars. The Company could be exposed to currency risk if the lease was terminated.

<i>Instrument</i> (in thousands)	Notional Amount		Maturity Dates	Fixed GBP/USD Currency Rate
	December 31, 2005	December 31, 2004		
Currency rate swaps:				
Receiving in GBP	£82,728	£88,011	2032	1.838
Pay in U.S.dollar	\$152,054	\$161,764	2032	-

Notes to Consolidated Financial Statements (continued)

The counterparty to the foreign currency swap contract is a major banking institution. Credit risk exists to the extent that the counterparty is unable to perform under the contract; however the Company does not anticipate non-performance by the counterparty.

Fair values

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2005 and 2004 are as follows:

<i>(in thousands of \$)</i>	2005 Carrying Value	2005 Fair Value	2004 Carrying Value	2004 Fair Value
Non-Derivatives:				
Cash and cash equivalents	62,227	62,227	51,598	51,598
Restricted cash and short-term investments	49,448	49,448	41,953	41,953
Long-term restricted cash	696,308	696,308	714,802	714,802
Long-term unlisted investment	3,000	N/a	-	-
Short-term debt – floating	67,564	67,564	66,457	66,457
Long term debt – floating	623,183	623,183	501,497	501,497
Long-term debt – fixed	135,000	135,753	135,000	133,345
Long-term obligations under capital leases	801,500	801,500	842,853	842,853
Derivatives:				
Interest rate swaps liability	7,075	7,075	15,314	15,314
Interest rate swaps asset	5,886	5,886	-	-
Foreign currency swap liability (asset)	13,064	13,064	(6,656)	(6,656)
Equity swap asset	1,313	1,313	-	-

The carrying value of cash and cash equivalents, which are highly liquid, is a reasonable estimate of fair value.

The estimated fair value for restricted cash and short-term investments are considered to be equal to the carrying value since they are placed for periods of less than six months. The estimated fair value for long-term restricted cash is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

The Company did not estimate the fair value at December 31, 2005 of its unlisted investment in TORP Technology, in which the Company has a 16.1% equity interest because there have been no identified events or changes in circumstances that would have a significant adverse effect on its fair value.

The estimated fair value for floating long-term debt is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly or six monthly basis. The estimated fair value for long-term debt with fixed rates of interest of more than one year is estimated by obtaining quotes for breaking the fixed rate at the year end, from the related banking institution.

The estimated fair values of long-term lease obligations under capital leases are considered to be equal to the carrying value since they bear interest at rates, which are reset on a quarterly basis.

The fair value of interest rate swaps is estimated by obtaining quotes from the related banking institution.

Notes to Consolidated Financial Statements (continued)

The fair value of currency swaps is estimated by obtaining quotes from the related banking institution.

The fair value of equity swaps is estimated by applying an option-pricing model, which involves discounting the future cash flows up to termination for the swap.

The mark-to-market gain or loss on Golar's interest rate, currency and equity swaps for the period is reported in the income statement caption "other financial items" (See note 7).

Concentrations of risk

There is a concentration of credit risk with respect to cash and cash equivalents, restricted cash and short-term investments to the extent that substantially all of the amounts are carried with Nordea Bank of Finland PLC, Mizuho Corporate Bank, Lloyds TSB Bank plc, The Bank of New York, Bank of Scotland, Bank of Nova Scotia, Canadian Imperial Bank Corporation and Bayerische Landesbank. However, the Company believes this risk is remote as these banks are high credit quality financial institutions.

During the year ended December 31, 2005, two customers accounted for a substantial amount of the total revenues of the company. These revenues and associated accounts receivable are derived from its five time charters with BG Group plc and two time charters with Pertamina. Pertamina is a state enterprise of the Republic of Indonesia. Credit risk is mitigated by the long-term contracts with Pertamina being on a ship-or-pay basis. Also, under the various contracts the Company's vessel hire charges are paid by the Trustee and Paying Agent from the immediate sale proceeds of the delivered gas. The Trustee must pay the ship owner before Pertamina and the gas sales contracts are with the Chinese Petroleum Corporation and KOGAS. The Company considers the credit risk of BG Group plc to be low.

During the years ended December 31, 2005, 2004 and 2003, BG Group plc and Pertamina each accounted for more than 10% of gross revenue.

During 2003, Pertamina and BG Group plc accounted for revenues of \$61.9 million and \$64.8 million respectively.

During 2004, Pertamina and BG Group plc accounted for revenues of \$65.6 million and \$82.2 million respectively.

During 2005, Pertamina and BG Group plc accounted for revenues of \$63.7 million and \$87.5 million respectively.

