

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, 2006 .....

**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
..... <b>Common Shares, par value \$1.00</b> .....	..... <b>NASDAQ</b> .....

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

..... **None** .....  
(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.....

Yes \_\_\_\_\_ No  X

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  X

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  X  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  X  Non-accelerated filer \_\_\_\_\_

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

\_\_\_\_\_ Item 17  X  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_\_\_ No  X

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## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Matters discussed in this report may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. 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 liquid natural gas, or 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.

Golar LNG Limited, or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This report 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. 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.

In addition to these assumptions and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include: our future operating or financial results; our future payment of dividends and the availability of cash for payment of dividends; our ability to retain and attract senior management and other key employees; our ability to manage growth; our ability to maintain our business in light of our proposed business and location expansion; the outcome of legal, tax or regulatory proceedings to which we may become a party; adverse conditions in the shipping or the marine fuel supply industries; our ability to retain our key suppliers and key customers; our contracts and licenses with governmental entities remaining in full force and effect; material disruptions in the availability or supply of crude oil or refined petroleum products; changes in the market price of petroleum, including the volatility of spot pricing; increased levels of competition; compliance or lack of compliance with various environmental and other applicable laws and regulations; our ability to collect accounts receivable; changes in the political, economic or regulatory conditions in the markets in which we operate, and the world in general; our future, pending or recent acquisitions, business strategy, areas of possible expansion, and expected capital spending or operating expenses; our failure to hedge certain financial risks associated with our business; uninsured losses; our ability to maintain our current tax treatment; our failure to comply with restrictions in our credit agreements; increases in interest rates; and other important factors described from time to time in our SEC filings.

*Please note in this annual report, "we", "us", "our", and "The Company", all refer to Golar LNG Limited and to its wholly owned subsidiaries.*

**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 financial information. We derived the information as at December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006 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 of America, or U.S. GAAP.

The selected income statement data with respect to the year ended December 31, 2002 and 2003 and the selected balance sheet data as at December 31, 2004, 2003 and 2002, has been derived from audited consolidated financial statements prepared in accordance with U.S. GAAP not included herein.

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.

	<b><u>At or for the Fiscal Year Ended</u></b> <b><u>December 31</u></b>				
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
<i>(in thousands of U.S. \$, except number of shares, per common share data and fleet data)</i>					
<b>Income Statement Data:</b>					
Total operating revenues	239,697	171,042	163,410	132,765	130,611
Vessel operating expenses (1)	44,490	37,215	35,759	30,156	28,061
Voyage expenses (5)	9,582	4,594	2,561	2,187	-
Administrative expenses	13,657	12,219	8,471	7,138	6,127
Restructuring costs	-	1,344	-	-	-
Depreciation and amortization	56,822	50,991	40,502	31,147	31,300
Operating income	115,146	64,679	76,117	62,137	65,123
Net financial expenses	(52,156)	(39,319)	(25,304)	(15,140)	(40,367)
Income before equity in net earnings of investees, income taxes and minority interests	62,990	25,360	50,813	46,997	24,756
Income taxes and minority interests	(8,306)	(9,323)	(7,995)	(7,427)	(2,381)
Equity in net earnings of investees	16,989	18,492	13,015	-	-
Net income	71,673	34,529	55,833	39,570	27,137
Earnings per common share					
- basic (2)	1.09	0.53	0.85	0.68	0.48
- diluted (2)	1.05	0.50	0.84	0.68	0.48
Cash dividends declared per common share	-	-	-	-	-
Weighted average number of shares - basic	65,562	65,568	65,612	58,533	56,012
Weighted average number of shares - diluted (2)	65,735	65,733	65,797	58,623	56,022
<b>Balance Sheet Data (at end of year):</b>					
Cash and cash equivalents	56,616	62,227	51,598	117,883	52,741
Restricted cash and short-term investments	52,287	49,448	41,953	32,095	12,760
Amounts due from related parties	778	17	294	180	281
Long-term restricted cash	778,220	696,308	714,802	623,179	-
Equity in net assets of non-consolidated investees	97,255	65,950	48,869	12,176	-
Newbuildings	49,713	111,565	145,233	207,797	291,671
Vessels and equipment, net	669,639	533,008	371,867	211,098	617,583
Vessels under capital lease, net	796,186	676,036	706,516	553,385	-
Total assets	2,575,070	2,230,695	2,110,329	1,783,96	987,935
Current portion of long-term debt	72,587	67,564	66,457	61,331	48,437
Current indebtedness due to related parties	-	-	-	-	32,703
Current portion of obligations under capital	5,269	2,466	2,662	-	-
Long-term debt	803,771	758,183	636,497	593,904	629,173
Long-term obligations under capital leases	1,009,765	801,500	842,853	616,210	-
Minority interest	32,436	27,587	26,282	18,706	13,349
Stockholders' equity	507,0445	434,554	402,770	338,801	196,136
Common shares outstanding (2)	65,562	65,562	65,612	65,612	56,012
<b>Fleet Data (unaudited)</b>					
Number of vessels at end of year (3)	12	10	9	7	6
Average number of vessels during year (3)	11.52	10	8.33	6.34	6
Average age of vessels (years)	13.7	15.3	15.9	19.3	21.4
Total calendar days for fleet	4,214	3,645	3,023	2,315	2,190
Total operating days for fleet (4)	3,845	2,976	2,660	2,140	2,166
Average daily time charter equivalent earnings (5)	\$55,700	\$46,200	\$54,900	\$57,300	\$59,000
Average daily vessel operating costs (6)	\$10,558	\$10,210	\$11,800	\$13,000	\$12,800

## 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, prior to the April 2005 reorganization, they included an allocation of overheads allocable to vessel operating expenses.
- (2) 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.

Management believes 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, 2006, 2005, 2004, and 2003. For the year ended December 31, 2002 we did not earn any voyage revenues and did not incur any voyage expenses.

(in thousands of U.S.\$)	2006	2005	2004	2003
Total revenues	239,697	171,042	163,410	132,765
Voyage expenses	(9,582)	(4,594)	(2,561)	(2,187)
Net revenues	230,115	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 six 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 six long-term charters with two large and established customers. In the year ended December 31, 2006, BG Group plc, or BG, accounted for 36.9% and Pertamina (the state owned oil and gas company of Indonesia) accounted for 26.1% of our total operating revenues, respectively. Pertamina chartered two of our vessels during 2006, although the *Golar Spirit* time charter expired in November 2006. BG chartered five of our vessels during 2006. 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.

*Three of our vessels are currently operating in the spot market for LNG vessels, failure to find profitable employment for them could adversely affect our operations.*

We currently have three vessels; the *Golar Frost*, the *Golar Winter* and the *Golar Spirit* (following the end of its long-term charter with Pertamina in November 2006) operating in the spot/ short-term charter market for LNG vessels, prior to them entering their intended long-term commitments. 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. In respect of the *Golar Spirit* and the *Golar Winter* we have signed letters of commitment to enter into ten-year charter contracts with Petrobras of Brazil for modified LNG vessels capable of regasifying LNG and referred to as Floating Storage and Regasification Units, or FSRU. The current schedule is for *Golar Spirit* to enter the shipyard in October 2007 and delivery and charter commencement to occur during the second quarter of 2008. The *Golar Winter* is expected to enter the shipyard in October 2008 and delivery and commencement of charter during the second quarter of 2009. If we cannot obtain profitable employment for these vessels in the interim, our earnings will suffer. In addition, whether or not we employ these ships 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* (formerly the *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, 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 cash flows could be seriously impacted.

*If there was a substantial delay in completion of the modification of two of our vessels to FSRUs or if they do not meet performance requirements our earnings and financial condition could suffer.*

In April 2007, we were awarded two time charters by Petrobras to employ *Golar Winter* and *Golar Spirit* as FSRU vessels. Employment of *Golar Spirit* under this contract is expected to commence during the second quarter of 2008 and *Golar Winter* is expected to commence during the second quarter of 2009. The contract duration for both vessels is ten years with an option for Petrobras to extend for a further five years. Any substantial delay in the conversion of our vessels into FSRUs would mean we would not be able to satisfy the terms of the timecharter agreements, which could lead to the cancellation of these contracts by Petrobras, which would have a significant negative impact on our cash flows and earnings. Additionally, if once delivered to Petrobras, the vessels do not meet the performance requirement under the charters, the charter rates could be adjusted downwards or the contracts could be cancelled.

*We may incur losses if we do not accomplish our strategic objective of profitably entering into other areas of the LNG industry*

A principal component 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.

*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 mortgages 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 five 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+ without our lessors' consent, 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 lessors, 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 or that have accrued over time, 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, 2006, our net total indebtedness (including capital lease obligations) was \$1,004 million and our ratio of net indebtedness to total capital was 0.65. As of March 31, 2007, our net indebtedness was approximately \$936 million. 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 projects. 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 either Section 883 of the U.S. Internal Revenue Code of 1986, as amended, or the Code. However, there are factual circumstances beyond our control that could cause us to lose the benefit of exemption.

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 2006, 2005 and 2004 would have been \$524,000, \$627,000 and \$880,000, 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, our deputy chairman 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 we were 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 were 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 2006 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 2006 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 and spares, 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, 2006, we had a total long-term debt and net capital lease obligations outstanding of \$1,076 million. As at March 31, 2007, we had a total long-term debt and net capital lease obligations of \$1,065 million of which currently \$930 million is exposed to a floating rate of interest. We also use interest rate swaps to manage interest rate risk. As at March 31, 2007, our interest rate swap arrangements effectively fix the interest rate exposure on \$479 million of floating rate bank debt and capital lease obligation. If interest rates rise significantly, our results of operations could be materially and adversely affected. 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, eight 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 hold a 20% interest in the share capital of Liquefied Natural Gas Limited, an Australian listed company, at a cost of \$8.6 million.*

The value of our investment in Liquefied Natural Gas Limited (“LNGL”) could be impacted by, amongst other things, the investee’s future results as well as general stock market movements in the Australian stock exchange and other events over which we have no control.

*We may not be able to obtain financing for our growth or to fund our future capital expenditures, which could negatively impact our results of operations, financial condition and our ability to pay dividends.*

In order to fund future vessel acquisitions, increased working capital levels or capital expenditures, we would be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for dividend distributions to you. Our ability to obtain bank financing or to access the capital markets for any future offerings may be limited by our financial condition at the time of such financing or offering, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future vessel acquisitions or capital expenditures could impact our results of operations, financial condition and our ability to pay dividends. The issuance of additional equity securities would dilute your interest in our Company and reduce dividends payable to you. Even if we are successful in obtaining bank financing, paying debt service would limit cash available for working capital and increasing our indebtedness could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability pay dividends.

*Due to the lack of diversification in our lines of business, adverse developments in the LNG business would negatively impact our results of operations, financial condition and our ability to pay dividends.*

We rely primarily on the revenues generated from our business of transporting LNG. Due to the lack of diversification in our lines of business, an adverse development in our LNG business would have a significant impact on our business, financial condition and results of operations and our ability to pay dividends to our

shareholders.

*We are a holding company, and our ability to pay dividends will be limited by the value of investments we currently hold and by the distribution of funds from our subsidiaries.*

We are a holding company whose assets mainly comprise of equity interests in our subsidiaries and other quoted and non-quoted companies. As a result, should we decide to pay dividends we would be dependent on the performance of our operating subsidiaries and other investments. If we were not able to receive sufficient funds from our subsidiaries and other investments, including from the sale of our investment interests, we will not be able to pay dividends unless we obtain funds from other sources. We may not be able to obtain the necessary funds from other sources on terms acceptable to us.

#### *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.

If our vessels suffer damage, they may need to be repaired. The costs of vessel repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance policies do not cover. The loss of earnings whilst these vessels are being repaired, as well as the actual cost of these repairs, would decrease our results of operations. If one of our vessels were involved in an accident with the potential risk of environmental contamination, the resulting media coverage could have a material adverse effect on our business, our results of operations and cash flows, weaken our financial condition and negatively affect our ability to pay dividends.

*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 47.65% 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. Accordingly, we carry directors' and officers' insurance to protect against such a risk. 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 are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which requires 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. An additional requirement to be first applied in the annual report for the fiscal year ended December 31, 2007, is that 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. If we fail to 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.



## **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*. Six of our LNG carriers are currently contracted under long-term charters, three LNG carriers are currently contracted under short-term charters and three vessels are in medium term, five-year market related charter contracts 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.

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

On June 18, 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 47.65% of our issued and outstanding common shares.

Our primary capital expenditures have been in connection with the construction of newbuildings. During the past three years, we have invested \$659.6 million in our newbuildings, principally purchase installments and taken delivery of five vessels. In February 2007, we signed an agreement to sell our seventh newbuilding prior to its scheduled delivery in mid 2007 for proceeds of approximately \$92.5 million. In addition, over the same period, we have invested a total of \$41 million to acquire interests in a number of companies, principally:

- During 2003 and 2004, we invested \$34.1 million in Korea Line Corporation, or Korea Line, a Korean shipping company listed on the Korean stock exchange. As at December 31, 2006, and 2005 we held a 21% interest in Korea Line. However, between April and June 2007, we disposed of our entire interest in Korea Line, for total proceeds of approximately \$173 million.
- In 2006, we purchased 23 million shares in Liquefied Natural Gas Limited, or LNGL, an Australian publicly listed company, for a consideration of \$8.6 million, making us LNGL's largest shareholder. As of December 2006, we had a 19.65% interest.
- In November 2006, we invested \$5.0 million to purchase a 20% interest in OLT Offshore Toscana S.p.A, or OLT-O, an Italian unincorporated company involved in the construction, development, operation and maintenance of a Floating Storage Regasification Unit, or FSRU.

In April 2007, we were awarded contracts, by Petrobras, to convert *Golar Winter* and *Golar Spirit* into FSRUs. Both time charters are for a period of ten years with an option to extend for up to a further five years. Employment of *Golar Spirit* is expected to commence during the second quarter of 2008 and the *Golar Winter* is expected to commence in the second quarter of 2009. Both vessels will need to undergo modifications before going on hire in Brazil. In December 2005, we signed an agreement with Keppel Shipyard Limited of Singapore for the first ever conversion of an existing LNG carrier into a LNG Floating Storage and Regasification Unit (FSRU). All major items have now been ordered and work continues on the detailed engineering.

## **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. 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 21% of the world's energy supply, the International Energy Agency, or IEA, projects that LNG will provide for around 40% of the global supply growth of natural gas between 2005 and 2010. According to the IEA, 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 IEA, natural gas is the fastest growing fuel source for electricity generation worldwide accounting for around 40% 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 IEA 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  $-163^{\circ}\text{C}$  ( $-256^{\circ}$  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 1/600<sup>th</sup> 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.

From 2000, LNG consumption has shown sustained annual growth of approximately 8% per year. The Energy Information Administration of the United States Department of Energy forecasts annual growth of LNG imports into the United States through 2030 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, and under construction in Russia (ii) the Middle East, including Qatar, Oman and United Arab Emirates, with facilities under construction in Yemen, and (iii) the Atlantic Basin countries, including Algeria, Egypt, Equatorial Guinea, Libya, Nigeria and Trinidad with facilities under construction in Norway. 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 60% of the global LNG market while Europe accounts for approximately 27%. The United States in 2006 accounted for approximately 7.2% of the global LNG market, a decrease of just under 2% from 2005.

There are currently 16 LNG importing countries with more than 50 importing terminals. Japan and South Korea are currently the two largest importers of LNG, accounting for approximately 55 % of the world total LNG imports in 2005. Almost all natural gas consumption in Japan and South Korea is based on LNG imports.

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. In addition four new terminals have commenced construction with many more terminals under consideration. However, it is unlikely that the majority of these plants will be constructed, due to demand, cost and environmental restrictions.

### *The LNG Fleet*

As of the end of May 2007, the world LNG carrier fleet consisted of 232 LNG carriers with a total capacity of approximately 30 million cubic meters, or cbm. 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 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 now firm orders for vessels of approximately 260,000 cbm. There are also some smaller LNG carriers, mainly built for dedicated short distance trades. There are seven newbuildings due to be delivered through to 2010 that are 100,000 cbm or below. The cost of LNG carriers has fluctuated from \$280 million in the early 1990s to approximately \$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 clean and non-corrosive when compared to 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 five 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 2011. Any new project/trade with LNG vessel demand before then will have to rely on existing or ordered 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 supply chain. Our strategy is therefore to grow, expand and diversify our LNG shipping operations, concentrating on our existing customers while 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 shipping 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, discussion and commitment with respect to several prospective projects.

Specific projects we are actively pursuing include the following:

- We have been working on an Offshore Regasification project near Livorno, Italy. A government decree approving the project was issued on February 23, 2006 and in November 2006 we acquired a 20% share in the project development company. If it is successful it is expected 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 a 16.2% shareholding in TORP Technology AS, or 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 been awarded contracts to convert *Golar Spirit* and *Golar Winter* into FSRUs. Both FSRUs will be chartered by Petrobras for ten year periods, with options to extend for a further five years. 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 LNGL, an Australian publicly listed company, to subscribe for 23 million of its shares. As a result we are LNGL’s largest shareholder with a 19.6% 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:* Six 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 with the subcontracting of our crewing activities to three internationally recognized third party ship managers in February 2005 we have access to a large pool of experienced LNG crew.
- *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 three large participants in the LNG industry, and most of our revenues have been derived from these three customers, namely BG Group and its subsidiaries, Royal Dutch Shell and its subsidiaries and Pertamina, the state-owned oil and gas company of Indonesia.

