Research Update Buy Idea

Golar LNG Ltd and Golar LNG Partners (GLNG and GMLP)

Closing Pandora's Box **March 15, 2012**

Contents

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Executive Summary

Golar LNG Ltd is a 'Buy' rated stock with a $98.00 price target

On Friday March 9th, a new research distribution site named InvestDOOR published a negative report on the Golar companies, reportedly written by Pandora's Box Research. On Monday, Golar LNG Ltd (GLNG) shares fell 3.63% after Muddy Waters Research, authors of several reports revealing fraud at U.S.-listed Chinese companies (most famously Sino-Forest Corporation), provided a link to the Pandora's Box report on their Twitter feed. Given the stellar reputation of Muddy Waters, the link set off a firestorm of activity (and confusion as to who wrote the report). On Tuesday, Carson Block, Director of Research at Muddy Waters, told Barrons.com via e-mail that "we don't have an opinion" on either Golar entity, but the damage had been done.

The primary accusations made in the Pandora's Box report are that the Golar companies have poor earnings quality, poor corporate governance and are massively overvalued. As we explain in this update, none of these claims are true. The alleged 'poor earnings quality' actually results from Golar's impressive track record generating non-operating and investment-related gains during the very difficult LNG carrier market of the last few years. We also show that John Fredriksen and Tor Olav Trøim have been incredibly fair to minority investors, especially those invested in the Golar companies, and that the valuations of both Golar LNG Ltd (GLNG) and Golar LNG Partners (GMLP) are quite compelling. We also point out several miscalculations and mistakes in the Pandora's Box report, some of which appear to be intentional. Contrary to Greek mythology, we believe Pandora's box can be closed.

The author of this report owns shares of both Golar LNG Ltd (GLNG) and Golar LNG Partners (GMLP).

Unit Economics LLC

Pandora's Box

On Friday, March 9th a new research distribution site named InvestDOOR published a negative report on the Golar companies, reportedly written by Pandora's Box Research (http://www.invest-door.com/downloads/Golar_PandorasBox_12Mar2012.pdf). On Monday, Golar LNG Ltd (GLNG) shares fell 3.63% after Muddy Waters Research, authors of several reports revealing fraud at U.S.-listed Chinese companies (most famously Sino-Forest Corporation), provided a link to the Pandora's Box report on their Twitter feed. Given the stellar reputation of Muddy Waters Research, the link set off a firestorm of activity (and confusion as to who wrote the report). On Tuesday, Carson Block, Director of Research at Muddy Waters, told Barrons.com via e-mail that "we don't have an opinion" on either Golar entity, but the damage had been done.

Who is Pandora's Box Research?

Pandora's Box Research has no internet presence and their Golar report does not include any contact information. In fact, the thirty-five page PDF was stripped of all author details and timestamps (the only clue was that the report was authored by "PC"). The website that published the report, InvestDOOR (http://invest-door.com), was registered on 1/17/2012 and is hosted in Sweden. The contact information listed on the domain name registration for InvestDOOR is listed as "Contact Privacy Inc. Customer 0130005529," a reference to a Canadian service that helps protect the identity of website owners. There are many reasons to remain anonymous, but few that indicate good intent.

Despite their claims that they are "an independent source for unbiased research" that "thrive[s] to create value for our clients," their legal disclaimers state that "as of the publication date of this report, Pandora, its affiliates, others that contributed research to this report and others we have shared our research with (collectively, the "Authors") have short positions in and own options on the share or unit (the "shares") of the companies covered herein." We noticed that there are large open interests in March $40 and $35 GLNG put options, as well as September $30 GLNG puts (around 2,000 contracts for each strike).

Their thirty five page report was well-documented and brought up what appears to be (at first glance) some legitimate criticisms of the Golar companies. Upon closer examination, however, it becomes apparent that the authors intentionally mislead readers by using faulty calculations. For example, they use some very sloppy cash flow and depreciation calculations when discussing Golar LNG Partners (GMLP), as well as a dated projected cash flow statement on which they base their distribution assumptions. They also failed to incorporate any fleet growth into their GMLP cash flow assumptions, yet state that GLNG will inflate earnings by selling assets into GMLP. In another set of calculations that we still do not fully understand, Pandora's Box comes up with a $9.50 per unit NPV for GMLP (keep in mind GMLP will likely pay out $1.90 per unit this year alone) based on their forecast that GMLP will fully liquidate their assets *prior* to the completion of two of their current charters. The report also values the LNG carriers held by GLNG based on a recent six vessel transaction, failing to mention that all of the vessels were effectively locked into long-term contracts at below-market rates. At one point, they even go so far as to state that "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!"

The Pandora's Box Sell Report

Claim: GLNG Has Not Paid Dividends from the Shipping Business

The Pandora's Box report begins by stating "GLNG has a poor history of converting operating cash flow into dividends." We believe that nothing could be farther from the truth: Between 2006 and the end of 2011, the primary period during which Golar LNG Ltd (GLNG) paid cash dividends, GLNG paid out $352 mln[1] in total cash dividends and generated $301 mln[2] in total CFFO (the Pandora's Box report somehow uses different dividend payment numbers, stating dividend payments to date have been $259 mln, which we believe may be through 2010). The Pandora's Box report goes on to say that "GLNG never actually paid any dividend from its shipping business." It would be equally true to say that "GLNG has paid out all of their CFFO to shareholders in the form of cash dividends."

