Fairstar

FAIRSTAR HEAVY TRANSPORT NV

BOARD OF DIRECTORS' REPORT

THIRD QUARTER 2011

- **FAIRSTAR ADDS USD 40 MILLION IN NEW MULTI-VOYAGE CONTRACTS DURING THE THIRD QUARTER**
- **FAIRSTAR FUTURE CONTRACT REVENUES NOW TOTAL USD 230 MILLION**
- **FORTE AND FINESSE ON SCHEDULE FOR DELIVERY IN 2012**
- **FAIRSTAR PROJECTS FULL YEAR OPERATING LOSS FOR 2011**

Fairstar achieved 61% utilization for its vessels FJORD and FJELL in the third quarter of 2011. The FJORD successfully transported the second flotilla of tug boats from Singapore to Maracaibo, Venezuela. Lessons learned from the first voyage on FJELL led to a number of improvements in the operational efficiencies required to safely load and sea fasten 26 individual floating objects. In spite of the increase in gross margin, Fairstar posted a loss of USD 2.6 million in operating income for the third quarter. The current pricing environment in the spot market for marine heavy transport is savage. There is no sign of improvement for the foreseeable future. An excess of capacity chasing a declining number of cargoes has put further downward pressure on time charter revenues.

Fairstar identified this threat to our survival in early 2010 and concluded that a two ship fleet dependant on intermittent spot market opportunities is an unsustainable business model. The "Red Box Strategy" has been introduced by Fairstar as the best possible means of not only surviving, but creating consistent and stable returns for Stakeholders over a five year period. High-value, multi-voyage, long term contracts that require a high degree of engineering support as well as operational expertise are the essence of the "Red-Box Strategy".

In the Third Quarter Fairstar was awarded a third multi-voyage contract by Chevron Australia through the Gorgon Joint Venture for the FJELL. In addition, the existing contracts for FJORD and FORTE were extended by Gorgon. This additional combined value of USD 40 million takes the total value of the Gorgon relationship to over USD 120 million. Gorgon also holds options for each of the vessels which permits them to keep any or all of the ships on contract. The value of these options, if exercised, can contribute a further USD 85 million to Fairstar in future revenue. Gorgon is a perfect example of a "Red-Box" project. Fairstar has identified a series of similar opportunities. Ichthys, Wheatstone and Browse will have similar requirements for marine transportation. Fairstar intends to participate in the tendering process for these projects. We expect contract awards for all of these projects to be announced in the next three to twelve months. The potential value of these contracts is almost USD 500 million. We forecast the time frame required to complete these projects will be at least the next five years.

Fairstar will escape the volatile, unpredictable and increasingly unprofitable spot market if we can successfully execute the "Red Box". Winning three multi-voyage contracts for Gorgon is promising evidence that Fairstar has the requisite resources to dominate this sector. "Red Box" revenues will commence in April 2012. Until then, we will have to face two formidable challenges. First of all we must continue to generate the cash flow required to meet our obligations, reduce debt and invest in our business. Secondly we must continue to hire and train the Team we will need to deliver what is required of Fairstar for Gorgon. The next six months are critical.

Fairstar has been contracted to provide marine transportation of a modularized fertilizer train from Kenai, Alaska to a Greenfield site near the port of Koko, Nigeria. Fairstar will also be responsible for the interface management of the land transportation in both Alaska and Nigeria. This project had been expected to complete in

2011. It is now extending into 2012. The FJELL will be utilized for a longer period than was originally contemplated. The FJORD will not be involved due to its need to fulfill the DSME CLOV FPSO contract from January to March and the subsequent commitment to Gorgon in April 2012.

The FJELL is currently engaged in Gabon loading the Hercules 185 jack-up rig. The rig will be transported to either Pascagoula, Mississippi or Bahrain. After discharge, FJELL will proceed to Alaska. FJELL will provide 220 days of service to the Agrium Plant project and then start its work for Gorgon. FJORD is available for work in the fourth quarter of 2011 and Fairstar is actively marketing the FJORD in the spot market. An additional contract for FJORD in the fourth quarter will reduce the loss we now project for the 2011 financial year. However, Fairstar has the cash resources it will require to fulfill its financial commitments and maintain the operating integrity of our ongoing business.

