PB
PANDORA'S BOX RESEARCH

March 9, 2012 Shipping

Strong Sell

Golar LNG Limited (GLNG)
Golar LNG Partners LP (GMLP)

GLNG	
Price target	$22.5
NASDAQ Price	$41.27
52 Week range	$17.42-$47.82
Shares outstanding	80.3M
Avg. Daily Trading Vol.	630K
Market Capitalization	3,299M
Dividend/Div Yield	$1.3/3%
Book Value of Equity	$678M
2010 ROE	0%
LT Debt	$1,220M

GMLP	
Price target	$8.25
NASDAQ Price	$38.28
52 Week range	$22.41-$38.90
Shares outstanding	39.4M
Avg. Daily Trading Vol.	65K
Market Capitalization	1,526M
Distribution/Yield	$1.72/4.5%
Book Value of Equity	$28M
2010 ROE	N/A
LT Debt	$854

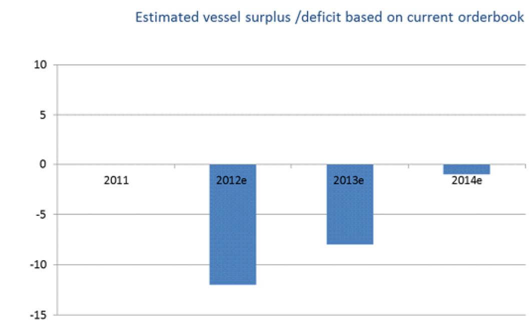
We believe Golar LNG Limited (NASDAQ: GLNG, referred hereunder as "GLNG" or the "Company") share price and Golar LNG Partners LP's (NASDAQ: GMLP, referred hereunder as "GMLP" or the "LP") unit price (together also referred to as the "Group"), are extremely overvalued and therefore we initiate coverage with "Sell" for both. **The recent share price of more than $47 for GLNG and a unit price of more than $38 for GMLP are significantly higher than their fair market value of $22.5 per share and $8.25 per unit.**
The following are the main reasons for our recommendation:

- **The Group has demonstrated over the years that it has poor earning's quality**. GLNG's historical dividends where based almost entirely on one-time items. The LP is engaged in a Ponzi like scheme in which it focuses investors' attention to its cash distributions while approx. 50% of this distribution is actually a repayment of invested capital, as the depreciation of the vessels is a real cost to investors. The "real" yield to investors of the GP is only about 1.9% vs. a current yield of the 20 year United States Treasury of approximately 2.65%.

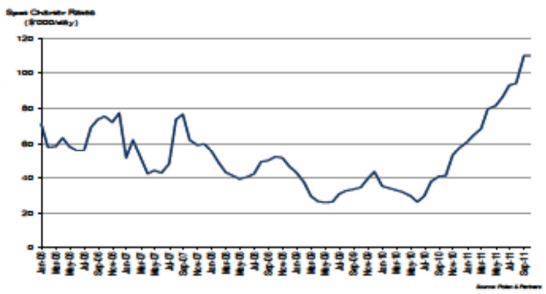
- **The Group has a history of poor corporate governance, related party transactions and front running by its insiders**. In addition, the Group has found a new source for profits and cash for expansion - its subsidiaries. GLNG has shifted vessels from one company to the other at inflated prices based on "independent" valuation advice provided by the underwriter of its subsidiary's IPO.

- **Valuation and comparable transaction in the market do not support the current share and unit price**. Current prices are driven by Sell-Side analysts' "Buy" recommendations which are based on flawed models and short term market dynamics and which fail to take into account the long term economics of the LNG shipping business. Comparable vessels have been recently traded at prices less than half the value implied by the market price for GLNG's and the LP's vessels. The current shortage of vessels is expected to end by 2014 as in 2013 and 2014 more than 60 vessels (15% of the current market) will be delivered - meaning that current prices will drop to their historical equilibrium levels.

Estimated LNG vessel supply/deficit



LNG shipping spot prices:



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Main findings

- **Low quality of earnings and dividend generation capacity:**

    - GLNG has a poor history of converting operating cash flow into dividends. Since its listing, GLNG distributed dividends in the amount of $259 million. In the same period, the Company recorded $275 million of non-recurring one time profits. **GLNG never actually paid any dividend from its shipping business**

    - **The LP business follows the lines of a Ponzi scheme**. GLNG has found a magical way to create money. In 2011 GLNG spun-off of its long term chartered vessels into the LP. The highlight of this restructuring is the high "cash distribution" of the LP. However, in reality, these distributions are not all income but are partially repayment of capital and compensation for the depreciation of the vessels. Currently about 50% of the distribution cannot be supported over the long run. **Real return to investors is only 1.9% on the current price of the unit.** GLNG will try to continue to sell vessels at artificially high yields to the LP which will issue more units to the public in order to finance these acquisitions. GLNG is using the fact that investors don't make the distinction between a dividend yield which is a distributed from profits to the "cash distribution" which is part a repayment of invested capital. This allows the LP (which is controlled by GLNG) to issue units at high prices and send the cash over to GLNG to pay for GLNG's own fleet expansion.

    - **GLNG has a history of failed and delayed projects, making its pipeline of projects far from a gold mine for investors**. Competition in the LNG shipping and LNG project development markets have increased significantly and historical profits and margins are not sustainable in the long run. We believe not much value is left in the GLNG project development portfolio.

- **A history of poor Corporate Governance that has cost money to investors and favorited the interests of the parent company (GLNG) over the interest of the minority shareholders:**

    - **The Group has a history of related party transactions that did not serve the interest of the minority holders of the public companies of the Group:**

        - $75 million raised in the IPO of the subsidiary Golar LNG Energy (referred hereunder also as "ENERGY") to expand the business of ENERGY were transferred to the parent GLNG for its own use, contrary to the information provided to investors of ENERGY and to its own press releases.

        - The sale of a vessel from the parent GLNG to the LP for $330 million which diverges significantly from its actual cost and is based on the "valuation advice" provided by the same firm that underwrote the IPO of the LP and also provides analyst coverage for the shares of GLNG.

        - GLNG plans to sell more vessels to the partnership in the future. Investors in GLNG are hoping that another fool (the investors of the LP - which is controlled by the GLNG) will be willing to buy the vessels from GLNG at inflated prices.

    - **Suspicious timing of share purchases. The controlling shareholder and the Chairman of the board of ENERGY (a subsidiary that has been delisted) purchased shares and warrants of ENERGY before a takeover bid by GLNG, creating for them a profit of approx. $6 million.**

    - **Creative structuring of share buybacks that enabled GLNG to book accounting profits from the buyback of its own shares of approx. $10 million.**

    - **GLNG purchased its own shares in the market to offset employee share options exercised, enabling GLNG to increase reported EPS and dividends per share in exchange for cash leaving the Company.**

- **The LP agreement has clauses that fortify GLNG's control over the LP and my harm the interest of the minority unitholders in the future.**

- **GLNG has been usually too optimistic on various projects over the years, most of which did not materialize and lost the Company money.**

- **GLNG has engaged in leveraged transactions on the price of its own shares, increasing the risk of shareholders.**

- **Awarding stock options to insiders whose interests are already aligned to the interests of GLNG - namely the controlling shareholder**. We believe the awarding of 500,000 options to Fredriksen does not provide for additional benefits to shareholders and just siphons money from the pocket of investors and transfers it to the Group's controlling shareholder – Fredriksen.

- **Valuations don't support the current high share and unit prices:**

  - **DCF and Comparable valuation methods support only prices of $22.5 and $8.25 per share and unit of GLNG and the LP, respectively, 45% and 78% lower than current market prices.**

  - **Comparable transactions in the market indicate vessel prices as much as 50% lower than the value the market is assigning to Group's fleet**. Current average vessel value implied by the market price of the Group's securities exceeds $600 million while newlybuilt and newer leased vessels trade at approx. $200 million.

- **Sell-Side analysts provide "buy" recommendation based of flawed models which:**

  - **take into account current temporary high charter rates in excess of $120,000 per day and apply them to their models going forward**, while the actual LNG shipping market is known to fluctuate significantly over time. GLNG's average rate in the last 10 years has been about $51,000 per day.

  - **ignore the current order book**. 64 new LNG carriers have been ordered in 2011 which amounts to about 15% of the current worldwide fleet. The last time such a large order book of newlybuilt vessels was recorded was in 2004 which caused the sever oversupply in the 2007-2009 markets and the fall in charter rates of approx. $40,000 per day.

  - **fail to take into account the fact that in order for GLNG and the LP to increase earnings and dividends through expansion, additional equity will be needed to be raised, which will dilute current holders**. GLNG has filled in July 2011 a shelf registration statement allowing it to raise additional equity on a very short time line. The LP owes GLNG $222 million, a sum that can be repaid only through an additional equity issuance, as the LP is already indebted as much as it can.

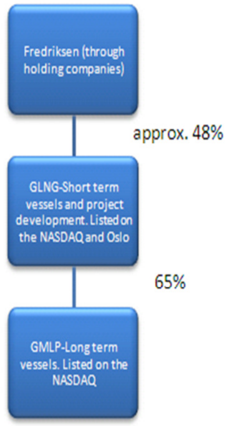
Introduction

GLNG is Liquefied Natural Gas (LNG) shipping company based in London and registered in Bermuda. The Company operates 13 LNG carriers and is listed on the NASDAQ and the Oslo Stock Exchange. The Company is controlled by John Fredriksen. GLNG is one of the world's largest independent owners of LNG carriers with more than 30 years of experience.[1] In addition to owning vessels, GLNG has been trying to expend further into the LNG value chain through various investments in companies and into regasification and liquidation facilities and energy trading. The Group is currently conducting its business through two public entities:

- The LP- a listed partnership named Golar LNG Partners LP which holds vessels with long term charters. The LP is branded as a stable long term dividend generating platform

- The parent company – GLNG - which owns approx. 65% of the LP and holds the spot and short term chartered vessels and the project development business. GLNG is branded as a high growth and higher risk LNG business.

  GLNG traded in February 2012 as high as $47, giving it a market cap of $3.75B. The following is a simplified structure of the Group[2]



Corporate background for the story

Company history

The predecessor of the Company entered the LNG market in 1970 and was bought by Singapore-based Osprey Maritimein 1997. In 2000 Fredriksen through his company - World Shipholding - started a take-over of Ospray and completed it in 2001 when the LNG business of Osprey was transferred to GLNG. GLNG was listed on the Oslo Stock Exchange in 2001 and on the NASDAQ in 2002[3].