We and our predecessors have had charters with Pertamina since 1989. Our revenues from Pertamina were \$61.9 million in 2006, \$63.7 million in 2005 and \$65.6 million in 2004. This constitutes 26.2%, 37.3% and 40.1% of our revenues for those years, respectively. Pertamina currently charters one vessel from us. BG has chartered LNG carriers from us and our predecessors since 2000. Our revenue from BG was \$87.3 million in 2006, \$87.5 million in 2005 and \$82.2 million in 2004, constituting 36.9%, 51.2% and 50.3% 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. Our revenue from Shell was \$43.6 million in 2006, \$nil in 2005 and \$nil in 2004, constituting 18.4% of our revenues for 2006. Other commercial relationships we have developed include those with other customers Total, Suez, RasGas (Qatar), Petronet (India), Sonatrach (Algeria) and MISC (Malaysia).

## Competition

While the majority 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 focus 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. One of our vessels serves 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. Three of our vessels are currently operating on short-term charters. In December 2005, we signed three five-year charter agreements with Shell and on January 2006, the *Grandis* commenced the first of these charters 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	Short-term charters	2007
<i>Golar Mazo</i> <sup>1</sup>	2000	135,000	Pertamina	2017
<i>Methane Princess</i>	2003	138,000	BG	2024
<i>Golar Winter</i>	2004	138,000	Short-term charters	2007
<i>Golar Frost</i>	2004	137,000	Short-term charters	2007
<i>Gracilis</i>	2005	140,000	Shell	2011
<i>Grandis</i>	2006	145,700	Shell	2011
<i>Granosa</i>	2006	145,700	Shell	2011

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

Our current trading fleet represents approximately 5% 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 seventh newbuilding was expected to be delivered in June 2007. However, in February 2007, we entered into an agreement to sell this newbuilding, hull 2244, for gross consideration of \$92.5 million, realizing a profit of \$41 million. The sale was completed in March 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**

Six 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.* The *Golar Mazo* is 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. In addition, during 2006 the *Golar Spirit* was employed on a 20-year time charter with Pertamina, this charter came to an end in November 2006. Pertamina has options to extend the *Golar Mazo* charter for two additional periods of five years each.

Under the Pertamina charter, the operating and drydocking costs of the *Golar Mazo* are borne by Pertamina on a cost pass-through basis. Pertamina also pay for hire of the vessel 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 charters 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) may 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. However, Shell has termination rights throughout the charter period.

We have also appointed Shell Transport and Shipping Company, or 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 *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 recognized 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 our technical teams geographic coverage, given our fleet trade worldwide, 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 crewmembers or subcontractors.

An 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 program while in service. The completion of the ballast tank refurbishing program has been delayed somewhat but we expect it will be completed by end of 2007, for two vessels, with the

remaining two expected to be completed mid to end of 2008.

We anticipate that the upgrading program will allow us to operate each of these vessels to their 40<sup>th</sup> 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 three 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 \$5.45 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.

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.

In the wake of increased worldwide security concerns IMO has issued “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.

MARPOL 73/78 Annex VI “Regulations for the prevention of Air Pollution” entered into force on May 19, 2005, and applies to all ships, fixed and floating drilling rigs and other floating platforms. The certification requirements depend on size of the vessel and time of periodical classification survey. Ships weighing more than 400 gross tons and engaged in international voyages involving countries that have ratified the conventions, or ships flying the flag of those countries, are required to have an International Air Pollution Certificate (IAPP Certificate). This certificate must be on board at delivery for a ship constructed (keel laid) after May 19, 2005. For ships constructed prior to this date, the IAPP certificate must be onboard at the first scheduled dry-docking after May 19, 2005, but no later than May 19, 2008. As of the current date, all our ships delivered or dry-docked since May 19, 2005, have all been issued with IAPP Certificates.

### *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 and Coast Guard Maritime Transportation Act of 2006 (H.R. 889) limit the liability of responsible parties for vessels other than crude oil tankers to the greater of \$950 per gross ton or \$800,000 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. 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.

### **Vessel Security Regulations**

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. In December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facility Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of ship security alert systems, which do not sound on the vessel but only alerts the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including, the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

We have implemented the various security measures addressed by SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

### **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. Vessels are drydocked at least once 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. 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 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, 2007. Unless otherwise indicated, we own 100% of each subsidiary.

Subsidiary	Jurisdiction of Incorporation	Purpose
Golar Gas Holding Company Inc.	Republic of Marshall Islands	Holding Company and leases four vessels
Golar Maritime (Asia) Inc.	Republic of Liberia	Holding Company
Gotaas-Larsen Shipping Corporation	Republic of Marshall Islands	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 Marshall Islands	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 Marshall Islands	Leases <i>Golar Winter</i>
Golar LNG 2234 Corporation	Republic of Liberia	Owns <i>Granosa</i>
Golar LNG 2244 Corporation	Republic of Liberia	Owned newbuilding Hull 2244
Golar LNG 2226 Corporation	Republic of 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 company
Golar Maritime Limited	Bermuda	Management company
Golar Management (UK) Limited	United Kingdom	Management company
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 and leases <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	Republic of Marshall Islands	Contracted for the conversion of a vessel to a FSRU
Golar Offshore Toscana Limited	Cyprus	Holds investment in associate, OLT Offshore LNG Toscana S.p.A.
Golar Energy Limited	Cyprus	Holds licence for the construction of a floating power station for the generation of electricity.

### D. Property, Plant and Equipment

#### The Company's Vessels

The following table sets forth the fleet that we operate:

<b>Vessel Name</b>	<b>Year of Delivery</b>	<b>Capacity, cbm.</b>	<b>Flag</b>	<b>Current Charterer</b>	<b>Current Charter Expiration</b>
<i>Hilli</i>	1975	125,000	UK	BG	2011
<i>Gimi</i>	1976	125,000	UK	BG	2010
<i>Golar Freeze</i>	1977	125,000	UK	BG	2008
<i>Khannur</i>	1977	125,000	UK	BG	2009
<i>Golar Spirit</i>	1981	128,000	MI	Short-term charters	2007
<i>Golar Mazo</i>	2000	135,000	LIB	Pertamina	2017
<i>Methane Princess</i>	2003	138,000	UK	BG	2024
<i>Golar Winter</i>	2004	138,000	UK	Short-term charters	2007
<i>Golar Frost</i>	2004	137,000	LIB	Short-term charters	2007
<i>Gracilis</i>	2005	140,000	MI	Shell	2011
<i>Grandis</i>	2006	145,700	IOM	Shell	2011
<i>Granosa</i>	2006	145,700	MI	Shell	2011

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. Six 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.

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

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

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

The long-term contract for the *Golar Mazo* is a time charter but the economic terms are analogous to a bareboat contract, under which the vessel is 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.

During 2006, three of our vessels, the *Golar Winter*, the *Golar Frost* and the *Golar Spirit* (following the end of its long-term charter with Pertamina in November 2006), operated on short-term charters in the spot market.

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. The charter party agreements contain termination rights for Shell.

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 2002 to 2006.

Vessel Name	2002 to 2006
<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 ended in November 2006. Thereafter on a short-term charter.
<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 pooling arrangement in 2005. Short-term charters during 2006. Periods of commercial waiting time between charters.
<i>Golar Frost</i>	Delivered in June 2004. Short-term charters during 2004 and within Exmar pooling arrangement in 2005. Short-term charters during 2006. Periods of commercial waiting time between charters.
<i>Gracilis</i>	Delivered in January 2005. Short-term charters and part of Exmar pooling arrangement in 2005. Periods of commercial waiting time between charters. Charter with Shell (market rate) from March 2006.
<i>Grandis</i>	Commenced charter with Shell (market rate) on delivery in January 2006.
<i>Granosa</i>	Commenced charter with Shell (market rate) on delivery in June 2006.

During 2003 and 2004, we acquired, through market purchases, 21% of the shares in the Korean shipping company Korea Line, which is listed on the Seoul Stock Exchange. Between April and June 2007, we sold our entire interest in Korea Line for total proceeds of approximately \$173 million.

During November 2006, agreement was reached with OLT Energy Toscana S.p.A to acquire 20% of the

shares in the Livorno LNG regas terminal (OLT Offshore LNG Toscana S.p.A). Included in the deal is an intention between the parties to sell the LNG carrier *Golar Frost* to the project (see below for further detail).

During April 2007, Golar was awarded by Petrobras, contracts to employ *Golar Winter* and *Golar Spirit* as floating storage and regasification (FSRU) vessels. The contract award was the outcome of a competitive tender process. Both time charters are for a period of ten years with an option to extend for up to a further five years. The total value of the contracted revenues are expected to amount to approximately \$860 million for both vessels for the ten year initial period, assuming anticipated off-hire time. The contracts contain purchase options for Petrobras after the second anniversary of the delivery date of the vessel and the right for Petrobras to terminate the contracts after five years, upon payment of a termination fee. Employment of *Golar Spirit* is expected to commence during the second quarter of 2008 and the *Golar Winter* is expected to commence in the second quarter of 2009. Both vessels will need to undergo extensive modifications at shipyards, principally to install regasification capability, before going on hire in Brazil. In December 2005, we signed a contract with Keppel Shipyard Limited of Singapore for the conversion of an existing LNG carrier into an FSRU and this contract and work done to date is to be used for the *Golar Spirit* modification work. Contracts for modification work for the *Golar Winter* will be entered into in due course.

### ***Possible Future LNG Industry Business Activities***

We currently have two vessels not committed to current contracts, but they are all either contracted or intended for conversion to FSRUs. We plan to find short-term charters for these vessels in the period up until they are scheduled to enter the shipyard for conversion. Rates payable in this market may be uncertain and volatile. The supply and demand balance for LNG carriers is also uncertain. In the period from 2004 and as noted above, the excess supply of vessels over demand has negatively impacted our results. During the first part of 2006 and again in the fourth quarter of 2006 utilisation and rates in the spot market were improved from 2005. During the latter part of 2006 charter rates were relatively strong, but have weakened somewhat in 2007 and we cannot be sure of the future development. 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 2007.

All future possible LNG activities are also dependant on our management's decisions regarding the utilization of our assets and structuring of the company. 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. Our management is currently considering various ways to maximise the value of our assets and projects under development. Options under consideration include, among others, transferring assets and/or projects to a separate entity, which may then seek a separate public listing.

Since June 2002, we have been working with the Italian offshore and contracting company Saipem S.p.A with regard to the joint marketing and development of Floating Storage and Regasification Units, or FSRUs. 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 while we contribute by identifying suitable LNG carriers as well as providing maritime expertise.

The first project identified as a potential user of a FSRU terminal was in Italy off the coast of Livorno and since 2002 we have been working with Saipem and Cross Energy S.R.L. on this project. In February 2006, the project company OLT-O was advised that the government decree approving the terminal had been granted. Local Italian energy utility Iride S.A. (formerly known as Amga) and Spanish energy utility Endesa are supporting the project and have taken an ownership interest in OLT-O. In November 2006 Golar LNG acquired 20% of shares in OLT-O, at a cost of \$5 million. The project has made good progress and OLT-O is currently in the process of reviewing a proposal for the EPCIC (Engineering, Procurement, Construction, Installation and Commissioning) of the FSRU and export system. The ultimate size of our investment has yet to be determined. The permitting process for this project has been based on the *Golar Frost* and the vessel will therefore be sold into the project if the project is successful.

Again in conjunction with Saipem S.p.A 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. 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 project has reached a significant milestone in 2007 with the regulatory authorities, CERA, awarding Golar Energy Ltd (a Cyprus based subsidiary of ours) a

licence to construct and operate the 240 MW FPGP located some 4 miles off the coast of Cyprus at Vassilikos and a licence to operate and produce electricity. Still pending is the licence to import, store and use the liquefied natural gas (LNG) required to fuel the FPGP. As there is still considerable development work to be completed it is anticipated that the FID (Final Investment Decision) will not be taken during 2007 and the ultimate size of our potential investment has yet to be determined.

In January 2005, we announced that we had signed a heads of agreement with Remora Technology to invest \$3 million in TORP Technology and acquired 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 within 24 – 36 months from a final investment decision. 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 16.2% 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 the U.S Coast Guard, 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 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 Company for Gas Services S.A.E., or ECGS for the development of hydrocarbon business and in particular LNG related business. We have expensed a total of \$1 million as at December 31, 2006, 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. ECGS was incorporated in November 2006 and will have an issued share capital of \$10 million. Of this amount 10% was paid in March 2006. Payment of the remaining value shall be made within three years at dates to be decided by ECGS's Board of Directors. We have 50% of the voting rights and a 45% economic interest in ECGS, but would take 50% of ECGS's losses. The ultimate size of our potential investment has yet to be determined.

In April 2006, we signed an agreement with LNGL, an Australian publicly listed company, to subscribe for 23 million of its shares in two tranches, at A\$0.50 cents per share. We purchased the first tranche of 13.95 million shares in May 2006, at a cost of \$5.1 million and the second tranche in June 2006, at a cost of \$3.5 million. We currently hold a 19.6% interest in LNGL. LNGL is a company focused on developing LNG liquefaction projects acting as a link between previously discovered but uncommercial gas reserves and potential new energy markets. Aside from the anticipation that our investment as a shareholder in the company will increase in value, we will also aim to participate when judged appropriate at the project level, as a possible buyer of LNG and a provider of shipping requirements LNGL might require in the future.

In April 2007, we signed a memorandum of understanding with a major oil company to develop a FSRU project based on the conversion of the *Golar Freeze*. It is expected a decision will be taken on the future of this project before the end of 2007.

### **Factors Affecting Our Results**

The principal factors that are likely to affect, or 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 fixed rate charters
- Vessel operating expenses
- The gain or loss on sale of assets
- Administrative expenses including pension and share option expense



- 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 and 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 investees and any gain or loss on sale
- The success or failure of the LNG infrastructure projects that we are working on or may work on in the future

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

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. Six of our currently trading vessels are fixed on long-term time charters with either fixed or predictable hire rates. Three of our vessels are on charters with market related rates and a further three 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, one of our long-term charters provides for an allowance of a specified number of days every two to three years that our vessel may be in drydock, the vessel will only be 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.

In January and June 2006, we took delivery of the *Grandis* and *Granosa* respectively. On delivery 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*, the *Golar Winter* and the *Golar Spirit* (following the end of its long-term charter with Pertamina in November 2006) currently remain on the spot market. The spot market is unpredictable and therefore these and the Shell vessels will be subject to variable charter rates and commercial waiting time. In the first quarter of 2007, total commercial waiting time in respect of the spot and Shell vessels was 159 days. However, in March 2007, the *Gracilis* commenced a three-year sub-charter at a fixed rate, as part of the Shell charter arrangement. As mentioned earlier under 'Possible Future Activities' the *Golar Spirit* is scheduled to enter the shipyard for conversion into a FSRU, in October 2007, with delivery during the second quarter of 2008, in connection with its Petrobras charter. *Golar Winter* is also scheduled to enter a shipyard in October 2008, with delivery and commencement of charter during the second quarter of 2009.

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 while 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.

Gain or loss on sale of assets refers to the disposal of our vessels. In February 2007, we agreed the sale of our newbuilding hull 2244 to an unrelated third party for the gross consideration of \$92.5 million, realizing a significant profit of \$41 million. The cash proceeds were received in March 2007. In addition, we are currently in negotiations for the proposed sale of our vessel, the *Golar Frost* into the Livorno project (see discussion under ‘Possible future activities’).

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.

Included within administrative expenses are pension and share option expenses. Pension expense refers to 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. Share option expense refers to the compensation cost for employee stock options granted in 2006 and later.

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. 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, \$479 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 swap 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 unrealized 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.

Equity in net earnings of investees mainly refers to our interest in Korea Line Corporation (Korea Line). The remainder relates to our investments in start-up companies in LNG, OLT-O and EPSC, which are not expected to have a significant impact on our earnings in the immediate future or until investment decisions are taken in respect of the projects they are involved in.

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, 2006, 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. In April 2007, we disposed of 1.1 million shares

in Korea Line for consideration of \$77.9 million, bringing our interest down to 10%. Accordingly, as of the date of disposal of our interest in Korea Line we will no longer equity account for our share of Korea Line's net earnings, although we will recognize dividends received in our income statement. Between May and June 2007, we disposed of the balance of our Korea Line shares for net consideration of approximately \$95 million. In 2006, Korea Line contributed \$17.4 million to our net income.

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.

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.

### **Inflation**

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. One of our vessel's charter is based on operating cost pass through and 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 qualified crew and this has and will continue to put inflationary pressure on crew costs. Only the vessel on full cost pass through charters would be protected from any crew cost increases.

### **Results of Operations**

Our results for the years ended December 31, 2006, 2005 and 2004 were affected by several key factors:

- the delivery of five newbuildings, the *Golar Winter* in April 2004, the *Golar Frost* in June 2004, the *Gracilis* in January 2005, the *Grandis* in January 2006 and the *Granosa* in June 2006;
- our vessels not on long-term charters affected by commercial waiting time;
- lease finance arrangements that we entered into during 2004 and 2005;
- equity accounting of our acquisition of equity securities in Korea Line;
- the movement in mark-to-market valuations of our derivative instruments;
- share options expense on options granted in 2006; and
- restructuring expenses and project expenses.

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

### **Year ended December 31, 2006, compared with the year ended December 31, 2005**

#### ***Operating revenues and net revenues***

In accordance with U.S. GAAP, we report gross operating revenues in our statement of operations and include voyage expenses among our operating expenses. However, management believes, net revenues, a non-GAAP measure, provides more meaningful information to us about the operating revenues generated from our various charters than gross revenues. Net revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and industry averages. Accordingly, the discussion of revenue below focuses on net revenues.