Claim: Profits Resulted from One-Time Items, Making Earnings Quality Low

We agree. By traditional measures, Golar's earnings are rather low quality. Between 2006 and 2010, the period during which the Pandora's Box report questions the quality of Golar's earnings, Golar generated a total of $459.97 mln of operating earnings, of which $119.20 mln was classified as gains on the sale of vessels[3], as can be seen on the following annual income statement, taken from Golar's 2010 20-F filing:

	Fiscal Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands of U.S. $, except number of shares, per common share data, fleet and other financial data)				
Income Statement Data:					
Total operating revenues	244,045	216,495	228,779	224,674	239,697
Gain on sale of vessel/newbuilding	-	-	78,108	41,088	-
Vessel operating expenses (1)	52,910	60,709	61,868	52,986	44,490
Voyage and charter-hire expenses (2)	32,311	39,463	33,126	10,763	9,582
Administrative expenses	22,832	19,958	17,815	18,645	13,657
Depreciation and amortization	65,076	63,482	62,005	60,163	56,822
Impairment of long-lived assets and investments	4,500	1,500	110	2,345	-
Gain on sale of long-lived assets	-	-	430	-	-
Other operating gains (losses)	(6,230)	-	-	-	-
Operating income	60,186	31,383	132,393	120,860	115,146
Gain on sale of available-for-sale securities	4,196	-	-	46,276	-
Net financial expenses	66,961	1,692	132,761	65,592	52,156
(Loss) / income before equity in net earnings of investees, income taxes and noncontrolling interests	(2,579)	29,691	(368)	101,544	62,990
Income taxes and noncontrolling interests	4,398	(10,062)	(7,215)	(6,248)	(8,306)
Equity in net (losses) earnings of investees	(1,435)	(4,902)	(2,406)	13,640	16,989
Gain on sale of investee	-	8,355	-	27,268	-
Net income (loss)	384	23,082	(9,989)	136,204	71,673
Earnings (loss) per common share					
- basic (3)	0.01	0.34	(0.15)	2.09	1.09
- diluted (3)	0.01	0.34	(0.15)	2.07	1.05
Cash dividends declared and paid per common share (4)	0.45	-	1.00	2.25	-
Weighted average number of shares – basic (3)	67,173	67,230	67,214	65,283	65,562
Weighted average number of shares - diluted (3)	67,393	67,335	67,214	65,715	65,735

Golar LNG 2010 20-F

The 'quality of earnings problem' at GLNG stems from the fact that operating earnings are not a good metric for asset-intensive companies like shipping companies (or hotel owner/operators). The assets create large depreciation charges which often do not reflect their economic value, yet severely impact operating income. For this reason, most shipping analysts focus on EBITDA rather than operating earnings or net income. Golar LNG Ltd (GLNG), for example, reported a total of $307 mln in depreciation expense between 2006 and the end of 2010, yet the market value of their assets most likely increased over this period. The 'quality of earnings' of shipping companies is further reduced when vessels are over-depreciated relative to their market value during their first few years of service, as is often the case, creating large "one-time gains" if the vessels are sold. Golar LNG Ltd (GLNG) will continue to be a seller of assets to Golar LNG Partners (GMLP) in the future. Given the strength of LNG carrier and FSRU markets, the vessels will almost certainly be sold for more than their book values, ensuring that the "one-time gains" and "low quality earnings" will continue.

Based on the principle that contract values drive shipping asset prices, it is not surprising that the Pandora's Box report mentions the six LNG carriers purchased from Maersk by a Teekay-Marubeni JV in October of 2011 for an average price of $221 mln each [their report erroneously says $215 mln each] as a 'comparable recent transaction' that can be used to value the Golar vessels. Five of the six carriers purchased from Maersk were contracted at an estimated fixed rate of $74,000 per day[5] for an average of seventeen years and have at least ten year extension options. The sixth carrier has an eighteen year option that is expected to be exercised[6]. Further proving that depreciation schedules often lead to one-time gains, Maersk booked an $80 mln accounting gain on the sale of the vessels despite the fact that they were only a few years old[7].

Claim: A Series of Project Failures also Contributes to Low Earnings Quality

The Pandora's Box report alleges, in a very detailed overview of Golar's investments of the past few years, that a series of one-time deals and ventures have significantly benefitted earnings, yet "GLNG has a history of failed and delayed projects, making its pipeline of projects far from a gold mine for investors." The report details twelve projects that they largely define as failures, yet they go on to show that the various ventures undertaken by Golar since 2006 benefitted earnings by more than $128 mln[8]. This isn't burger King[9]!

The report goes on to claim that over the past ten years, Golar LNG Ltd (GLNG) generated total accounting profits of $383 mln, of which "approx. $275 million were derived from one-time items, which is approx. the amount of cash dividends actually distributed to investors over the same period." We must first point out that accounting profits do not directly translate into distributable cash flows. Second, while we somewhat dispute their numbers, perspective is everything. The statement could have easily read "in the difficult LNG shipping market of the past ten years, when rates often hovered near or below $60,000/day, Golar still managed to earn $108 mln from operations and, through their foresight and investing acumen, roughly $275 mln in gains through asset sales and investments. Given the limited market opportunities of this difficult period, management chose to pay out more than $250 mln to shareholders in the form of cash dividends."