Fredriksen bought the Singapore-listed Osprey Maritime for a reported $216 million. Following the acquisition, Fredriksen sold off all assets except for two crude oil tankers and six LNG carriers. The asset-sale not only covered his purchase price but also netted him a reported $50 million. Through an IPO on the Oslo Stock Exchange in 2001 Fredriksen raised $140 million for the Company while injecting the LNG assets into GLNG in exchange for about 50% of the equity of GLNG.[4]

[1] Company's website
[2] According to GLNG's 2010 20F fillings
[3] Company's website
[4] http://www.gasandoil.com/news/europe/b09646f12e2271d83cfab7ec35615b3c

Historical Share price performance[5]

[5] www.yahoo.com

Since its listing, the Company has expended its fleet of ships from 6 to 13 and has been involved in various LNG related ventures. The following is the summery of the financial information of GLNG derived from its 20F filings with some supporting calculations:

In Million $	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Long term average
Operating revenues	114,223	130,611	132,765	163,410	171,042	239,697	224,674	228,779	216,495	244,045	
Vessel opex	24,537	28,061	30,156	35,759	37,215	44,490	52,986	61,868	60,709	52,910	
Voyage expenses			2,187	2,561	4,594	9,582	10,763	33,126	39,463	32,311	
Administration	8,232	6,127	7,138	8,471	12,219	13,657	18,645	17,815	19,958	22,832	
Restructuring	1,894				1,344						
Depreciation and Amortization	31,614	31,300	31,147	40,502	50,991	56,822	60,163	62,005	63,482	65,076	
Operating income	47,946	65,123	62,137	76,117	64,679	115,146	82,117	53,965	32,883	70,916	
As % of operating income	*53%*	*64%*	*61%*	*60%*	*48%*	*59%*	*48%*	*32%*	*21%*	*37%*	
Financial expenses	41,617	40,367	15,140	25,304	39,319	52,156	65,592	132,761	1,692	66,961	
Impairment							2,345	110	1,500	4,500	
One time items							114,632	78,538	8,355	(2,034)	
Profit before taxes	6,329	24,756	46,997	50,813	25,360	62,990	128,812	(368)	38,046	(2,579)	
Income tax and minority interest	1,963	(2,381)	7,427	7,995	9,323	8,306	6,248	7,215	10,062	(4,398)	
Equity in investee				13,015	18,492	16,989	13,640	(2,406)	(4,902)	(1,435)	
Net profit	4,366	27,137	39,570	55,833	34,529	71,673	136,204	(9,989)	23,082	384	
As % of operating income	*4%*	*21%*	*30%*	*34%*	*20%*	*30%*	*61%*	*-4%*	*11%*	*0%*	
Diluted Number of shares	56,019	56,021	58,569	65,690	65,733	65,735	65,715	67,214	67,335	67,393	
Profit per share	0.08	0.48	0.68	0.84	0.50	1.05	2.07	(0.15)	0.34	0.01	
Total assets	855,991	987,935	1,785,602	2,110,329	2,230,695	2,575,070	2,573,610	2,359,729	2,492,436	2,077,772	
Average Net Assets employed (1)	717,092	642,939	1,015,050	1,627,448	1,894,969	2,125,566	2,269,526	2,322,645	2,310,160	2,120,362	
Total Debt	609,607	710,853	1,271,445	1,548,469	1,629,713	1,891,392	1,845,430	1,599,048	1,635,169	1,209,053	
Equity	174,397	196,136	340,435	402,770	434,554	507,004	552,532	452,145	495,511	410,588	
Leverage	*71%*	*72%*	*71%*	*73%*	*73%*	*73%*	*72%*	*68%*	*66%*	*58%*	*69%*
Return on Employed Assets	*16%*	*20%*	*13%*	*10%*	*9%*	*11%*	*10%*	*10%*	*9%*	*12%*	*12%*
ROE	*2%*	*15%*	*15%*	*15%*	*8%*	*15%*	*26%*	*-2%*	*5%*	*0%*	*9%*
Number of vessels at end of the year	6	6	7	9	10	12	12	14	13	12	
Average number of vessels during the year	6	6	6	8	10	12	12	13	13	13	
Average age of fleet	20.4	21.4	19.3	15.9	15.3	13.7	14.7	13.9	15.6	17.8	
Total calendar days	2,190	2,190	2,315	2,919	3,645	4,214	4,380	4,836	4,892	4,644	
Total operating days	2,060	2,166	2,140	2,660	2,976	3,845	3,732	4,466	3,351	2,939	
Average daily time charter	53,600	59,000	57,300	54,900	46,200	55,700	51,000	45,700	47,400	57,200	51,100
Average daily vessel opex	11,200	12,800	13,000	11,800	10,210	10,558	12,097	12,793	13,410	12,080	11,573
EBITDA	79,560	96,423	93,284	116,619	115,670	171,968	142,280	115,970	96,365	135,992	
Ebitda/Assets employed	*11%*	*15%*	*9%*	*7%*	*6%*	*8%*	*6%*	*5%*	*4%*	*6%*	*8%*

1) Assets employed defined as book value of vessels plus restricted cash

Capital raising

The Group has a history of transactions in the capital markets, namely share issuances and spin-offs. GLNG was listed on the Oslo exchange in 2011 and on the NASDAQ in 2002. In 2003 GLNG issued 9.6 million shares for a consideration of approx. $106 million or $11.1 per share, funds that were used to fund the acquisition of additional newlybuilt vessels delivered in 2004.

In 2007 GLNG had a strong year which was almost entirely based on one-time gains such as the gain on the sale of traded securities and the sale of a contract to buy a newlybuilt vessel. Based on these profits, GLNG distributed about $145 million of dividends and repurchased about $31 million of its own shares. On the back of these profits, it is not clear why GLNG choose to distribute dividends and repurchase shares and later in the year go back to the market and issue new equity. Nevertheless, GLNG raised later in 2007 $75 million of new equity by the issuance of additional shares on the Oslo Exchange.

In 2009 GLNG completed a spin-off of its subsidiary Golar LNG Energy ("ENERGY") and sold some of the shares to institutional investors for a consideration of approx. $120 million. GLNG bought back the shares of ENERGY in 2011 for stock and cash consideration of $462 million.

In 2011 GLNG yet again did another spin-off of part of the business, this time into the LP and raised $310 million of proceeds to GLNG.

In February 2012 GLNG issued a 5 year convertible note yielding a real interest rate of 14% p.a. For further discussion, see Appendix B.

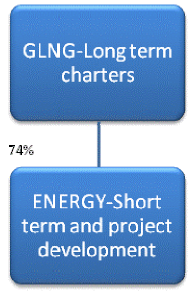
Restructuring

Golar Energy spin-off

In 2009 GLNG announced that shareholders will benefit most from spinning-off the riskier assets and the project development business into a new company named Golar LNG Energy Ltd. which then issued new shares to Fredriksen and some institutional investors. ENERGY's shares were later listed on the Oslo OCT Exchange. The spin-off included the vessels on short hire, the FSRU (Floating Storage and Regasification Unit) development business and holdings in various ventures. ENERGY was initially valued at $2 a share, giving its equity a pre-money value of approx. $337 million. GLNG, in exchange for injecting the assets and liabilities of the vessels, was issued 74% of the shares of ENERGY. GLNG planned to distribute the shares of ENERGY it still held as dividend in-kind to its shareholder in order to increase the liquidity of the shares of ENERGY on the exchange.

As part of the agreement entered between GLNG and ENERGY, the old vessel Golar Freeze was "sold" to ENERGY for it to convert it into an FSRU (see further explanation later what an FSRU actually is) and then sell it back to GLNG once the work had been completed. The re-sale price was agreed as the purchase price ENERGY paid to GLNG plus the actual costs of the conversion.

Since the issuance of the ENERGY shares, some of the company's projects suffered from setbacks and several of the projects were cancelled or not even awarded (to be further discussed). The JV with Arrow and LNGL for the development of the Gladstone project was cancelled in 2010 although ENERGY signed Toyota as a purchaser for the LNG of the project. In 2010 ENERGY wrote-off its investment in TORP, an LNG technology company. Its collaboration with the Egyptian government in EPSC did not provide for the upside hoped for and the Bluewater JV that purchased the 1977 build Grandia for $44 million was not awarded the FSRU project by Petro SA. In addition, the agreement with PTTEP for the joint development of FLNG projects was cancelled without any of the companies providing any good explanation for the termination. On top of all, new players entered the FSRU and FLNG markets.

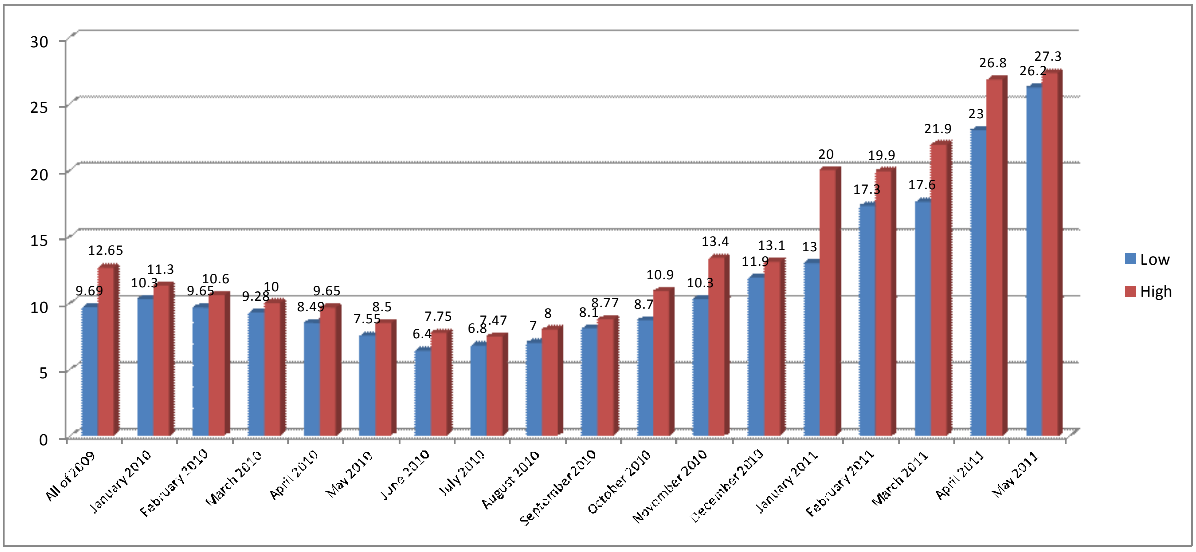


At the same time, the price of ENERGY's shares dropped and as a result GLNG stopped the plan to distribute its shares of ENERGY to shareholders.

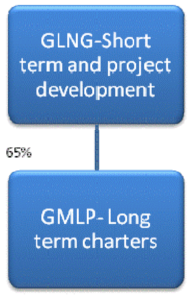
In 2011 GLNG repurchased from Fredriksen and other shareholders all the outstanding shares of ENERGY by cash and by issuing investors shares in GLNG, valuing the shares of ENERGY at $5.

To conclude this tale, GLNG raised $120 million in 2009 by selling a piece of the riskier part of the business and in 2011 bought it back at a cost of $462 million (cash - $108 million and stock - $354 million).

The following table presents the minimum and maximum share price of ENERGY on the Oslo OTC board (in NOK):



Golar LNG Partners spin-off



As GLNG bought back ENERGY is 2011, it decided to spin-off the other half of the business, and namely its long term leased assets into a partnership named Golar LNG Partners ("GMLP"). The partnership is an MLP - a Master Limited Partnership - and is a common way to invest in natural resources due to legislation that allows for the deferral of most of the taxation to the time of sale of the security. GLNG raised for itself $310 million in the sale of units in the partnership while retaining a 65% interest. In addition, GLNG later sold to the LP the FSRU Golar Freeze for a consideration of $330 million which was paid through the takeover of $108 million of senior bank debt and $222 million of vendor loan from GLNG. GLNG plans to sell to GMLP an additional converted FSRU once it is delivered to the client. The funds raised in the GMLP IPO went in whole to GLNG which used it to partly fund the delisting of ENERGY and will partly be used to pay for additional newlybuilt vessels ordered. GMLP is branded as a stable long term income producing shipping company.

What is an MLP

The distributions of cash are defined by an MLP's as a repayment of capital and as such the running taxation is lower than on dividends, however, investors will pay all the taxes saved when the unit is sold i.e. there is no tax saving, only a deferral. The following example is derived from Wells Fargo Research on the issue (highly recommended for all MLP investors)[6]:

[6] http://naptp.org/documentlinks/Investor_Relations/WF_MLP_Primer_IV.pdf

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Unit price	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Distribution		$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Yield		*5%*	*5%*	*5%*	*5%*	*5%*
Tax		$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.07
Post tax distribution		*4.65%*	*4.65%*	*4.65%*	*4.65%*	*4.65%*
Sale of unit						$ 20.00
Capital gain						$ -
Ordinary income tax						$ 1.40
Net cash flow	$ (20.00)	$ 0.93	$ 0.93	$ 0.93	$ 0.93	$ 19.53
IRR	3.34%					
Difference in yields	**28%**					

An investor purchasing an MLP unit for $20 with a constant distribution of $1 p.a. and who sells the unit after 5 years at $20 is in reality receiving a return of only 3.34% and not 5% as he initially thought, a difference of 33%[7].

