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GOLAR LNG LTD  
Form 20-F  
June 30, 2006

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

OR

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

For the transition period from

Commission file number 000-50113

Golar LNG Limited

(Exact name of Registrant as specified in its charter)

Golar LNG Limited

(Translation of Registrant's name into English)

Bermuda

(Jurisdiction of incorporation or organization)

Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda

(Address of principal executive offices)

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

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

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

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Common Shares, par value \$1.00

(Title of class)

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

None

(Title of class)

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

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

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

Yes No X
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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 of 15(d) of the Securities Exchange Act 1934

Yes No X
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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
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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 Item 18 X
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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

This document contains assumptions, expectations, projections, intentions and beliefs about future events, in particular under Item 4, "Information on the Company - Our Business Strategy" and Item 5, "Operating and Financial Review and Prospects". These statements are intended as "forward-looking statements." We may also from time to time make forward-looking statements in our periodic reports to the United States Securities and Exchange Commission, other information sent to our stockholders, and other written materials. We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material.

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

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

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

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

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

#### ITEM 3. KEY INFORMATION

##### A. Selected Financial Data

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

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

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

	At or for the Fiscal Year		
	December 31		
	2005	2004	2003
	----	----	----
(in thousands of \$, except number of shares, per common share data and fleet data)			
Income Statement Data:			
Total operating revenues	171,042	163,410	132,765
Vessel operating expenses (1)	37,215	35,759	30,156
Voyage expenses (5)	4,594	2,561	2,187
Administrative expenses	12,219	8,471	7,138
Restructuring costs	1,344	-	-
Depreciation and amortization	50,991	40,502	31,147
Operating income	64,679	76,117	62,137
Net financial expenses	(39,319)	(25,304)	(15,140)
Income before equity in net earnings of investee,			
income taxes and minority interests	25,360	50,813	46,997
Income taxes and minority interests	(9,323)	(7,995)	(7,427)
Equity in net earnings of investee	18,492	13,015	-
Net income	34,529	55,833	39,570
Earnings per common share			
- basic (2)	0.53	0.85	0.68

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- diluted (2)	0.50	0.84	0.68
Cash dividends per common share	-	-	-
Weighted average number of shares - basic	65,568	65,612	58,533
Weighted average number of shares - diluted (2)	65,733	65,797	58,623
Balance Sheet Data (at end of year):			
Cash and cash equivalents	62,227	51,598	117,883
Restricted cash and short-term investments	49,448	41,953	32,095
Amounts due from related parties	17	294	180
Long-term restricted cash	696,308	714,802	623,179
Equity in net assets of non-consolidated investee	65,950	48,869	12,176
Newbuildings	111,565	145,233	207,797
Vessels and equipment, net	533,008	371,867	211,098
Vessels under capital lease, net	676,036	706,516	553,385
Total assets	2,230,695	2,110,329	1,783,968
Current portion of long-term debt	67,564	66,457	61,331
Current indebtedness due to related parties	-	-	-
Current portion of obligations under capital leases	2,466	2,662	-
Long-term debt	758,183	636,497	593,904
Long-term obligations under capital leases	801,500	842,853	616,210
Minority interest	27,587	26,282	18,706
Stockholders' equity	434,554	402,770	338,801
Common shares outstanding (2)	65,562	65,612	65,612
Fleet Data (unaudited)			
Number of vessels at end of year (3)	10	9	7
Average number of vessels during year (3)	10	8.33	6.34
Average age of vessels (years)	15.3	15.9	19.3
Total calendar days for fleet	3,645	3,023	2,315
Total operating days for fleet (4)	2,976	2,660	2,140
Average daily time charter equivalent earnings (5)	\$46,200	\$54,900	\$57,300
Average daily vessel operating costs (6)	\$10,210	\$11,800	\$13,000

