Fairstar Heavy Transport NV

Annual Report 2009

Fairstar Heavy Transport NV

Fairstar Heavy Transport NV is a provider of long-distance ocean transportation services for the offshore and onshore industries. Fairstar operates two of the world's largest and most modern self-propelled semi-submersible heavy transport vessels, FJORD and FJELL.

Fairstar is based in Rotterdam and quoted on the Oslo Stock Exchange (ticker: FAIR).

Fairstar Heavy Transport NV is a Dutch public limited liability company ("Naamloze Vennootschap") duly incorporated under the laws of The Netherlands. The Company's registered organisation number is 24380374.

The Company's registered office is at Conradstraat 18, 6th Floor, Suite E6.170, 3013 AP Rotterdam, The Netherlands. The Company's telephone number is +31 10 403 5333, the fax number is +31 10 403 5344 and the web address is www.fairstar.com.

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Supervisory Board Report

We are pleased to present the Report by the Management Board and the Financial Statements for the year ended 31 December 2009.

Adoption of the Financial Statements

The Supervisory Board submits to the shareholders the Financial Statements and the report of the Management Board of Fairstar Heavy Transport NV for the financial year 2009, as approved by the Supervisory Board in its meeting of 10 February 2010.

The 2009 Financial Statements were audited by KPMG Accountants N.V. The Auditor's Report can be found on page 44. The Financial Statements were discussed with the auditors by the Supervisory Board, the Management Board and the Chief Financial Officer (CFO).

In addition, the 2009 Financial Statements were a topic of discussion for the full Supervisory Board with the full Management Board, in the presence of the auditors. Based on these discussions, the Supervisory Board is of the opinion that the 2009 Financial Statements of Fairstar Heavy Transport NV meet all requirements for correctness and transparency and that they form a good basis to account for the supervision provided.

The Supervisory Board recommends that the 2009 profit is to be allocated to retained earnings in accordance with the Management Board's proposal.

We recommend that the Annual General Meeting of shareholders adopts the 2009 Financial Statements as presented in this 2009 Report. We propose that shareholders discharge the members of the Management Board of their responsibility for the conduct of business in 2009 and the members of the Supervisory Board for their supervision.

Composition of the Supervisory Board

The Supervisory Board currently consists of Mr Frits van Riet (Chairman), Mr Willem Dirkzwager, Mr Hans Verhagen, Mr Leif O. Aaker and Mr Roger Granheim. The Supervisory Board members represent a broad range of professional experience and skill which are of great value to Fairstar.

		Nationality	Born	Member since	Term until
Mr	Frits van Riet	Dutch	1943	2007	2011
Mr	Willem Dirkzwager	Dutch	1948	2005	2011
Mr	Hans Verhagen	Dutch	1946	2006	2011
Mr	Leif Aaker	Norwegian	1951	2006	2010
Mr	Roger Granheim	Norwegian	1964	2008	2012

Frits van Riet, Chairman

Mr van Riet has 42 years of experience in the marine transportation, heavy lift and offshore industries of which 32 years were spent with Royal Nedlloyd where he held a number of senior management positions. He has held the position of Director Nedlloyd Lines. In 1992 he was appointed Managing Director of Neddrill (an offshore drilling contractor) which he expanded, restructured , made very profitable and he initiated/completed a sale to Noble Drilling Corporation of Houston. After having completed a successful integration into Noble Drilling he rejoined Royal Nedlloyd in 1999. He was appointed CEO of Mammoet Transport (heavy lift and transport) and undertook the future positioning of the Mammoet Group. Like for Neddrill, after a successful turnaround, expansion and restructuring was made, Mammoet was sold to the Van Seumeren Group. Van Riet was subsequently appointed Managing Director/C.O.O. of Mammoet Holding and a.o. charged with the integration of the two former companies, introducing new policies and reporting systems and turning Mammoet towards more professionalism.

Mr van Riet holds directly and indirectly 66,718 shares and 0 options in Fairstar.

Willem Dirkzwager, Vice Chairman

Mr Dirkzwager is owner and managing director of Independent Maritime Adviser, a company which assists ship owners and shipyards with commercial and financial advice, mergers and acquisitions in the transportation field, and maritime projects. Mr Dirkzwager has been on the Supervisory Board of Mulder & Rijke B.V., a shipyard specialised in lifeboats, for 10 years and with Interscaldis B.V., a real estate company, for over 5 years. Mr Dirkzwager worked for Nedlloyd Lines in various managerial positions in The Netherlands and overseas and worked for the Dutch Shipmortgagebank until 1987.

Mr Dirkzwager holds directly and indirectly 166,000 shares and 0 options in Fairstar.

Hans Verhagen

Mr Verhagen was CFO of Kahn Scheepvaart B.V. and was responsible for the worldwide financial administration for the Kahn Group (Jumbo Shipping) until his retirement, after working for the group for 41 years. Mr Verhagen held the position as CFO of Kahn Scheepvaart B.V. since 1991. Since 1984 he also held the position of Vice-President. Mr Verhagen retired from Kahn-Jumbo Shipping in June 2005.

Mr Verhagen holds directly and indirectly 66,718 shares and 0 options in Fairstar.

Leif O. Aaker

Mr Leif O. Aaker became Vice President, Business Development with FPS Ocean AS, Oslo in June 2006. Mr Aaker is educated at the Norwegian Institute of Technology (M.Sc.), Trondheim and additional studies at the Norwegian Business School (NHHK), Bergen. Mr Aaker has 29 years of experience within the offshore and shipping industry; contract negotiations, commercial and technical/operational disciplines, large multidisciplinary projects and within marketing and business development. Mr Aaker has previously held positions as project manager JL Heavyweight Transport AS, Copenhagen; project manager Consafe Offshore AS, Gothenburg; Vice President, Technical and Vice President, Business Development Golar-Nor Offshore AS (Petrojarl), Trondheim; Sr. Vice President Fred. Olsen Energy ASA, Oslo and Business Development Manager Boa Offshore AS, Trondheim.

