# Golar LNG
# Interim Report
# June 2004

## SECOND QUARTER AND SIX MONTHS RESULTS

Golar LNG reports net income of $22.3 million for the three months ended June 30, 2004 and operating income of $18.0 million as compared to $14.9 million (restated) and $17.3 million, respectively, for last quarter ($8.8 million and $15.6 million, respectively, for the second quarter of 2003). These results include the Company's share of Korea Line Corporation's ("Korea Line") net income for the six months to June 30, 2004, which has been included in accordance with the equity method of accounting in respect of Golar's 21% shareholding in Korea Line. Golar increased its shareholding in Korea Line from 16% to 21% during the second quarter. In addition to the inclusion of a share of Korea Line's results for the second quarter, Golar's results for the first quarter of 2004 have been restated to include its share of Korea Line's results. This is because changing to the equity method of accounting due to the acquisition of an additional interest in an entity requires retrospective adjustment under US GAAP.

Earnings per share for the quarter were $0.34 as compared to $0.23 (restated) last quarter ($0.16 for the second quarter of 2003).

For the six months ended June 30, 2004 the Company reports net income of $37.2 million as compared to $18.5 million for the same period in 2003 and operating income of $35.3 million as compared to $32.6 million for the same period in 2003. Earnings per share for the six months to June 30, 2004 were $0.57 and were $0.33 for the same period in 2003.

Operating revenues for the second quarter of 2004 were $38.5 million as compared to $36.0 million for the first quarter of 2004 ($31.0 million for the second quarter of 2003). Average daily time charter equivalents (TCEs) were $55,150 for the second quarter of 2004 against last quarter's $55,500 ($59,770 for second quarter of 2003). The average daily TCE was affected by waiting time for the *Golar Winter* and the *Golar Frost* subsequent to their delivery in April and June, respectively. The *Golar Winter* was delivered on April 14, 2004 and commenced her first charter on May 31. The *Golar Frost* was delivered on June 16, 2004 and did not commence trading until after June 30, 2004. Additionally, off-hire was incurred as a result of the drydocking of one vessel during the quarter. This loss of revenue was partly mitigated by the *Methane Princess* being on hire for the whole quarter as compared to 45 days hire last quarter.

Vessel operating expenses for the second quarter of 2004 were $8.3 million compared with $8.2 million for the previous quarter ($6.8 million for the second quarter of 2003). The increase from last year is due to the addition of the *Methane Princes, Golar Frost and Golar Winter* to the fleet.

Administration costs were $1.9 million for the quarter as compared to $1.7 million last quarter and $1.5 million for the second quarter of 2003.

As a result of the additional financing in respect of the *Golar Frost* loan and *Golar Winter* lease, net interest expense increased in the second quarter to $6.6 million compared to $6.1 million last quarter ($5.4 million for the second quarter of 2003).

Other financial items includes a gain of $9.9 million associated with the increase in fair value of interest rate swaps, as compared to a $3.2 million charge last quarter ($1.1 million charge for the second quarter of 2003). The gain on the swap is reduced by the minority interest element of 40% resulting in a net book gain of $5.9 million compared to a $1.9 million charge last quarter ($0.7 million charge for the second quarter of 2003). Other financial items also includes foreign exchange losses. Although the currency exposures related to the Company's lease transactions, which are denominated in British Pounds, are virtually all hedged in cash terms, an accounting retranslation exposure remains to some extent. As a result, Golar recorded a net unrealised foreign exchange loss of $0.7 million in respect of its leases.

The number of shares outstanding as of June 30, 2004 was 65,612,000 (December 31, 2003: 65,612,000). The weighted average number of shares outstanding for the second quarter and twelve months ended December 31, 2003 was 65,612,000 and 58,532,548 respectively.

**FINANCING**

As reported last quarter, in April 2004 the Company completed a lease finance transaction in respect of its newbuilding the *Golar Winter*. Unlike Golar's previous two lease transactions this transaction did not produce an immediate cash benefit but rather provides reduced cost financing over the term of the lease; this is commonly referred to as a 'funded lease'. The net amount leveraged in the deal was approximately $127 million.