Low quality of earnings and dividend generation capacity

GLNG has a history of low quality earnings. Most of its historical profits were generated from one-time items and related party transactions. GLNG's previous cash dividend distributions resulted from one time profits and can hardly be sustained over time. In addition GLNG has a history of delayed and failed projects, which needs to be taken into account when considering the future prospects of the business. In order to value GLNG and GMLP, we believe it is important to review the past performance of GLNG and its projects in order to put the future potential of the companies into context and not rely solely on the views of Sell-Side analysts and GLNG's own optimistic management.

Zero dividends from recurring operating shipping business of GLNG[8]

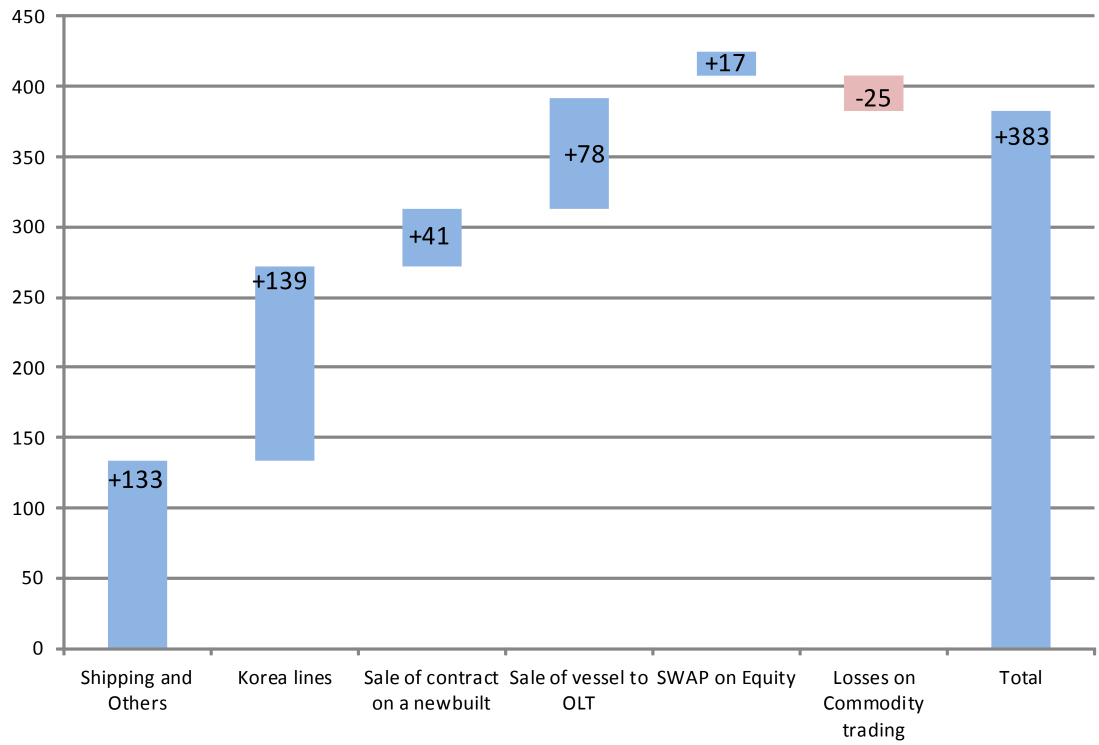
GLNG has not been able to distribute any meaningful dividend from its LNG charter business. $259 million of dividends were all generated by one-time items. GLNG has a poor track-record of generating profits from its LNG charter business. It has generated on average over the last 10 years only $11.5 million p.a. from its charters while employing a balance sheet in excess of $2 billion!

Between 2001 (the IPO year) and 2010, GLNG generated approx. $383 million of accounting profits. In the same time period, the Company distributed approx. $259 million of cash dividends to its shareholders ($145.8 million in respect of 2007, $67.4 million for 2008 and $45.7 million for 2010). When analyzing the source of profits, it is obvious that profits are not derived from the traditional LNG shipping business. During 2004-2007 GLNG bought and sold shares of a competitor (Korea Lines) and booked a profit of $138.9 million in addition to recording a profit of $41 million from the sale of a contract to buy a newlybuilt carrier[9]. In 2008 GLNG sold one of its old ships to a consortium in which it holds a small minority interest in order to convert it into an FSRU while booking a profit of $78 million from the sale[10].

In addition, since 2005, GLNG has been entering into SWAP agreements whereby it is betting on the increase in the price of its own shares and on the prices of shares of other energy related companies. During 2005-2010, GLNG booked approx. $16.8 million of gains from that source (see separate discussion).

The following chart presents the sources of profits for GLNG between the years 2001 and 2010:

[7] See appendix A for more information regarding MLP in general
[8] Data compiled by us from the Company's financial statements
[9]http://www.golar.com/index.php?name=seksjon/Stock_Exchange_Releases/Press_Releases.html&pressrelease=1106452.html
[10]http://www.golarlng.com/index.php?name=seksjon/Stock_Exchange_Releases/Press_Releases.html&pressrelease=1179288.html



We believe that analyzing the 10 year history for GLNG provides for a long enough time frame to evaluate its long term sustainable performance. We estimate GLNG generated over this period of 10 years a profit of $383 million, of which approx. $275 million were derived from one-time items, which is also approx. the amount of cash dividends actually distributed to investors over the same period.

The "Distribution Ponzi Scheme" of the LP:

GLNG floated GMLP in 2011 in order to generate cash flows for its own expansion. GLNG has been selling its long term hired vessels to its subsidiary based on a price agreed upon by GLNG and the subsidiary. At the current price level of a GMLP unit, investors are receiving an annual **cash distribution** of 4.5%. These distributions are not dividends as they are partly a repayment of the invested capital of the partnership, meaning investors are actually receiving a much lower return. GLNG has an incentive to push the price of the unit up and by that reduce the "distribution" yield as it enables GLNG sell vessels to GMLP at lower yields which means higher prices for GLNG.

Not like a real estate investment where owners can assume/hope for an increase in value or at least preservation, ships have a limited life span. The net income of GMLP, after depreciation, is the real figure investors need to focus on. From this profit GMLP needs to repay bank debt on an annual basis and whatever is left should actually be distributed to investors.

The following table presents the 2011 net income and debt repayments and the resulting available cash for distribution:

in millions	2011	Per unit
Net income	80.0	
Repayment of obligation under capital lease	-3.5	
Repayment of long term debt	-47.4	
Net cash available for distribution	**29.1**	**$ 0.74**
Current yearly distribution		**$ 1.72**
Distribution from equity		**$ 0.98**
As %		**57%**

The following is an excrapt from the LP's F-1 registration statement which highlights again that GMLP is not accounting for debt repayment when it calculates the cash available for distribution:

GOLAR LNG PARTNERS LP
FORECASTED CASH AVAILABLE FOR DISTRIBUTION

(in thousands, except per unit amounts)	Twelve Months Ending March 31, 2012(1) (unaudited)
Adjusted EBITDA(2)	$ 122,984
Adjustments for cash items and estimated maintenance and replacement capital expenditures:	
Non-controlling share of cash available for distribution	(12,671)
Cash interest expense	(19,860)
Cash interest income	1,078
Cash income tax expense	(2,417)
Drydocking capital expenditure reserves(3)	(4,000)
Replacement capital expenditure reserves(3)	(19,102)
Cash available for distribution	$ 66,012

Based on the above analysis and information, as depreciation is a REAL expense for the investors of GMLP, and the fact that GMLP is actually REPAYING its bank debt, it is clear that more than 50% of the cash distributed is not actually available for distribution to investors. This means that as only approx. $74c is real income to investors, approx. 88c is a repayment of capital. Investors are receiving a yield of merely $0.74/38.28=1.9% while a 20 year treasury is yielding 2.65%[11], before even taking into account the tax effects explained previously.

Even worse, the partnership agreement allows GLNG to charge incentive fees based on these non-sustainable distributions (see separate discussion).

GLNG is using the fact that investors fail to make the distinction between these distributions and real dividends in order to sell vessels to GMLP at inflated prices. This artificially high "distribution" yield allows GLNG to issue more units of GMLP, the proceeds of which will flow up to GLNG to enable it to buy even more vessels and sell them again at low yields to the GMLP.

History of LNG projects:

Over the years GLNG was involved in many projects, a significant number of which have failed or been delayed as is the nature of the energy development and exploration business. Management has over the years been usually overly optimistic with its projections about the future prospects of the projects, most of which lost money to shareholders.

Baja

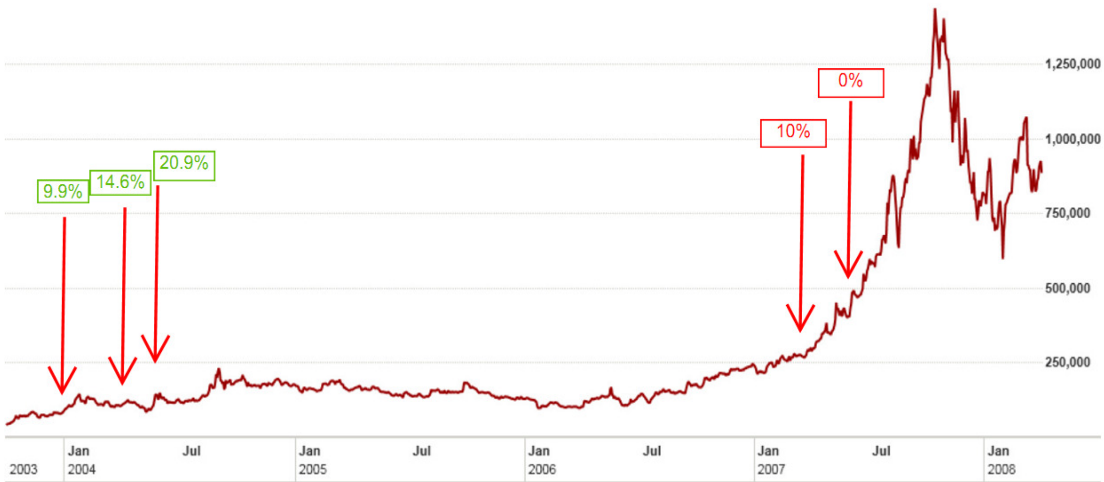
In 2002 GLNG announced entering into a joint venture agreement to build an LNG import facility in Mexico. The project was supposed to be finalized by 2006 when the complex should have included a LNG marine terminal, regasification facility, natural gas-fired power generation plant and a water desalination plant as well as infrastructure to export natural gas and electricity to the US and Mexico. GLNG expected that the project may employ up to eight LNG carriers. In May 2003 GLNG announced that the venture has been awarded a gas-storage permit.

In 2005 GLNG signed a settlement agreement in which GLNG paid an additional $1.2 million which terminated the venture. Total costs incurred by GLNG where about $2.5 million.

[11] comparable period-assuming a remaining useful life of 20 years for the vessels

Korea Lines

During 2003 and 2004 GLNG bought a stake of approx. 21% in the shipping company Korea Lines and commented that: **"Golar sees the investment in Korea Line as an interesting opportunity to develop a positive relationship to mutual benefit to one of the leading Asian LNG Shipping providers".** This attempt to takeover Korea Lines has led investors allied with Maeng-Kee Lee, the main shareholder of Korea lines, to purchase shares in the market which had the effect of further increasing the share price of Korea Lines. The following chart illustrates the share price development of Korea lines and the entry and exit points of GLNG from the trade (percentages mark the percentage holding of GLNG at that point):



Green marks the purchase of shares and red the sale

While Fredriksen did not win the battle for the takeover, he was able to sell the shares with a substantial profit, although selling a bit too early and missing most of the price movement of Korea lines' shares.

Torp

In 2005 GLNG announced that it had signed a head of terms with a company named Remora Technology to invest $3 million in exchange for 16% of TORP Technology and acquire an option to use 33.4% of the capacity of TORP's offshore regasification terminal.