Many of the projects described as failures in the Pandora report offered such attractive potential upside in exchange for such low initial investments that, even in hindsight, one would expect (and hope) that Golar management would undertake them again. In 2002, Golar entered into a JV to build an LNG terminal in

Baja, Mexico that would have employed up to eight LNG carriers. The project ultimately failed, but total losses to Golar were only $2.5 mln. In 2005, Golar spent $3 mln to acquire 15% of TORP Technology and an option to use 33.4% of the capacity at TORP's planned offshore regasification terminal. This project also failed, causing Golar to write off their $3 mln investment. In 2005, Golar recognized that there was significant potential to export stranded gas from Australia to Asia in the form of LNG and found an inexpensive way to become involved, buying a 20% stake in LNGL, a publicly-traded company in Australia, for $8.6 mln. Golar leveraged their stake in the potential Gladstone project to sign an agreement to buy the LNG supplied by one of its trains (the industry term used to describe a single, self-contained LNG liquefaction unit generally having production capacity of roughly one BCF/d) and deliver it to a trading firm in Japan in a deal that could have been worth tens to hundreds of millions of dollars over several years. Unfortunately, the project was ultimately acquired, cancelling Golar's sales agreement as well, yet Golar booked a $17.3 mln profit on their investment, more than offsetting the $5.5 mln in total losses from their failed Baja and TORP investments. In 2006, Golar paid approximately $5 mln for a 20% stake in OLT Offshore and ultimately leveraged the investment to help sell the project a Golar-built FRSU, booking a gain of $78 mln on the sale of the vessel in 2007. We don't deny these investments often became 'failed projects' in the sense that they did not become operational, but we point out that Golar generated a substantial *gain* on their investment activities overall and had one of the projects worked out, the upside would have been phenomenal.

Claim: Insiders are Front Running the Shares and Have Poor Corporate Governance

John Fredriksen (specifically the Trust set up for the benefit of John Fredriksen and his family) and Tor Olav Trøim have made frequent share purchases in companies that they are involved in managing and/or in which they have more than a 10% stake, the commonly-accepted ownership threshold triggering one to become a company insider. In order for a trade to be classified as front-running, however, it must be done in advance of other trades and the trader must profit from trading in advance of others (ie, sell the shares shortly thereafter)[10]. The Pandora's Box report states on pages twenty-one and twenty-two that both Tor and John bought shares of Golar Energy between September and December of 2010, knowing that GMLP would file a registration statement on March 30th, 2011, ultimately leading to the repurchase of Golar Energy shares by the company. Not only was the time period between the purchases and the filing reasonably long (three to six months), the Pandora report meticulously details their purchases and concludes that the total profit earned from the alleged front running transactions was $6.1 mln. We are expected to believe that men of the stature of John Fredriksen and Tor Olav Trøim would risk everything to make a $6.1 mln?

In addition, the transactions of John Fredriksen and Tor Olav Trøim have been almost entirely *purchases* and their average holding period can be measured in years. This makes their investments *insider buying* rather than front-running, which is perfectly legal when done during acceptable windows and with proper regulatory fillings. Insider buying has been shown to lead to above-average performance of the shares being purchased[11]. In fact, we believe that minority shareholders of the Golar companies would *prefer* that insiders make purchases from time to time. Once again, the Pandora's Box report is attempting to turn a strength of the Golar companies and their management team into a weakness.

As for corporate governance, we believe that few (if any) insiders have ever treated minority investors as fairly as John Fredriksen and Tor Olav Trøim. For example, they generally take their companies public at quite reasonable valuations: Seadrill Ltd (SDRL) went public at $9.85 a share in early 2006 and has since paid (or will as-of March 23rd) $8.59 per share in total dividends and trades at $37.60 per share. Golar LNG Partners (GMLP) came public at $22.50 per unit just eleven months ago, leading even Pandora's Box Research to point out that "the price of a unit has since increased more than 70%." Once their companies are public, John Fredriksen and Tor Olav Trøim align themselves with ordinary shareholders and do not set up their companies to give themselves special treatment.

In late 2004, John Fredriksen and Tor Olav Trøim allowed Golar to take a stake in a Korean bulk shipping company, Korea Lines, for $34 mln. The shares were trading at 2.3X trailing EV:EBITDA, just as the outlook for the bulk shipping market was becoming *very* interesting. Golar later sold the stake for $173 mln, generating $139 mln of the 'non-operating gains' that are subject to such criticism in the Pandora's Box report. Lesser men would have taken the opportunity for themselves.

Finally, John Fredriksen has loaned money to his companies and provided their creditors with debt guarantees when financing was tough to come by, much to the benefit of minority shareholders and at his personal expense. He is also believed to be responsible for securing the attractive payment terms and sales prices that are so often gained on newbuild vessels ordered by his companies (especially the Golar companies).

Claim: GLNG Bought Back Shares to Increase Profits and Dividends per Share

The Pandora's Box report states "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." Seriously? That is a *negative*? Out of respect for our clients, I don't think we have to explain ourselves on this one.

Claim: GLNG Sells Vessels to Golar LNG Partners at Inflated Prices

The Pandora's Box report correctly states that Golar LNG Partners (GMLP) bought the Golar Freeze FSRU from Golar LNG Ltd (GLNG), their parent company, for $330 mln, despite their estimates that the vessel only cost $180 mln. The report alleges that the transaction "did not serve the interests of minority holders" and resulted from "an 'independent valuation' provided by the same firm that underwrote the IPO of the subsidiary [GMLP]."