The Company entered into a $110 million loan facility during the second quarter in respect of its newbuilding, the *Golar Frost*, which was delivered in June 2004.

As at June 30, 2004, after having drawn the two facilities noted above, Golar had approximately $300 million of debt that accrued interest at a fixed rate, which represents approximately 35% of total debt. During July and August 2004, the interest on a further $50 million of debt has been fixed for varying periods between three and ten years at an average rate of 4.25%.

The average cash break-even rates for servicing the operating and financial debt costs of the four newbuildings that will have been delivered by the end of 2004, are estimated to be approximately $34,250 per ship per day based on interest rate expectations over the next twelve months.

The shipping bank market has softened somewhat recently and the Company has been presented with several proposals to refinance the existing fleet. These proposals include increased loan amounts, the flattening of the loan amortization profile and lower margins.

Management is currently evaluating these proposals and a decision regarding refinancing is likely to be taken before the end of the year.

**CORPORATE AND OTHER MATTERS**

Golar increased its investment in Korea Line during the quarter by $10.5 million to 21%. The total cost of this 21% investment was $34.1 million and as at August 31, 2004 the market value of this investment was approximately $73 million based on Korea Line's share price. Korea Line has announced impressive results for the first six months of the year and Golar's share of these results amounts to $14 million. These good results are to a large extent generated by Korea Line's dry bulk operations.

The Company took delivery of the *Golar Winter* on April 14, 2004 and the *Golar Frost* on June 16, 2004. The *Golar Frost* experienced some technical problems during the latter part of its construction, which delayed its delivery. As a result of this delay, Golar received $9.0 million in compensation from the shipyard, which, in accordance with US GAAP, has been deducted from the cost of the vessel.

The *Golar Winter* commenced a 10-month charter in May 2004 and the *Golar Frost* commenced a short-term spot charter in July 2004.

In August 2004, the Company exercised its newbuilding option with Daewoo. The vessel, which is sister ship of Golar's two most recently ordered newbuildings, is due for delivery in 2007. The Board has decided, based on the Company's financial position and with a focus on return on equity, to finance this newbuilding through internal resources instead of using external equity as was the case with the last two newbuildings declared.

Progress on the floating terminal project in Livorno continues with the second and final Service Conference having been scheduled for September 22, 2004. The Board is currently discussing a direct participation in the terminal project with our Italian partner CrossGas. Golar is likely to provide *Golar Frost* to the project as well 50% of the vessels required to carry LNG to the floating terminal. This is likely to employ another two ships on a long-term basis. Several oil majors have expressed real interest in the project and our Italian partner does not foresee any problems in selling the capacity as soon as the necessary legal approvals for the terminal have been received.

The Company is continuing to evaluate several other potential terminal projects. Some of these projects would involve additional onboard equipment for power generation.

**MARKET**

During the second quarter of 2004 some of the problems that curtailed demand for spot LNG shipping services during the first quarter have been resolved. In particular Malaysia's two trains are now in full production and the situation in Algeria has been greatly improved; only in Indonesia has progress been limited. The result has been that many of the ships that were idle from time to time since before the winter of 2003 are now employed. Demand has been strong in all areas, but especially in Japan where abnormally warm early summer weather increased demand for power for air conditioning.

The shut down of 11 nuclear power plants in Japan recently, has further increased its need for imported LNG. This additional LNG going to Japan was expected to be exported to the US.

The shut down of these nuclear power plants will therefore negatively influence the ton-mile demand and hence temporarily reduce the demand for spot tonnage.

Gas prices remained firm throughout the period worldwide. There were a reduced number of vessels competing for the cargoes available. Only the situation with the Union Fenosa and Gas Natural vessels failed to improve with at least one more of their newbuildings being unable to find employment since delivery in July.