<i>(in thousands of \$, except for average daily time charter equivalent earnings )</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Total operating revenues	239,697	171,042	68,655	40%
Voyage expenses	(9,582)	(4,594)	(4,988)	(109%)
Net revenues	230,115	166,448	63,667	38%
Average daily time charter equivalent earnings	55,700	46,200	9,500	21%

The increase in net revenues from 2005 to 2006 was primarily driven by two key factors. Firstly by additional vessels added to our fleet, generating additional revenue, and secondly stronger earnings from the spot market, most noticeably in the fourth quarter of 2006. The strength of the spot market was largely as a consequence of a reduced number of available LNG vessels, as a result of ships being used as “Floating Storage” for LNG traders seeking to take advantage of potential gains from trading both regional and seasonal price differentials. This reduced the number of vessels available in the spot market, which helped increase spot rates and improved utilization. However, a decline in rates and utilization is expected in the first half of 2007 as a result of a low level of available spot LNG cargos and an increase in the available number of ships following the release of vessels used for floating storage, together with additional uncommitted tonnage joining the LNG carrier fleet in 2007.

The *Grandis* and the *Granosa* were additions to the fleet following their delivery from the shipyards in January 2006 and June 2006 respectively. The *Gracilis* was delivered in early January 2005. All three of these vessels operated under the Shell five-year charter arrangement, which for each vessel, commenced on the later of December 2005 or on delivery. The *Golar Winter* and *Golar Frost* operated on the spot market throughout 2005 and 2006. The *Golar Spirit* traded in the spot market following the end of its long-term charter with Pertamina in November 2006. As mentioned earlier under ‘Potential future activities’, *Golar Spirit* will enter the shipyard for conversion into a Floating Storage Regasification Unit (FSRU) in October 2007, with delivery in March 2008. Consequently this will restrict its available trading days and ability to earn spot revenues in 2007. The available trading days from these vessels in 2006 and 2005 was therefore 2,024 and 1,455 days, respectively. Commercial waiting days were 303 for 2006 and 612 for 2005 or 15% and 42% of available trading days for these vessels, respectively. The total net revenues generated by these vessels in 2006 were \$107.3 million as compared to \$44.2 million in 2005.

Revenues are also affected by the off-hire associated with scheduled drydockings which incur off-hire of somewhere between 15 and 60 days depending on the length of the required docking and the time it takes to get to the shipyard. One drydock took place in 2005 while there were two in 2006. Unscheduled off-hire for repairs was limited to a few days in both years.

Included within net revenues are voyage expenses. All our vessels operated under time charters albeit that some of these were for short periods of time. Under a time charter the charterer pays voyage costs. As soon as the time charter finishes or when the vessel is waiting for employment (commercial waiting time) these costs are payable by us. A significant portion of the 2006 cost was incurred against the three vessels (the *Grandis*, *Granosa* and the *Gracilis*) chartered to Shell with most of the remainder being incurred by the spot trading vessels, *Golar Winter* and *Golar Frost*. As mentioned above, the increase in voyage expenses can be attributed to the addition of the *Grandis* and *Granosa* to the fleet in 2006.

#### ***Vessel Operating Expenses***

<i>(in thousands of \$)</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Vessel operating expenses	44,490	37,215	7,275	20%
Average daily vessel operating costs	10,558	10,210	348	3%

The increase in vessel operating expenses reflects the addition of the *Grandis* and the *Granosa* to our fleet during 2006. Although it is generally cheaper to operate new ships than older ships, the fall in daily operating costs that would usually accompany a reduction in the average age of the fleet did not materialise in 2006. This is primarily due to the rising cost of recruiting Officers for the new ships and retaining Officers on the existing fleet. In the years ended December 31, 2006 and 2005, the average daily operating costs of our vessels were \$10,558 and

\$10,210, respectively. Average daily vessel operating costs is calculated by dividing vessel costs by the number of calendar days.

Our decision in February 2005, to reorganize our vessel management function by outsourcing day-to-day technical functions to third party managers has however, we believe, helped contain the rise in operating costs. At \$10,558, the 2006 average operating cost per day is \$1,242 lower than the 2004 pre-outsourcing equivalent, albeit with a younger fleet in 2006. Some of this reduction is due to savings in management related costs. Prior to the April 2005 reorganization 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 the reorganization 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 2005 was \$1,124 per vessel day. In 2006, the external management fees for our vessels amounts to a cost of \$583 per vessel per day.

On a like-for-like basis, technical and insurance costs are consistent with 2005, but crew costs have increased significantly and account for most of the 2006 increase. With a continuing shortage of LNG Officers, upward pressure on employment costs is expected to prevail through 2007 and beyond. Additionally, a developing shortage of Ratings is also likely to result in pay awards that exceed historical levels. Collectively, crew costs are anticipated to increase between 10 and 15 percent in 2007.

#### ***Administrative & Restructuring Expenses***

<i>(in thousands of \$)</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Administrative expenses	13,657	12,219	1,438	12%
Restructuring expenses	-	1,344	(1,344)	(100%)

The increase in administrative expenses in 2006 was mainly due to a charge of \$2.8m (2005: \$nil) relating to employee stock options, which were granted in 2006; offset by the reduction in related project expenses. We incurred costs amounting to \$0.6 million (2005: \$2.2 million) in respect of the various projects that we are developing that we have expensed to administrative expenses. For the year ended December 31, 2006, these mainly related to the Cyprus FPGP project and the Livorno FSRU project.

A significant proportion of our administrative expenses are incurred in GBP at our administrative office in London. Movements in the exchange rate of the US dollar against GBP will therefore impact our future administrative expenses. Consequently, the movement in the average exchange rate partly contributed to an increase in general administrative expenses in 2006.

As noted above, the restructuring expense of \$1.3 million in the prior year related to the outsourcing of our day-to-day technical functions to third party ship managers, which resulted in the loss of some of our staff in our London and Bilbao offices.

#### ***Depreciation and Amortization***

<i>(in thousands of \$)</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Depreciation and amortization	56,822	50,991	5,831	11%

Depreciation and amortization has increased mainly due to the addition of the *Grandis* at the beginning of the year and the *Granosa* to the fleet mid way through 2006 as well as an increase in drydock amortization as a result of drydocks that took place in 2006 and 2005.

### Net Financial Expenses

(in thousands of \$)	2006	2005	Change	Change
Interest income from capital lease restricted cash	36,891	32,933	3,958	12%
Other interest income	3,815	2,720	1,095	40%
<b>Interest Income</b>	<b>40,706</b>	<b>35,653</b>	<b>5,053</b>	<b>14%</b>
Capital lease interest expense	(50,375)	(39,664)	(10,711)	(27%)
Other debt related interest expense	(50,923)	(42,815)	(8,108)	(19%)
<b>Interest Expense</b>	<b>(101,298)</b>	<b>(82,479)</b>	<b>(18,819)</b>	<b>23%</b>
Mark-to-market adjustments for interest swap derivatives	5,921	14,125	(8,204)	(58%)
Net foreign currency adjustments for re-translation of lease related balances and mark-to-market adjustments for lease related currency swap derivatives	3,187	(4,011)	7,198	179%
Mark-to-market adjustments for equity swap	(777)	1,313	(2,090)	(159%)
Natural gas forward contract	2,045	-	2,045	N/a
Other	(1,940)	(3,920)	1,980	51%
<b>Other Financial Items, net</b>	<b>8,436</b>	<b>7,507</b>	<b>929</b>	<b>12%</b>

The increase in lease deposit interest income is mainly due to our higher lease deposits in 2006, as compared to 2005, as a result of the lease finance we entered into in respect of the *Grandis*. 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 as a result of higher interest rates together with the drawdown of the final installment of the *Grandis* lease (prior to delivery, interest was capitalized) on its delivery in January 2006. Whilst the leases we entered into during 2003 had cash deposits similar in amount to their respective lease obligation the *Golar Winter* lease (entered into in 2004) and the *Grandis* lease deposits partially securing their lease obligations are significantly less than the lease obligation themselves. Therefore the addition of the *Golar Winter* lease and the *Grandis* 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 2005 and 2006 and because of increased U.S dollar interest rates. Long-term and short-term debt obligations were \$826 million as at December 31, 2005 and \$876 million as at December 31, 2006. The increase is due to the addition of the \$120 million *Granosa* loan in June 2006; offset by debt repayments of \$69 million.

Mark-to-market adjustments for interest swap derivatives resulted in a gain of \$5.9 million in 2006. This is mainly due to the increase in long-term swap rates.

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 2006 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 \$3.2 million net foreign exchange gain in 2006, a gain of \$20.8 million (2005: \$19.7 million loss) 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 gain arose due to the depreciation of the U.S dollar against the British Pound during the year and represents an unrealised gain. The loss on retranslation of the lease obligation in respect of the *Golar Winter* lease which this swap hedges, was \$20.1 million (2005: \$18.5 million gain). This loss also represents an unrealized loss.

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, or BNS in connection with a share buy back scheme of ours as discussed further below under 'Liquidity and Capital Resources – Derivatives'. In October 2006 this facility was extended for a further twelve months. The mark-to-market adjustment resulted in a loss of \$0.8 million in 2006 (2005: \$1.4 million gain). In May 2007, we terminated this facility and bought back the related

In 2006, the Company entered into a forward contract, which Arcadia Limited (“Arcadia”) executed on our behalf, to hedge the natural gas commodity price prior to entering into a charter, the rate for which was partly dependent upon the price of natural gas. Having fixed the charter rate the contract was terminated, resulting in us recognizing a realized gain of \$2.0 million in the period. Arcadia is indirectly controlled by the Company’s chairman, John Fredriksen.

Other items represent, amongst other things, bank charges and the amortization of debt related expenses. The decrease in 2006 is primarily due to the write-off of \$1.8 million financing fees in 2005, 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>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Minority interest	7,049	8,505	(1,456)	(17%)
Income taxes	1,257	818	439	54%

Minority interest, consisting of the 40% interest in the *Golar Mazo*, decreased as a result of lower net income from the *Golar Mazo*, our 60% owning subsidiary company. This decrease was mainly due to a smaller gain on the mark-to-market movement of the *Golar Mazo* interest swap in 2006.

Income taxes relate primarily to the taxation of our UK management operations and also UK based vessel operating companies we established subsequent to April 2003.

#### ***Equity in Net Earnings of Investees***

<i>(in thousands of \$)</i>	<b>2006</b>	<b>2005</b>	<b>Change</b>	<b>Change</b>
Share of net earnings in Korea Line	17,360	18,492	(1,132)	(6%)
Share of losses in other investees	(371)	-	(371)	N/a
<b>Equity in net earnings of investees</b>	<b>16,989</b>	<b>18,492</b>	<b>(1,503)</b>	<b>(8%)</b>

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 the latter part of 2005 the drybulk market weakened, having had a strong first half in 2005, and this weakness continued into 2006. However, during 2006 and particularly during the fourth quarter (and moving into 2007) the drybulk market has strengthened significantly and Korea Line’s fourth quarter results were good. In April 2007, we disposed of 1.1 million shares in Korea Line, for proceeds of \$77.9 million. As a result, as of the date of disposal we will no longer equity account for our share of Korea Line’s net earnings. Between May and June 2007, we disposed of the balance of our shareholding for \$95 million.

Our share of losses in other investees refers to our investments in LNGL, OLT-O and ECGS that we are accounting for under the equity method as discussed above under ‘Possible future activities’.

#### ***Net Income***

As a result of the foregoing, we earned net income of \$71.6 million in 2006, increased from \$34.5 million in 2005.

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

##### ***Operating Revenues***

<i>(in thousands of \$)</i>	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>Change</b>
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%)
<b>Total Operating revenues</b>	<b>171,042</b>	<b>163,410</b>	<b>7,632</b>	<b>5%</b>
 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 15 and 60 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 while there was only one in 2005. Unscheduled off-hire for repairs was limited to a few days in both years.

#### ***Vessel Operating Expenses***

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

Administrative expenses have increased significantly in 2005. While 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 Amortization***

<i>(in thousands of \$)</i>	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>Change</b>
Depreciation and amortization	50,991	40,502	10,489	26%

Depreciation and amortization 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 amortization as a result of drydocks that took place in 2004 and 2005.

#### ***Net Financial Expenses***

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

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 U.S. 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, while the leases we entered into during 2003 had cash deposits similar in amount to their respective 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 U.S. 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 U.S. dollar against British Pounds and in 2005 the loss is mainly due to an appreciation of the U.S. 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 U.S. dollar payments at a fixed GBP/USD exchange rate (i.e. Golar receives GBP and pays U.S. dollars). The loss arose due to the appreciation of the U.S. dollar against the British Pound during the year. This loss represents an unrealized 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 unrealized gain.

In October 2005, we established a twelve month facility for a Stock Indexed Total Return Swap Programme or Equity Swap Line with 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 amortization 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>	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>Change</b>
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>	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>Change</b>
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 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.

## **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.

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 U.S. 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 and a natural gas forward contract, which is discussed further below under "Derivatives".

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, the development of our project portfolio, in particular our FSRU conversion project (in respect of initial capital outlays and loss of earnings of the vessel during modification) will result in increased working capital requirements. The financing of our projects is discussed further below.

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

At December 31, 2006, we estimated average daily cash breakeven rates for our six vessels exposed to the spot market as approximately \$42,000 per day. These are the daily rates that these vessels must earn to cover payment of budgeted operating costs, estimated interest costs and scheduled loan and lease principal repayments.

In February 2007, we entered into an agreement to sell our newbuilding hull 2244 to an unrelated third

party for the gross consideration of \$92.5 million. The sale proceeds were received on March 30, 2007.

Between April and May 2007, we disposed of our entire interest in Korea Line for total consideration of approximately \$173 million.

Based on our improved results in 2006 and proceeds from the sale of our newbuilding hull 2244, in March 2007, we declared a cash dividend of \$0.50 per share representing a total cash payment of \$32.8 million, paid at the end of March 2007. In May 2007, in connection with our 2007, first quarter results, we declared a further dividend of \$0.50 per share and in June 2007, and we declared an extraordinary dividend, of \$0.75 per share following the sale of our remaining Korea Line shares.

In May 2007, we terminated our equity swap and bought back the related 1,241,300 shares, at a net cost of \$15.4 million.

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

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<i>(in millions of U.S.\$)</i>			
Net cash provided by operating activities	117.2	71.0	82.0
Net cash used in investing activities	(269.0)	(213.2)	(356.1)
Net cash provided by financing activities	146.2	152.8	207.8
Net (decrease) increase in cash and cash equivalents	(5.6)	10.6	(66.3)
Cash and cash equivalents at beginning of year	62.2	51.6	117.9
Cash and cash equivalents at end of year	56.6	62.2	51.6

In addition to our cash and cash equivalents noted above, as at December 31, 2006, 2005 and 2004, we had short-term restricted cash of \$52.3, \$49.4 million and \$42.0 million, respectively, that represents balances retained on restricted accounts in accordance with certain lease and loan requirements, and for 2006 and 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 \$778.2 million, \$696.3 million and \$714.8 million as at December 31, 2006, 2005 and 2004 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 2006 from 2005 largely due to the addition of two vessels (the *Grandis* and *Granosa*) to the fleet and higher earnings from our vessels on the spot market arising from improved spot rates and higher utilization in 2006. In 2005, cash generated from operations decreased from 2004 principally because of the commercial waiting time incurred by our newly delivered vessels. 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 in 2005.

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 \$240.9 million, \$140.0 million and \$278.6 million for 2006, 2005 and 2004 respectively. Our deposits made to provide security for capital lease obligations, net of withdrawals, were withdrawals of \$2.2 million in 2006 and deposits of \$64.4 million and \$47.2 million for 2005 and 2004, respectively. The vast majority of the funds for these deposits came from related financing activities. We invested \$21.9 million in the purchase of equity securities in Korea Line in 2004. In 2005 we invested \$3.0 million in TORP technology. In 2006, we invested \$8.6 million in LNG, \$5.0 million in OLT-O and \$0.5 million in other investments. Our other investing cash flows relate to additions to vessels and equipment (including payments relating to the FSRU), which amount to \$16.7 million, \$5.7 million and \$8.2 million for 2006, 2005 and 2004 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 of our new debt and lease finance in 2005 and 2004 was used to make deposits to provide security for the obligations.

In 2006, we drew down a total of \$120 million in debt in relation to the *Granosa* and received proceeds of

\$103 million in respect of lease financing arrangements in relation to the *Grandis*. We made total debt repayments of \$69.4 million in 2006.

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 in 2006, of which \$242.2 million 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.

During 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.

## **Borrowing activities**

### **Long-Term Debt**

The following is a summary of the Company's long-term debt facilities. Refer to Note 24 to the Company's audited Consolidated Financial Statements included herein for detail.

#### ***Mazo facility***

In November 1997, Osprey, our predecessor, entered into a secured loan facility of \$214.5 million in respect of the vessel, the *Golar Mazo*. This facility, which we assumed from Osprey, bears floating rate interest of LIBOR plus a margin. The loan is repayable in bi-annual installments ending in June 2013. The debt 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.

#### ***Golar Gas Holding facility***

In March 2005, we refinanced two existing loan facilities in respect of five of our vessels with a banking consortium. This 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. The loan is secured by the assignment to the lending banks of a mortgage given to Golar Gas Holding Company Inc., a subsidiary of ours, by the lessor of the five vessels that are part of the Five Ship Leases.

#### ***Methane Princess facility***

In August 2003, we refinanced an existing loan in connection with a lease finance arrangement in respect of the newbuilding the *Methane Princess*. The new facility, which we refer to as the Methane Princess facility, is for \$180 million and is repayable in monthly installments with a final balloon payment of \$116.4 million payable in August 2015. 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, or 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". The loan is secured by the assignment to the lending bank of a mortgage given to us by the lessor of the Methane Princess Lease.