FINANCIAL RESULTS

Fairstar recorded an operating loss of USD 2.4 million and a net loss of USD 3.6 million in the third quarter of 2011. Other financial gains and losses include a gain of USD 2.6 million mostly due to a weakening of the NOK during the quarter. Fairstar will continue to manage its NOK exposure in line with the Company's dynamic hedging policy.

Fairstar continued to de-leverage its balance sheet during the Quarter. Net interest bearing debt secured by the FJORD and FJELL has been reduced to 42% of the book value of the vessels. The current cash balance available to the company today is USD 6.8 million. Fairstar is safely positioned to protect the value of the Company in order to maximize the future value we can create for our Stakeholders in the coming years.

The long term financial security of Fairstar will be consolidated upon the completion of documentation for a new eight year, secured loan facility now being finalized with a syndicate of Nordic and Dutch banks. In addition to replacing the current lender to the Company, the facility will provide Fairstar with up to USD 30 million in performance bonds. These performance bonds are necessary instruments that must be posted by sub-contractors in order to be awarded multi-voyage contracts like Gorgon. Fairstar estimates it may have as much as USD 20-25 million in bonds outstanding at one time if a further contract is awarded to Fairstar on top of the current Gorgon contracts.

Fairstar will require an amendment of the current NOK 300 million unsecured bond loan facility as well as a modification of the current ratio of EBITDA to Interest Expenses. The Company is in consultation with Norsk Tillitsmann and intends to propose the necessary amendments contemplated by these changes to our bond holders in the coming weeks.

FORTE AND FINESSE CONSTRUCTION UPDATE

On September 18, 2011 the FORTE floated out of the flooded dock facility in Qidong. The construction of the FORTE by GSI has continued to reflect quality and commitment by GSI. We are confident that the FORTE will be delivered to Fairstar on schedule. Immediately after the floatation of the FORTE, the first of 272 blocks for the FINESSE was lowered into the dry dock. Over 220 of the requisite blocks required to construct the FINESSE have been delivered to GSI by their block sub-contractors. The lessons learned by Fairstar's management team in Malta have been of great value. Fairstar has also continued to reinforce a strong corporate culture of practical problems solvers working in harsh environments with limited resources. Fairstar has good reason to be proud our Team in China and is grateful for their dedication to the successful completion of the FORTE and FINESSE. Regular updates of construction progress can be found on the Fairstar website under "Greetings from China"

HEALTH, ENVIRONMENT, SAFETY, SECURITY (HESS)

Fairstar believes that safety is a core human value and fundamentally relates to everything we do in the performance of our responsibilities to our employees, clients and other Fairstar Stakeholders. The nature of our business exposes our employees, assets, clients and their cargoes to extremely high levels of risk. The appropriate management of these risks as well as any environment we operate in demands a consistent and ongoing commitment to maintaining the integrity of our ships and the systems we have developed to ensure that we never compromise our commitment to the proactive management of any risk involving safety, security and environmental awareness.

Fairstar introduced a new safety and risk management framework throughout the company based on the three principals of "ANTICIPATE" "COOPERATE"

"COMMUNICATE". A natural, vibrant and permanent safety culture is essential in our industry. It is now commonplace for safety and risk management issues to be discussed frequently throughout Fairstar in a variety of formal and informal settings. In addition to our goal to foster our own safety culture, Fairstar continues to believe that the "Incident and Injury Free (IIF)" programme championed by Chevron will be a powerful tool in our overall safety and risk management skill set. During the third quarter, Fairstar maintained its investment to train the crews aboard FJORD and FJELL as well as the new crew being assembled for the FORTE in preparation for their work on the Gorgon Project.

The quarantine and environmental standards we are committed to meet within our contractual scope are the highest in the world. Our responsibility is not only to the Kellogg Joint Venture-Gorgon but to the Australian Authorities and local communities as well. The marine transportation of the Gorgon modules to Barrow Island is unprecedented in size, and complexity. We are committed to making our Team the best prepared and thoroughly trained contributor to Gorgon. Our first voyage is scheduled for early 2012.

During the third quarter of 2011, there were no injuries to any Fairstar employees. There was no damage to the assets of our clients or to our vessels.