We believe the Freeze may have cost GLNG a bit less, but reiterate that shipping assets are not valued based on their steel values (ie construction costs), but instead on the contracts attached. In their October 6th, 2011 press release, GMLP stated that the Golar Freeze would contribute approximately $46 mln in annual revenue and $39 mln in adjusted annual EBITDA and that the vessel was contracted for 8.6 years with an option to extend the charter up to five additional years. Shipping companies generally trade at 8X to 10X EBITDA, but contract durations rarely go out more than three to five years. We view the 8.46X EBITDA multiple paid by GMLP as quite a reasonable multiple. If we use the same valuation methodology that Pandora's Box uses to value GMLP, discounted cash flows, including their excessive 8% discount rate, the NPV of the contracted cash flows was $271 mln. If we assume that 8.6 of the Golar Freeze's twenty remaining useful years are gone at the end of the contact, the vessel will have 57% of its useful life left when the charter expires in 2020, assuming the option is not exercised. At an 8% discount rate, the NPV of the Freeze is 2020 is $91 mln. Adding this to the $271 mln NPV of the contracted cash flows, the Freeze should be worth $362 mln. We believe that Golar LNG Partners (GMLP) paid a rather reasonable price for the vessel.

Claim: The Distributions of Golar LNG Partners (GMLP) are a Ponzi Scheme

The Pandora's Box report claims that the distributions paid by Golar LNG Partners (GMLP) are a Ponzi scheme, as the dividends are partly a repayment of capital invested rather than a return *on* investment. This is a common criticism of MLPs (although, once again, GMLP is not actually an MLP). In general, MLPs are required to pay out more than 90% of their income to unit holders in order to qualify for tax-free status. Because Golar LNG Partners (GMLP) is incorporated in the Marshall Islands and generates income from shipping-related assets, which are generally untaxed by local jurisdictions, GMLP was set up to have the look and feel of an MLP without being forced to actually become an MLP.

Does GMLP pay out depreciation? We can begin to determine the truth by ignoring Pandora's approach of using estimated EBITDA and cash distributions for the twelve months ended March 31, 2012 and instead look at the *actual* earnings and distributions of GMLP from the most recent quarter. While we would prefer to use a twelve month (or longer) period, not only did GMLP go public only eleven months ago, but they recently acquired the Golar Freeze (October 2011). The following table, taken from the fourth quarter press release of Golar LNG Partners (GMLP), details their distributable cash flow calculations:

(in thousands)	**Three months ended December 31, 2011**	**Three months ended September 30, 2011**
Net income	**$25,564**	**$16,989**
Add:		
Depreciation and amortization	8,991	8,893
Unrealized (gain) / loss from interest rate derivatives	(32)	9,065
Unrealized net (gain) / loss from foreign exchange and related foreign currency derivatives	(977)	1,494
Amortization of deferred tax benefit on intragroup transfer	-	(270)
Less:		
Estimated maintenance and replacement capital expenditures (including drydocking reserve)	(8,148)	(5,823)
Non-controlling interests' share of DCF before maintenance and replacement capital expenditure	(3,112)	(3,144)
Dropdown Predecessor's net income before depreciation and amortization	(1,808)	(8,797)
Distributable cash flow	**$20,478**	**$18,407**

Golar LNG Partners (GMLP) Fourth Quarter Press Release

As you can see on the table above, the total maintenance, drydocking and CapEx provisions for the fourth quarter were $8.15 mln. This compares very closely to the $8.99 mln of depreciation expense recorded during the fourth quarter, which also includes drydocking provisions. That doesn't sound like a Ponzi Scheme to us.

We should also remember that Golar LNG Partners (GMLP) does not pay out 100% of their distributable cashflow. Based on their fourth quarter results, GMLP announced a $.43 per unit distribution, or $17.15 mln - 83.73% of fourth quarter distributable cash flow. This means that Golar LNG Partners (GMLP) actually provisioned $8.15 mln for replacement CapEx and drydocking expense directly, as disclosed on their table of distributable cash flows, and retained an additional $3.29 mln of distributable cash flow - bringing the total retained cash flows to $11.44 mln. This is 127% of their recorded depreciation expense! Rather than calling Golar LNG Partners (GMLP) a Ponzi scheme, they should be congratulated as being the one of the only MLP-like companies that holds back a sufficient amount of cash flow to sustain their operations!

Claim: There are a Sufficient Number of LNG Carriers on Order to Depress Future Rates

While our firm has probably done more work on LNG carrier supply and demand than any other sell-side research firm, we will reserve our detailed LNG carrier supply/demand calculations for our clients. The Pandora's Box report states that roughly 60 more LNG carriers will be delivered through the end of 2014. We believe their figure is a bit high, particularly as some vessels will be delivered as FSRUs and they appear to be including a few 2015 deliveries in in their total. That said, we will use the Pandora's Box estimate that global LNG carrier capacity will increase by 15% through the end of 2014 in our quick analysis presented below.