The RasGas II tender was awarded to Maran Navigation of Greece (resulting in four of their speculatively ordered ships being removed from the uncommitted market), Teekay, and one vessel to a Japanese consortium. With the possible exception of the latter the low rates agreed seem to have been influenced to some extent by these owners' desire to make an entry into the LNG market.

Golar has continued to concentrate on projects where the Company's extensive LNG experience can be used to enhance the project value for all project partners. This will include the developing terminal projects as well as the effect of concentration on existing core relationships. One of the unforeseen results of the increase in demand for LNG newbuildings, driven in part by the RasGas project, has been to cause an increase in the price for newbuilding vessels. This has made further opportunistic speculative orders less likely, and has the significant benefit for Golar of raising rate expectations for long-term projects.

**OUTLOOK**

The Company remains confident that the vessels delivering this year will find profitable employment on an ongoing basis, through the continuing development of relationships with Golar's customers. The immediate strategy is to seek short to medium term business for the majority of the uncommitted vessels resulting in a relatively small exposure to the spot market, although this, by its nature has the potential to provide higher day rates in the right circumstances.

Golar's 8 ships on charter continue to maintain a stable and sound financial basis for the Company going forward. The five uncommitted (on a long-term basis) newbuildings have been ordered at attractive prices.

As has been stated in previous reports, shareholders should expect some short-term volatility in earnings as a result of the Company's exposure to the spot market for LNG vessels. Several major LNG projects have been delayed, which might create short-term over capacity in the spot market. This will negatively influence the rate and the utilization of Company's uncommitted ships. The situation is expected to gradually improve in 2005 and 2006 before additional LNG production from new plants and de-bottlenecking of existing projects is likely to create a tight shipping market from 2006 / 2007. Only 10 per cent of Golar's shipping capacity in 2004 and 27 per cent in 2005 is currently exposed to spot market earnings.

The Company is currently continuing in its efforts to bring to fruition the gas purchase covered by the letter of intent that was reported in December 2003.

A final approval of the Livorno project will be a major break through in the Company's integration strategy and is also likely to reduce the number of vessels not committed to a long-term contract to three ships with delivery dates in 2006 and 2007.

In addition to the Livorno project the Company has, during the last twelve months, directed a large amount of resources to developing integrated LNG utility solutions. Preliminary studies show that these solutions are extremely cost competitive. The Company will in the future focus further on these opportunities.

The Board is actively seeking new investment ideas including possibilities to consolidate and integrate the Company further. The investment in Korea Line is developing positively both strategically as well as financially.

Net income for the third quarter will be influenced by the drydocking of one vessel, movements in the market value of interest swaps and commercial waiting time for the *Golar Frost.* Additionally, it should be assumed that the Korea Line equity accounting contribution to net income will be reduced in the third quarter of 2004.

The Board anticipates the improvement in quarterly cash flow to continue as more tonnage is to be delivered. The long-term outlook for the Company looks attractive as more LNG production capacity comes on stream thereby reducing the amount of competing tonnage and putting upward pressure on charter rates.

The Company has a strong financial position, low cash break-even rates, good charter coverage and a good client portfolio. The Company is well positioned to grow further in a very attractive market.

**FORWARD LOOKING STATEMENTS**

This press release contains forward looking statements. These statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including examination of historical operating trends made by the management of Golar LNG. Although Golar LNG believes that these assumptions were reasonable when made, because assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond its control, Golar LNG cannot give assurance that it will achieve or accomplish these expectations, beliefs or intentions.