OUTLOOK

The marine heavy transportation market continues to evolve into three distinct segments. The spot market continues to be characterized by extreme price competition. Operating margins in the third quarter were at levels close to or even below OPEX for most cargoes when more than one vessel was in the area. The pricing environment suffers from a shortage of available cargoes and a severe over-supply of converted oil tankers. This market trend has continued in the second half of 2011 and shows no signs of abating. The barriers to entry for marine transport in the spot market are low.

As a result, we expect some of the speculative tonnage being built in Asia by industry newcomers will enter into the spot market in the second half of 2011 and 2012, exacerbating the downward price spiral. Fairstar has no intention of competing for this business in the future. The Third Quarter financials show the consequences of exposure to the current spot market.

The most attractive segment of the marine heavy transport market will involve high value, multi-voyage energy infrastructure projects both on-shore and off- shore. These projects require a high degree of engagement with the client throughout the contract period. The barriers of entry for this segment are becoming increasingly higher as energy companies raise their standards for safety, reliability and proven past performance. Fairstar is unique in the industry as being the only company offering a fully dedicated team of mariners, engineers and project professionals who are employed by Fairstar. In the second half of 2011, there was a significant increase in tender activity for high value, multi- voyage energy infrastructure projects, particularly in Australia. Fairstar has submitted several tender packages for these projects. We expect official announcements and contract awards to be released in the fourth quarter of 2011 for at least one of these major projects.

In spite is the disappointing operating results for the current financial year, the order book we have won for the coming three years will achieve our target of 80% fleet utilization and T/C revenues averaging USD 80,000 per vessel. We are confident that these returns are sustainable for at least five years and that Fairstar can maintain both its competitive advantage as well as its leadership in the marine heavy transport industry.

FINANCIAL CALENDAR

No items currently on the financial calendar.

Joint Management and Supervisory Board
Fairstar Heavy Transport NV
October 12, 2011

For more information please contact us:

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Third Quarter 2011 Report

In thousands of USD unless otherwise indicated

Statement of Comprehensive Income	Note	Q3 2011	2011 YTD	Q3 2010	2010 Q3 YTD
Gross revenue		5,508	15,965	12,526	32,357
Voyage related costs		(3,546)	(8,164)	(3,102)	(7,029)
Time charter equivalent revenue		**1,962**	**7,801**	**9,424**	**25,328**
Vessel operating expenses		(1,980)	(5,808)	(1,635)	(4,802)
General and administrative expenses		(2,422)	(7,083)	(1,739)	(5,541)
Non-recurring legal expense		-	(1,312)	-	-
Operating expenses, other than depreciation		**(4,402)**	**(14,203)**	**(3,374)**	**(10,343)**
Earnings before Interest, Tax and Depreciation (EBITDA)		**(2,440)**	**(6,402)**	**6,050**	**14,985**
Depreciation		(2,018)	(6,047)	(2,000)	(5,987)
Earnings before Interest and Tax (EBIT)		**(4,458)**	**(12,449)**	**4,050**	**8,998**
Interest income and expenses		(1,625)	(4,944)	(1,135)	(3,941)
Other financial gains and losses		2,459	4,409	3,433	826
Result before tax		**(3,624)**	**(12,984)**	**6,348**	**5,883**
Income taxes		-	-	-	-
Net Profit		**(3,624)**	**(12,984)**	**6,348**	**5,883**
		-			
		-			
Change in derivate financial instruments		5	494	(246)	(881)
Expenses recognised directly in equity		1	199	104	(2,474)
Total recognised income and expenses		**6**	**693**	**(142)**	**(3,355)**
		-			
Total comprehensive income for the period		**(3,618)**	**(12,291)**	**6,206**	**2,528**
Weighted average number of shares		81,068,703	80,147,110	72,713,137	55,598,560
Fully diluted average number of shares		82,827,036	81,905,443	73,406,804	56,292,227
Basic earnings per share		(0.04)	(0.16)	0.09	0.11
Diluted earnings per share		(0.04)	(0.16)	0.09	0.10