We calculate that the world's active LNG carrier fleet stands at 359 vessels and that 239 mln tons of LNG were transported in 2011[12]. Based on both fleet tracking data and the fact that LNG carrier rates ended the year well over $100,000 per day, we believe the global LNG carrier fleet was fully utilized at the end of 2011. If LNG trade needs to increase by 15% through the end of 2014 in order to utilize all of the expected LNG carrier deliveries, 36 mln tons of additional LNG would need to trade by the end of 2014. There are already 270 mln tons of global LNG export (liquefaction) capacity online, leaving 31 mln tons per annum (mtpa) unutilized, and projects totaling 37 mtpa are expected to come online through the end of 2014[13]. In addition, given the high price of LNG in Asia ($17.00+), debottlenecking and capacity improvement projects are underway at several existing LNG liquefaction facilities that should increase export capacity prior to the end of 2014.

We believe that the Pandora's Box report intentionally chose 2014 as their supply/demand 'forecast' end date as only a few LNG carriers are currently scheduled to be delivered in 2015 and beyond, yet Australia alone is planning the startup of liquefaction projects with total export capacity of 19.6 mtpa in 2015 and 29.9 mtpa in 2016, 8.2% and 12.5% of global LNG trade in 2011, respectively. If North America becomes an LNG exporter (the Cheniere, Kitmat and Freeport LNG projects are looking to export a total of 23.2 mtpa of LNG beginning in 2015 or 2016), all bets are off - the distances that LNG carriers would be required to travel to deliver gas from North America would lead to an explosion in LNG carrier demand (we will reserve the specifics for clients, but will mention that Golar Management is quite knowledgeable in this area if you are not a client of ours).

Claim: Shares of Golar LNG Ltd (GLNG) are Overvalued

We are not fans of NAV-based valuation approaches for companies with competitive advantages in industries with barriers to entry. We also believe that NAVs are backward-looking metrics, while share prices are forward-looking discounting mechanisms. Given that this report is a response to the Pandora's Box report, we will present an NAV that corrects some of the mistakes we feel that they made.

Golar LNG Ltd (GLNG) currently owns one FSRU, scheduled to become operational in just a few weeks, three 1970's era vessels, four modern LNG carriers (a slide from Golar's fourth quarter earnings presentation, showing the current fleet of both GLNG and GMLP, is presented on page fifteen of this report) and approximately 26 mln shares of Golar LNG Partners (GMLP). The table below presents our NAV calculations for Golar LNG Ltd (GLNG). Note that we deconsolidate the cash balances, debt and lease obligations by subtracting the GMLP financials from the Golar LNG (GLNG) consolidated financials:

Golar LNG Ltd (GLNG) Unconsolidated

	Value (mln)
Assets	
The Golar Khannur FSRU	$330
Three 1970's era carriers	$285
Four Modern Carriers	$1,112
GMLP holding	$961
Cash and restricted cash	$66
Amount due from GMLP	$220
Deposits on newbuilds	$190
Total Assets	$3,164
Liabilities	
Long Term Debt	$291
Lease Obligations	$138
Total Liabilities	$429
NAV of GLNG	$2,735
GLNG shares Outstanding	80.14
NAV per GLNG share	$34.13

GLNG and GMLP Q4 2011 financials, Unit Economics Calculations

We expect the Khannur FSRU to be sold by Golar LNG Ltd (GLNG) to Golar LNG Partners (GMLP) for approximately $330 mln within the next couple of months - inline with the valuation of the Golar Freeze FSRU sale in October. We also believe that the three 1970's era LNG carriers are likely to earn charter rates of $80,000 per day over the next few years, based on recent charters, or $24 mln in annualized EBITDA. At an 8% discount rate, five years worth of $24 mln per year in annual EBITDA has an NPV of $94 mln. Conversely, if we value the 1970's-era LNG carriers at 4X EBITDA, a very low multiple, we end up with approximately the same valuation ($96 mln).

The four modern LNG carriers are likely worth $278 mln each on a conservative basis, but several approaches yield higher values. For example, at 8X EBITDA, the three year contract generating $45 mln per year EBITDA signed on the Golar Arctic LNG carrier in January would value the vessel at $360 mln. More conservatively, if we assume that the carriers are worth the same value as the six vessels bought by the Teekay-Marubeni JV from Maersk in October and referenced in the Pandora's Box research report ($222 mln each)[14] plus the NPV of the "excess" EBITDA that GLNG has achieved on their recent charter of the Golar Arctic relative to the average Maersk charters, we would value the modern carriers at $278 mln each ($22.4 mln per year 'excess' EBITDA, or $45 mln - $22.6 mln[5],which has an NPV of $56 mln at Pandora's 8% discount rate). Golar also holds just over 26 mln shares of GMLP, currently valued at $961 mln, plus an additional $476 mln in cash, restricted cash, funds due from GMLP and deposits on newbuilds.

With total assets of $3,164 mln and $429 mln in debt and lease obligations, we calculate that on a deconsolidate basis, Golar LNG Ltd (GLNG) has a total NAV of $2,735 mln. If we divide $2,735 mln by the total shares outstanding, we calculate that the NAV per share is $34.13. Keep in mind that we are attributing no value to very timely newbuild schedule of Golar LNG Ltd (GLNG), shown in appendix B on page sixteen of this report. If we calculate that the thirteen newbuild vessels on order will win contracts similar to todays rates, valuing them at $278 mln each rather than their roughly $205 mln average cost - a quite realistic assumption - our NAV increases by $949 mln ($73 mln X 13), or $11.84 per share.