### Footnotes

- (1) Vessel operating expenses are the direct costs associated with running a vessel including crew wages, vessel supplies, routine repairs, maintenance and insurance. In addition, they include an allocation of overheads allocable to vessel operating expenses.
- (2) Since our financial results for the period that includes the five months to May 31, 2001, were "carved out" of those of Osprey, we did not record any specific share capital for the period before we acquired Osprey's LNG assets and operations. To provide a measurement of earnings per share for those periods, we use for basic earnings per share the 12,000 shares issued in connection with the formation of Golar on May 10, 2001 and the subsequent issuance of 56 million shares in our Norwegian placement. Basic earnings per share is computed based on the income available to common shareholders and the weighted average number of shares outstanding. The computation of diluted earnings per share assumes the conversion of potentially dilutive instruments.
- (3) In each of the periods presented above, we had a 60% interest in one of our vessels and a 100% interest in our remaining vessels.
- (4) The operating days for our fleet is the total number of days in a given period that the vessels were in our possession less the total number of days off-hire. We define days off-hire as days spent on repairs, drydockings, special surveys and vessel upgrades or awaiting employment during which we do not earn charter hire.

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- (5) The majority of our vessels are operated under time charters. However some of our newer vessels operated under voyage charters during 2003 and 2004. Under a time charter, the charterer pays substantially all of the vessel voyage costs whereas under a voyage charter, the vessel owner pays such costs. However, we may also incur voyage related expenses when positioning or repositioning vessels before or after the period of a time charter. Vessel voyage costs are primarily fuel and port charges. Accordingly, charter income from a voyage charter would be greater than that from an equally profitable time charter to take account of the owner's payment of vessel voyage costs. In order to compare vessels trading under different types of charters, it is standard industry practice to measure the revenue performance of a vessel in terms of average daily time charter equivalent earnings, or "TCEs". For time charters, this is calculated by dividing time charter revenues by the number of calendar days minus days for scheduled off-hire. Where we are paid a fee to position or reposition a vessel before or after a time charter, this additional revenue, less voyage expenses, is included in the calculation of net time charter revenues. We perform this calculation on a vessel by vessel basis. For voyage charters, TCE is calculated by dividing voyage revenues, net of vessel voyage costs, by the number of calendar days minus days for scheduled off-hire. Net charter revenues (non-GAAP measure), the numerator of the TCE calculation, provides more meaningful information to us about the operating revenues generated from our various charters than gross revenues, the most directly comparable GAAP measure. Net revenues are also widely used by investors and analysts in the tanker shipping industry for comparing financial performance between companies and to industry averages.

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

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

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

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

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Some of the following risks relate principally to our business or to the

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

### Risks Related to our Business

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

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

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

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

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



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

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

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

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

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

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

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

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

- o merge into or consolidate with any other entity or sell or otherwise dispose of all or substantially all of their assets;
- o make or pay equity distributions;

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- o incur additional indebtedness;
- o incur or make any capital expenditure; or
- o materially amend, or terminate, any of our current charter contracts or management agreements.

If the ownership interest in us of John Fredriksen, our chairman, and his affiliated entities falls below 25% of our share capital, a default of some of our loan agreements and lease agreements to which we are a party would occur. Similarly, if we were to be in any other form of default which we could not remedy, such as payment default, our lessors, having legal title to our leased vessels, or our lenders, who have mortgage over some of our vessels, could be entitled to sell our vessels in order to repay our debt and or lease liabilities.

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

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

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

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

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

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

In the event of any adverse tax rate changes or rulings, or in the event that we terminate one or more of our leases, we would be required to return all or a portion of, or in certain circumstances significantly more than, the upfront cash benefits that we have received, together with fees that were financed in connection with our lease financing transactions, post additional

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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 (pound)41 million British pounds).

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

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

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

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

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

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

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

We may be unable to attract and retain key management personnel in the LNG

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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 Troim, 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. Troim, for any extended period of time could have an adverse effect on our business and results of operations.