Included among the factors that, in the Company's view, could cause actual results to differ materially from the forward looking statements contained in this press release are the following: inability of the Company to obtain financing for the newbuilding vessels at all or on favourable terms; changes in demand; a material decline or prolonged weakness in rates for LNG carriers; political events affecting production in areas in which natural gas is produced and demand for natural gas in areas to which our vessels deliver; changes in demand for natural gas generally or in particular regions; changes in the financial stability of our major customers; adoption of new rules and regulations applicable to LNG carriers; actions taken by regulatory authorities that may prohibit the access of LNG carriers to various ports; our inability to achieve successful utilisation of our expanded fleet and inability to expand beyond the carriage of LNG; increases in costs including: crew wages, insurance, provisions, repairs and maintenance; changes in general domestic and international political conditions; changes in applicable maintenance or regulatory standards that could affect our anticipated dry-docking or maintenance and repair costs; failure of shipyards to comply with delivery schedules on a timely bases and other factors listed from time to time in registration statements and reports that we have filed with or furnished to the Securities and Exchange

Commission, including our Registration Statement on Form 20-F and subsequent announcements and reports.

August 31, 2004
The Board of Directors
Golar LNG Limited
Hamilton, Bermuda

Questions should be directed to:

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## GOLAR LNG LIMITED SECOND QUARTER 2004 REPORT (UNAUDITED)

| **INCOME STATEMENT** *(in thousands of $)* | **2004** **Apr-Jun** *unaudited* | **2003** **Apr-Jun** *unaudited* | **2004** **Jan – Jun** *unaudited* | **2003** **Jan – Jun** *unaudited* | **2003** **Jan – Dec** *unaudited (restated)* |
|---|---|---|---|---|---|
| **Operating revenues** | **38,520** | **31,027** | **74,508** | **64,143** | **132,765** |
| Vessel operating expenses | 8,255 | 6,776 | 16,499 | 14,030 | 30,156 |
| Voyage expenses | 621 | 109 | 905 | 204 | 2,187 |
| Administrative expenses | 1,910 | 1,528 | 3,608 | 2,734 | 7,138 |
| Depreciation and amortisation | 9,760 | 6,972 | 18,236 | 14,618 | 31,147 |
| **Total operating expenses** | **20,546** | **15,385** | **39,248** | **31,586** | **70,628** |
| **Operating income** | **17,974** | **15,642** | **35,260** | **32,557** | **62,137** |
| Interest income | 7,644 | 3,790 | 14,517 | 3,897 | 14,800 |
| Interest expense | (14,239) | (9,211) | (27,169) | (14,617) | (37,157) |
| Other financial items | 8,905 | (592) | 6,011 | (1,789) | 7,217 |
| **Income before taxes and minority interest** | **20,284** | **9,629** | **28,619** | **20,048** | **46,997** |
| Minority interest | (5,195) | (756) | (5,179) | (1,427) | (7,052) |
| Taxes | (119) | (50) | (216) | (82) | (375) |
| Equity in net earnings of investee | 7,348 | - | 13,964 | - | - |
| **Net income** | **22,318** | **8,823** | **37,188** | **18,539** | **39,570** |
| **Earnings per share ($)** | $0.34 | $0.16 | $0.57 | $0.33 | $0.68 |

| **BALANCE SHEET** *(in thousands of $)* | **2004** **Jun 30** *unaudited* | **2003** **Jun 30** *unaudited* | **2003** **Dec 31** *unaudited (restated)* |
|---|---|---|---|
| **ASSETS** | | | |
| *Short term* | | | |
| Cash and cash equivalents | 102,687 | 50,078 | 117,883 |
| Restricted cash and short-term investments | 38,486 | 24,846 | 32,095 |
| Other current assets | 19,222 | 8,142 | 20,598 |
| Amounts due from related parties | 298 | 84 | 180 |
| *Long term* | | | |
| Restricted cash | 670,069 | 428,829 | 623,179 |
| Equity in net assets of non-consolidated associate | 48,891 | - | 12,031 |
| Newbuildings | 94,045 | 308,471 | 207,797 |
| Vessels and equipment, net | 1,097,839 | 612,261 | 764,483 |
| Other long term assets | 7,313 | 7,236 | 5,577 |
| **Total assets** | **2,078,850** | **1,439,947** | **1,783,823** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| *Short term* | | | |
| Current portion of long-term debt | 64,900 | 56,210 | 61,331 |
| Current indebtedness due to related parties | - | 16,703 | - |
| Other current liabilities | 60,388 | 59,418 | 60,190 |
| Amounts due to related parties | 614 | 881 | 600 |
| *Long term* | | | |
| Long term debt | 670,163 | 586,783 | 593,904 |
| Long term capital lease obligations | 788,832 | 423,886 | 616,210 |
| Other long term liabilities | 93,110 | 68,310 | 94,226 |
| Minority interest | 23,885 | 13,081 | 18,706 |
| Stockholders' equity | 376,958 | 214,675 | 338,656 |
| **Total liabilities and stockholders' equity** | **2,078,850** | **1,439,947** | **1,783,823** |