If the share price of GMLP increases by $10, to roughly our $48 price target, GLNGs NAV goes up another $3.25 per share due to their ownership stake in GMLP. In addition, GLNG is likely to win several more FSRU contracts in coming years and all of the 'low quality' investment earnings and one-time gains that we expect management to continue to generate are not currently incorporated into our NAV. Finally, GLNG has an incentive rights plan on the distributions of GMLP that we forecast will bring in more than $70 mln for GLNG in 2015. Similar incentive plans have traded at yields of less than 3%, making the incentive rights potentially worth north of $2.3 bln, or $30 per GLNG share. Again, we believe that NAVs are backward-looking metrics and investors should rather task themselves with calculating a companies value two or three years in the future!

Claim: Shares of Golar LNG Partners (GMLP) are Overvalued

The Pandora's Box report attempts to calculate the NPV of the FCF generated by Golar LNG Partners (GMLP) and appears to subtract debt repayments from distributable cash (item four on page twenty-seven), yet goes on to subtract the $222 mln loan made by GLNG from the final NPV. In addition, their NPV calculation assumes that all vessels are sold "when their charters end," terminating the operations of GMLP in 2021. We imagine this might piss off BG Group and Petrobras, as they have chartered the Golar Princess and Winter, respectively, through 2024. GMLP's two LNG carriers also have options to extend their charters beyond 2020, making it very unlikely that GMLP will sell the 2000-built LNG Carrier Golar Mazo for $90 mln in 2017 as the Pandora NPV calculations dictate. Finally, their NPV calculations make no provision for fleet growth and do not even include the Khannur (recently renamed the Nusantara Regas Satu), which will likely be bought by GMLP within the next couple of months.

As we show on page seven of this report, Golar LNG Partners (GMLP) holds back more than enough cash to offset economic depreciation. We calculate that GMLP will pay out total distributions of $1.90 per unit in 2012 and can continue this distribution rate into perpetuity, given they are provisioning for the replacement of their assets and their fleet was contracted almost entirely during a very oversupplied LNG carrier market.

If we adjust the discount rate used in the Pandora's Box report to change the beta of GMLP shares from "the shipping industry" average of 1.4 to the actual observed beta of .69, we come up with a new discount rate of 4.56% - almost exactly inline with the yield of GMLP shares, and thus by definition their cost of capital. A constant stream of $1.90 in annual distributions at a 4.56% discount rate has an NPV of $41.67 per unit - just a bit (sarcasm) higher than the $9.50 per unit NPV calculated by Pandora. If distributions follow our forecasts, increasing to $2.38 per unit in 2013, $2.84 per unit in 2014, $3.26 per unit in 2015 and $3.48 per unit in 2016, then remain at $3.48 per unit into perpetuity (remember that GMLP properly reserves for asset replacement), the 4.56% discount rate NPV of the estimated future distributions is $72.88 per unit. Keep in mind that the current $1.90 annual distribution rate is contracted through at least 2017 (and likely beyond 2022) and their two LNG carrier charters are well below market rates. In fact, distributions can go up over time as debt principle is repaid and interest expense declines - another factor left out of the Pandora's Box analysis. In fact, the Pandora's Box report even admitted that "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" at the top of page twenty six of their report, just before they went on to calculate an NPV of $9.50 per unit for GMLP.

Conclusions

The Pandora's Box 'Sell' report on the Golar companies was a well-thought out, well-researched piece in many regards, yet there were glaring mistakes as well. Their analysis is clearly not up for discussion given that there is no available contact information for the authors of the report and the website that published the report, InvestDOOR, was only recently registered by individuals that have gone to great measures to keep their identities private. We suspect that the site was primarily set up for the purposes of publishing this report (the domain was only registered for one year) and Golar investors may never get a chance to have an open debate with the authors. That leaves the market to decide the fundamentals over the coming months and years - a prospect that we are very comfortable with.

Footnotes

[1] Bloomberg FA function for 2006 to 2010 (prior to the GMLP/GLNG split) and quarterly financials for 2011, annual cash flows, $93.37 mln dividends paid in 2011 (estimated), $45.76 mln in 2010, $67.44 mln in 2008 and $145.77 mln in 2007 - totaling $352.34 mln

[2] Golar 2010 20F, page three for 2006 to 2010 data - available at http://hugin.info/133076/R/1510555/464502.pdf - and consolidated 2011 company CFFO from the Q4 2011 financial statements (http://hugin.info/133076/R/1587754/498138.pdf) minus the 2011 CFFO presented in the GMLP Q4 financial release (http://hugin.info/147317/R/1587861/498139.pdf). +$117.22 mln in 2006, +73.06 mln in 2007, +$48.50 mln in 2008, +43.76 mln in 2009, +51.71 mln in 2010 and -$33.70 mln in 2011 - totaling $300.55 mln.