#### ***Golar Frost facility***

In March 2004, we entered into a secured loan facility for an amount of \$110.0 million, in respect of our newbuilding 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, with a term of four years. It is repayable in seven semi-annual installments together with a final balloon payment of \$97.5 million due in June 2008, pursuant to the lending banks approval of an extension of the loan for one year in June 2006. In June 2007, the lending banks approved a further extension of one year in respect of this facility. As noted above under 'Possible future activities' if the Livorno project goes ahead we expect the *Golar Frost* to be sold into the project. The proceeds will then be used to settle the loan obligation or the loan will be refinanced.

#### ***Gracilis 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 \$101 million.

### ***Granosa facility***

In April 2006, we entered into a secured loan facility for an amount of \$120.0 million, for the purpose of financing our newbuilding, the *Granosa*, which we refer to 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 May 2006 and a final balloon payment of \$92.6 million.

After these transactions, as at December 31, 2006, we had total long-term debt outstanding of \$876.4 million, compared with \$825.7 million and \$703.0 million at December 31, 2005 and 2004, respectively.

The outstanding debt of \$876.4 million as of December 31, 2006, was repayable as follows:

Year ending December 31, (in millions of U.S.\$)	
2007	72.6
2008	167.2
2009	73.5
2010	172.6
2011	212.1
2012 and later	178.4
	<hr/> 876.4 <hr/>

The margins we pay under our current loan agreements are over and above LIBOR at a fixed or floating rate and currently range from 0.80% to 1.5%.

### **Capital Lease Obligations**

The following is a summary of the Company's Capital Lease Obligations. Refer to Note 25 to the Company's audited Consolidated Financial Statements included herein for detail.

#### ***Five ship leases***

In April 2003, we entered into our first finance lease arrangement. We sold five, 100 percent owned subsidiaries to a financial institution in the United Kingdom (UK), which we refer to as the UK Lessor. The subsidiaries were established in Bermuda specifically to own and operate one LNG vessel as their sole asset. Subsequent to the sale of the five entities, we entered into 20-year leases in respect of each of the five vessels under five separate lease agreements, which we refer to as the Five Ship Leases. Our obligation to the UK Lessor is primarily secured by letters of credit provided by other banks, which are themselves secured by cash deposits. Lease rentals are payable quarterly. At the end of each quarter the required value of the letters of credit 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, in our cash deposits securing the LC's, released as a result of the reduction in the required LC amount are available to pay the lease rentals due at the end of the same quarter.

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, 2006, was \$535.6 million

#### ***Methane Princess lease***

In August 2003, we entered into our second finance lease arrangement. We novated the Methane Princess newbuilding contract prior to completion of construction and subsequently leased the vessel from the same financial institution in the UK, which we refer to as the UK Lessor. Our obligation to the UK Lessor is primarily secured by a letter of credit provided by another bank, which is itself secured by a cash deposit. Lease rentals are payable quarterly. At the end of each quarter the required value of the letter of credit to secure the present value of rentals due under the lease will be recalculated taking into account the rental payment due at the end of the quarter. The surplus funds, in our cash deposits securing the LC, released as a result of the reduction in the required LC amount are available to pay the lease rentals due at the end of the same quarter.

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 a letter of credit to secure the lease obligation as of December 31, 2006, was \$185.7 million.

### ***Golar Winter lease***

In April 2004, we signed a lease agreement in respect of our newbuilding the *Golar Winter*, to which we refer to as the Golar Winter Lease, with another UK bank (the 'Lessor') for a primary period of 28 years. 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.

The Golar Winter Lease is denominated in British pounds while its cash deposit is denominated in USD. The value of the cash deposit used to obtain a letter of credit to partly secure the lease obligation in respect of the *Golar Winter* as of December 31, 2006, was \$48.6 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 U.S. dollars at a fixed GBP/USD exchange rate, (i.e. Golar receives GBP and pays U.S. dollars).

### ***Grandis lease***

In April 2005, we signed a lease agreement in respect of our newbuilding, the *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) a letter of credit provided by another UK 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. The Grandis lease obligation and associated cash deposit are both denominated in USD. The effective amount of net financing is therefore \$105 million, before fees and expenses.

As at December 31, 2006, 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 U.S.\$)</i>					
2007	28,423	7,400	12,501	9,294	57,618
2008	29,863	7,733	12,501	9,294	59,391
2009	31,357	8,069	12,501	9,294	61,221
2010	32,924	8,405	12,501	9,294	63,124
2011	34,571	8,746	12,501	9,294	65,112
2012 and later	773,730	365,046	256,268	239,809	1,634,853
Total minimum lease payments	930,868	405,399	318,773	286,279	1,941,319
Less: Imputed interest	(413,158)	(225,659)	(151,102)	(136,366)	(926,285)
Present value of minimum lease payments	517,710	179,740	167,671	149,913	1,015,034

For all our leases other than the Grandis lease, 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 U.S. 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 operating 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 on a consolidated group basis.

As of December 31, 2006, 2005 and 2004, 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, hedges our obligations to make payments based on floating interest rates. We also enter into derivative instruments for trading purposes, in order to manage our exposure to the risk of movements in the price of natural gas, which can impact our charter rates, and to some extent for speculative purposes. As at December 31, 2006, our interest rate swap agreements effectively fixed our floating interest rate exposure on \$479.1 million of floating rate debt. 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 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. In October 2006, this facility was extended by a further twelve months. As at December 31, 2006, BNS had acquired a total of 1,070,000 Golar shares under the Programme at an average price of \$11.15. The asset of \$0.8 million represents the mark-to-market valuation of this derivative. In April 2007, BNS had acquired a further 171,300 shares at an average price of \$13.35. In May 2007, we terminated this facility and bought back the 1,241,300 underlying shares at a net cost of \$14.8 million.

We enter into natural gas forward contracts and futures for trading purposes in order to manage our exposure to the risk of movements in the spot and future price of natural gas in particular where this could impact our charter rates, and to some extent for speculative purposes. During 2006, the Company entered into a forward contract, which Arcadia executed on our behalf, to hedge the natural gas commodity price prior to entering into a charter, the rate for which was partly dependent upon the price of natural gas. Having fixed the charter rate the contract was terminated, resulting in us recognizing a realized gain of \$2.0 million in 2006.

## **Newbuilding Contracts and Capital Commitments**

As at December 31, 2006, we had one newbuilding still under construction with amounts outstanding and payable under the contract totalling approximately \$116 million, excluding financing costs, which were due in installments over the period to June 2007. However, in February 2007, we entered into an agreement to sell newbuilding hull 2244 to an unrelated third party and received sale proceeds of \$92.5 million in March 2007. As of June 29, 2007, we had no newbuildings under construction.

In December 2005, we entered into a contract for the conversion of an existing LNG carrier into a LNG FSRU; this contract is to be used to modify the Golar Spirit.

The following table sets out as at December 31, 2006 and June 29, 2007 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 U.S. \$)	June 29, 2007	December 31, 2006
2007	14.1	155.1
2008	7.6	7.6
Total	21.7	162.7

### **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with U.S GAAP 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 Item 18 – Financial Statements: Note 2 – Summary of Significant Accounting Policies.

#### ***Vessels and impairment***

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 cash flows based on the existing service potential of our vessels, which on average for our fleet extends over a 26-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 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. GAAP, 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**

In February 2007, the Financial Accounting Standards Board ('FASB') issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115, which permits entities to measure financial instruments and certain other items at fair value. The objective is to improve financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. It applies to Golar effective January 1, 2008. The Company is currently evaluating the impact of FAS 159 on its consolidated results of operations, financial position and cash flows.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies will be required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. This Statement is effective for Golar on January 1, 2008. The Company is currently evaluating the potential impact of FAS 157 on its consolidated results of operations, financial position and cash flows.

In March 2006, the FASB issued SFAS 156 an Amendment of SFAS 140, which addresses the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, SFAS 156 addresses recognition and measurement of separately recognized servicing assets and liabilities, clarifies when an obligation to service financial assets should be separately recognized, requires fair value measurement, and permits choice of amortization or FV methods for subsequent measurement. This Statement was effective for Golar

on January 1, 2007 and did not have a significant impact on its consolidated results of operations, financial position and cash flows.

In February 2006, the Financial Accounting Standards Board issued SFAS 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. SFAS 155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation and requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS 155 also provides clarification on specific points related to derivative accounting. SFAS 155 was effective for Golar for the period beginning January 1, 2007, and did not have a significant impact on its consolidated results of operations, financial position, and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ('FIN 48'). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting in interim periods, disclosure, and transition. This interpretation was effective for Golar on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's financial statements.

In October 2006, the FASB issued this FSP, which addresses certain technical corrections FASB Statement No. 123(R). Specifically, it amends (a) paragraph A240(d)(1) to exempt nonpublic entities from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units) and share options expected to vest, (b) paragraph A102 of Illustration 4(b) to revise the computation of the minimum compensation cost that must be recognized to comply with Paragraph 42 of Statement 123(R), (c) paragraph A170 of Illustration 13(e) to indicate that at the date the illustrative awards were no longer probable of vesting, any previously recognized compensation cost should have been reversed, and (d) paragraph E1 to amend the definition of short-term inducement to exclude an offer to settle an award. This FSP was effective for Golar on January 1, 2007, and did not have a material impact on the consolidated results of operations, financial position, and cash flows.

In October 2006, the FASB issued this FSP which amends FSP FAS 123(R)-1, Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R), to clarify that when an instrument held by an individual that is no longer an employee is modified or exchanged in connection with an equity restructuring or business combination, the instrument would still be subject to the recognition and measurement provisions of FASB Statement No. 123(R), Share-Based Payment, if certain criteria are met. The new guidance states that a modification of an instrument does not include an exchange or a change to the terms of an award if that exchange or change is made only to reflect an equity restructuring or business combination provided that (1) either there is no increase in value to the holders of the instrument or the change in the terms of the award is not done in contemplation of an equity restructuring or a business combination and (2) all holders of the same class of equity instruments (for example, stock options) are treated in a similar manner. The provisions of FSP FAS 123(R)-5 were effective for Golar on January 1, 2007, and did not impact its consolidated results of operations, financial position, and cash flows.

#### **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, 2006:

<i>(in millions of U.S.\$)</i>	Total Obligation	Due in 2007	Due in 2008 - 2009	Due in 2010 – 2011	Due Thereafter
Long-Term Debt (3)	876.4	72.6	240.7	384.7	178.4
Interest commitments on long-term debt	184.9	43.1	76.7	37.2	27.9
(5)					
Capital Lease Obligations (1)	1,015.0	2.2	10.2	19.5	983.1
Interest commitments on capital lease obligations	926.3	55.4	110.4	108.7	651.8
Operating Lease Obligations	0.5	0.2	0.3	-	-
Purchase Obligations					
FSRU conversion (4)	31.5	23.9	7.6	-	-
Egyptian venture (6)	4.5	-	4.5	-	-
Other Long-Term Liabilities (2)	-	-	-	-	-
Total	3,039.1	197.4	450.4	550.1	1,841.2

- (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, 2006, includes \$85 million classified as "Other long-term liabilities" of which \$60 million represents deferred credits related to our capital lease transactions and \$28 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, 2006, taking into account the hedging effect of our interest rate swaps, \$462 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 \$614 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 FSRU.
- (5) Our interest commitment on our long-term debt is calculated based on an assumed average USD LIBOR of 5.25% 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 Company for Gas Services S.A.E ("ECGS"), which was to be established to develop hydrocarbon business and in particular LNG related business in Egypt. As at December 31, 2006, we were committed to subscribe for common shares in ECGS for a further consideration of \$4,500,000 payable within three years of incorporation, at dates to be determined by ECGS's Board of Directors.

Furthermore, as at December 31, 2006, we had a commitment to pay \$1 million to a third party, contingent upon the conclusion of a material commercial business transaction by ECGS as consideration for work performed in connection with the setting up and incorporation of ECGS. This liability has been excluded from the above table, as the timing of any cash payment is uncertain.

## 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, 2007 is set forth below.

Name	Age	Position
John Fredriksen	63	Chairman of the Board, President and Director
Tor Olav Trøim	44	Deputy Chairman of the Board, Vice-President and Director
Kate Blankenship	42	Director and Audit Committee member
Frixos Savvides	55	Director and Audit Committee member
Gary Smith	51	Chief Executive Officer of Golar Management
Graeme McDonald	50	Group Technical Director of Golar Management
Graham Robjohns	42	Chief Financial Officer of Golar Management
Charlie Peile	53	Head of Commercial of Golar Management
Jan Flatseth	63	General Manager of the Fleet of Golar Management
Georgina Sousa	57	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 the Board, President and a director of the Company 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 (NYSE), the London Stock Exchange (LSE) and the Oslo Stock Exchange (OSE). Mr. Fredriksen has served for over nine years as a director of Seatankers Management Co. Ltd, or Seatankers, 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 Bermuda company listed on the Oslo Stock Exchange, since November 2004. Mr. Fredriksen has served as a director and the Chairman of SeaDrill Limited, or SeaDrill, a Bermuda 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 was our Chief Executive Officer from May 2001 until April 2006. Mr. Trøim graduated as M.Sc Naval Architect from the University of Trondheim, Norway in 1985. His careers include Portfolio Manager Equity in Storebrand ASA (1987-1990), and Chief Executive Officer for the Norwegian Oil Company DNO AS (1992-1995). Since 1995 Mr. Trøim has been a Director of SeaTankers Management in Cyprus. In this capacity he has acted as Chief Executive Officer for the public company Frontline. Mr. Trøim was also the Chief Executive Officer of Seadrill Ltd. until the recent takeover and integration of Smedvig ASA. Mr. Trøim is currently Vice Chairman of these two companies and is a director and Chairman of Ship Finance International Limited (NYSE). In addition he is currently a director, Vice-Chairman and Chief Executive Officer of Knightsbridge Tankers Limited (NASDAQ) and a member of the Boards in the public companies Golden Ocean Group Limited (OSE), Aktiv Kapital ASA (OSE) and Marine Harvest ASA (OSE).

**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 Chief Accounting Officer and Secretary of Frontline between 1994 and October 2005. Mrs. Blankenship has been Chief Financial Officer of Knightsbridge since April 2000 and was Secretary of Knightsbridge from December 2000 until March 2007. Mrs. Blankenship has served as a director of Ship Finance since July 2003, Seadrill since May 2005 and Golden Ocean since November 2004. 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. 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 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.

**Jan Flatseth** joined the company in September 2006 as General Manager Fleet. Prior to joining Golar he held the position of Assistant Technical Director and Fleet Manager responsible for the LNG/C fleet of BW Gas. Mr. Flatseth has a M.Sc. degree in Naval Architecture/Marine Engineering from the Norwegian Institute of Technology. He spent 13 years at DNV and was the Head of Section Gas and Chemical Carriers until 1982. After leaving DNV, he served in senior management positions at Helge R. Myhre/Kværner Shipping from 1982 -1995. The company was a subsidiary of the industrial group, Kvaerner, set up to own and operate gas carriers. Mr. Flatseth remained with the company when Havtor acquired Kvaerner Shipping and a year later when it all became part of the large shipping group Bergesen DY ASA (BW Gas).

**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, 2006, we paid to our directors and executive officers listed above (ten persons) aggregate cash compensation of \$1,858,486 and an aggregate amount of \$75,895 for pension and retirement benefits. For a description of our stock option plan please refer to "Option Plan" below.

## **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 is responsible for overseeing the quality and integrity of our financial statements and its accounting, auditing and financial reporting practices, our compliance with legal and regulatory requirements, the independent auditor's qualifications, independence and performance and our internal audit function. Our audit committee consists of 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, Frixos Savvides, 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, 2006, we employed approximately 20 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 580 seagoing employees, of which approximately 40 are employed directly by us and 540 are employed through our independent ship managers.

#### **E. Share ownership**

The following table sets forth information as of June 29, 2007, regarding the total amount of common shares owned by all of our officers and directors on an individual basis.

<b><u>Director or Officer</u></b>	<b><u>Common Shares of \$1.00 each</u></b>	<b><u>Percentage of Common Shares Outstanding</u></b>
John Fredriksen*	30,652,000	46.75%
Tor Olav Trøim	--	--
Gary Smith	--	--
Graeme McDonald	--	--
Charlie Peile	195	**
Jan Flatseth	--	--
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, 2007, Mr. Trøim has a forward contract with an obligation to buy 200,000 of our shares. The contract, which was acquired in the open market, expires on December 3, 2007.

#### **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, 2007, 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, 2007 are set out in the following table:

<b>Director or Officer</b>	<b>Number of Common Shares Subject to Option</b>	<b>Exercise Price per Ordinary Share</b>	<b>Expiration Date</b>
John Fredriksen	*200,000	\$5.75	July 2011
	**300,000	\$14.80	(1) January 2011
	500,000		
Tor Olav Trøim	*100,000	\$5.75	July 2011
	**150,000	\$14.80	(1) January 2011
	250,000		
Frixos Savvides	**75,000	\$14.80	(1) January 2011
Kate Blankenship	**75,000	\$14.80	(1) January 2011
Charlie Peile	**50,000	\$14.80	(1) January 2011
Graeme McDonald	**75,000	\$14.80	(1) January 2011
Graham Robjohns	**75,000	\$14.80	(1) January 2011
Gary Smith	***200,000	\$13.14	(1) June 2011
Jan Flatseth	****75,000	\$13.13	(1) March 2012

\* 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.

\*\*\*\* These options were granted in March 2007 and vest over a period of 3 years.

(1) The exercise price of options, granted in 2006 and later, is reduced by the value of dividends, on a per share basis. As of June 29, 2007, the Company has declared dividends totalling \$1.75 per share, of which \$1.00 has been paid.