According to the Golar Energy's 2009 filling: "**Torp Technology holds the rights to the HiLoad LNG Re-gasification and is planning to build an offshore LNG regasification terminal, which could be operational within 24 to 36 months from a final investment decision…On January 12, 2006, Torp Technology filed an application for a permit to build an offshore LNG regasification terminal, to be located 60 miles off the Alabama coast. In October 2008, Torp Technology withdrew its application in order to alter the technology in line with advice received from the regulator. In June 2009, Torp Technology re-submitted to the U.S. Coast Guard its application for a license to build, own and operate the Bienville Offshore Energy Terminal for receipt and regasification of LNG. Golar Energy has in interest corresponding to approximately 9.9% in the share capital of Torp Technology on a fully diluted basis".**

As part of the restructuring, GLNG transferred the investment in Torp to ENERGY at cost. In December 2010 GLNG wrote-off the $3 million investment in the company while mentioning": "**The events and changes in circumstances arose as a result of TORP Technology's projects being delayed thus impacting future cash inflows coupled with refinancing issues TORP Technology was facing as a result of tighter credit markets**". According to GLNG's 2010 20F it currently holds 1.1% of the company.

LNGL

During 2005 and 2006 GLNG purchased approx. 20% of Liquefied Natural Gas Limited ("LNGL") an Australian publicly traded company for a consideration of $8.6 million. At the time, GLNG announced: "**LNGL is company focused on acting as a link between previously discovered but uncommercial gas reserves and potential new energy markets. Aside from our anticipation that our investment will increase in value, we will also aim to tender for any shipping requirements LNGL might require in the future**".

In February 2009 GLNG announced that it had entered into a preliminary agreement relating to its participation in the Gladstone LNG project together with LNGL (40%) and Arrow Energy Limited (20%). GLNG mentioned: "**The current estimated development cost for the LNG facility is approximately $500 million, with commencement of production expected in 2012**". The project called for the liquefaction of the gas in the fields of Arrow and for GLNG to sell it to the market. In September 2009 GLNG announced it had signed a head of agreement with Toyota Tsusho for the delivery of gas for a period of 12 years. In January 2010 Arrow and LNGL announced a revised plan in which GLNG will transport the gas and will have an option to participate in the venture[12]. In February 2010 Arrow announced that it will purchase the entire project from LNGL for a purchase price of A$51 million plus conditional payment in addition to mentioning that Arrow will discuss with GLNG to take over the head of terms with Toyota[13]. Later in 2010 Arrow was acquired by Shell and PetroChina which led to the cancellation of the agreement for the delivery of gas with GLNG and also to the cancellation of the purchase of the project, leaving Arrow to develop the project on its own.

GLNG subsequently sold the shares of LNGL in 2009 and 2010 for $17.3 million. GLNG mentioned that "**We are not actively pursuing any participation in LNGL's projects although our original collaboration agreement with LNGL remains in place**".

Arrow Equity Swap

In addition to the collaboration with Arrow on the Gladstone project, GLNG entered in July 2008 in a SWAP contract on Arrow's share price resulting in GLNG having a leveraged exposure to the price movement of 12,973,000 shares of Arrow.

GLNG disclosed in its 2008 20F fillings that a reduction of 10% of the share price of Arrow will result in a loss of $2.5 million. Based on the number of shares in the agreement, it can be assumed that the value of the contract was approx. $25 million. GLNG does not provide in 2008 and 2009 the profit or loss from the trade for every year separately. It did however disclose in 2009 a profit of $7.8 million from the whole trade (2008-2009). GLNG settled the SWAP at the market price in 2009. Based on our analysis, we believe GLNG settled the trade at a price of about $3.12 (AUS).

In March 2010 Arrow received a takeover bid and was finally sold for $ 4.7 (AUS).

EPSC

In 2005 GLNG announced that it entered into a JV agreement with the Egyptian Natural Gas Holding Company and HK Petroleum Services (the JV) in order to develop LNG related business. GLNG invested in the JV $1.3 million up to now.

In 2009 GLNG announced that: **"… ECGS was awarded a contract to provide anchor handling and towing services (AHTS) and to support a two well drilling program with options for extension. ECGS continues to make positive progress in developing its capability as a provider of offshore marine services (to include drilling services) in conjunction with its objective to develop its business foothold in the Egyptian LNG market**".

Up to now nothing material has come out from this JV.

[12] http://www.lnglimited.com.au/irm/Company/ShowPage.aspx?CPID=1433&EID=69272528
[13] http://www.docstoc.com/docs/53335533/Arrow-Energy-to-Acquire-Fishermans-Landing-LNG-Project

OLT

In 2006 GLNG invested $5 million in return for a 20% share in OLT Offshore Toscana S.p.A ("OLT"), an Italian company involved in the construction, development operation and maintenance of an FSRU. Over the years GLNG's shareholding was diluted to about 2.7% interest in OLT as GLNG did not participate in the additional fundraisings. In 2007 GLNG sold a vessel to OLT for a consideration of $231 million (which will be converted by OLT in to an FSRU) while booking a profit of $78 million on the sale. According to EON's publications, OLT has Equity of about €140 million, valuing GLNG's share of the book value of the company at about $4.5 Million. Any upside from this project will probably not be significant due to the minor shareholding of GLNG in the project. In 2011 GLNG wrote off the whole investment amount.

Gandria

In 2008 GLNG invested $22 million in 50% of the interest in a vessel named Gandria - a 1977 build LNG carrier - with the intention to convert it into an FSRU. GLNG and its partners offered the ship to the South African National Oil Company (Petro SA) in a failed bid as it seems that Petro SA preferred the GDF Suez's offer[14]. GLNG is still looking for potential FSRU projects for the vessel. In 2011 GLNG bought the 50% stake from its partners.

PTTEP

In 2008 GLNG announced the signing of an agreement with PTTEP, the national petroleum exploration and production company of Thailand, for the purpose of jointly developing Floating LNG production (FLNG) opportunities. GLNG continued and mentioned that: "**Both companies have identified the FLNG business opportunity that now exists and believe their complementary capabilities provide a strong platform for commercial growth"**. In July 2009 GLNG announced an agreement to enter with PTTEP into studies for an Australian FLNG project and that a principal agreement has been reached to participate in 50% of the "gas value chain".

In January 2010, just 6 months after the previous announcement, GLNG announced the termination of the agreement governing the joint development of the FLNG project owned by PTTEP in Australia, In addition to the termination of their global cooperation to identify and develop FLNG projects.

PTTEP said in a statement that it would continue to develop the fields off Australia. It said it would continue to look for ways to work with GLNG on other floating LNG projects but without the exclusivity agreement provided by the cancelled deals[15].

In July 2011 PTTEP announced the development of the Maple fields jointly with SBM Offshore, casting doubts over any further collaboration with GLNG [16].

BW Gas

GLNG purchased in 2008 $2.4 million worth of shares in listed BW Gas. BW Gas is a competitor in the LNG charter market and is one of the largest gas shipping companies in the world. The company was listed on the Oslo Stock Exchange in 2005 and was taken private in a compulsory acquisition in 2009. GLNG tried to sue over the price of the compulsory acquisition as it claimed the fair value of a share was NOK 61.5 and not 21 as offered in the acquisition[17]. GLNG lost the case in court.

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[14] http://www.icis.com/heren/articles/2009/01/30/9309440/gdf-suez-wins-petrosa-floating-regasification-tender--source.html

[15] http://www.upstreamonline.com/live/article204967.ece

[16] http://www.ogj.com/articles/2011/07/pttep-unit-confirms.html

[17] http://www.gov.bm/portal/erver.pt/gateway/PTARGS_0_2_10809_204_226633_43/http%3B/ptpublisher.gov.bm%3B7087/publishedcontent/publish/non_ministerial/judiciary/judgments_2011/judgment_2011___golar_lng__share_valuation_.pdf

FSRU (Floating Storage and Regasification Unit) conversion

An FSRU is a floating platform or vessel equipped with processing equipment capable of converting LNG into gas form where it is typically transferred to an onshore natural gas pipeline system.

GLNG was the first company to convert an old LNG vessel carrier into an FSRU in 2008. Since then, GLNG signed additional agreements bringing the company's total number of conversions to four. The Company holds four old ships as potential candidates for future conversion. As part of its newbuilt program, GLNG ordered also a newlybuilt FSRU. GLNG employs its current converted vessels' on 10-11 year leases, usually with further options for the counterparty to extend.

In its 2010 20F fillings GLNG mentioned that it expects the competition in the FSRU business to increase: "**We expect substantial competition for providing floating storage and regasification services and marine transportation services for potential LNG projects from a number of experienced companies, including state-sponsored entities and major energy companies. Many of these competitors have significantly greater financial resources and larger and more versatile fleets than we do. We anticipate that an increasing number of marine transportation companies—including many with strong reputations and extensive resources and experience—will enter the FSRU market and LNG transportation market".** Followed by: "**FSRUs are in an early stage of their commercial development and thus there is less competition in that market than in the more mature commercial market of LNG carriers. However, interest in the sector is expected to increase. Currently, the Company, Excelerate Energy, Höegh LNG, Exmar, Mitsui O.S.K. lines and MISC Berhad are among the companies actively competing for FSRU projects"**.

As GLNG reported, the competition is already increasing. The following are examples thereof:

- Höegh LNG has recently entered into an agreement with Perusahaan Gas Negara for the delivery of an FSRU in Indonesia. Höegh will deliver for this project one of its newly ordered FSRU's from Hyundai. It is planed that the FSRU will be hired on a 20 year charter[18].
- Hamworthy, the company that provides the regasification technology used by GLNG and other players in the market, announced that it will fit its systems on 21 new FSRUs[19].
- Excelerate Energy signed with Petrobras (which hired its first two FSRU's from GLNG) an agreement for a third FSRU on a 15 year charter[20].
- On top of the newlybuilt FSRU's, there are more than 100 vessels with similar characteristics to the old vessels GLNG holds for potential conversion, giving the opportunity for additional players to join also the FSRU conversion market as the conversion itself is done by third party shipyards.

It can be observed that the market is starting to get a bit (more) crowded and GLNG, although with more experience in conversion of FSRU's, is starting to lose contracts to newlybuilt vessels. These vessels usually have a longer life expectancy and lower running costs. It seems that GLNG also ordered now a newly built FSRU. This raises some doubts about the future profitability of the FSRU conversion line of business.

Cyprus floating power plant

GLNG has planned to operate a Floating Power Generation Plant (FPGP) off the shores of Cyprus. In 2006 the Company updated that it has received a license to construct and operate a 240 MW floating power plant.

In Q2 2007 the Company wrote that: "**The Cyprus Floating Power Generating Plant (FPGP) project continues to make steady but slow progress. The license to import, store and use the liquefied natural gas (LNG) required to fuel the FPGP is still pending. The regulatory authorities have announced that Golar's application is complete and is currently under review, however the delay appears to be linked to the government's overall LNG strategy. It has been announced that there will be a tender launched by the Cyprus government later this year requesting bids for the supply of LNG into Cyprus. Golar is now considering a modification to the FPGP project scope in order to enable the supply of regasified LNG as well as power from the unit. This combined power and gas solution has strong economic and timing benefits"**.

[18] http://www.offshoreenergytoday.com/hamworthy-to-equip-worlds-first-fsrus-south-korea/
[19] http://www.offshoreenergytoday.com/uk-hamworthy-to-supply-inert-gas-systems-for-lng-fsru/
[20] http://www.lngworldnews.com/excelerate-wins-fsru-contract-from-petrobras-brazil/

In Q3 2007 the Company further added: **"The Cyprus Floating Power Generating Plant (FPGP) is still waiting for the relevant authorities to issue the necessary licenses to import, store and use the liquefied natural gas (LNG) required to fuel the FPGP. The delay is largely attributable to the Cyprus government's overall LNG and energy strategy which is currently under debate at Ministerial level. Golar remains positive towards this project and continues to participate in the relevant meetings to try and facilitate a speedy resolution**".