[3] Golar 2010 20F, page three - available at http://hugin.info/133076/R/1510555/464502.pdf

[4] Golar 2010 20F, page F-13 - available at http://hugin.info/133076/R/1510555/464502.pdf

[5] Teekay Gas Partners (TGP) disclosed that distributable cash from all four vessels would be $40 mln in 2012 ($48 mln annualized) year on page five of their fourth quarter slideshow (http://www.teekaylng.com/Theme/TeekayPartners/files/doc_presentations/2011/TGP%20Q4-11%20ER%20Presentation%20vFINAL_v001_p4q147.pdf), net of payments on $527 mln of short-term debt-financed by banks. Assuming a 3.80% interest rate, (LIBOR+300), the vessels generate approximately $68 mln in annual EBITDA [$48 mln distributable cash plus $20.03 mln interest expense] for TGP and $136 mln in total (TGP owns 50% of the vessels). Divided by the six vessels purchased, the average annualized EBITDA per vessel is roughly $22.6 mln. At $12,000/d direct operating expenses (per Golar's public disclosures) expenses, the average day rate must be $$74,000 in order to earn $22.6 mln in annual EBITDA

[6] Teekay Gas Partners (TGP) fourth quarter earnings conference call transcript

[7] Maersk press release, 2/29/12 - http://www.marinelink.com/news/maersk-sells-fleet342745.aspx

[8] According to the Pandora Report, which appears to be accurate, Golar booked a $2.5 mln loss on the Baja JV, a $141 mln gain on the sale of the Korea Lines stake, a $3 mln loss on the TORP stake, an $8.7 mln gain on the LNGL stake, a $7.8 mln gain on the Arrow Equity swap, a $5 mln loss on their OLT stake and a total of $25 mln in losses on Golar Commodities.

[9] Burger King runs an ad campaign in the U.S. around the slogan "have it your way," telling customers they can get their burgers any way they want them. We argue this does not imply for equity investors. At the same time, we commend any client that is detail-oriented enough to actually read the footnotes of our report and get this joke!

[10] Khan & Lu (2008: 1) define front running as "trading by some parties in advance of large trades by other parties, in anticipation of profiting from the price movement that follows the large trade."

[11] http://www.insidermonkey.com/blog/2010/10/29/the-insider-trading-anomaly-make-7-more-than-index-funds/

[12] The BP Statistical Review, http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf

[13] In order or likely startup, the Soyo project in Angola for 5.2 mtpa, the Pluto 1 project in Australia for 4.3 mtpa, the Skikda project in Algeria for 4.5 mtpa, PNG LNG in PNG for 6.6 mtpa, Gladstone LNG in Australia for 7.8 mtpa and Gladstone QCLNG in Australia for 8.6 mtpa.

[14] The Pandora's Box Research report forgot to mention that the original deal between the Teekay-Marubeni JV and Maersk specified a $1,402 mln sales price for six modern LAG carriers (built between 2008 and 2010) was revised to be $1,330 mln due to the exclusion of the 26% vessel stakes from the original deal http://www.marinelink.com/news/maersk-sells-fleet342745.aspx . Page four of Teekay Gas Partners' fourth quarter earnings slideshow showed that the final sales price of the vessels from Maersk was $1,330 mln, or $222 mln per vessel. Keep in mind that these vessels are all effectively on contract for an average of seventeen years, as we previously discussed.

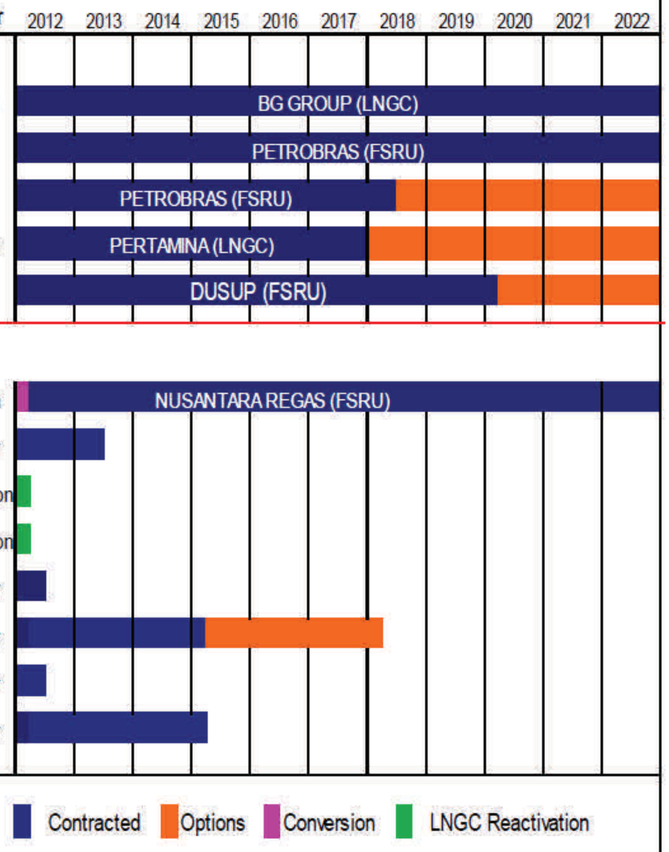
Random Errata

- The Pandora's Box report implies several times that Golar LNG Partners (GMLP) is an MLP, dedicating Appendix A to the dangers of MLPs and detailing all of the ways that Golar LNG benefits from this structure. Golar LNG Partners is not an MLP.
- The table on the bottom of page twenty seven of the Pandora's Box report shows that the Golar Freeze and Golar Spirit are FSRUs and worth $330 mln, for the purpose of their valuation of GMLP, but the Golar Winter appears to be lumped in as one of the "3 modern vessels" (there are two in reality) and is only valued at $215 mln, rather than $330 mln.
- The Golar LNG Partners (GMLP) NPV on pages twenty-six and twenty-seven of the Pandora's Box report ignores the options that are outstanding on the Golar Spirit, the Golar Mazo and the Golar Freeze and assumes that GMLP liquidates their fleet by the end of 2021, despite contracts on the Golar Winter and Golar Princess FSRUs that extend into 2024. The NPV calculation also assumes that no additional vessels will be sold into GMLP (the Khannur is likely to be sold into GMLP shortly), and that the partnership liquidates by 2021.
- The Pandora's Box report uses a year-old forecasted cash table from a GMLP SEC filing as the basis of the their cash flow calculations, claiming that GMLP is a 'Ponzi Scheme' because the dated cash flow numbers do not hold back enough cash to cover depreciation of the *current* GMLP fleet.