## 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 beneficial 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, 2007. Information for certain holders is based on their latest filings with the SEC or information delivered to us. The number of shares beneficially owned by each person or entity is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares that the person or entity has the right to acquire as of August 29, 2007 (60 days after June 29, 2007) through the exercise of any stock option or other right.

<b>Owner</b>	<b>Common Shares</b>	
	<b>Amount</b>	<b>Per cent</b>
World Shipholding Ltd. (1)	30,652,000	47.65%
All Directors and Officers as a group (ten persons)	31,299,362	48.18%

(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 20, 2007, 3,432,258 of the Company's common shares are held by 20 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 year ended December 31, 2006, Seatankers provided us with insurance administration services. In the year ended December 31, 2006, management fees to Seatankers of \$35,000 per annum were incurred by Golar. As at December 31, 2006, no amounts were due to Seatankers in respect of these fees incurred. In the year ended December 31, 2006, we received supplier rebates from Seatankers of \$166,929. As at December 31, 2006, no amounts were due from Seatankers in respect of these rebates. In addition, certain amounts were recharged at cost between both companies. As at December 31, 2006, the Company owed \$1,839 to Seatankers in respect of these recharges.

*Frontline Management (Bermuda).* Frontline Management is a subsidiary of Frontline, a publicly listed company, and is indirectly controlled by John Fredriksen. In the year ended December 31, 2006, we received supplier rebates from Frontline of \$400,530. As at December 31, 2006, an amount of \$350,530 was due from Frontline in respect of these rebates. In addition certain amounts were recharged at cost between both the companies. As at December 31, 2006, an amount of \$176,144 was due from Frontline in respect of these recharges.

*Arcadia Limited.* Arcadia is indirectly controlled by John Fredriksen. During 2006, we entered into a forward contract, which Arcadia executed on our behalf, to hedge the natural gas commodity price prior to entering into a charter, the rate for which was partly dependent upon the price of natural gas. Having fixed the charter rate the contract was terminated, resulting in recognition of a realized gain of \$2,045,000 in the year ended December 31, 2006. As at December 31, 2006, no amounts were outstanding. In June 2007 we entered into a further natural gas forward contract, which Arcadia again executed on our behalf. The contract represents the purchase of the equivalent of one cargo of LNG at a future date and the sale of the same quantity at a later future date.

*Faraway Maritime Limited.* During the year ended December 31, 2006, Faraway Maritime Shipping Inc., which is 60% owned by us and 40% owned by China Petroleum Corporation, or CPC, paid dividends totalling \$5.5 million.

*World Shipholding Ltd.* World Shipholding is indirectly controlled by John Fredriksen. In March 2007, World Shipholding provided us with a short-term loan of \$25 million. The loan was repaid on March 30, 2007. In connection with this loan, we paid interest of \$37,000, to World Shipholding.

## **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.

On February 28, 2007, the Board declared a dividend of \$0.50 per share that was paid on March 26, 2007.

On May 23, 2007, the Board declared a further dividend of \$0.50 per share that was paid on June 19, 2007.

On June 6, 2007, the Board declared an extraordinary dividend of \$0.75 per share, to be paid on or about July 3, 2007.

## 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 2007, 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
<b>First Quarter 2007</b>	NOK83.50	NOK76.25	\$13.62	\$12.00
<b>Fiscal year ended December 31</b>				
2006	NOK102.00	NOK71.00	\$15.29	\$12.00
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

The following table sets forth, for each full financial quarter for the two most recent fiscal years from January 1, 2005, the high and low prices of the common shares on the Oslo Stock Exchange and the Nasdaq National Market.

	OSE		NASDAQ	
	High	Low	High	Low
<b>Fiscal year ended December 31, 2006</b>				
First quarter	NOK102.00	NOK87.25	\$15.29	\$12.90
Second quarter	NOK91.75	NOK71.00	\$14.38	\$12.00
Third quarter	NOK93.00	NOK80.50	\$14.40	\$12.83
Fourth quarter	NOK90.00	NOK78.25	\$14.04	\$12.51

	OSE		NASDAQ	
	High	Low	High	Low
<b>Fiscal year ended December 31, 2005</b>				
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
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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 2007	NOK111.50	NOK95.50	\$18.69	\$16.05
April 2007	NOK98.00	NOK81.50	\$16.70	\$13.02
March 2007	NOK83.00	NOK79.00	\$13.62	\$12.78
February 2007	NOK83.50	NOK77.50	\$13.40	\$12.41
January 2007	NOK82.00	NOK76.25	\$12.80	\$12.00
December 2006	NOK82.25	NOK78.25	\$13.44	\$12.58

\* On May 31, 2007, the exchange rate between the Norwegian Kroner and the U.S. dollar was NOK6.044 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. At the 2006 Annual General Meeting of the Company the shareholders voted to amend the Company's Bye-Law 110. The purpose of this amendment was to provide for a change to the requirements for the form and signatories to the seal of the Company. These amendments updated the Bye-laws to conform more to current Bermuda practice. These amended Bye-Laws of the Company as adopted by shareholders on December 1, 2006 are filed as Exhibit 1.2 to 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**

None

#### **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, or 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 2004, 2005 and 2006, the U.S. source income that we derived from our vessels trading to U.S. ports was \$22,005,000, \$15,675,000 and \$13,100,000, 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 \$880,000, \$627,000 and \$524,000, respectively.

### **Application of Code Section 883**

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, 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 2006. 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 in respect of each category of shipping income for which exemption is being claimed, 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 2006, we were not subject to the 5% override rule for 2006 in respect of all U.S. source shipping income, other than certain bareboat charters described below. Therefore, we believe that in respect of all U.S. source shipping income, other than such bareboat charter income, 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.

The jurisdiction of residence of one of our more than 5% shareholders does not provide the requisite equivalent exemption to U.S. corporations for bareboat charter income. However, the bareboat charters in which we engaged were between wholly-owned subsidiaries of the Company. The Company believes that the reciprocal exemption requirement for bareboat charter income was meant to apply to bareboat charters of vessels between third parties and not to inter-company bareboat charters. Therefore, the Company intends to take the position on its U.S. federal income tax return that it is not subject to the 5% override rule with respect to its bareboat charter income. The IRS or a court may disagree with our position and deny our claim for exemption under Section 883. If the bareboat charter income derived by the Company is not exempt from U.S. federal income taxation, the Company would be subject to a 4% tax imposed as described below. We estimate that the amount of such tax for 2006 would be approximately \$234,000, which we have fully provided for.

To the extent that we are subject to the 5% override rule in future years (as a result of further 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 2006, we and our subsidiaries would be subject to tax under Code Section 887 in the aggregate amount of \$524,000.

#### *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 also enter into derivative instruments for trading purposes, in order to manage our exposure to the risk of movements in the price of natural gas, when this risk specifically impacts our charter rate and to some extent for speculative purposes. During 2006, we entered into a natural gas forward contract, to hedge the natural gas commodity price prior to entering into a charter, the rate for which was partly dependent upon the price of natural gas. Having fixed the charter rate, the contract was terminated in 2006. We had no such contracts outstanding as at December 31, 2006.

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 2 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, 2006 and 2005, the notional amount of the interest rate swaps outstanding in respect of our debt and net capital lease obligation was \$479.1 million and \$494.5 million, respectively and the amount of debt with a fixed rate of interest was \$135 million in 2006 and 2005. The principal of the loans and net capital lease obligations outstanding as of December 31, 2006 and 2005 was \$1,076.4 million and \$907.7 million, respectively. Based on our floating rate debt at December 31, 2006, a one-percentage point increase in the floating interest rate would increase interest expense by \$4.8 million per annum. For disclosure of the fair value of the derivatives and debt obligations outstanding as of December 31, 2006 and 2005, 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, 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 2006, a 10% depreciation of the US Dollar against GBP would increase our expenses by approximately \$1.0 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 unrealized 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, 2006, a 10% appreciation in the U.S. Dollar against GBP would give rise to an increase in our financial expenses of approximately \$3.0 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 \$119 million as at December 31, 2006. 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 U.S. 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 were effectively exposed to the movement in our share price in respect of 1,070,000 of our shares as at December 31, 2006. In May 2007, we terminated this facility.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. Debt securities**

Not Applicable

### **B. Warrants and rights**

Not Applicable

### **C. Other securities**

Not Applicable

### **D. American depository shares**

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) Disclosure Controls and Procedures**

Management assessed the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this annual report as of December 31, 2006. Based upon that evaluation, The Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the evaluation date.

Management conducted the evaluation of the effectiveness of the internal controls over financial reporting using the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published in its report entitled Internal Control-Integrated Framework.

Our management with the participation of our Principal Executive Officer and Principal Financial Officer assessed the effectiveness of the design and operation of the Company's internal controls over financial reporting pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as of December 31, 2006. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2006.

### **(b) Management's annual report on internal controls over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) promulgated under the Securities Exchange Act of 1934.

Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that;

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial

statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management conducted the evaluation of the effectiveness of the internal controls over financial reporting using the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published in its report entitled Internal Control-Integrated Framework.

Our management with the participation of our Principal Executive Officer and Principal Financial Officer assessed the effectiveness of the design and operation of the Company's internal controls over financial reporting pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as of December 31, 2006. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2006.

This annual report does not include an attestation report of the Company's current registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's current registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**(c) Changes in internal control over financial reporting**

No changes in the Company's internal control over financial reporting occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

This annual report does not include an attestation report of the Company's current registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's current registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**(d) Attestation report of the registered public accounting firm**

Not Applicable

**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 11.1 to this Annual Report that applies to all employees. Furthermore, a copy of our Code of Ethics can be found on our website ([www.golarlng.com](http://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, 2006	\$1,825,863
Fiscal year ended December 31, 2005	\$1,876,775

**(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, 2006	\$109,542
Fiscal year ended December 31, 2005	\$0

**(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, 2006	\$0
Fiscal year ended December 31, 2005	\$0

**(d) All Other Fees**

For the fiscal years ended December 31, 2006 and 2005, 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 2006 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 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 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. In October 2006, this facility was extended for a further twelve months. As at December 31, 2006, BNS had acquired a total of 1,070,000 Golar shares under the Programme at an average price of \$11.15. In April 2007, BNS had acquired a further 171,300 shares, bringing the total acquired to 1,241,300 shares at an average price of \$12.28. In May 2007, we terminated this facility and bought back the shares, at a net cost of \$15.4 million, with the intention of cancelling the shares.

**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-42.

## ITEM 19. EXHIBITS

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

<b>Number</b>	<b>Description of Exhibit</b>
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. 00050113, or the Original Registration Statement.
1.2	Amended Bye-Laws of Golar LNG Limited dated December 1, 2006.
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*	Golar LNG Limited Stock Option Plan, incorporated by reference to Exhibit 4.6 of the Company's Original Registration Statement.
4.2*	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.
4.3*	Five Ship Leases Agreement, between Golar Gas Holding Company, Inc. and Sovereign Finance Plc, dated April 8, 2003, incorporated by reference to Exhibit 4.5 of the Company's Annual report on Form 20-F for fiscal year ended December 31, 2005.
4.4*	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, incorporated by reference to Exhibit 4.6 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 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 July 2, 2007.....

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

**Exhibit 8.1**

<b>Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
Golar Gas Holding Company Inc.	Republic of Marshall Islands
Golar Maritime (Asia) Inc.	Republic of Liberia
Gotaas-Larsen Shipping Corporation	Republic of Marshall Islands
Oxbow Holdings Inc.	British Virgin Islands
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia
Golar LNG 2215 Corporation	Republic of Marshall Islands
Golar LNG 1444 Corporation	Republic of Liberia
Golar LNG 1460 Corporation	Republic of Liberia
Golar LNG 2220 Corporation	Republic of Marshall Islands
Golar LNG 2234 Corporation	Republic of Liberia
Golar LNG 2244 Corporation	Republic of Liberia
Golar LNG 2226 Corporation	Republic of 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	Republic of Marshall Islands
Golar Offshore Toscana Limited	Cyprus
Golar Energy Limited	Cyprus



**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, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006, 2005, and 2004 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.

As discussed in Note 2 to the Consolidated Financial Statements, the Company changed the manner in which it accounts for share based compensation on adoption of FAS 123R, Share-Based Payment, effective January 1, 2006, and defined benefit pension plans on adoption of FAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006.

/s / PricewaterhouseCoopers LLP  
West London, United Kingdom  
July 2, 2007

**Golar LNG Limited****Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004***(in thousands of \$, except per share data)*

	Note	2006	2005	2004
<b>Operating revenues</b>				
Time charter revenues		239,697	171,008	159,854
Voyage charter revenues		-	-	2,412
Vessel management fees		-	34	1,144
<b>Total operating revenues</b>		<b>239,697</b>	<b>171,042</b>	<b>163,410</b>
<b>Operating expenses</b>				
Vessel operating expenses		44,490	37,215	35,759
Voyage expenses		9,582	4,594	2,561
Administrative expenses		13,657	12,219	8,471
Restructuring expenses	6	-	1,344	-
Depreciation and amortization		56,822	50,991	40,502
<b>Total operating expenses</b>		<b>124,551</b>	<b>106,363</b>	<b>87,293</b>
<b>Operating income</b>		<b>115,146</b>	<b>64,679</b>	<b>76,117</b>
<b>Financial income (expenses)</b>				
Interest income		40,706	35,653	31,879
Interest expense		(101,298)	(82,479)	(61,987)
Other financial items, net	7	8,436	7,507	4,804
<b>Net financial expenses</b>		<b>(52,156)</b>	<b>(39,319)</b>	<b>(25,304)</b>
<b>Income before equity in net earnings of investee, income taxes and minority interest</b>		<b>62,990</b>	<b>25,360</b>	<b>50,813</b>
Minority interest in net income of subsidiaries		(7,049)	(8,505)	(7,575)
Income taxes	8	(1,257)	(818)	(420)
Equity in net earnings of investees	11	16,989	18,492	13,015
<b>Net income</b>		<b>71,673</b>	<b>34,529</b>	<b>55,833</b>
 Earnings per share	9			
Basic		\$1.09	\$0.53	\$0.85
Diluted		\$1.05	\$0.50	\$0.84

*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, 2006, 2005, and 2004***(in thousands of \$)*

	Note	2006	2005	2004
Net income		71,673	34,529	55,833
Other comprehensive (loss) income, net of tax:				
Recognition of minimum pension liability	23	77	(2,211)	6,235
Unrealized (losses) gains on marketable securities held by investee		(88)	133	-
<b>Other comprehensive (loss) income</b>		<b>(11)</b>	<b>(2,078)</b>	<b>6,235</b>
<b>Comprehensive income</b>		<b>71,662</b>	<b>32,451</b>	<b>62,068</b>

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

**Golar LNG Limited**  
**Consolidated Balance Sheets as of December 31, 2006 and 2005**  
*(in thousands of \$)*

	Note	2006	2005
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		56,616	62,227
Restricted cash and short-term investments	19	52,287	49,448
Trade accounts receivable	12	4,175	351
Other receivables, prepaid expenses and accrued income	13	15,084	12,573
Amounts due from related parties	14	778	17
Inventories		3,392	4,974
<b>Total current assets</b>		<b>132,332</b>	<b>129,590</b>
Restricted cash	19	778,220	696,308
Equity in net assets of non-consolidated investees	11	97,255	65,950
Newbuildings	15	49,713	111,565
Vessels and equipment, net	16	669,639	533,008
Vessels under capital leases, net	17	796,186	676,036
Deferred charges	18	9,307	7,629
Other non-current assets	20	33,537	10,609
<b>Total assets</b>		<b>2,566,189</b>	<b>2,230,695</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long-term debt	24	72,587	67,564
Current portion of obligations under capital leases	25	5,269	2,466
Trade accounts payable		7,209	1,165
Accrued expenses	21	29,275	20,605
Amounts due to related parties		253	886
Other current liabilities	22	13,764	31,307
<b>Total current liabilities</b>		<b>128,357</b>	<b>123,993</b>
<b>Long-term liabilities</b>			
Long-term debt	24	803,771	758,183
Obligations under capital leases	25	1,009,765	801,500
Other long-term liabilities	26	84,816	84,878
<b>Total liabilities</b>		<b>2,026,709</b>	<b>1,768,554</b>
<b>Commitments and contingencies (See Note 31)</b>			
Minority interest		32,436	27,587
<b>Stockholders' equity</b>			
Share capital 65,562,000 common shares of \$1.00 each issued and outstanding	27	65,562	65,562
Additional paid-in capital		214,011	210,532
Accumulated other comprehensive income		(8,477)	(5,815)
Retained earnings		235,948	164,275
<b>Total stockholders' equity</b>		<b>507,044</b>	<b>434,554</b>
<b>Total liabilities and stockholders' equity</b>		<b>2,566,189</b>	<b>2,230,695</b>

*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, 2006, 2005 and 2004**
*(in thousands of \$)*