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

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

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

If we are treated as a passive foreign investment company in any year, U.S. holders of our shares would be subject to unfavorable U.S. federal income tax treatment. We do not believe that we were a passive foreign investment company in 2005 or will be in any future year. However, passive foreign investment company classification is a factual determination made annually and thus may be subject to change if the portion of our income derived from other passive sources, including the spot trading of LNG for our own account, were to develop or to increase substantially. Moreover, the Internal Revenue Services may disagree with our position that time charters do not give rise to passive income for purposes of the passive foreign investment company rules. Accordingly, there is a possibility that we could be treated as a passive foreign investment company for 2005 or for any future year. The passive foreign investment company rules are discussed in more detail in Item 10 of this annual report under the heading "Additional Information; Taxation - U.S. Taxation of U.S. Holders".

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

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

Future terrorist attacks, may also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future

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terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenue, and costs.

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

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

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

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

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

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

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

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

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

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course of the swap, the swap's mark to market valuation will increase our financial expenses and therefore could affect our results.

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

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

### Risks Related to the LNG Shipping Industry

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

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

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

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

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

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

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

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

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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.

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

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

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

### Risks Related to our Common Shares

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

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

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

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



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with which investors may be more familiar and may substantially limit or prohibit shareholders ability to bring suit against our directors.

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

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

### ITEM 4. INFORMATION ON THE COMPANY

#### A. History and Development of the Company

We are a LNG Shipping company formed on May 10, 2001. We currently own and/or operate a fleet of twelve liquefied natural gas, or LNG, carriers (or vessels), of which one was delivered in January 2006 and one in June 2006. We are engaged in the acquisition, ownership, operation and chartering of LNG carriers through our subsidiaries. We operate eleven of our vessels through wholly-owned subsidiaries and we have a 60% interest in the owning company of a vessel, the Golar Mazo. We have also entered into contracts for the construction of one additional LNG carrier, which we expect to take delivery in June 2007. Seven of our LNG carriers are currently employed under long-term charter contracts, two LNG carriers are currently employed on short-term charters and three vessels are employed on medium term five-year market related charters with Shell.

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

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

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

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new LNG carriers. Two of the newbuilding options have since been exercised and two have expired.

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

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

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

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

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

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

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

### B. Business Overview

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

#### The Natural Gas Industry

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

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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:

- o **Costs:** Technological advances and economies of scale have lowered capital expenditure requirements.
- o **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.
- o **Demand from Power Generation:** According to the IEO, natural gas is the fastest growing fuel source for electricity generation worldwide accounting for almost 50% of the total incremental growth in world-wide natural gas consumption.
- o **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.
- o **Significant Natural Gas Reserves:** Approximately half of the world's remaining hydrocarbon reserves are natural gas.
- o **Emerging economies:** Projected average increases in emerging economies consumption of natural gas of up to 4.1% per year up to 2025 are forecast by the IEO as compared to 2.3% per annum average growth for transitional economies and 0.6% per annum for mature economies.

### The LNG Industry

#### Overview

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

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

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

#### Production

There are three major regional areas that supply LNG. These are (i) Southeast Asia, including Australia, Malaysia, Brunei and Indonesia, (ii) the Middle East, including Qatar, Oman and United Arab Emirates (with facilities planned in Iran and Yemen), and (iii) the Atlantic Basin countries, including Algeria, Libya, Nigeria and Trinidad with facilities under construction in Egypt

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and Norway and planned in Equatorial New Guinea, Angola and Venezuela. Qatar, Oman, Trinidad and Nigeria have all begun large scale LNG production in recent years. The expansion of existing LNG production facilities is one of the major sources of growth in LNG production and most projects with gas reserves available are considering growth of production.

### Consumption

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

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

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

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

### The LNG Fleet

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

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

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

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not begin to build in the future.

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

### Our Business Strategy

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

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

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

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

Specific projects we have been working on include the following:

- o We have been working on an Offshore Regasification project near Livorno, Italy. A government decree approving the project was issued in February 23, 2006. It is anticipated that the project will use the Golar Frost as a floating terminal by installing regasification equipment on board the vessel and permanently mooring her off the coast of Italy.
- o We have invested \$3 million in TORP Technology AS ("TORP"), which holds the rights to the "Hiload LNG Re-gasification Technology" developed by Remora Technology AS. TORP has applied for a permit to build an offshore LNG regasification terminal, to be located 60 miles off the Alabama coast.
- o We have also made the decision to convert one of our existing Moss

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design LNG vessels into a FSRU in anticipation of a demand that we see developing. We are actively looking at several other project opportunities, which include the provision of technical marine and LNG expertise for other technically innovative projects.