Appendix A: The Golar Fleet

(As of February 21st)

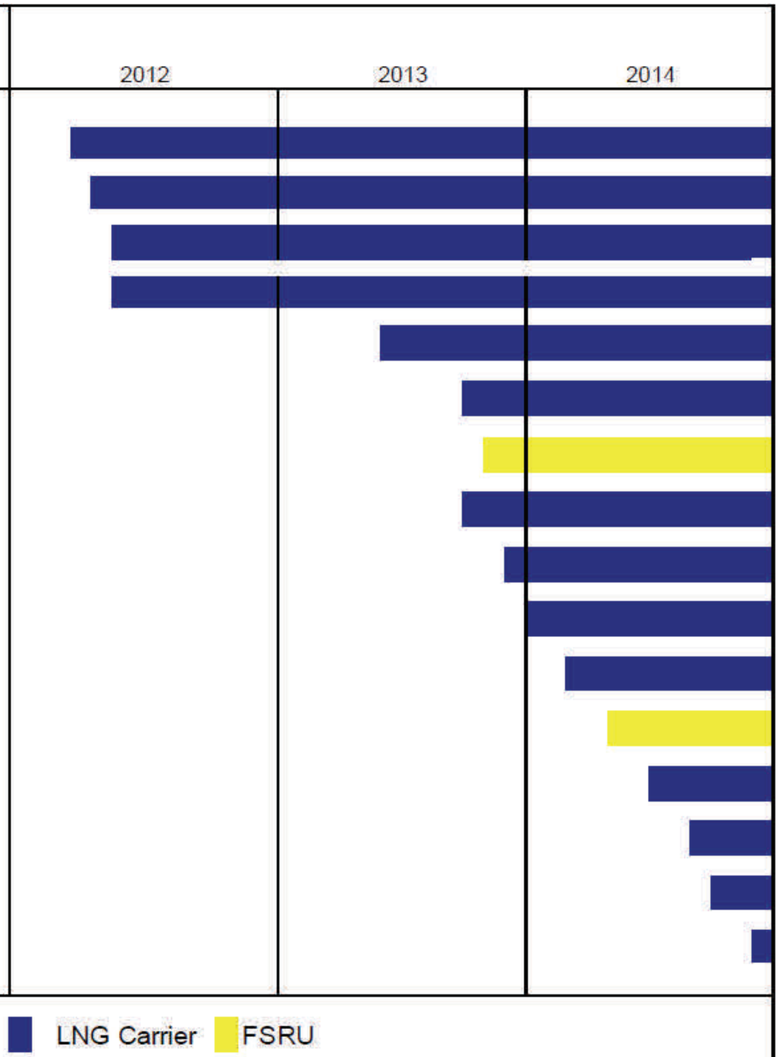
Ship	Owned	Built	Capacity m^3	Containment	Current Charterer
GOLAR LNG PARTNERS:					
Methane Princess	100%	2003	138,000	Membrane	BG Group
Golar Winter	100%	2004	138,000	Membrane	Petrobras
Golar Spirit	100%	1981	129,000	Moss	Petrobras
Golar Mazo	60%	2000	135,000	Moss	Pertamina
Golar Freeze	100%	1977	126,000	Moss	DUSUP
GOLAR LNG LTD					
Nusantara Regas Satu	100%	1977	125,000	Moss	Nusantara
Gimi	100%	1976	125,000	Moss	E&P Major
Hilli	100%	1975	125,000	Moss	Reactivation
Gandria	100%	1977	126,000	Moss	Reactivation
Golar Viking	100%	2005	140,000	Membrane	E&P Major
Golar Grand	100%	2006	145,700	Membrane	E&P Major
Golar Maria	100%	2006	145,700	Membrane	E&P Major
Golar Arctic	100%	2003	140,650	Membrane	E&P Major



Appendix B: The Golar Order Book

(As of February 21st)

Ship/Hull No:	Built	Capacity m^3	Type
Hilli	1975	125,000	Moss
Gandria	1977	126,000	Moss
Golar Viking	2005	140,000	Membrane
Golar Maria	2006	145,700	Membrane
Gimi	1976	125,000	Moss
Hull 2021	2013	160,000	LNGC
Hull 2031	2013	170,000	FSRU
Hull 2026	2013	160,000	LNGC
Hull 2022	2013	160,000	LNGC
Hull 2023	2013	160,000	LNGC
Hull 2027	2014	160,000	LNGC
Hull 2024	2014	160,000	FSRU
Hull 658	2014	162,000	LNGC
Hull 2047	2014	160,000	LNGC
Hull 659	2014	162,000	LNGC
Hull 2048	2014	160,000	LNGC



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