In the Company's 20F filing for 2007, GLNG referred to the Cyprus project under Possible Future LNG Industry Business Activities and wrote that: **"In conjunction with Saipem S.p.A we have been developing the concept of a floating power generating plant (FPGP). The concept is based on the conversion of an existing LNG carrier by installing combined cycle gas turbine generators capable of producing around 240 megawatts of power, which is carried ashore via sub-sea cables. Although at an early stage of development we see this as a logical extension of the floating regasification and storage projects, as noted above, that we have been working on. The project has reached a significant milestone in 2007 with the regulatory authorities, CERA, awarding Golar Energy Ltd (a Cyprus based subsidiary of ours) a licence to construct and operate the 240 MW FPGP located some 4 miles off the coast of Cyprus at Vassilikos and a licence to operate and produce electricity. However, still pending is a licence to import, store and use the liquefied natural gas (LNG) required to fuel the FPGP and there is still considerable development work to be completed. The ultimate size and timing of our potential investment has yet to be determined."**

In its 2008 20F fillings the Company did not refer to this project anymore. As it looks - the project is stuck. It has been reported that GLNG sued the Cypriot Government in relation to the delivery of the Gas to the project[21]. We could not find any additional comments from GLNG on this project in later periods.

Golar Commodities

In 2010 GLNG and ENERGY launched Golar Commodities, a subsidiary for managing and trading LNG cargoes. It was planned that the subsidiary's operation will include structured risk management services to outside customers, buying and selling of LNG as well as proprietary trading.

In Q2 2010 press release GLNG provided the following optimistic announcement: "**The Company believes that the <u>timing for setting up the entity is optimal in terms the development of LNG trading</u> (emphases added). There are also clear synergies between the trading division and the shipping and project development side of the business which Golar expects to take advantage of**".

In 2010 the commodity trading operations lost about $13 million, half of which represents trading losses and half operating cost of the unit. In Q4 2010 the tone of the press release has already changed, although the board was, as always, positive that in the long run the operation will be successful. GLNG updated: "**Golar Commodities continued to actively pursue spot market trades but poor risk and reward characteristics of opportunities during the period hampered further trades. Given the risks, uncertainties and illiquidity associated with LNG trading, Golar Commodities will take a measured approach to its trading activities; especially during its ramp-up phase. A prudent approach to selecting its initial positions in a highly deliberate manner should ensure more certain success and avoid large risks…The earnings and prospects of Golar Commodities have been negatively influenced by the tightening of the LNG shipping market. However, the Board still sees good opportunities for solid economics for longer term cargo deals"**.

In Q1 2011, the commodity operation lost another $6 million, roughly half due to trading losses and the other half due to operating expenses. GLNG updated: "**Opportunities are increasingly being generated through synergies with the Company's FSRU and other asset-oriented ventures. The Board is clearly not satisfied with the results Golar Commodities has generated since start up, but sees clear positive signs in recent developments and appreciates the hard work of the organisation to create a strong strategic position".**

In Q2 2011 after the Commodity operations lost another $11.7 million, $8.7 million of which were trading losses, GLNG provided the following update: "**The Board is clearly disappointed with the performance of Golar Commodities since its start up. Part of the reason for the under-performance is linked to the dramatic change**

[21] http://es.reuters.com/article/idUKL924844820081009

in trading which has occurred as a function of the tightening shipping market. Golar has further not been successful in integrating the Golar commodity team based in Tulsa fully into the Golar organisation. The Board will, as a result of the lack of performance and the strengthening of the shipping market, reduce the trading activities until market opportunities open up again".

Adding this all up, the "optimal timing" to enter the market and the "synergies" have cost shareholders roughly $25 million, all just in one year.

Corporate Governance

In the last few years, GLNG went through various corporate transformations including spin-offs, buybacks and share issuances, which we believe did not serve the interests of minority holders of the securities.

The story of Golar Freeze

GLNG used funds raised by its listed subsidiary in a private placement to fund a project of GLNG, contrary to its previous regulatory filings, while the minority investors in its subsidiary that provided the cash didn't receive any of the profits. Later GLNG sold the vessel for approx. $150 million profit to a different publically listed subsidiary based on an "independent valuation" provided by the same firm that underwrote the IPO of that subsidiary.

Previous to the spin-off of ENERGY in March 2009, GLNG had a cash balance of approx. $66 million[22] which was not enough to fund the $80 million it needed for the conversion of the vessel Golar Freeze from an LNG carrier in to an FSRU (Floating Storage and Regasification Unit). In its Q1 2009 press release GLNG mentioned "**… the Company has been working on a debt financing for the Golar Freeze FSRU project which is required for approximately $80 million of the unfinanced capital commitment in respect of the project. Progress has been made but in the current difficult credit markets it has been a slow and difficult process. There is a risk that attractive terms will not be agreed with banks and/or that financing will be needed prior to the conclusion of any financing. The Board has therefore been considering alternative sources of short-term financing in conjunction with the restructuring work noted above. The Board believes that alternative short-term financing will be available to the Company**".

So GLNG became creative and decided to use the funds from the private placement of ENERGY to fund the conversion of its own vessel. As part of the restructuring, Golar Freeze was sold to ENERGY by GLNG and "parked" on the balance sheet of ENERGY for the period of the conversion into an FSRU. ENERGY used the funds raised in the private placement for the conversion and then sold the converted vessel back to GLNG without making any profit for itself[23].

In its press release from August 9th, 2009 announcing the restructuring, GLNG announced: "**The proceeds from the private placement will be used by (Golar) Energy to finance the development of the project portfolio acquired from Golar and as working capital**". No mentioning as to financing the conversion of Golar Freeze. Furthermore, in a presentation to investors relating to the private placement (dated August 4, 2009)[24] ENERGY mentioned: **"Golar LNG Limited will fund and/or guarantee funding for Golar Freeze remaining conversion cost and will fund operating and debt service costs during the period to redelivery (the "funded Amounts")"**.

In its filling to list the shares on the Oslo Exchange, ENERGY's tone has already changed slightly. Now ENERGY wrote in relation to the conversion of the Freeze: "**Golar Energy has agreed to loan Golar LNG funds for this purpose at market Terms.**

It seems that GLNG has found a creative way to finance the conversion - by using the funds raised by ENERGY in the private placement - for the sole benefit of GLNG. In GLNG's 2009 20F (filled in mid-2010) GLNG mentioned that the funds raised by ENERGY: **"… will be used to fund the development of new business including FSRU projects and working capital requirements. In the interim and prior to refinancing the Golar Freeze, this new equity has also been used to fund capital commitments in respect of the Golar Freeze**".

One can assume that the investors in ENERGY where not very happy to learn that the funds raised to grow the business in which they invested, were being used to grow the business of the parent company, contrary to the presentations made by ENERGY. In addition, they did not provide any share of the profit of the conversion project to ENERGY and its minority shareholders.

[22] Derived from the balance sheet of GLNG less the balance sheet of ENERGY
[23] ENERGY received some minor interest income from GLNG
[24] http://hugin.info/142200/R/1335168/317226.pdf

In 2010 the vessel was delivered to the client for operations and the debt was refinanced with a $125 million facility and sold back to GLNG.

Well the story continues...

As part of the spin-off of another subsidiary of GLNG in 2011 – GMLP, GMLP received options to purchase the Golar Freeze and an additional FSRU conversion (the Khannur) from GLNG. In its registration fillings GMLP mentioned: "**… we currently have no ability to borrow additional amounts under the Golar LNG Partners credit facility… Therefore, we will be required to obtain additional financing in order to fund the expansion of our fleet beyond its current size (including our potential acquisitions of the Golar Freeze and the Khannur)**". Furthermore, GMLP mentioned: **"…In order to acquire these two vessels or any additional vessels, we may need to issue additional equity or incur additional indebtedness**".

When GMLP exercised its option to buy the Freeze from GLNG at a price of $330 million (while its actual cost is estimated by us with not more than $180 million) it could not actually pay the amount outstanding of $222 million ($330 million less the $108 senior bank loan taken over from GLNG) as the proceeds from the IPO went in whole to GLNG. So GMLP borrowed under a three year loan the amount from GLNG, while paying interest at a rate of 6.75%. It is quite reasonable to assume that as a bank has just refinanced the vessel with $125 million, no bank will show up willing to provide a significantly higher loan. As a result, GMLP might, or probably will need to, raise additional equity to repay GLNG's $222 million loan.

It is interesting to note that when GLNG borrowed <u>unsecured</u> funds from its 74% owned subsidiary for the conversion project in 2009, it paid "Market Terms" (according to ENERGY's financial statements – Libor+3% or about 4% in total) and when GLNG sold and then lend money to its 65% subsidiary (GMLP) to finance the equity in a long term chartered vessel (and probably lower risk vessel) it charges 6.75%, although interest rates have dropped over the same period. GLNG is always on the winning side when it does business with its subsidiaries.

GMLP's board of Directors and its "Conflicts Committee" approved the purchase price and vendor financing. <u>The Conflicts Committee was advised by DnB Nor Markets to assist with its evaluation of the transaction. The same DnB Nor Markets underwrote the IPO of the LP earlier in 2011[25] and also provides analyst coverage on GLNG</u> [26].

<u>ENERGY share buyback</u>

Insiders made a $6 million profit from buying shares of the listed subsidiary before the buyback of the shares of the subsidiary.

As part of the IPO of ENERGY, Fredriksen participated in the fund-raising and acquired through his holding company 11,385,200 shares of ENERGY[27]. Fredriksen received additional 13,373,100 shares of ENERGY during 2009 and 2010 through dividends in-kind that GLNG made[28]. In October 2010 Fredriksen started to increase his holdings in ENERGY. He purchased during the period from October 2010 to December 2010 additional shares in the market and bought also from GLNG itself shares which were not distributed in the dividend distributions (as some shareholders received cash and not shares). In addition, Fredriksen bought warrants from other investors only a day before their expiration in December 2010 and converted them into stock. The following table summarizes Fredriksen dealings in the shares of ENERGY:

[25] http://edgar.sec.gov/Archives/edgar/data/1415916/000104746911002863/a2202966zf-1.htm
[26] http://www.golar.com/index.php?name=seksjon%2FAnalytical%2FResearch_Coverage.html
[27] http://hugin.info/142200/R/1345993/323220.pdf
[28] Assuming the number of shares held according to the company's 20F filling - 31,203,900 (as of March 31, 2011)

	As % of outstanding	Fredriksen number of shares	Date of acquisition	Cost in Million $
Purchased at IPO	5%	11,385,200	Aug-09	23
Received through dividends	6%	13,373,100		0
Exercise of warrants purchased on the market@ $2 or about 11.9 NOK	2%	3,848,820	15/12/2010	7.70
Purchase of block shares remaining with the company @10.48 NOK	1%	2,633,233	11/09/2010	4.77
Purchase on the market @9.89 NOK	1%	2,400,000	13/10/2010	4.04
Total exchanged for GLNG shares	**14%**	**33,640,353**		**39.27**

Even though Fredriksen participated in the IPO with 5%, he effectively reduced his exposure to ENERGY at a share price of $2 as he held previously about 50% of it (it was wholly owned by GLNG) and post IPO he held only 50%*65%+5%= or about 37.5%. Beginning in October 2010, Fredriksen and Trøim (ENERGY's chairman who used to be also GLNG's CEO) decided to increase their stake in ENERGY roughly one year after floating it. It can be seen from the share price chart that the increase in their holding in ENERGY did not start in June or July 2010 when the stock hit its lowest level but rather later in October (see chart on page 9). Fredriksen acquired his additional shares at an average price of $1.86[29].

On December 14, 2010 Fredriksen announced that he had acquired 1.57 million warrants at a price of NOK 0.41 per warrant[30]. These warrants' exercise date was the next day - December 15 - and Fredriksen exercised all of them. Of the 12 million warrants issued at the IPO only 9.42 million were exercised, causing doubts whether at that point in time there was any financial incentive for investors to exercise the warrants.