- o During the first quarter of 2006, we signed an agreement with Liquefied Natural Gas Limited ("LNG"), an Australian publicly listed company, to subscribe for 23 million of its shares in two tranches. In April 2006, we purchased 13.95 million shares and in June 2006 we acquired a further 9.05 million shares, following approval by LNG's shareholders. After both purchases, we will become LNG's largest shareholder with a 19.83% holding. LNG 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 LNG 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:

- o 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.
- o 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.
- o Secure cash flow: Seven of our existing twelve ships are on long-term charters which provides us with a relatively secure and stable cash flow and provides the financial platform for us to grow and expand.
- o LNG shipping experience: We have 30 years of experience of operating LNG ships and we have access to a large pool of experienced LNG crew.
- o Newbuildings: We currently have available new vessels uncommitted to long-term charters. This provides us with the opportunity to respond quickly to the developing needs of our customers.
- o Technical and Commercial experience and expertise: With our existing assets, extensive experience and significant technical and commercial expertise we are able to quickly take advantage of market opportunities as they arise and offer innovative solutions to our customers' needs.

### Customers

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

We and our predecessors have had charters with Pertamina since 1989. Our revenues from Pertamina were \$63.7 million in 2005, \$65.6 million in 2004 and \$61.9 million in 2003. This constitutes 37.3%, 40.1% and 47% of our revenues for

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those years, respectively. BG has chartered LNG carriers from us and our predecessors since 2000. Our revenue from BG was \$87.5 million in 2005, \$82.2 million in 2004 and \$64.8 million in 2003, constituting 51.2%, 50.3% and 49% of our revenues for those years respectively. BG currently charters five vessels from us.

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

### Competition

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

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

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

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

### Our Fleet

#### Current Fleet

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

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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
Hilli	1975	125,000	BG	2011
Gimi	1976	125,000	BG	2010
Golar Freeze	1977	125,000	BG	2008
Khannur	1977	125,000	BG	2009
Golar Spirit	1981	128,000	Pertamina	2006
Golar Mazo(1)	2000	135,000	Pertamina	2017
Methane Princess	2003	138,000	BG	2024
Golar Winter	2004	138,000	Short-term charters	2006
Golar Frost	2004	137,000	Short-term charters	2006
Gracilis	2005	140,000	Shell	2011
Grandis	2006	145,700	Shell	2011
Granosa	2006	145,700	Shell	2011

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

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

### Newbuildings

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

Hull number	Shipbuilder	Expected Delivery Date
2244	Daewoo	June 2007

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

### Our Charters

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

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



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

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

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

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

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

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

### Charter Renewal Options

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

BG Charters. With the exception of the Golar Freeze charter, each of the BG charters, including the charter for the Methane Princess, is subject to outstanding options on the part of BG to extend those charters for two five-year

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periods. The hire rates for Khannur, Gimi and Hilli will be increased from January 1, 2010 onwards and thereafter subject to adjustments based on escalation of 3% per annum of the operating costs of the vessel.

### Golar Management (UK) Limited and Ship Management

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

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

Our three third party ship managers are Thome Ship Management (Singapore), Barber Ship Management (Oslo) and STASCO (London). Our decision to employ third party managers was driven by our need to secure long-term high quality seafaring workforce for a growing fleet. We recognized that external ship management companies have access to larger pools of officers that can be trained to become LNG officers. With the expansion of the global LNG fleet, a shortage of well-qualified officers is considered a significant threat to operators in this shipping segment. Our decision was also influenced by our requirement to improve technical teams geographic coverage, given our fleet trade world-wide, and to be able to take advantage of economies and efficiencies of scale afforded by these managers.