	Note	2006	2005	2004
<b>Operating activities</b>				
Net income		71,673	34,529	55,833
Adjustments to reconcile net income to net cash				
Provided by operating activities:				
Depreciation and amortization		56,822	50,991	40,502
Amortization of deferred charges		1,644	3,035	1,270
Undistributed earnings of non-consolidated investees		(15,809)	(16,948)	(12,844)
Compensation cost related to stock options		2,790	-	-
Income attributable to minority interests		7,049	8,505	7,575
Unrealized foreign exchange losses (gains)		17,644	(15,709)	5,161
Drydocking expenditure		(5,864)	(9,373)	(13,299)
Trade accounts receivable		(3,824)	221	916
Inventories		1,465	(1,571)	(353)
Prepaid expenses, accrued income and other assets		(12,234)	4,823	(2,201)
Amount due from/to related companies		(1,394)	789	(340)
Trade accounts payable		6,057	(1,775)	(2,166)
Accrued expenses		3,668	7,505	(16)
Interest element included in long-term lease obligations		5,067	7,351	6,321
Other current liabilities		(17,535)	(1,347)	(4,331)
<b>Net cash provided by operating activities</b>		<b>117,219</b>	<b>71,026</b>	<b>82,028</b>
<b>Investing activities</b>				
Additions to newbuildings	15	(240,906)	(140,028)	(278,560)
Additions to vessels and equipment		(16,673)	(5,700)	(8,232)
Long-term restricted cash		5,064	(56,953)	(37,515)
Investment in unlisted investments	20	-	(3,000)	-
Investment in associated companies	11	(15,887)	-	(21,948)
Proceeds from sale of investments in associated companies		2,248	-	-
Restricted cash and short-term investments		(2,839)	(7,495)	(9,858)
<b>Net cash used in investing activities</b>		<b>(268,993)</b>	<b>(213,176)</b>	<b>(356,113)</b>
<b>Financing activities</b>				
Proceeds from long-term debt	24	120,000	420,000	110,000
Proceeds from long-term capital lease obligations	25	102,983	44,800	163,715
Repayments of long-term capital lease obligations		(3,860)	(3,004)	(894)
Repayments of long-term debt		(69,390)	(297,206)	(62,281)
Financing costs paid		(1,370)	(3,944)	(2,740)
Dividends paid to minority shareholders	29	(2,200)	(7,200)	-
Payments to repurchase equity	27	-	(667)	-
<b>Net cash provided by financing activities</b>		<b>146,163</b>	<b>152,779</b>	<b>207,800</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(5,611)</b>	<b>10,629</b>	<b>(66,285)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>62,227</b>	<b>51,598</b>	<b>117,883</b>
<b>Cash and cash equivalents at end of period</b>		<b>56,616</b>	<b>62,227</b>	<b>51,598</b>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the year for:				
Interest paid, net of capitalized interest		65,068	35,643	34,592
Income taxes paid		865	568	356

*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, 2006, 2005 and 2004**  
*(in thousands of \$, except number of shares)*

	Note	Share Capital	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
<b>Balance at December 31, 2003</b>		<b>65,612</b>	<b>208,878</b>	<b>(9,972)</b>	<b>74,283</b>	<b>338,801</b>
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
<b>Balance at December 31, 2004</b>		<b>65,612</b>	<b>210,779</b>	<b>(3,737)</b>	<b>130,116</b>	<b>402,770</b>
Net income		-	-	-	34,529	34,529
Other comprehensive loss		-	-	(2,078)	-	(2,078)
Repurchase of ordinary shares		(50)	(247)	-	(370)	(667)
<b>Balance at December 31, 2005</b>		<b>65,562</b>	<b>210,532</b>	<b>(5,815)</b>	<b>164,275</b>	<b>434,554</b>
Net income		-	-	-	71,673	71,673
Grant of share options	27	-	1,725	-	-	1,725
Equity in gain on disposal of treasury shares by investee		-	1,754	-	-	1,754
Other comprehensive loss		-	-	(11)	-	(11)
Adjustments to initially apply FAS 158	23	-	-	(2,651)	-	(2,651)
<b>Balance at December 31, 2006</b>		<b>65,562</b>	<b>214,011</b>	<b>(8,477)</b>	<b>235,948</b>	<b>507,044</b>

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

## **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, 2006, World Shipholding Limited, a company indirectly controlled by Mr. John Fredriksen owned 46.75 per cent (2005: 46.75 per cent) of Golar.

As of December 31, 2006, the Company operated a fleet of twelve (December 31, 2005: ten) LNG carriers, six of which are under long-term charter contracts. Additionally, as of December 31, 2006, the Company was building one new LNG carrier. Since December 31, 2006, this newbuilding has been sold. The Company currently leases eight (December 31, 2006: eight) of its vessels under long-term lease agreements and has a 100 per cent ownership interest in three vessels (December 31, 2006: three) and a 60 per cent ownership interest in one (December 31, 2006: one) other vessel, the *Golar Mazo*.

#### **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 are 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 investees” and its share of the investees’ earnings or losses in the consolidated statements of operations as “Equity in net earnings of investees”. 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 investees”. Gains and losses arising on disposal of the Company’s investments in its equity-method investees, but where the Company continues to exercise significant influence are recorded in the line “Equity in net earnings of investees”.

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



## Notes to Consolidated Financial Statements (continued)

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. Repositioning fees received in respect of time charters are recognized at the end of the charter when the fee is fixed and determinable. However, where there is a fixed amount specified in the charter, which is not dependent upon redelivery location, the fee will be recognized evenly over the term of the charter.

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 and on a discharge-to-discharge basis where there are multiple voyages. 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 recognized 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 accrual basis, to the value of \$nil, \$223,000 and \$nil for the years ended December 31, 2006, 2005 and 2004, respectively.

Vessel operating expenses, which are recognized when incurred, include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Prior to the Company's reorganization of its technical management function and the outsource of day-to-day technical functions to third party ship managers in 2005, vessel operating expenses included an allocation of administrative overheads that related to vessel operating activity which included certain technical and operational support staff for the vessels, information technology, legal, accounting, and corporate costs. These costs were allocated based on internal cost studies, which management believes are reasonable estimates. Since outsourcing the Company's 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. For the years ended December 31, 2006, 2005 and 2004, \$nil, \$720,000 and \$3,252,750 had 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 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. The Company was not party to any pool arrangement during 2006.

## **Notes to Consolidated Financial Statements (continued)**

### **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 and depreciated over the vessels’ remaining useful economic lives. 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 are drydocking expenditures which are 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.

Refurbishment costs incurred during the period are capitalized as part of vessels and equipment under capital leases and depreciated over the vessels’ remaining useful economic lives. Refurbishment costs are costs that appreciably increase the capacity, or improve the efficiency or safety of vessels and equipment

## **Notes to Consolidated Financial Statements (continued)**

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 FAS 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 in the statement of operations

### **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 Non-Current 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 only when certain hedging criteria are met. The Company applies FAS 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 FAS 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 agreement is 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 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.

## **Notes to Consolidated Financial Statements (continued)**

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. In October 2006, this facility was extended for a further 12 months. The fair value of the Equity Swap is recognized as an asset or liability with the change in fair values recognized in the statement of operations.

The Company enters into natural gas commodity price forward contracts and futures in order to hedge its exposure to the risk of the movement in the price of natural gas effecting charter rates and in some circumstances for speculative purposes. These contracts involve entering into a contract to buy natural gas at a future date and sell the same quantity of natural gas at another future date. The Company's position is the spread between the two prices.

Other than for natural gas contracts 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's reporting currency is 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**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R"), which is a revision of Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation".

FAS 123R eliminates accounting for stock-based compensation transactions using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees", and requires instead that such transactions be accounted for using a fair-value based method. The Company has elected to adopt the provisions of FAS 123R, effective January 1, 2006, under the modified prospective transition method. However, for the years ending December 31, 2005 and 2004, there is no difference between compensation cost calculated and accounted for under the intrinsic method and that under the fair value method, since as of December 31, 2003, all of the Company's stock options granted prior to January 1, 2006, had fully vested.

With the adoption of FAS 123R, the Company has elected to amortize stock-based compensation for awards granted on or after the adoption of FAS 123R on January 1, 2006, on a straight-line basis over the requisite service (vesting) period for the entire award.

### **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).

## Notes to Consolidated Financial Statements (continued)

### Pensions

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", ("FAS 158"), an amendment of Statement No. 87, 88, 106 and 132(R).

The Company adopted the provisions of FAS 158 on December 31, 2006. FAS 158 requires full recognition of the funded status of defined benefit pension plans to be included within a Company's balance sheet. Prior to the adoption of FAS 158, the Company accounted for its defined benefit pension plans in accordance with FAS 87 "Employers' Accounting for Pensions". Under FAS 87, only part of the deficit of plan obligations over plan assets would be recognized, with the remainder of the unrecognized actuarial losses spread over the employees' remaining service lives. This resulted in a minimum liability being recognized equal to the amount by which the accumulated benefit obligation exceeded the fair value of the plan assets.

The measurement provisions of FAS 87 continue to be applied with the pension liability calculated using the projected unit credit method. The adoption of FAS 158 has had no impact on the net periodic benefit cost recognized in the statement of operations for the years ending December 31, 2006, 2005 and 2004. The incremental effect of applying FAS 158 to the Company's balance sheet is illustrated in note 23.

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

### Capital Leases

Leased vessels have been accounted for as capital leases in accordance with FAS 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 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.

## 3. SUBSIDIARIES AND INVESTMENTS

The following table lists the Company's principal subsidiaries and their purpose as at December 31, 2006. Unless otherwise indicated, we own 100 per cent of each subsidiary.

Name	Jurisdiction of Incorporation	Purpose
Golar Gas Holding Company Inc.	Marshall Islands	Holding Company and leases four vessels
Golar Maritime (Asia) Inc.	Republic of Liberia	Holding Company
Gotaas-Larsen Shipping Corporation	Marshall Islands	Holding Company
Oxbow Holdings Inc.	British Virgin Islands	Holding Company
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia	Owns <i>Golar Mazo</i>

## Notes to Consolidated Financial Statements (continued)

Name	Jurisdiction of Incorporation	Purpose
Golar LNG 2215 Corporation	Marshall Islands	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> (previously known as the <i>Golar Viking</i> )
Golar LNG 2220 Corporation	Marshall Islands	Leases <i>Golar Winter</i>
Golar LNG 2234 Corporation	Republic of Liberia	Owns <i>Granosa</i>
Golar LNG 2244 Corporation	Republic of Liberia	Owned 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 and leases <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 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”)
Golar Offshore Toscana Limited	Cyprus	Holds investment in associate, OLT Offshore LNG Toscana S.p.A

## 4. RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

In February 2007, the Financial Accounting Standards Board (‘FASB’) issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 (“FAS 115”), which permits entities to measure financial instruments and certain other items at fair value. The objective is to improve financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. It applies to Golar effective January 1, 2008. The Company is currently evaluating the impact of FAS 159 on its consolidated results of operations, financial position and cash flows.

## Notes to Consolidated Financial Statements (continued)

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies will be required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. This Statement is effective for Golar on January 1, 2008. The Company is currently evaluating the potential impact on its consolidated results of operations, financial position and cash flows.

In March 2006, the FASB issued SFAS 156—an Amendment of SFAS 140, which addresses the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, SFAS 156 addresses recognition and measurement of separately recognized servicing assets and liabilities, clarifies when an obligation to service financial assets should be separately recognized, requires FV measurement, and permits choice of amortization or fair value methods for subsequent measurement. This Statement was effective for Golar on January 1, 2007, and did not have a significant impact on its consolidated results of operations, financial position and cash flows.

In February 2006, the Financial Accounting Standards Board issued SFAS 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (“SFAS 155”). SFAS 155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation and requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS 155 also provides clarification on specific points related to derivative accounting. SFAS 155 was effective for the Company beginning January 1, 2007, and did not have a significant impact on its consolidated results of operations, financial position, and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting in interim periods, disclosure, and transition. This interpretation was effective for Golar on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company’s financial statements.

In October 2006, the FASB issued this FSP, which addresses certain technical corrections FASB Statement No. 123(R). Specifically, it amends (a) paragraph A240(d)(1) to exempt nonpublic entities from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units) and share options expected to vest, (b) paragraph A102 of Illustration 4(b) to revise the computation of the minimum compensation cost that must be recognized to comply with Paragraph 42 of Statement 123(R), (c) paragraph A170 of Illustration 13(e) to indicate that at the date the illustrative awards were no longer probable of vesting, any previously recognized compensation cost should have been reversed, and (d) paragraph E1 to amend the definition of short-term inducement to exclude an offer to settle an award. This FSP was effective for Golar on January 1, 2007, and did not have a material impact on its consolidated results of operations, financial position, and cash flows.

## Notes to Consolidated Financial Statements (continued)

In October 2006, the FASB issued this FSP which amends FSP FAS 123(R)-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)*, to clarify that when an instrument held by an individual that is no longer an employee is modified or exchanged in connection with an equity restructuring or business combination, the instrument would still be subject to the recognition and measurement provisions of FASB Statement No. 123(R), *Share-Based Payment*, if certain criteria are met. The new guidance states that a modification of an instrument does not include an exchange or a change to the terms of an award if that exchange or change is made only to reflect an equity restructuring or business combination provided that (1) either there is no increase in value to the holders of the instrument or the change in the terms of the award is not done in contemplation of an equity restructuring or a business combination and (2) all holders of the same class of equity instruments (for example, stock options) are treated in a similar manner. The provisions of FSP FAS 123(R)-5 were effective for Golar on January 1, 2007, and did not impact its consolidated results of operations, financial position, and cash flows.

### 5. SEGMENTAL INFORMATION

The Company has not presented segmental information as it considers it operates in one reportable segment, the LNG carrier market. During 2006, 2005 and 2004, the vast majority of the Company's fleet operated under time charters and in particular with three charterers, Pertamina, BG Group plc and Shell. In time 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, 2006, 2005 and 2004 from Pertamina, the state-owned oil and gas company of Indonesia, BG Group plc, headquartered in the United Kingdom and Shell, were \$61.9 million, \$87.3 million and \$43.6 million; \$63.7 million, \$87.5 million and \$nil; and \$65.6 million, \$82.2 million and \$nil respectively.

### 6. RESTRUCTURING EXPENSES

Restructuring expenses of \$1.3 million in the year ended December 31, 2005, consisted 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. In association with the restructuring, 30 Golar employees were made redundant. The total cost of \$1.3 million was charged to the statement of operations in 2005 (\$nil in 2006) with no remaining provision as of December 31, 2005.



## Notes to Consolidated Financial Statements (continued)

### 7. OTHER FINANCIAL ITEMS, NET

<i>(in thousands of \$)</i>	2006	2005	2004
Amortization of deferred financing costs	(1,644)	(3,080)	(1,273)
Financing arrangement fees and other costs	(1,106)	(703)	(818)
Mark-to-market adjustment for interest rate derivatives (See note 28)	5,921	14,125	5,581
Mark-to-market adjustment for foreign currency derivatives (See note 28)	20,831	(19,720)	6,656
Mark-to-market adjustment for equity swap derivatives (See note 28)	(777)	1,313	-
Natural gas forward contract (See note 29)	2,045	-	-
Foreign exchange (loss) gain on capital lease obligations and related restricted cash	(17,644)	15,709	(5,160)
Foreign exchange gain (loss) on operations	810	(137)	(182)
	8,436	7,507	4,804

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.

#### 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, except in the case of certain intra group income during 2006 for which a provision of \$234,000 has been made.

A reconciliation between the income tax expense resulting from applying either the U.S. Federal or Bermudan 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.

## Notes to Consolidated Financial Statements (continued)

### United Kingdom

Current taxation of \$1,023,000, \$818,000 and \$420,000 for the years ended December 31, 2006, 2005 and 2004 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 are comprised of management fees received from Golar group companies as well as revenues from the operation of eight 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 currently 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 \$128,000 and \$147,000 at December 31, 2006 and 2005, 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>	2006	2005
Deferred tax assets, gross	682	677
Valuation allowances	(554)	(530)
Deferred tax assets, net	128	147

The valuation allowances on deferred tax assets increased by \$24,000 (2005: \$12,000 decrease). 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, 2006 is calculated with reference to the weighted average number of common shares outstanding during the year. The computation of diluted EPS for the years ended December 31, 2006, 2005 and 2004, assumes the conversion of potentially dilutive instruments.

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

<i>(in thousands of \$)</i>	2006	2005	2004
Net income available to stockholders – basic	71,673	34,529	55,833
Dilutive effect of investee's convertible bonds and bonds with stock warrants	(2,365)	(1,726)	(394)
	69,308	32,803	55,439

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

<i>(in thousands)</i>	2006	2005	2004
Basic earnings per share:			
Weighted average number of common shares outstanding	65,562	65,568	65,612

## Notes to Consolidated Financial Statements (continued)

<i>(in thousands)</i>	2006	2005	2004
Diluted earnings per share:			
Weighted average number of common shares outstanding	65,562	65,568	65,612
Effect of dilutive share options	173	165	185
Common stock and common stock equivalents	65,735	65,733	65,797

Earnings per share are as follows:

	2006	2005	2004
Basic	\$1.09	\$0.53	\$0.85
Diluted	\$1.05	\$0.50	\$0.84

## 10. OPERATING LEASES

### Rental income

The minimum contractual future revenues to be received on time charters as of December 31, 2006, were as follows:

Year ending December 31, <i>(in thousands of \$)</i>	Total
2007	161,252
2008	126,576
2009	116,481
2010	90,268
2011	59,528
2012 and later	478,340
Total	1,032,445

The long-term contracts for one of the Company's vessels is a time charter but the economic terms are analogous to a bareboat contract, under which the vessel is 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, 2006 were \$1,383 million and \$216 million, respectively and at December 31, 2005 were \$1,040 million and \$164 million, respectively.

### Rental expense

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

## Notes to Consolidated Financial Statements (continued)

Year ending December 31, (in thousands of \$)	Total
2007	208
2008	215
2009	110
Total minimum lease payments	533

Total rental expense, net of provision, for operating leases was \$84,000 (income), \$305,000 and \$1,431,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Rental expense for the year ended December 31, 2006 includes a credit amount of \$380,000, being the release of a provision, following the settlement in July 2006 of a service charge dispute in connection with former office space that the Company no longer occupies.