On April 26, 2011 GLNG announced that it had acquired in a private transaction approx. 70 million shares from Fredriksen and from third party investors and increased its shareholding in ENERGY to 90.5%. GLNG acquired ENERGY by way of issuing a new share of GLNG in exchange for every 6.06 shares of ENERGY - valuing a share of ENERGY at $5.

The following table presents the return an investor in GLNG would have made from the IPO of ENERGY until the takeover compared to the return for the investors in ENERGY. Clearly an investor that bought a share in ENERGY would be better off had he invested in GLNG and not in ENERGY in the first place (obviously ENERGY investors were disappointed they invested in the subsidiary's IPO and not with the parent GLNG):

GLNG		ENERGY	
Price of a share of GLNG on August 14, 2009 (1)	**$10.07**	Price paid for a share of ENERGY	**$1.84**
Cash dividends:		Value assigned to Warrant	0.16
Sep-10	0.15	Takeover price	**$5.00**
Dec-10	0.25		
Mar-11	0.3		
Value of shares dividends in ENERGY (assuming sold in takeover)	2.14		
Price as of takeover	**$30.30**		
Return for investor of golar over this period	**229%**	**Return for an investor in ENERGY**	**150%**

(1) Assumed to be the placement date

In the meantime, Fredriksen and ENERGY's chairman Trøim picked up shares of ENERGY at prices below $2 in the period from October 2010 until December 2010

The following tables illustrates our estimation for the gains for Fredriksen and Trøim from their dealing in the shares of ENERGY prior to the announcement of the takeover compared to buying a share of GLNG in the market on the same dates they traded ENERGY's shares (according to the buyback conversion rate):

[29] not accounting for any amount paid for warrants on the open market and not accounting for the shares received via dividends
[30] http://www.lngworldnews.com/golar-lng-energy-insider-transaction-bermuda-3/

Fredriksen	Fredriksen number of shares of ENERGY	Equal to number of shares of GLNG	Date of acquisition	Cost per share of ENERGY	Golar share price	Profit
Exercise of warrants purchased on the market (1)	3,848,820	635,119	14/12/2010	2.08	14.86	1,432,320
Purchase of block shares remaining with GLNG	2,633,233	434,527	11/09/2010	1.81	16.69	2,486,057
Purchase on the market @9.89	2,400,000	396,040	13/10/2010	1.68	13.4	1,266,760
Total exchanged for Golar LNG shares	**8,882,053**	**1,465,685**		**$1.89**		**$5,185,137**

Trøim	Trøim number of shares of ENERGY	Equal to number of shares of GLNG	Date of acquisition	Cost per share of Golar ENERGY	Golar share price	Profit
Exercise of warrants purchased on the market (1)	134,120	22,132	15/12/2010	2.08	14.86	49,912
Purchase of block shares remaining with GLNG	500,000	82,508	11/09/2010	1.81	16.69	472,054
Purchase on the market @9.89	750,000	123,762	10/11/2010	1.68	13.4	395,863
	1,384,120	**228,403**		**$1.77**		**$917,829**

(1) warrants assumed purchased at 8 cents

On March 30 2011, GMLP filled with the SEC a registration statement for an IPO. Preparing such filling is not something a company rushes into and it usually takes a long period of time to prepare. As we believe Fredriksen did not mean to create a structure whereby GLNG would be an empty holding company (holding company discount for one reason) holding ENERGY and the GMLP, GLNG and its managers probably had prior knowledge of the planned restructuring and buyback for quite some time before filling the registration statement in March 2011.

Equity Swap agreements

GLNG is involved in leveraged bets on its own shares which allowed it to book a very creative $10 million profit which could not be booked through a normal buyback.

GLNG has been involves in SWAP contracts on its own shares since 2005. In October 2005 the board of GLNG approved a share buyback plan which used a SWAP contract with a bank. Under the SWAP contract, the bank purchased shares of GLNG in the market while GLNG paid the funding costs of the bank and in 12 months' time the bank would either pay the profit of holding the shares to GLNG (If the share price of GLNG went up) or GLNG would pay the bank the loss on the shares (if the price of GLNG went down). In addition, GLNG had to put funds as collateral to the bank. In 2005 the bank purchased 600,000 shares at an average price of $11.04 and GLNG booked a profit of $1.4 Million. In June 2006 the bank purchased 470,000 additional shares at an average price of $ 13.26 and in October 2006 GLNG and the bank extended the agreement for an additional period of 12 Months. GLNG recorded in 2006 a loss of $0.8 million from these transactions. In April 2007 the bank purchased additional 171,300 shares at an average price of $13.25 and in May 2007 GLNG purchased from the bank all the shares and booked an additional profit of $ 7.4 million. In total GLNG recorded a profit of $8 million relating to these SWAP agreements in 2005-2007.

These SWAP contracts are a complicated way to do a buyback. Especially interesting is the fact that GLNG had balances of about $50-60 million of free cash on its account and could have easily bought the shares on the market in the first place. **So why did GLNG decide to borrow funds from the bank, pay interest on these funds and put additional cash as collateral for the SWAP? Why didn't GLNG just buy shares in the market from the beginning?**

We could not find any reasonable explanation other than the difference in accounting treatments as the SWAP contract was more expensive to shareholders than a straightforward purchase in the market. Under a normal share buyback, the amount actually paid for the shares is reducing the equity of the corporation.

Had GLNG bought the shares in the market, it would have no effect on its bottom line. It would have paid $15.1 million for the shares which would have reduced the equity of the Company by $15.1 million. As GLNG decided to use this complicated way for the buyback, it allowed GLNG to book an accounting profit of $8 million from the changes of value of its own stock (increasing equity by $8 million). When GLNG settled the trade, it reduced the equity of the Company by $22.1 million - the original $15.1 million plus the $ 8 million profit. Same outcome -only higher accounting profit.

Since this transaction, GLNG has continued with leveraged speculation on its own shares (it no longer actually purchases the shares as part of a buyback). In 2008 GLNG booked a profit of $0.2 million by betting on the price of 300,000 shares and in 2009 the Company booked an additional amount of $1.7 million[31] as profit from the trade.

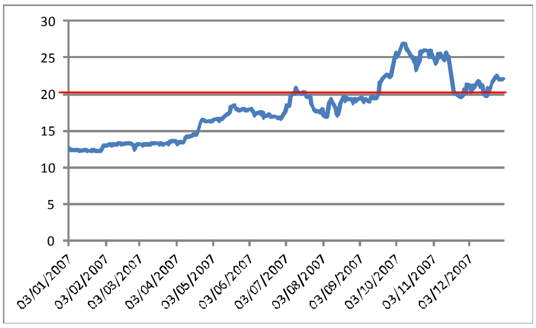
Share buyback

GLNG bought back shares in such a way that enabled it to increase profit per share and dividend per share, the figures investors are focused on.

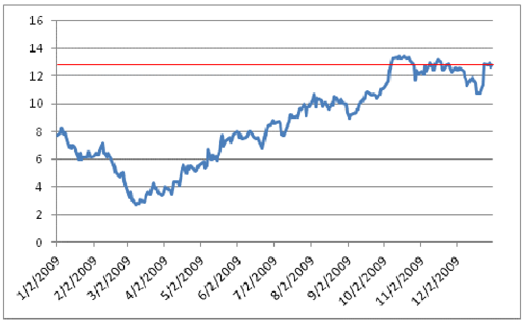
Over the years the Company granted more than 4 million options of which approx. 1.7 million have already been exercised. During 2007 and 2009, GLNG purchased shares in the market in order to grant them to insiders when they exercise their options. This has the effect of not diluting the Earnings Per Share and dividend per share as there are no new shares on the market. However, the downside is that the Company needs to buy the shares for cash in the market. GLNG "invested" in the purchase of 700,000 shares approx. $12 million in 2007 and 2009. These shares were "re-issued" in 2008-2011 in exchange for stock options of insiders.

The following tables present the development of the share price of GLNG in 2007 and 2009. **Obviously the purchases where not done in the best timing so they were probably not the result of management taking the opportunity to buy cheap stock of GLNG (red represents the purchase price):**

2007:



2009:



Employee stock options

"Employee" share options issued to majority shareholder who has already plenty of incentives and practically shifted money from minority shareholders to the controlling shareholder.

Over the years GLNG issued stock options to its senior management. In 2001 GLNG issued 10 year options to Fredriksen (200,000) and Trøim (100,000). **These options vested within a year and did not have the usual characteristics of similar kinds of options, i.e. vesting over a long period of time as the main reason for the**

[31] As GLNG didn't report these figures we had to cross various sources to calculate the profit in 2008 and 2009

issuance is to retain the employee. Even more disturbing for investors we find the fact that these options were granted to the main shareholder who serves as the Chairman of The Board and who probably does not need more incentives as he already held at the time approx. 28 million shares of GLNG. Would the additional 200,000 options provide an incentive for Fredriksen? In addition, the very short vesting period does not really provide for a long term alignment to the interest of the Company (for Trøim).

In 2006, GLNG granted 1,258,000 options, 300,000 of which to Fredriksen and 150,000 to Trøim (who no longer served as CEO but as Deputy Chairman of the Board, Vice-President and Director).

Golar LNG Partners conflict of interests

The registration statement of the LP provides for some important points for conflicts of interests between GMLP and its sponsor - GLNG. We are of the opinion that due to the past behavior of GLNG, investors should stay away from investing in GMLP as the interests of the minority investors cannot be protected. The LP agreement provides for the following regulations which can be used against the interests of the minority holders:

Subordinated units

Subordination of GLNG's unit does not provide any real protection to the minority holders.

As part of the IPO, approx. 16 million of the units issued to GLNG (41% of total units) were defined as subordinated units. In essence, the subordinated units receive cash distributions only after the common units have received the minimum distribution of $0.385 per quarter. The minimum distribution was chosen based on the cash flow capabilities of GMLP at the time of the IPO. The subordination arrangement is designed to provide for an extra protection to investors buying units in the market as common units rank senior in priority to the subordinated units in relation to cash distributions. The subordination will end the latest in 2016 (and under certain consideration even earlier). The subordination agreement is basically a cloud of smoke in front of the eyes of investors as it does not really provide for anything, as all of the charters of vessels are longer than the maximum 5 year subordination period.

Takeover protection from third parties

GLNG fortified its control over GMLP and prevents future takeovers.

The partnership agreement provides that in case a holder of common units controls more than 4.9% of the units, he will be able to vote as if he owns only 4.9% of the units, preventing a takeover attempts by outsiders. This clause prevents any upside to unitholders in case of a hostile takeover or active investors stepping in. In addition, in order to replace the general partner, a majority of more than 66.67% of all unit holders is needed. It is enough that GLNG controls 34% of the units to prevent this, further fortifying its control of GMLP. Currently GLNG controls about 65% of the units.

GMLP wrote in its prospectus: "**Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if public unitholders are dissatisfied, they will be unable to remove our general partner without Golar LNG Limited's consent**".

Takeover option for GLNG

GLNG reserves itself the right to buy back the minority holders of the units

GLNG has a call option to buy back all the outstanding units if it controls more than 80% of the common units. In addition, GLNG has the option to convert its incentive payments to common units, meaning that if GMLP will increase significantly the distribution, GLNG will be able to convert its incentive payments and hold more than

80% of the units, without purchasing the units on the open market which would lead to a price increase, the need to report the acquisitions and would make the takeover more expensive for GLNG.

Incentive fees

GLNG can pay itself incentive fees from cash flow not generated by real profits but generated by the sale of vessels, refinancing or the issuance of new units.

GLNG is entitled to receive incentive fees ranging from 0-48% of the distribution to unitholder over a threshold. This threshold is currently 15% higher than the current minimum distribution. This has the effect that should GMLP distribute funds which are generated from the sale of vessels (basically repayment of the equity to investors), from the issuance of additional units or from borrowing of funds that would cause the distribution to exceed the threshold, GLNG will receive incentive fees from these distributions, although unitholders have not actually gained anything[32].