| **STATEMENT OF CASH FLOWS** *(in thousands of $)* | **2004 Apr-June** *unaudited* | **2003 Apr-June** *unaudited* | **2004 Jan – June** *unaudited* | **2003 Jan – June** *unaudited* | **2003 Jan-Dec** *unaudited (restated)* |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net income | 22,318 | 8,823 | 37,188 | 18,539 | 39,570 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortisation | 9,760 | 6,972 | 18,236 | 14,618 | 31,147 |
| Amortisation of deferred charges | 278 | 213 | 532 | 401 | 1,574 |
| Income attributable to minority interests | 5,195 | 756 | 5,179 | 1,427 | 7,052 |
| Equity in profit of non-consolidated associates | (7,348) | - | (13,964) | - | - |
| Drydocking expenditure | (8,016) | (4,916) | (9,241) | (5,014) | (12,737) |
| Change in market value of interest rate and currency derivatives | (6,612) | 1,058 | (3,432) | 1,989 | (6,401) |
| Unrealised foreign exchange gain | (2,549) | (1,010) | (3,160) | (1,010) | (2,993) |
| Change in operating assets and liabilities | 3,817 | 328 | 5,679 | 3,668 | 205 |
| **Net cash provided by operating activities** | **16,843** | **12,224** | **37,017** | **34,618** | **57,417** |
| **INVESTING ACTIVITIES** | | | | | |
| Additions to newbuildings | (225,198) | (5,173) | (228,572) | (16,800) | (77,783) |
| Additions to vessels and equipment | (2,511) | (3,102) | (4,115) | (5,050) | (6,308) |
| Long-term restricted cash | (37,938) | (403,232) | (36,497) | (403,232) | (543,643) |
| Short-term restricted cash and investments | (7,084) | (4,993) | (28,166) | (11,374) | (30,781) |
| **Net cash used in investing activities** | **(272,731)** | **(416,500)** | **(297,350)** | **(436,456)** | **(658,515)** |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from long-term debt | 110,000 | 326,501 | 110,000 | 328,764 | 506,128 |
| Proceeds from long-term capital lease obligation | 163,715 | 452,580 | 163,715 | 452,580 | 616,298 |
| Repayments of long-term debt | (18,259) | (355,882) | (30,172) | (363,382) | (528,505) |
| Repayments of long-term debt due to related parties | - | (16,000) | - | (16,000) | (32,703) |
| Additions to long-term lease obligation | 1,877 | - | 3,874 | - | 2,660 |
| Financing costs paid | (1,309) | (504) | (2,273) | (1,092) | (2,140) |
| Dividends paid to minority shareholders | - | (1,695) | - | (1,695) | (1,695) |
| Proceeds from issuance of equity net of issuance costs | - | - | (7) | - | 106,197 |
| **Net cash provided by financing activities** | **256,024** | **405,000** | **245,137** | **399,175** | **666,240** |
| **Net increase (decrease) in cash and cash equivalents** | **136** | **724** | **(15,196)** | **(2,663)** | **65,142** |
| **Cash and cash equivalents at beginning of period** | **102,551** | **49,354** | **117,883** | **52,741** | **52,741** |
| **Cash and cash equivalents at end of period** | **102,687** | **50,078** | **102,687** | **50,078** | **117,883** |