### Ship Maintenance

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

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

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

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### Insurance

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

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

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

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

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

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

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### Environmental and other Regulations

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

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

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

#### Regulation by the International Maritime Organization

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

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

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

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charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

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

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

### Environmental Regulation--OPA/CERCLA

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

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

OPA limits the liability of responsible parties for vessels other than crude oil tankers to the greater of \$600 per gross ton or \$500,000 per vessel. These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or wilful

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misconduct. These limits likewise do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. This limit is subject to possible adjustment for inflation. OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states, which have enacted their own legislation, have not yet issued implementing regulations defining shipowners' responsibilities under these laws.

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

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

### Environmental Regulation--Other

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

### Inspection by Classification Societies

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

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

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

### In-House Inspections

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

### C. Organizational Structure

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

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

Subsidiary -----	Jurisdiction of Incorporation -----	Purpose -----
Golar Gas Holding Company Inc.	Republic of Liberia	Holding Company and lease vessels
Golar Maritime (Asia) Inc.	Republic of Liberia	Holding Company
Gotaas-Larsen Shipping Corporation	Republic of Liberia	Holding Company
Oxbow Holdings Inc.	British Virgin Islands	Holding Company
Faraway Maritime Shipping Inc. (60% ownership)	Republic of Liberia	Owns Golar Mazo
Golar LNG 2215 Corporation	Republic of Liberia	Leases Methane Princess

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Golar LNG 1444 Corporation	Republic of Liberia	Owns Golar Frost
Golar LNG 1460 Corporation	Republic of Liberia	Owns Gracilis
Golar LNG 2220 Corporation	Republic of Liberia	Leases Golar Winter
Golar LNG 2234 Corporation	Republic of Liberia	Owns Granosa
Golar LNG 2244 Corporation	Republic of Liberia	Owns newbuilding Hull 2244
Golar LNG 2226 Corporation	Marshall Islands	Leases Grandis
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 Golar Freeze
Golar Khannur (UK) Limited	United Kingdom	Operates Khannur
Golar Gimi (UK) Limited	United Kingdom	Operates Gimi
Golar Hilli (UK) Limited	United Kingdom	Operates Hilli
Golar Spirit (UK) Limited	United Kingdom	Operates Golar Spirit
Golar 2215 (UK) Limited	United Kingdom	Operates Methane Princess
Golar Winter (UK) Limited	United Kingdom	Operates Golar Winter
Golar 2226 (UK) Limited	United Kingdom	Operates Grandis
Golar FSRU 1 Corporation	Marshall Islands	Contracted for the conversion of a vessel to a floating storage and regasification unit ("FSRU")

### D. Property, Plant and Equipment

#### The Company's Vessels

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

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

Newbuilding -----	Expected Date of Delivery -----	Capacity cbm. ----	Flag ----	Charterer -----	Cu
Hull No. 2244	June 2007	145,700	-	n/a	

#### Key to Flags:

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

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



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### ITEM 4A. UNRESOLVED STAFF COMMENTS

None

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### A. Operating Results

##### Overview and Background

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

##### Current Business

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

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

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

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

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

During 2005 three of our vessels, Golar Winter, Golar Frost and Gracilis,

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

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

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

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

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

Vessel Name	2001 to 2005
Golar Mazo	Long-term time charter to Pertamina commenced on delivery in January 2000
Golar Spirit	Long-term time charter to Pertamina which ends at the end of 2006
Khannur	Long-term time charter with BG from December 2000
Golar Freeze	Medium-term time charter with BG from November 2000 and long-term time charter with BG from March 2003.

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Gimi	Short-term charters until start of long-term time charter with BG in May 2000
Hilli	Long-term time charter with BG from September 2000
Methane Princess	Delivered in August 2003. Short-term charters until start of long-term time charter with BG in February 2004.
Golar Winter	Delivered in April 2004. Short-term charters during 2004 and within Exmar arrangement during 2005. Periods of commercial waiting time between charters.
Golar Frost	Delivered in June 2004. Short-term charters during 2004 and within Exmar arrangement during 2005. Periods of commercial waiting time between charters.
Gracilis	Delivered in January 2005. Short-term charters and part of Exmar arrangement during 2005. Periods of commercial waiting time between charters. Charter with Shell (maritime) from March 2006

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