Conflict of interest of principles

The management of GMLP has a conflict of interest with the controlling shareholder-GLNG.

The management of GMLP is composed of employees working for a company controlled by GLNG and that have fiduciary duties to that entity and not to GMLP. GMLP wrote in its prospectus: "**As a result of these relationships, conflicts of interest may arise between us and our unaffiliated limited partners on the one hand, and Golar LNG Limited and Golar Energy and their other affiliates**".

[32] See "Characterization of Cash Distributions" in the LP prospectus

Valuation

Golar LNG Partners ("GMLP")

GMLP was taken public in 2011 and is currently trading at more than $38 after GLNG sold to investors a 35% interest in the partnership for a consideration of $310 million ($22.5$ per unit). The price of a unit has since increased more than 70% in a period in which the LNG spot charter rates have sky-rocketed. **This fact is striking in itself as GMLP actually owns and operates vessels with long term charters and therefore is hardly influenced by short term volatility in the spot market price for LNG charters.**

The following table provides the details of the vessels owned by GMLP:

	Ownership	Built	Assumed useful life	Lease end (without options)	Remaining years on the lease	Assumed remaining useful life at the end of the lease
Methane Princes	100%	2003	40	2021	10	22
Golar Winter	100%	2004	40	2019	8	25
Golar Spirit	100%	1981	20 since conversion	2018	7	10
Golar Mazo	60%	2000	40	2017	6	23
Golar Freeze	100%	1977	20 since conversion	2020	8	10

In order to value a unit of GMLP, we have used two different valuation methods, (i) the Dividend Discount Model and (ii) the Comparable Method.

Discounted Cash Flow Model:

Units of GMLP are currently trading at approx. $38, reflecting a yield of 4.5% on the current cash distribution of $1.76. However, the investment is hardly a secured investment (as discussed previously). When an investors buys a bond of a company he expects to be paid back at the maturity of the term his principal investment. If at the end of the term he received only 50 of 70 cents on the dollar, his actual return is much lower than the stated coupon on the bond. In the Case of GMLP, the partnership owns a fleet, which is getting older by the year and will most probably generate lower hire rates when coming off-hire than modern vessels. Eventually the ships will be sold or scraped and will generate a final payment which most probably be lower than the price paid for the vessel. That is the basic idea behind depreciation in financial statements.

If we agree that when the leases end (in 2017-2020), the ships will probably be worth less than they are today as they will be between 15 and 43 years old by that time, the question still remains what the new charter rate will be when the leases end. As discussed previously, the price of the spot market is very volatile over time and usually a long term charter rate will tend to be at a lower rate due to the reduced risk involved.

The following table presents our assumption on the future cash flow distribution capabilities of GMLP, assuming the vessels are sold at the end of the charter and the debt repaid:

In millions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Cash Flows (1)	93	93	93	93	93	93	75	56	37	19
Addition of Freeze (2)	23	23	23	23	23	23	23	23	23	
Ship sales (3)						90	175	150	175	150
Debt repayment (4)	(41)	(41)	(28)	(28)	(28)	(135)	(139)	(133)	(128)	(75)
Free Cash Flow	75.7	75.7	88.7	88.7	88.7	71.5	134.1	95.9	107.8	94.0

In order to estimate the fair value of a unit we have assumed the following:

1. Operating cash flow of $70 million for the first nine months of 2011 - annualized

2. We added $23 million of cash flow p.a. to represent the contribution of the Freeze-according to GMLP's publications and our assumption of repayment of the $222 loan from GLNG and lower interest payment as a result
3. LNG carriers will be sold at the end of the lease at an average price of $150 million (vs. a current cost of a newlybuilt of approx. $200 million) and a 10 year converted old FSRU's at a price of $175 million
4. Debt repayment is based on the Q3 2011 financial statement, the 2010 20F debt schedule of GLNG and our own assumptions

Based on our estimated cash flow, we have discounted the cash flow with a discount rate of 8.17%[33] to reflect the required return an investor will require for this investment. In addition, we subtracted from the value the new $222 million vendor financing GMLP has borrowed from GLNG, as if it was repaid.

In millions	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Free Cash Flow	75.7	75.7	88.7	88.7	88.7	71.5	134.1	95.9	107.8	94.0
Discounted Cash Flow	69.9	64.7	70.0	64.8	59.9	44.7	77.4	51.2	53.2	42.8
Present value of Cash Fows	$ 598.5									
Addition of Freeze vendor loan (5)	$ (222.0)									
Net value of Equity	**$ 376.5**									
Number of units	39									
value per unit	**$ 9.5**									

5. We reduced the value of GMLP by the vendor note in the amount of $222 million GLNG pushed down to GMLP and added back the interest payment for that loan

Based on the above analysis the discounted cash flow model provides for a value of $9.5 per unit of GMLP.

Comparable method:

In order to do a reality check, we have compared our valuation to recent market transactions. In October 2011 A.P. Møller-Maersk sold 6 LNG carries and a 26% stake in two additional carriers to a JV of Teekay and Marubeni Corp for $1.4 billion. Five of the ships are on long term hires (average length of 17 years) and three on short term. **The price tag indicates an average sale price of $215 million per vessel**. The vessels are modern vessels, have approx. 20% more capacity than GMLP's vessels and were delivered between 2004 and 2009 and as such are newer than GMLP's fleet.

If we assume the FSRU Freeze is actually worth $330 million (and let's assume the FSRU Sprit is also worth $330 million) and add on top the value of the three comparable smaller and older vessels and for the benefit of the doubt value them also with $215 million apiece (as the Teekay transaction), we get to the following valuation:

	In Million $
Golar Freeze	330
3 modern vessls	645
Golar Spirit	330
Total vessels	1,305
Other assets	57
Total assets	$1,362
Non controling interest	61
Liabilities	1,003
Value of Equity	**$298**
Number of units	39.43
Value per unit	**$7.56**

[33] 8.17% was calculated based on the required return an investor would require (Cost of Equity= Risk Free Rate+ Beta*(Market Risk- Risk Free Rate)). Risk free rate assumed average period of 5 year treasury, leveraged beta of the shipping industry of 1.4 and Market Risk of 6.04% - Based on Damodaran on-line

Based on the comparable method we find a value of approx. $7.56 per unit of GMLP.

Based on the Discounted Cash Flow model and the Comparable Method we believe the fair value of a unit of GMLP is the average between both valuation methods - $8.25.

Golar LNG Ltd.

The following chart presents the current fleet of GLNG:

	Ownership	Built	Assumed useful life	Status	Remaining years on the lease	Assumed remaining useful life at
Khannur	100%	1977	20	In conversion	11	9
Gimi	100%	1976	40	Is being reactivated	n/a	n/a
Hili	100%	1975	40	held for conversion	n/a	n/a
Grandria	50%	1977	40	held for conversion	n/a	n/a
Golar Viking	100%	2005	40	On hire	Less than 1 year	33
Golar Grand	100%	2006	40	On hire	4	30
Golar Maria	100%	2006	40	On hire	Less than 1 year	35
Golar Arctic	100%	2003	40	On hire	Less than 1 year	32

GLNG is currently converting the Khannur into an FSRU and will probably sell it to GMLP when delivered. In addition, the Company holds 100% of four older vessels which are waiting to find a client for conversion into an FSRU's/reactivated until conversion. GLNG owns further 4 newer vessels which are on relative short hires. GLNG is also holding all the project development discussed previously. The Company has recently placed orders for 8 new LNG carriers and one new FSRU to be delivered in 2013 and 2014.

We believe that it is impossible to value the future cash flows of the Company from trading in the spot market due to the high volatility in the market. As such, we have valued the assets of the Company, for which there is an active market and deducted the liabilities in order to get to the value of the Equity of GLNG. In addition, we believe this method provides for a good estimate of the true value as any competitor can order today a newlybuilt vessel and take delivery in about two years' time. Any added value GLNG might have would be equal to the income it can generate in the next two years, which is relative minor compared to the current valuation of the Company.

As the assets of the Company consist of 4 vessels that will soon come off hire and then will be re-hired and 4 older vessel designated for conversion, we have made the following (partly very aggressive to the benefit of GLNG) assumptions in order to get to a valuation:

1. The older vessels designated for conversion are worth currently $40 million each, similar to the cost of the Grandria
2. A conversion to an FSRU costs $90 million per vessel
3. A third party will purchase the FSRU at a price of $330 million after conversion (the same price GMLP paid-or borrowed from GLNG). We have assumed here that GLNG will find clients for all its planned converted FSRU's
4. The 4 modern ships will be chartered **for $80,000 per day on a long term charter** [34]and sold to a third party (or to GMLP) based on a multiple of 7.5 on revenues (not cash flow), i.e. approx. $196 million per vessel, which is about the cost of a newly build carrier (which is 10 years younger) - as the business model is to sell the ships to GMLP
5. Value of $150 million for all the other projects (discussed previously) and management platform

[34] Currently no one is chartering LNG carriers at rates above $100,000 for long term leases. The current high spot rates are not relevant for long term charters as all players know that a big number of vessels in coming to the market starting 2013. As such, we allowed for a figure of $80,000 per day, which is much higher than the 51,000 average GLNG achieved in the last 10 years. An $80,000 rate suggests a repayment over 7 years based on a vessel price of $200 million. As we mentioned, this assumption is for the benefit of GLNG and provides an upper level for long term leases in order to "drop down" to GMLP.

	In Millions	
Value of Ships to be converted to FSRU	$160	40*4
Profit from conversion to FSRU	$800	(330-40-90)*4
Value of ships to be chartered	$864	x7.5 income
Other investments, management platform	$150	
	$1,974	
Other assets on the balance sheet	$240	
Adjustment due to Freeze	$242	
Share in partnership	$211	at $8.25 per unit
Total Assets stand alone	**$2,667**	
Book value of debt	-$854	
Implied Equity	$1,813	
Value of a share of GLNG	**$22.58**	at 80.3M shares

Based on the above analysis, we believe the value of a share in GLNG is $22.5.

Current market price and flawed assumption of Sell-Side analysts

Sell-Side analysts have fuelled the price increases in GLNG and GMLP in recent months. The models used are flawed in many aspects and provide for ridiculous valuations of the assets of the companies, which are in essence vessels that are generic to other vessels in the market. These implied valuations provide for prices that are as much as 200% higher than newlybuilt vessels!

GMLP

The following table summarizes the current holdings of GMLP and the value assigned to its equity and assets by the market:

	GMLP			
	Number of units in MM	Holding	Unit price	Value
Public	13.80	35%	$38.28	**$528.26**
GLNG	25.63	65%	$38.28	**$981.06**
Non controling interest				**$61.00**
Total value of Equity	**39.43**			**$1,570.3**
Debt (1)				**$1,003.0**
Total value of assets				**$2,573.3**

(1) Includes book balance of debt as of 9/2011 plus $330 relating to Golar Freeze

Based on the value the market is assigning to the assets of the LP and the aggressive assumption that an FSRU is actually worth $330 million, **the market is valuing the remaining three vessels at a price of $620 million each (!) while a newlybuilt costs only about $200 million**. **In addition, as discussed previously, market transactions for newer vessels with longer leases have been recently traded at prices of $215 million, providing further evidence that the unit price is externally overvalued.** Furthermore, the vessels are hired on long term leases at least until 2017 meaning that GMLP cannot benefit from the current high charter rates in the spot market.