29. RELATED PARTY TRANSACTIONS

Greenwich Holdings Limited ("Greenwich") is indirectly controlled by the Company's Chairman, John Fredriksen. During 2001 and 2002 Golar obtained loans amounting to a total of \$101.6 million from Greenwich. These loans were all repaid by December 31, 2003. In respect of these loans, for the year ended December 31, 2003 the Company paid Greenwich interest of \$779,000. The floating interest rate payable to Greenwich during the year ended December 31, 2003 was between LIBOR plus 2.5 per cent and LIBOR plus 3.5 per cent per annum.

In the years ended December 31, 2005, 2004 and 2003 Frontline Management (Bermuda) Limited and Frontline Management AS both subsidiaries of Frontline Ltd. ("Frontline") have provided services to the Company. These services include management support, corporate services and administrative services. In the years ended December 31, 2005, 2004 and 2003, management fees payable to Frontline of \$90,300, \$235,200 and \$273,547 respectively, have been incurred by Golar and have been included within vessel operating expenses. In the years ended December 31, 2005, 2004 and 2003, the Company also received supplier rebates from Frontline of \$203,820, \$101,793 and \$74,979 respectively, which have been

Notes to Consolidated Financial Statements (continued)

included within vessel operating expenses. As at December 31, 2005 and 2004 no amounts were due to Frontline in respect of these fees and costs incurred. In addition certain amounts have been recharged at cost between both the companies. As at December 31, 2005 an amount of \$640,000 was due to Frontline (2004:\$177,000 due from Frontline) in respect of these recharges. Frontline is a publicly listed company. Its principal shareholder is Hemen Holding Limited, a company indirectly controlled by John Fredriksen.

Seatankers Management Company Limited ("Seatankers") is indirectly controlled by the Company's chairman, John Fredriksen. In the year ended December 31, 2005, 2004 and 2003, Seatankers has provided insurance administration services to the Company. In the years ended December 31, 2005, 2004 and 2003, management fees payable to Seatankers of \$35,000, \$35,000 and \$25,000 respectively, have been incurred by Golar and have been included within administrative expenses. In the year ended December 31, 2005, 2004 and 2003 the Company also received supplier rebates from Seatankers of \$62,878, \$99,893 and \$41,799, which have been included within vessel operating expenses. As at December 31, 2005 and 2004 no amounts were due to Seatankers in respect of these services. In addition certain amounts have been recharged at cost between both companies. As at December 31, 2005 the Company owed \$229,000 (2004: \$257,000) to Seatankers in respect of these recharges.

During the years ended December 31, 2005, 2004 and 2003, Faraway Maritime Shipping Inc., which is 60% owned by Golar and 40% owned by China Petroleum Corporation ("CPC"), paid dividends totalling \$18 million, \$nil and \$4.2 million respectively, of which 60 per cent was paid to Golar and 40 per cent was paid to CPC.

Golar Management held a promissory note executed by Mr. McDonald, an officer of the Company, on April 21, 1998, under which Mr. McDonald promised to pay to Golar Management the principal sum of £20,900 in monthly instalments of £318. The note carried an interest rate of three per cent. Payments under the note commenced in May 1998 and the principal balance as of December 31, 2003 and 2002 was £1,158 and £4,974 or approximately \$2,000 and \$9,000, respectively. The promissory note was repaid in full during early 2004.

Management believes transactions with related parties are under terms similar to those that would be arranged with other parties.

30. CAPITAL COMMITMENTS

Newbuildings commitments

As at December 31, 2005, the Company had contracts to build three new LNG carriers at a total contract cost of \$472 million, excluding financing costs. As at December 31, 2005, the installments for these vessels, were due to be paid as follows:

<i>(in millions of \$)</i>	
Paid in 12 months to 31 December 2003	14.6
Paid in 12 months to 31 December 2004	44.8
Paid in 12 months to 31 December 2005	44.2
Payable in 12 months to 31 December 2006	252.6
Payable in 12 months to 31 December 2007	115.8
	<hr/>
	472.0

The Company took delivery of its newbuildings, hull number 2226 (*Grandis*) in January 2006 and hull number 2234 (*Granosa*) in June 2006. The installments in respect of the Company's newbuilding yet to be delivered, as at June 29, 2006, are due to be paid as follows:

Notes to Consolidated Financial Statements (continued)

(in millions of \$)

Payable in period to 31 December 2006	15.4
Payable in 12 months to 31 December 2007	115.8
	<u>131.2</u>

As detailed in note 1, as at December 31, 2005, the Company did not have facilities in place to finance its remaining newbuilding program. As at June 29, 2006 the Company required additional financing of approximately \$108 million to fund its newbuilding construction commitments.