In addition, total sublease income was \$nil, \$nil and \$1,103,000 for the years ended December 31, 2006, 2005 and 2004, 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 INVESTEEES

At December 31, 2006, the Company has the following participation in investments that are recorded using the equity method:

	2006	2005
Korea line Corporation	21.09%	21.09%
Liquefied Natural Gas Limited	19.65%	-
OLT Offshore LNG Toscana S.p.A	20.00%	-
Egyptian Company for Gas Services S.A.E	50.00%	-

The market values at December 31, 2006, of the Company's investment in Korea Line Corporation ("KLC") and Liquefied Natural Gas Limited ("LNGL"), based on quoted market prices, were \$113.9 million and \$11.1 million, respectively. Quoted market prices for OLT Offshore LNG Toscana S.p.A ("OLT-O") and the Egyptian Company for Gas Services S.A.E ("ECGS") are not available because shares in OLT-O and ECGS are not publicly traded.

The carrying amounts of the Company's investments in KLC, LNGL, OLT-O and ECGS at December 31, 2006 and 2005 are as follows:

(in thousands of \$)	2006	2005
KLC	83,547	65,950
LNGL	8,242	-
OLT-O	4,966	-
ECGS	500	-
Equity in net assets of non-consolidated investees	97,255	65,950

The components of equity in net assets of non-consolidated investees are as follows:

## Notes to Consolidated Financial Statements (continued)

<i>(in thousands of \$)</i>	2006	2005
Cost	48,785	34,124
Equity in net earnings of investees	47,665	31,507
Share of other reserves movement in investees	3,700	2,034
Less dividends received	(2,895)	(1,715)
Equity in net assets of non-consolidated investees	97,255	65,950

KLC is a shipping company listed on the Korean stock exchange. 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, 2006, the Company held a 21.09% interest in KLC.

For the years ended December 31, 2006 and 2005, 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 \$1,754,000 and \$nil, respectively.

For the years ended December 31, 2006, 2005 and 2004, KLC had outstanding convertible securities and warrants that, if in the aggregate were converted and exercised, would have reduced the Company's interest in KLC, as at December 31, 2006, to 18.4% (2005: 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 \$17.3 million, \$18.5 million and \$13.0 million for the years ended December 31, 2006, 2005 and 2004, respectively, would not have been recognized. However, dividends received from KLC of \$1,180,000, \$1,544,000 and \$171,000 for the years ended December 31, 2006, 2005 and 2004, respectively would be recognized in the statement of operations. As of June 6, 2007, the Company had disposed of its entire interest in KLC (See note 32).

In April 2006, the Company signed an agreement with 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, and the second tranche in June 2006, at a cost of \$3.5 million. The consideration paid in excess of the fair value of the Company's share of net assets acquired, amounted to \$7,457,000 and has been recognized as goodwill. As at December 31, 2006, the Company held a 19.65% interest in LNGL. LNGL is a company focused on acting as a link between previously discovered but uncommercial gas reserves and potential new energy markets. The Company has adopted the equity method for accounting for its 19.65% investment in LNGL on the basis that it considers it has significant influence as demonstrated by its Board representation and position as LNGL's largest shareholder.

In November 2006, the Company acquired a 20% interest in OLT-O at a cost of \$5 million. OLT-O is an Italian incorporated unlisted company, which is involved in the construction, development, operation and maintenance of a Floating Storage Regasification Unit ("FSRU") terminal to be situated off the Livorno coast of Italy. The consideration paid in excess of the fair value of the Company's share of net assets acquired, amounted to \$1,762,000 and has been recognized as goodwill.

In March 2006, the Company acquired 500,000 common shares in ECGS at a subscription price of \$1 per share. This represents a 50 per cent interest in the voting rights of ECGS. ECGS is a newly incorporated

## Notes to Consolidated Financial Statements (continued)

unlisted company, which has been set up to develop hydrocarbon business and in particular LNG related business in Egypt. ECGS is jointly owned and operated together with other third parties. Therefore the Company has adopted the equity method of accounting for its 50% investment in ECGS, as it considers it has joint significant influence.

### 12. TRADE ACCOUNTS RECEIVABLE

As at December 31, 2006, trade accounts receivable are presented net of allowances for doubtful accounts. For the years ending December 31, 2006 and 2005, the provision for doubtful debts amounted to \$4,000 and \$18,000, respectively.

### 13. OTHER RECEIVABLES, PREPAID EXPENSES AND ACCRUED INCOME

<i>(in thousands of \$)</i>	2006	2005
Other receivables	4,233	3,279
Mark-to-market equity swaps valuation (See note 28)	-	1,313
Prepaid expenses	1,273	845
Accrued interest income	9,578	7,136
	15,084	12,573

Other receivables at December 31, 2006, includes the net amount receivable of \$24,000 (2005: \$404,000) 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, 2006, also includes the net amount receivable of \$371,000 (2005: \$297,000) under the Company's hull and machinery insurance policy relating to repair costs incurred by the Company for one vessel. 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, 2006 and 2005 of \$778,000 and \$17,000, respectively, represent the recharge of expenses and rebates and seconded staff costs.

### 15. NEWBUILDINGS

<i>(in thousands of \$)</i>	2006	2005
Purchase price installments	46,209	103,603
Interest and other costs capitalized	3,504	7,962
	49,713	111,565

The amount of interest capitalized in relation to newbuildings was \$2,505,000 and \$4,410,000 for the years ended December 31, 2006 and 2005, respectively.

The Company took delivery of two newbuildings during the year ended December 31, 2006, the *Grandis* and the *Granosa*, which were delivered to the Company on January 1, 2006 and June 16, 2006, respectively. The total cost of the *Granosa* of \$153,766,000 has been transferred to vessels and equipment, respectively (See note 16). The total cost of the *Grandis* of \$151,366,000 has been transferred to vessels under capital leases (See note 17).

In March 2007, the Company disposed of its remaining newbuilding (See note 32).

## Notes to Consolidated Financial Statements (continued)

### 16. VESSELS AND EQUIPMENT, NET

<i>(in thousands of \$)</i>	2006	2005
Cost	726,105	572,252
Accumulated depreciation	(56,466)	(39,244)
Net book value	669,639	533,008

As of December 31, 2006, Golar owned four vessels (2005: three).

Drydocking costs of \$7,942,000 and \$5,042,000 are included in the cost amounts above as of December 31, 2006 and 2005, respectively. Accumulated amortization of those costs as of December 31, 2006 and 2005 were \$3,954,000 and \$1,981,000, respectively.

Included in the above amounts, as at December 31, 2006 and 2005 is equipment with a net book value of \$71,000 and \$96,000, respectively.

Depreciation and amortization expense for the years ended December 31, 2006, 2005 and 2004 was \$17,230,000, \$14,890,000, and \$8,526,000, respectively.

As at December 31, 2006 and 2005, vessels with a net book value of \$669,491,000 and \$532,912,000 respectively were pledged as security for certain debt facilities (See note 24).

### 17. VESSELS UNDER CAPITAL LEASES, NET

<i>(in thousands of \$)</i>	2006	2005
Cost	963,387	812,695
Accumulated depreciation and amortization	(167,201)	(136,659)
Net book value	796,186	676,036

As of December 31, 2006, Golar operated eight (2005: seven) vessels under capital leases. These leases are in respect of two refinancing transactions undertaken during 2003, a lease financing transaction during 2004 and another in 2005.

Drydocking costs of \$34,737,000 and \$35,428,000 are included in the cost amounts above as of December 31, 2006 and 2005 respectively. Accumulated amortization of those costs at December 31, 2006 and 2005 were \$19,784,000 and \$21,506,000, respectively.

Depreciation and amortization expense for vessels under capital leases for the years ended December 31, 2006, 2005 and 2004 was \$43,439,000, \$39,801,000 and \$35,942,000, 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>	2006	2005
Debt arrangement fees and other deferred financing charges	13,136	9,814
Accumulated amortization	(3,829)	(2,185)
	9,307	7,629

Amortization expense of deferred charges, for the years ended December 31, 2006, 2005 and 2004 was \$1,644,000, \$3,080,000 and \$1,273,000.

### 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>	2006	2005
Total security lease deposits for lease obligations	815,025	721,971
Restricted cash relating to the Mazo facility	12,183	11,308
Restricted cash relating to the Equity swap facility	3,299	12,477
	830,507	745,756

As at December 31, 2006, the value of deposits used to obtain letters of credit to secure the obligations for the lease arrangements described in note 25 was \$815.0 million (2005: \$722.0 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>	2006	2005
Five Ship Leases security deposits	535,758	470,156
Methane Princess Lease security deposits	185,688	161,505
Golar Winter Lease security deposits	48,571	45,302
Grandis Lease security deposits	45,008	45,008
Total security deposits for lease obligations	815,025	721,971
Included in short-term restricted cash and short-term investments	(36,805)	(25,663)
Long-term restricted cash	778,220	696,308

The analysis of short-term restricted cash and short-term investments at December 31, 2006 and 2005 is as follows:

<i>(in thousands of \$)</i>	2006	2005
Short-term lease security deposits	36,805	25,663
Restricted cash and short-term investments relating to the Mazo facility (See note 24)	12,183	11,308
Restricted cash relating to the Equity swap facility (See note 27)	3,299	12,477
Short-term restricted cash and short-term investments	52,287	49,448



## Notes to Consolidated Financial Statements (continued)

### 20. OTHER NON-CURRENT ASSETS

<i>(in thousands of \$)</i>	2006	2005
Deferred tax asset (See note 8)	128	147
Other investments	3,000	3,000
Mark-to-market foreign currency swaps valuation (See note 28)	7,767	-
Mark-to-market interest rate swaps valuation (See note 28)	8,892	5,886
Mark-to-market equity swap valuation (See note 28)	536	-
Other long-term assets	13,214	1,576
	33,537	10,609

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, 2006, 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 advances of \$13,214,000 (2005: \$1,576,000) paid to Keppel Shipyard Limited for equipment in respect of the conversion of an existing LNG vessel into a LNG Floating Storage Regasification Unit (See note 30).

### 21. ACCRUED EXPENSES

<i>(in thousands of \$)</i>	2006	2005
Vessel operating and drydocking expenses	6,535	2,820
Administrative expenses	3,948	2,627
Interest expense	17,734	14,086
Provision for financing arrangement fees and other costs	97	485
Provision for tax	961	587
	29,275	20,605

### 22. OTHER CURRENT LIABILITIES

<i>(in thousands of \$)</i>	2006	2005
Deferred drydocking and operating cost revenue	4,858	5,162
Marked-to-market interest rate swaps valuation (See note 28)	4,160	7,075
Marked-to-market foreign currency swaps valuation (See note 28)	-	13,064
Other provisions	-	25
Deferred credits from capital lease transactions (See note 26)	3,964	3,964
Other creditors	782	2,017
	13,764	31,307

### 23. PENSIONS

The Company adopted the provisions of FAS 158 on December 31, 2006. FAS 158 requires full recognition of the funded status of defined benefit pension plans to be included within a Company's balance sheet. Prior to the adoption of FAS 158, only part of the deficit of plan obligations over plan assets would be recognized, with the remainder of the unrecognized actuarial losses spread over the employees' remaining service lives.

## Notes to Consolidated Financial Statements (continued)

The adoption of FAS 158 has had no impact on the net periodic benefit cost recognized in the statement of operations for the years ending December 31, 2006 and 2005.

### *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, 2006, 2005 and 2004 was \$250,000, \$262,000 and \$156,000, respectively.

### *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>	2006	2005	2004
Service cost	469	652	1,186
Interest cost	2,602	2,624	3,102
Expected return on plan assets	(1,525)	(1,457)	(1,706)
Recognized actuarial loss	492	326	827
Net periodic benefit cost	2,038	2,145	3,409

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension benefit cost during the year ending December 31, 2007 is \$568,000.

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>	2006	2005
Reconciliation of benefit obligation:		
Benefit obligation at January 1	49,082	47,904
Service cost	469	652
Interest cost	2,602	2,624
Actuarial loss	2,186	3,130
Foreign currency exchange rate changes	1,317	(1,051)
Benefit payments	(3,533)	(4,153)
Curtailment effect	-	(24)
Benefit obligation at December 31	52,123	49,082

The accumulated benefit obligation at December 31, 2006 and 2005 was \$49.5 million and \$47.8 million, respectively.

## Notes to Consolidated Financial Statements (continued)

<i>(in thousands of \$)</i>	2006	2005
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	22,487	24,058
Actual return on plan assets	2,240	1,797
Employer contributions	1,689	1,598
Foreign currency exchange rate changes	1,071	(813)
Benefit payments	(3,533)	(4,153)
Fair value of plan assets at December 31	23,954	22,487
Funded status at end of year (1)	(28,169)	(26,595)
Unrecognized actuarial loss	-	7,224
Net amount recognized	(28,169)	(19,371)

Employer contributions and benefits paid under the pension plans include \$1,689,000 and \$1,598,000 paid from employer assets during the year ended December 31, 2006 and 2005, respectively.

(1) The Company's plans are composed of two plans that are both under funded at December 31, 2006 and December 31, 2005.

The details of these plans are as follows:

<i>(in thousands of \$)</i>	December 31, 2006			December 31, 2005		
	UK Scheme	Marine scheme	Total	UK scheme	Marine scheme	Total
Accumulated benefit obligation	(10,937)	(38,535)	(49,472)	(9,149)	(38,657)	(47,806)
Projected benefit obligation	(11,105)	(41,018)	(52,123)	(9,315)	(39,767)	(49,082)
Fair value of plan assets	9,258	14,696	23,954	7,381	15,106	22,487
Funded status at end of year	(1,847)	(26,322)	(28,169)	(1,934)	(24,661)	(26,595)

The amounts recognized in the Company's balance sheet prior to adoption of FAS 158 consist of:

<i>(in thousands of \$)</i>	2006	2005
Accrued benefit liability	(25,518)	(25,319)
Accumulated other comprehensive income	5,871	5,948
Net amount recognized prior to adoption of FAS 158	(19,647)	(19,371)
Non-current liability	(28,169)	(19,371)
Net amount recognized following adoption of FAS 158	(28,169)	(19,371)

The amounts recognized in accumulated other comprehensive income consist of:

<i>(in thousands of \$)</i>	2006	2005
Net actuarial loss	8,522	5,948

The incremental effect of applying FAS 158 on individual line items in the Company's balance sheet at December 31, 2006, is as follows:

## Notes to Consolidated Financial Statements (continued)

<i>(in thousands of \$)</i>	Before application of FAS 158 and after additional minimum pension liability adjustment	Incremental effect of adopting FAS 158	After Application of FAS 158
Pension liability	25,518	2,651	28,169
Accumulated other comprehensive income	5,826	2,651	8,477
Total stockholders' equity	504,393	2,651	507,044

The asset allocation for the Company's Marine scheme at December 31, 2006 and 2005, and the target allocation for 2007, by asset category follows:

<i>Marine scheme</i>	Target allocation 2007 (%)	2006 (%)	2005 (%)
Equity	30 – 65	43	39
Bonds	10 – 50	15	25
Other	20 – 40	28	34
Cash	-	14	2
Total	100	100	100

The asset allocation for the Company's UK scheme at December 31, 2006 and 2005, and the target allocation for 2007, by asset category follows:

<i>UK scheme</i>	Target allocation 2007 (%)	2006 (%)	2005 (%)
Equity	80	76	80
Bonds	20	19	20
Cash	-	5	-
Total	100	100	100

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, 2007, as follows:

<i>(in thousands of \$)</i>	UK scheme	Marine scheme
Employer contributions	427	1,800

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

<i>(in thousands of \$)</i>	UK scheme	Marine scheme
2007	220	3,000
2008	220	3,100
2009	400	3,100
2010	540	3,200
2011	490	3,100
2012-2016	2,360	17,900

## Notes to Consolidated Financial Statements (continued)

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

	2006	2005
Discount rate	5.6%	5.4%
Rate of compensation increase	4.5%	3.7%

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:

	2006	2005
Discount rate	5.4%	5.7%
Expected return on plan assets	6.8%	6.4%
Rate of compensation increase	3.7%	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, 2006 and 2005 is based on the weighted average of various returns on assets using the asset allocation as at the beginning of 2006 and 2005. 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>	2006	2005
Total long-term debt due to third parties	876,358	825,747
Less: current portion of long-term debt due to third parties	(72,587)	(67,564)
Long-term debt	803,771	758,183

The outstanding debt as of December 31, 2006 is repayable as follows:

Year ending December 31, <i>(in thousands of \$)</i>	
2007	72,587
2008	167,219
2009	73,448
2010	172,563
2011	212,144
2012 and later	178,397
Total	876,358

The Company's debt is denominated in U.S. dollars and bears floating interest rates except for \$135 million of debt at December 31, 2006 and 2005 in respect of the Methane Princess facility which bears fixed interest rates. The weighted average interest rate as of December 31, 2006 and 2005 was 6.04 per cent and 4.98 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, 2006, the weighted average fixed interest rate was 5.35 per cent (2005: 5.35 per cent).

At December 31, 2006, the Company's debt was as follows:

## Notes to Consolidated Financial Statements (continued)

<i>(in thousands of \$)</i>		Maturity date
Mazo facility	138,597	2013
Methane Princess facility	164,036	2015
Golar Gas Holding facility	240,000	2011
Golar Frost facility	102,550	2008
Gracilis facility	113,000	2010
Granosa facility	118,175	2011
	876,358	

### **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).

### **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, 2006, 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, 2006 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 \$97.5 million payable on June 15, 2008, pursuant to an extension of the term of the loan for a period of 12 months in June 2006. In June 2007, the lending

## Notes to Consolidated Financial Statements (continued)

banks approved a further extension of one year in respect of this facility. Repayments on the loan commenced on December 15, 2004.