Market value implied for the vessels	In million
Total assets	$2,573.3
Cash balances	(53)
Value assigned to vessels	$2,520.3
Total value of FSRU's	660
Value of all other 3 vessels	$1,860.3
Average value per vessel	**$620.11**

Morgan Stanley, the investment bank that was one of the underwriters of the IPO of the LP initiate coverage of the LP in May 2011 with "**Overweight**" and a price target $31. We believe Morgan Stanley makes the following curtail flawed assumptions[35] (we believe the analysis of Morgan Stanley is also a reflection of other Sell-Side analysts):

- **A compounded annual growth rate of 15% of cash distributions as a result of "drop-down" of vessels from GLNG to GMLP.** We believe Morgan Stanley failed to account for the fact that this growth will be need to be financed by an equity offering to finance the equity portion of the vessels and therefore the "drop-down" of vessels **will not increase the per unit distribution at 15% p.a. rates due to the additional dilution to holders of the units**. In addition, we have seen that **GLNG is not shy to book significant profits when it sells vessels to**

[35] http://www.scribd.com/doc/62105190/MS-Perspectives-May-25-2011

related parties, booking most of the gain for itself, leaving probably no upside for GMLP from the "drop-down".

- Growth in the LNG market. Although Morgan Stanley is probably right and there are many signs that the industry will grow**, GMLP's vessels are chartered on long term hires, eliminating all the upside potential resulting from the shortage in the LNG shipping market in the next few years**.

- Morgan Stanley's price target suggests a distribution yield of 5% ($1.54/$31). We believe **Morgan Stanley failed to account for the fact that these distributions are not dividends in whole. These distributions are approx. 50% repayment of capital as discussed previously and are not sustainable. Real return to investors is only 1.9%.**

GLNG

The shares of GLNG have recently been trading as high as $47. In order to understand what this price means, we have provided the following analysis that highlights the implied valuation for the vessels based on the book value of the debt and the shares outstanding:

Consolidated	Number of shares in MM	Share price	In MM
Equity Value	80.325	$41.27	$3,315
Debt as of Sep 2011			$1,507
Total assets			**$4,822**

In order to understand the value investors assign to the vessels of GLNG it is important to carve out the partnership (which we have valued already) and look at the Company on a standalone basis **(assuming current market price for GMLP)**. The following table illustrates that:

Carved out balance sheet			
		In Millions	
Investment in Partnership	At $38.28 per unit-market price	$981	Dec-11
All other assets	EV minus Investment in partnership	$3,188	
Total assets		**$4,169**	
Market value of Equity	at $41.27 per share	$3,315	Dec-11
Debt on a stand alone basis	Book value and payment on the Grandria	$854	Sep-11
Total equity and liabilities		**$4,169**	

Now that we have the market value assigned to the assets of GLNG (assuming a unit in the partnership is actually worth $38.28), we assume that the project development business is worth $150 million (which is very optimistic). Based on these assumptions, an **average vessel** is valued at approx. $380 million (!). **Again, this valuation is much higher than the price of a newlybuilt vessel or similar transactions in the market, especially taking into account that four of the 8 vessels are old vessels (1970's)** which are waiting to be converted in to FSRU's and the other 4 trade in the short term and volatile charter market.

Market value implied for the vessels	In million
value assigned to assets	$3,188
Value assigned to projects (1)	-$150
Value assigned to Vessels	$3,038
4 short term chartered vessels and	
4 old vessels held for conversion	
Average value per vessel	**$380**

Morgan Stanley has also initiated coverage of GLNG in May 2011 with "Overweight" and a price target of $34 and in July 2011 raised the price target to $46 and to $55 in November 2011 on the back of the increase in shipping rates. In its analysis the bank made the following assumptions:

- Increase in the fleet due to the purchase of newlybuilt vessels. **We believe the bank failed to account for the increase in equity needed to fund the $1.4 billion venture and the dilution to shareholders**. GLNG will need an estimated $500 million of new equity for the expansion. GLNG has two sources for cash, or by issuing more shares, or by selling vessels at inflated prices to GMLP, which in turn will raise the cash by issuing more units. GLNG filled in July 2011 a shelf registration which will enable it to raise new equity very quickly and dilute shareholders.

- We believe Morgan Stanley assumes is its analysis that the current high hire rates will be sustained in the long term. **Current high spot and short term hire rates are the result of the current lack of vessels, a gap which is expected to be filled in the next couple of years as new ships are added to the market.** This assumption disregards the history of the shipping market dynamics and assumes that competitors will not enter the market which provides currently unleveraged returns of 25% per annum. Current short term daily rates are as high as $140,000 while GLNG 10 year average is only $51,000. In 2011, 64 new LNG carriers have been ordered which is about 15% of the current worldwide fleet. The last time such a number of newlybuilt vessels was recorded was in 2004 which caused the sever oversupply in the 2007-2009 markets. The supply shortage is expected to end by 2014 and therefore the advantage of companies owning un-chartered vessels is limited in time.

Appendix A

This is what Wells Fargo had to say about MLPs which could easily explain why GLNG chose this structure.[36] (Obviously the report is geared towards future issuers and not so much for investors):

- "**Conflicts of interest with the GP**. For certain MLPs, the GP of the partnership and the parent company that owns the GP are controlled and run by the same management teams. Some potential areas of conflict include (1) the price at which the MLP is acquiring assets from the GP, (2) the GP aggressively increasing the distribution to achieve the 50%/50% split level rather than managing distribution growth to maximize the long-term value of the underlying MLP, (3) the potential for management to place the interests of the parent corporation or the GP above the interests of the LP unitholders, and (4) underlying MLP equity issuances to fund growth initiatives benefit the GP regardless of whether the acquisition or project is accretive."

- "**Why Create An MLP?**

    - A tax-advantaged structure with which to pursue growth opportunities. MLPs typically enjoy a competitive advantage relative to corporations, due to their tax-advantaged status.

    - In general, MLPs should be able to either (1) pay more for an acquisition than a corporation and realize the same cash flow accretion or (2) realize more accretion from an acquisition given the same acquisition price. In addition, MLPs have traditionally enjoyed good access to capital, which makes financing acquisitions and organic projects feasible.

    - The ability to maintain control of the assets (via the GP interest). The general partner can retain control of the asset while maintaining just a 2% equity interest in the MLP.

    - The opportunity to capture potential upside from incentive distribution rights (IDR)."

- "**What Are The Tax Advantages For The LP Unitholder (The Investor)?**

    - Taxed-Deferred Income. As previously noted, a unitholder is typically allocated an amount of federal taxable income from an MLP that is roughly equivalent to 20% of the cash distribution received each year. In other words, the MLP distributions received by a limited partner (i.e., the investor) are approximately 80% tax deferred (on a median basis) in a given year. Thus, the investor would pay ordinary income tax only on the in come allocated to him or her, which roughly equates to 20% of the distributions received in that year. The tax-deferred portion of the distribution is not taxable until the investor sells the security."

- "**How Can MLPs Pay Out More Than They Earn?**

    - In analyzing MLPs, we typically do not focus on earnings per share or earnings per unit (EPS/EPU), as we believe the focus for MLPs should be on cash flow. This is due to the fact that cash flow determines how much can be paid out to unitholders in the form of distributions. We believe that earnings may misrepresent true economic value because of accounting conventions for non-cash items such as depreciation and amortization and non-cash market-to-market adjustments for commodity and interest rate hedges. Therefore, we tend to focus on cash flow metrics, in particular, distributable cash flow, as this determines how much cash flow can be paid out in the form of distributions."

- "**What Makes The GP So Valuable?**

    - The value of the GP is threefold, in our view. (1) IDR "Leverage." The GP owns the incentive distribution rights (IDR), which entitle it to receive a disproportionate amount of the incremental cash flow of the partnership. In most partnerships, this agreement can reach a level where the GP is receiving 50% of every incremental dollar paid to the LP unitholders. This creates significant "leverage" for GP cash flow and enables cash flow growth at the GP to be roughly 1.5-2.0x the rate of the underlying MLP (common referred to as the GP multiplier). (2) Minimum investment, maximum

[36] http://naptp.org/documentlinks/Investor_Relations/WF_MLP_Primer_IV.pdf

control. The GP controls the underlying MLP and its assets, but typically owns just a 2% equity interest. This is especially useful for a company that owns significant mature assets suitable for an MLP structure. The company can place these assets into the MLP structure, potentially receive a higher market value for the assets, and own an investment vehicle with a lower cost of capital with which to access the capital markets. Finally, the company can sell additional assets to the MLP over time (the so-called dropdown model), which benefits both entities. With dropdowns, the MLP has visible distribution growth that should enhance the partnership's valuation. The GP owner benefits by monetizing assets at attractive valuations and realizing increase cash flow through its ownership of the IDRs as the MLP increases distributions. (3) Increased financial flexibility. A publicly traded GP also creates additional financial flexibility for management and can potentially benefit the MLP. Management can effectively use the GP's financial resources to help fund attractive growth opportunities at the underlying MLP. This could include having the GP purchase LP units to fund the equity portion of an acquisition or tapping the debt financing capacity of the GP. As a publicly traded entity, the GP can also facilitate acquisitions by raising equity via public and private transactions and/or issuing units to potential sellers in exchange for their assets."

- "**Power Of The IDRs**
    - The value of the GP lies in the fact that the GP receives a disproportionate amount of the incremental cash flow of the underlying partnership as LP distributions are increased due to the IDRs. Hence, distribution growth for GPs is typically significantly higher than that of LPs. For example, GPs have been able to raise their distributions at a two-year CAGR of 19% (2007A to 2009A; excludes AHD, HPGP, MGG, and XTXI), while the underlying MLPs have only been able to increase their distribution at a rate of 7%.
    - The Power Of Equity Issuance. The GP benefits when the MLP issues common equity even without any increase in the distribution. The reason is that the GP receives a percentage of the total cash flow of the MLP entity based on the number of units outstanding. For example, the MLP's stated distribution level (and yield) represents the distribution made only to the LP unitholders. However, the MLP must also make payments to the GP based on the IDRs. Thus, the actual distribution payment per unit includes both payments to the LP and GP. As a result, the issuance of additional common units (and the distributions that are required on each unit) will result in additional cash flow accruing to the GP."

Appendix B

On February 28, 2012 GLNG announced the issuance of a $250 million, 3.75%, 5 year convertible note, secured on the subordinated units of GMLP. GLNG noted "**This Bond issue will therefore provide attractive long-term financing for the Company's growth plans**".

The following is an analysis of this "attractive financing":

GLNG issued 5 year convertible notes, convertible at a price of $55. Contrary to what might be assumed, the real interest on this note is not 3.75% as stated but 14%. This is the result of the embedded option feature in the note. Investors are receiving two financial instruments. A plain vanilla bond with a 3.75% coupon and in addition an option to purchase approx. 4.5 million shares of GLNG at a price of $55. This option has a value of approx. $90 million according to the B&S pricing model, meaning investors will pay only $160 million for the note which has a face value of $250 million. This means GLNG is actually paying a real interest rate of 14% on the loan - hardly an attractive borrowing rate for the borrower. GLNG failed to disclose this information to its shareholders and is basically issuing equity at the current high share price and trying to hide this dilution through a convertible bond issuance.

The following is the calculation of the option value based on the B&S option pricing model and the real interest paid by GLNG on the secured note:

Inputs into B&S			
Price of Underlying	$	43.14	28-Feb
Exercise price	$	55.00	
Risk free rate		0.84%	28-Feb
Term		5	
Volatility		61.42%	5 year historical volatility calculated on weekly data
Value of a Call option	**$**	**19.76**	
Principle amount of the Note	$	250,000,000.00	at $55
Number of embedded options		4,545,455	
Value of options granted	$	89,812,012	
Value assigned to Note	**$**	**160,187,988**	

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
	$ (160,187,988)	**$ 9,375,000**	**$ 9,375,000**	**$ 9,375,000**	**$ 9,375,000**	**$ 259,375,000**
Effective interest rate	**14%**					

It's all a matter of timing

We advise investors in these note to seek the advise of the investors of the $225 million convertible bonds issued by Fredriksen's other shipping company - Frontline ("FRO") that were issued in April 2010 when the shares of FRO were trading above $35. **In December 2011 the company sold most of its assets (mainly to Fredriksen) and its share price dropped to approx. $5. In March 2012 FRO announced it has repurchased $10 million of the notes for 54% of face value.**