Other capital commitments

In December 2005, the Company signed a contract with Keppel Shipyard for the conversion of an existing LNG vessel into a LNG Floating Storage Regasification Unit ("FSRU"). The total contract value is approximately \$50 million. The project's costs fall into two categories, conversion cost and equipment cost. As at December 31, 2005, the estimated timing of the payments is as follows:

(in millions of \$)

Payable in 12 months to 31 December 2006	18.7
Payable in 12 months to 31 December 2007	29.7
	<u>48.4</u>

The equipment cost (approximately \$36 million) and timing of the cash outflows are estimates and therefore actual costs and timings may vary.

31. OTHER COMMITMENTS AND CONTINGENCIES

Assets Pledged

(in thousands of \$)

	December 31, 2005	December 31, 2004
Long-term loans secured on vessels, vessels under capital leases and newbuildings	825,747	702,954

Other Contractual Commitments and contingencies

Insurance

The Company insures the legal liability risks for its shipping activities with the United Kingdom Mutual Steamship Assurance Association (Bermuda), a mutual protection and indemnity association. As a member of a mutual association, the Company is subject to calls payable to the association based on the Company's claims record in addition to the claims records of all other members of the association. A contingent liability exists to the extent that the claims records of the members of the association in the aggregate show significant deterioration, which results in additional calls on the members.

Tax lease benefits

The benefits under lease financings are derived primarily from tax depreciation assumed to be available to lessors as a result of their investment in the vessels. If that tax depreciation ultimately proves not to be available to the lessors, or is clawed back from the lessor as a result of adverse tax rate changes or rulings, or in the event the Company terminates one or more of its leases, the Company would be required to return all or a portion of, or in certain circumstances significantly more than the upfront cash benefits that it received, together with fees that were financed in connection with its lease financing transactions, post additional security or make additional payments to its lessors. The upfront benefits the Company has received equates to the cash inflow received plus fees funded in connection with the six leases entered

Notes to Consolidated Financial Statements (continued)

into during 2003, in total approximately £41 million British pounds. A termination of any of these leases would realise the accrued currency gain or loss. As at December 31, 2005 this was a net accrued loss of approximately \$600,000.

Other

In December 2005, the Company signed a shareholders' agreement in connection with the setting up of a jointly owned company to be named Egyptian Petroleum Services Company S.A.E ("EPSC"), which was to be established to develop hydrocarbon business and in particular LNG related business in Egypt. As at December 31, 2005, the Company was committed to subscribe for common shares in EPSC for a total consideration of \$5,000,000. An initial amount of \$500,000 was payable on incorporation of EPSC in March 2006, with a further \$750,000 and \$3,750,000 payable within three months of incorporation and within three years of incorporation respectively, at dates to be determined by EPSC's Board of Directors.

As at December 31, 2005, the Company had a commitment to pay \$1 million to a third party, contingent upon the conclusion of a material commercial business transaction by EPSC as consideration for work performed in connection with the setting up and incorporation of EPSC.

32. SUBSEQUENT EVENTS

On 1 January 2006, the Company took delivery of the *Grandis* and the final delivery installment of \$103.0 million was settled by draw down of the *Grandis* lease facility (See note 15).

In January 2006, the Company granted 1,058,000 share options to certain employees and directors of the Company and its subsidiaries, at a subscription price of \$14.80 per share. The options have been granted pursuant to the terms set forth in the Company's existing Employee Share Option Scheme (See note 27). The options will vest in three equal tranches over a three year period from January 27, 2007 to January 27, 2009. In June 2006 a further 200,000 options were granted at a subscription price of \$13.14 on the same terms.

In March 2006, the Company acquired 500,000 common shares in Egyptian Petroleum Services Company S.A.E ("EPSC") at a subscription price of \$1 per share. This represents a 50 per cent interest in the voting rights of EPSC. EPSC is a newly incorporated company, which has been set up to develop hydrocarbon business and in particular LNG related business in Egypt.

In April 2006, a subsidiary of the Company entered into a loan arrangement relating to a \$120 million credit facility to finance the *Granosa*. The loan is for a period of five years and is repayable by twenty consecutive quarterly installments. The vessel was delivered on June 16, 2006.

In April 2006, the Company signed an agreement with Liquefied Natural Gas Limited ("LNGL"), an Australian publicly listed company, to subscribe for 23 million of its shares in two tranches, at A\$0.50 cents per share. The Company purchased the first tranche of 13.95 million shares in May 2006, at a cost of \$5.1 million with the remainder purchased in June 2006 at a cost of \$3.5million. After both purchases the Company holds a 19.83% equity interest in LNGL. LNGL has been formed to act as an energy link between previously discovered but non-commercial gas reserves and potential new energy markets.

Subsequent to December 31, 2005 the Bank of Nova Scotia acquired a further 470,000 shares in the Company at an average price of \$13.26 under the Equity Swap Line (See note 27) bringing its total holding at June 29, 2006 to 1,070,000 shares in the Company.