Consolidated balance sheet	Note	30/09/2011	31/12/2010
ASSETS			
Vessels		167,356	172,657
Vessels under construction		66,715	52,293
Office equipment, computers, cars		630	547
Non-current assets		**234,701**	**225,497**
Inventories		1,376	1,350
Derivative financial instruments		5	1,138
Other current assets		1,371	2,632
Cash and cash equivalents		6,821	36,514
Currents assets		**9,573**	**41,634**
TOTAL ASSETS		**244,274**	**267,131**
EQUITY			
Issued Capital	2	45,868	45,866
Share premium		74,689	74,684
Retained earnings		3,963	3,861
Other Reserves		(3,908)	(4,601)
Result for the period		(12,984)	228
Equity		**107,628**	**120,038**
LIABILITIES			
Borrowings		102,852	108,116
Non-current liabilities		**102,852**	**108,116**
Trade and other payables		5,430	5,560
Derivative financial instruments		4,485	6,668
Current portion of debt		16,400	19,262
Bank overdraft		7,479	7,487
Current liabilities		**33,794**	**38,977**
EQUITY & LIABILITIES		**244,274**	**267,131**

Condensed Statement of Cash Flows	Note	Q3 2011 YTD	Q3 2010 YTD
Result after taxation		(12,984)	5,883
Share-based payments	3	199	135
Change in valuation of financial instruments		(3,405)	(25)
Depreciation and Amortisation		6,047	5,987
Cash flows from operating activities		(10,143)	11,980
Changes in working capital		1,106	(6,267)
Net cash from operating activities		**(9,037)**	**5,713**
Net cash from investing activities		**(15,252)**	**(21,822)**
Issue of equity net of fees		7	40,198
Repurchase of shares		(126)	-
Sale of derivatives		2,849	-
Net Change Borrowings		(8,126)	(13,927)
Cash flow from financing activities		**(5,396)**	**26,271**
Net change in cash and cash equivalents		**(29,685)**	**10,162**
Cash and cash equivalent as per opening balance		29,027	(4,211)
Cash and cash equivalents per closing balance		**(658)**	**5,951**

Changes in equity	Issued Capital	Share Premium	Retained Earnings	Other Reserves	Result for the period	Total
Opening Balance	45,866	74,684	4,089	(4,601)	-	120,038
Issue of Equity	2	5	-	-	-	7
Cash Flow hedges	-	-	-	494	-	494
Change in option reserve	-	-	-	199	-	199
Repurchase of shares	-	-	(126)	-	-	(126)
Result for the period	-	-	-	-	(12,984)	(12,984)
Balance as at end of the period	**45,868**	**74,689**	**3,963**	**(3,908)**	**(12,984)**	**107,628**

Notes to Third Quarter 2011 Report

in thousands of USD unless indicated otherwise

1 Accounting policies

The unaudited financial report complies with International Financial Reporting Standards (IFRS) and has been prepared in accordance with IAS 34 “Interim Financial Reporting”. The Interim Report should be read in conjunction with the consolidated financial statements as at 31 December 2010. The accounting policies and methods of computation applied in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2010. Preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of the assets and liabilities that are not readily apparent from other sources. The estimates and the underlying assumptions are reviewed on an ongoing basis. The audited financial statements 2010 can be found on our website at www.fairstar.com

2 Share Capital

The authorised share capital of the Company is EUR 98,900,000 divided into 215 million ordinary shares with a nominal value of EUR 0.46, of which 81,072,779 shares have been placed at the end of the period.

3 Share Options

At the end of the period the Company has 1,108,333 employee options outstanding of which 694,833 are fully vested.

	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	1,566,000	7.96
Granted	-	
Forfeited	(132,667)	
Expired/ cancelled	(300,000)	
Exercised	(25,000)	
Outstanding at the end of the period	1,108,333	7.92

4 Contingent liabilities

At the end of the period the Company has capital commitments amounting to approximately USD 140 million which are not included in the balance sheet.

5 Contingent assets

The company has obtained a refund guarantee for the USD 60 million downpayments to the yard during the construction period of the vessels.

6 Related Party Transactions

The Supervisory and Management Board of the Company directly control 0.6% of the voting shares of the Company. Roger Granheim represents Torghatten Group, controlling 15.7% of the voting shares of the Company. No transactions were conducted during the quarter.