### **Gracilis (formerly 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.

### **Granosa facility**

In April 2006 the Company signed a loan agreement with a bank for an amount of \$120.0 million for the purpose of financing newbuilding hull number 2234, the *Granosa*, 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 \$92.6 million payable on May 15, 2011. Repayments on the loan commenced on September 15, 2006.

As of December 31, 2006, the margins Golar pays under its loan agreements are over and above LIBOR at a fixed or floating rate range from 0.80 per cent to 1.5 per cent (2005: 0.80 per cent to 1.7 per cent).

Certain of the Company's debt are 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. With regards to cash restrictions Golar has covenanted to retain at least \$25 million of cash and cash equivalents on a consolidated group basis. As of December 31, 2006 and 2005 the Company complied with the debt covenants of its various debt agreements.

## **25. CAPITAL LEASES**

<i>(in thousands of \$)</i>	2006	2005
Total long-term obligations under capital leases	1,015,034	803,966
Less: current portion of obligations under capital leases	(5,269)	(2,466)
Long term obligations under capital leases	1,009,765	801,500

## Notes to Consolidated Financial Statements (continued)

As at December 31, 2006, Golar operated eight (2005: seven) vessels under capital leases. These leases are in respect of two refinancing transactions undertaken during 2003, a lease financing transaction during 2004 and another in 2005.

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 transaction, 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 December 31, 2006, the Company is committed to make quarterly minimum rental payments under capital leases, as follows:

Year ending December 31, (in thousands of \$)	Five ship leases	Methane Princess lease	Golar Winter lease	Grandis lease	Total
2007	28,423	7,400	12,501	9,294	57,618
2008	29,863	7,733	12,501	9,294	59,391
2009	31,357	8,069	12,501	9,294	61,221
2010	32,924	8,405	12,501	9,294	63,124
2011	34,571	8,746	12,501	9,294	65,112
2012 and later	773,730	365,046	256,268	239,809	1,634,853
Total minimum lease payments	930,868	405,399	318,773	286,279	1,941,319
Less: Imputed interest	(413,158)	(225,659)	(151,102)	(136,366)	(926,285)
Present value of minimum lease payments	517,710	179,740	167,671	149,913	1,015,034

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.



## Notes to Consolidated Financial Statements (continued)

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 as of December 31, 2006, the Company had entered into interest rate swaps of \$115 million (2005: \$115 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, the cash deposits securing the lease obligation are significantly less than the lease obligation itself. As of December 31, 2006, the Company had entered into interest rate swaps of \$105 million (2005: \$105 million) to fix the interest rate in respect of its Grandis lease obligations for a period of seven years.

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>	2006	2005
Pension obligations (See note 23)	28,169	25,319
Deferred credits from capital lease transactions	55,596	59,559
Share options (See note 27)	1,051	-
	84,816	84,878

### Deferred credits from capital lease transactions

<i>(in thousands of \$)</i>	2006	2005
Deferred credits from capital lease transactions	74,121	74,121
Less: Accumulated amortization	(14,561)	(10,598)
	59,560	63,523
Short-term (See note 22)	3,964	3,964
Long-term	55,596	59,559
	59,560	63,523

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

## Notes to Consolidated Financial Statements (continued)

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 issued a further 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 and 2006, 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. In October 2006, this facility was extended for a further twelve months. As at December 31, 2006, BNS has acquired a total of 1,070,000 (2005: 600,000) Golar shares under the Programme at an average price of \$11.15. 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, 2006, \$3.3 million was held on deposit and is referred to in these financial statements as short-term restricted cash.

At December 31, 2006 and December 31, 2005, authorized and issued share capital is as follows:

Authorized share capital:

<i>(in thousands of \$)</i>	2006	2005
100,000,000 common shares of \$1.00 each	100,000	100,000

Issued share capital:

<i>(in thousands of \$)</i>	2006	2005
65,562,000 (2005: 65,562,000) outstanding issued common shares of \$1.00 each	65,562	65,562

## Notes to Consolidated Financial Statements (continued)

### Share options

The Company elected to adopt the provisions of Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("FAS 123R"), effective January 1, 2006, under the modified prospective transition method. FAS 123R eliminates accounting for stock-based compensation transactions using the intrinsic method, and requires instead that such transactions be accounted for using the fair-value based method.

Under the modified prospective method, compensation cost is recognized in accordance with the provisions of FAS 123R for all share-based payments (i) granted after the effective date; and (ii) granted to the employees prior to the effective date of FAS 123R, that remain unvested on the effective date. As of January 1, 2006, all the Company's stock options granted prior to the effective date were all fully vested.

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.

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.

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 will vest in three equal tranches over a three-year period from January 27, 2007 to January 27, 2009 and will expire on the fifth anniversary of the options' grant date. In June 2006, a further 200,000 options were granted at a subscription price of \$13.14 on the same terms.

A condition of the options awarded in 2006 provides that upon voluntary termination by an option holders' employment with the Company and its subsidiaries, provided the first anniversary of the date of grant has elapsed, a reduced cash settlement based on the intrinsic value will be paid. Accordingly, for those share option awards eligible for this cash settlement feature (those that vest after the first anniversary of grant) these have been classified as a liability with the remainder classified as equity. Consequently, at the balance sheet date a liability for the current fair value of these share options not exercised is recognized in the balance sheet under other liabilities. The change in the liability for the period is recognized in the statement of operations. For those share options classified as equity, the grant date fair value for these stock options not exercised is recognized in shareholders' equity in additional paid in capital with a corresponding charge in the statement of operations.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. For those option awards classified as a liability the fair value is remeasured as at the balance sheet date. The following weighted average assumptions used are noted in the table below. There were no options granted in the years ending December 31, 2005 and 2004.

## Notes to Consolidated Financial Statements (continued)

	Liability classified awards remeasured at December 31, 2006	At grant date
Risk free interest rate	4.7%	4.6%
Expected volatility of common stock	31.5%	34.0%
Expected dividend yield	0.0%	0.0%
Expected life of options (in years)	3.3	3.9

The assumption for expected future volatility is based primarily on an analysis of historical volatility of the Company's common stock. The expected term of options is derived from the vesting period of the award and represents the period of time that options granted are expected to be outstanding. The exercise price of options, granted in 2006 and later, is reduced by the value of dividends, on a per share basis.

A summary of option activity as at December 31, 2006, and changes during the year then ended is presented below:

<i>(in thousands of \$, except per share data)</i>	Shares (In '000s)	Weighted average exercise price	Weighted average remaining contractual term (years)
Options outstanding at December 31, 2004 & 2005	300	\$5.75	
Granted during the year	1,258	\$14.54	
Options outstanding at December 31, 2006	1,558	\$12.84	4.4
Options exercisable at:			
December 31, 2006	300	\$5.75	5.5
December 31, 2005	300	\$5.75	6.5

A summary of the status of the Company's non-vested share options as of December 31, 2006, and changes during the year ended December 31, 2006, is presented below:

<i>(in thousands of \$, except per share data)</i>	Shares (In '000s)	Weighted average exercise price
Non-vested at January 1, 2006	-	-
Granted during the year	1,258	\$14.54
Non-vested at December 31, 2006	1,258	\$14.54

The weighted average grant date and current fair value of options granted as at December 31, 2006, during 2006 was \$5.11 and \$3.57, respectively. No options have been forfeited, exercised, cancelled or expired during 2006, 2005 and 2004.

Compensation cost of \$2,775,000, \$nil and \$nil has been recognized in the statement of operations for the years ended December 31, 2006, 2005 and 2004, respectively, in connection with the 1,258,000 options granted in 2006. As of December 31, 2006, the total unrecognized compensation cost related to non-vested options of \$1,712,000 (2005: \$nil) is expected to be recognized over a weighted average period of 2.1 years.

## Notes to Consolidated Financial Statements (continued)

The intrinsic value of those options outstanding and exercisable as at December 31, 2006, was \$2,115,000, representing \$7.05 per option.

### 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:

<i>Instrument</i>  (in thousands of \$)	Notional Amount		Maturity Dates	Fixed Interest Rates
	December 31, 2006	December 31, 2005		
Interest rate swaps:				
Receiving floating, pay fixed	479,097	494,518	2007 – 2015	3.03% to 6.43%

At December 31, 2006, the notional principal amount of the debt and capital lease obligations outstanding subject to such swap agreements was \$479.1 million (2005: \$494.5 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 gain of \$3.2 million arose in the year ended December 31, 2006 (2005: \$4.0 million loss) as a result of the retranslation of the Company's capital lease obligations and the cash deposits securing those obligations net of the gain (2005: loss) on the currency swap referred to below. The net gain arose due to the appreciation of the British Pound against the U.S. Dollar during the year. This net gain represents an unrealized gain 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

## Notes to Consolidated Financial Statements (continued)

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> <i>(in thousands)</i>	Notional Amount		Maturity Dates	Fixed GBP/USD Currency Rate
	December 31, 2006	December 31, 2005		
Currency rate swaps:				
Receiving in GBP	£77,460	£82,728	2032	1.838
Pay in U.S.dollar	\$142,371	\$152,054	2032	-

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.

### Natural gas commodity price forward contracts

The Company may enter into natural gas commodity price forward contracts and futures in order to manage its exposure to the risk of the movement in the price of natural gas effecting charter rates and in some circumstances for speculative purposes. Market risk exists to the extent that natural gas spot and future price movements have a negative effect on the Company's cash flows and consolidated statement of operations. As at December 31, 2006 and 2005 the notional principal amounts subject to such contracts were \$nil and \$nil (See note 29).

### Fair values

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2006 and 2005 are as follows:

<i>(in thousands of \$)</i>	2006 Carrying Value	2006 Fair Value	2005 Carrying Value	2005 Fair Value
Non-Derivatives:				
Cash and cash equivalents	56,616	56,616	62,227	62,227
Restricted cash and short-term investments	52,287	52,287	49,448	49,448
Long-term restricted cash	778,220	778,220	696,308	696,308
Long-term unlisted investment	3,000	N/a	3,000	N/a
Short-term debt – floating	72,587	72,587	67,564	67,564
Long-term debt – floating	668,771	668,771	623,183	623,183
Long-term debt – fixed	135,000	136,270	135,000	135,753
Long-term obligations under capital leases	1,009,765	1,009,765	801,500	801,500
Derivatives:				
Interest rate swaps liability	4,160	4,160	7,075	7,075
Interest rate swaps asset	8,892	8,892	5,886	5,886
Foreign currency swap asset (liability)	7,767	7,767	(13,064)	(13,064)
Equity swap asset	536	536	1,313	1,313

## **Notes to Consolidated Financial Statements (continued)**

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 is 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, 2006, 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.

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 statement of operations 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, 2006, three 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, two time charters with Pertamina and three charters with Shell. 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 and Shell to be low.

During the years ended December 31, 2006, 2005 and 2004, BG Group plc and Pertamina each accounted for more than 10% of gross revenue.

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

## Notes to Consolidated Financial Statements (continued)

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

During 2006, Pertamina, BG Group plc and Shell accounted for revenues of \$61.9 million, \$87.3 million and \$43.6 million respectively.

### 29. RELATED PARTY TRANSACTIONS

In the years ended December 31, 2006, 2005 and 2004, 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, 2006, 2005 and 2004, management fees payable to Frontline of \$nil, \$90,300 and \$235,200 respectively, have been incurred by Golar and have been included within vessel operating expenses. In the years ended December 31, 2006, 2005 and 2004, the Company also received supplier rebates from Frontline of \$400,530, \$203,820 and \$101,793, respectively, which have been included within vessel operating expenses. As at December 31, 2006, an amount of \$350,530 was due from Frontline (2005: \$nil) 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, 2006, an amount of \$176,144 was due from Frontline (2005: \$640,000 due to Frontline) in respect of these recharges. Frontline is a publicly listed company. Its principal shareholder is Hemen Holding Limited, a company indirectly controlled by the Company's chairman, John Fredriksen.

Seatankers Management Company Limited ("Seatankers") is indirectly controlled by the Company's chairman, John Fredriksen. In the year ended December 31, 2006, 2005 and 2004, Seatankers has provided insurance administration services to the Company. In the years ended December 31, 2006, 2005 and 2004, management fees payable to Seatankers of \$35,000, \$35,000 and \$35,000 respectively, have been incurred by Golar and have been included within administrative expenses. In the year ended December 31, 2006, 2005 and 2004 the Company also received supplier rebates from Seatankers of \$166,929, \$62,878 and \$99,893, which have been included within vessel operating expenses. As at December 31, 2006 and 2005 no amounts were due from Seatankers in respect of these services. In addition certain amounts have been recharged at cost between both companies. As at December 31, 2006 the Company owed \$1,849 (2005: \$229,000) to Seatankers in respect of these recharges.

Arcadia Limited ("Arcadia") is indirectly controlled by the Company's chairman, John Fredriksen. During 2006, the Company entered into a forward contract, which Arcadia executed on the Company's behalf, to hedge the natural gas commodity price prior to entering into a charter, the rate for which was partly dependent upon the price of natural gas. Having fixed the charter rate the contract was terminated, resulting in Golar recognizing a realized gain of \$2,045,000 in the period. The realized gain has been included within other financial items.

During the years ended December 31, 2006, 2005 and 2004, Faraway Maritime Shipping Inc., which is 60% owned by Golar and 40% owned by China Petroleum Corporation ("CPC"), paid dividends totalling \$5.5 million, \$18 million and \$nil respectively, of which 60 per cent was paid to Golar and 40 per cent was paid to CPC.



## Notes to Consolidated Financial Statements (continued)

### 30. CAPITAL COMMITMENTS

#### Newbuildings commitments

As at December 31, 2006, the Company had a contract to build one new LNG carrier at a contract cost of \$162.0 million, excluding financing costs. As at December 31, 2006, the installments for this vessel, were due to be paid as follows:

<i>(in millions of \$)</i>	
Paid in 12 months to 31 December 2004	15.4
Paid in 12 months to 31 December 2005	-
Paid in 12 months to 31 December 2006	15.4
Payable in 12 months to 31 December 2007	131.2
	<u>162.0</u>

As discussed in note 32, subsequent to the year ended December 31, 2006, the Company sold its newbuilding hull number 2244 for the gross consideration of \$92.5 million.

#### Other capital commitments

As at December 31, 2006, the Company had a contract with Keppel Shipyard for the conversion of an existing LNG vessel into a LNG Floating Storage Regasification Unit ("FSRU"). As at December 31, 2006, the estimated timing of the remaining payments due to be paid is as follows:

<i>(in millions of \$)</i>	
Payable in 12 months to 31 December 2007	23.9
Payable in 12 months to 31 December 2008	7.6
	<u>31.5</u>

### 31. OTHER COMMITMENTS AND CONTINGENCIES

#### Assets Pledged

<i>(in thousands of \$)</i>	December 31, 2006	December 31, 2005
Long-term loans secured on vessels, vessels under capital leases and newbuildings	876,358	825,747

#### Other Contractual Commitments and contingencies

##### *Insurance*

The Company insures the legal liability risks for its shipping activities with Gard and Skuld, both are mutual protection and indemnity associations. As a member of a mutual association, the Company is subject to calls payable to the associations 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,

## Notes to Consolidated Financial Statements (continued)

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 into during 2003, in total approximately £41 million British pounds. As at December 31, 2006, the total unamortized balance of deferred credits from capital lease transactions (See note 26) was \$59.6 million. A termination of any of these leases would realize the accrued currency gain or loss. As at December 31, 2006, this was a net accrued gain of approximately \$2.4 million.

### *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 Company for Gas Services S.A.E ("ECGS"), which was to be established to develop hydrocarbon business and in particular LNG related business in Egypt. As at December 31, 2006, the Company was committed to subscribe for common shares in ECGS for a total consideration of \$5,000,000. An initial amount of \$500,000 was paid in March 2006, with the balance payable within three years of incorporation, at dates to be determined by ECGS's Board of Directors.

As at December 31, 2006, the Company had a commitment to pay \$1 million to a third party, contingent upon the conclusion of a material commercial business transaction by ECGS as consideration for work performed in connection with the setting up and incorporation of ECGS.

## 32. SUBSEQUENT EVENTS

In February 2007, the Company entered into an agreement to sell newbuilding hull 2244 to an unrelated third party for the gross consideration of \$92.5 million, realizing a profit of \$41 million. The proceeds were received on March 30, 2007. As at December 31, 2006, the Company did not have a formal plan in place to sell the newbuilding. Accordingly, as at December 31, 2006, it was not classified as an asset held for sale (See note 15).

On February 28, 2007, the Board of Golar declared a dividend of \$0.50 per share that was paid on March 26, 2007. On May 23, 2007, the Board declared a further dividend of \$0.50 per share that was paid on June 19, 2007. On June 6, 2007, the Board declared an extraordinary dividend of \$0.75 per share that will be paid on or about July 3, 2007.

In March 2007, the Company granted 75,000 share options to an employee of the Company and its subsidiaries at a subscription price of \$13.13 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).

Subsequent to December 31, 2006, the Bank of Nova Scotia acquired a further 171,300 shares in the Company at an average price of \$13.35 under the Equity Swap Line (See note 27). On May 30, 2007, the Company terminated its equity swap and bought 1,241,300 shares in the Company from Bank of Nova Scotia at a net cost of \$15.4 million after taking into account the gain on the mark-to-market of the swap of \$7.4 million paid to Golar upon termination.

In April 2007, the Company sold 1.1 million shares in Korea Line, bringing its interest down to 10%, for consideration of \$77.9 million. Between May and June 2007, the Company disposed of its remaining interest in Korea Line for net consideration of \$95 million.