Mr Aaker holds directly and indirectly 0 shares and 0 options in Fairstar.

Roger Granheim

Mr Roger Granheim (1964) has been involved in the transportation and logistics industry in Norway for most of his professional career. Mr Granheim is currently the CEO of Fosen ASA, a publicly listed transportation company with Headquarters in Trondheim. Fosen Trafikklag has approximately 1,600 employees and operates 28 ships and 750 busses. Mr Granheim was previously at NSB BA holding a number of senior positions. Educated at The Norwegian School of Management (BI), Mr Granheim holds Bachelor and Master Degrees in Business and Economics and has attended the Advanced Management Programme at Solstrand/AFF, BI as well. Mr Granheim is also Chairman of the Board of Torghatten Nord AS, Fosen Namsos Sjø AS, BASTØ FOSEN AS, NBDS AS, Kystekspressen ANS, IHF AS, Norgesbuss AS, Trønderbilene AS, FVS AS, FJORDveien AS and Board member of Havila Shipping ASA and Berg-Hansen Reisebyrå AS.

Mr Granheim holds directly and indirectly 10,185,033 shares and 0 options in Fairstar.

Activities of the Board

The Supervisory Board held four scheduled meetings on a quarterly basis during 2009. The Chairman of the Supervisory Board maintains an active dialog with not only the CEO but other members of the Fairstar Management Team. Throughout 2009 key areas of concern involved the successful completion of the FJELL in Malta, the limited rights issue in February, USD fifteen million loan facility with Fortis Bank to refinance the Company's outstanding NOK Bond Loan, as well as other commercial, financial, legal and operational matters. The Supervisory Board is aware of the importance of attracting and retaining highly motivated and talented managers to achieve the Company's goals and create value for Shareholders.

The Board attaches great importance to the Company's Health, Environment, Safety & Security programs.

At the request of the Supervisory Board Messrs. Astrup and Partners AS of Oslo, Norway were commissioned to give a statement (the "Opinion") regarding the fairness of the Rights Issue. The recommendation from Astrup and Partners was that the issue is fair, from a financial point of view, to the shareholders and bondholders of Fairstar. The Board subsequently unanimously endorsed the Rights Issue Programme.

The Supervisory Board met once without the Management Board to discuss the composition and goals of the Board, the remuneration issues and functioning of the Management Board. During this meeting it was reconfirmed that the Supervisory Board is in full compliance with the profile of the Supervisory Board as laid down in the Corporate Governance section of the Company

Management Board

Mr Philip Adkins' contract was due to expire on 26th March 2010. Over the years he has played a pivotal role in where Fairstar stands today. The Supervisory Board therefore deemed it prudent to extend the Agreement for a further three years in order to ensure Mr Adkins shall continue his important role as CEO to lead Fairstar forward. The Supervisory Board was gratified to see overwhelming Shareholder support to pass a resolution at the 2009 AGM extending the Agreement.

Mr Cristijn du Marchie Sarvaas resigned from the Management Board, for personal reasons, in July of 2009. The Supervisory Board expresses its great appreciation for the sterling services rendered during his employment.

It will be proposed at the 2010 Annual General Meeting of Shareholders to appoint Mr Mark de Haas as a member of the Management Board of Fairstar Heavy Transport NV for a four-year term commencing April 1, 2010.

Remuneration policy

Mr Adkins is employed through a services agreement with Cadenza Management Limited. His remuneration consists of both fixed and performance-related components as explained in the Annual Accounts. The services agreement does not stipulate any arrangements for compensation in the event of involuntary dismissal or the continuation of pension right accrual in such an event. Mr Adkins has not been granted share options and has no pension rights granted by the Company. In the case of change in ownership the Parties will enter into negotiations in order to agree on continuation however should no agreement be reached within a defined timeframe Mr Adkins shall be entitled to three times the annual Management fee as well as three times the maximum amount of Annual Discretionary Bonus Cadenza would have been entitled to receive until the Expiration date of the Services Agreement.

Until his resignation Mr Cristijn du Marchie Sarvaas was employed by the Company through a management agreement with Centipede B.V. His remuneration consisted of a fixed component and a performance-related component in the form of participation in the share option scheme, as explained in the annual accounts. The management agreement does not stipulate any arrangements for compensation in the event of involuntary dismissal or the continuation of pension right accrual in such event. Mr du Marchie Sarvaas had no pension rights granted by the Company.

Mr Willem Out is employed for a period of three years. He is employed by the Company. His remuneration consists of a fixed component, a variable bonus and share option rights in the Company, as explained in the Annual Accounts. Mr Out participates in the shore-based staff pension scheme.

In view of his outstanding performance in successfully completing the conversion of FJORD and FJELL and not having received a bonus during 2008, the Supervisory Board granted Mr Out a bonus of EUR 100 thousand.

The other employment conditions are based on market standards. Directors' liability insurance is provided. The members of the Management Board are not granted any loans, advances or guarantees. The Company has not adopted the Code's best practice governing the possession of and transaction in securities other than Fairstar (best practice provisions III.6.5.).

In accordance with the Dutch Corporate Governance Code, the Company has a restrictive policy with regard to positions outside the Company. The members of the Management Board require the explicit approval of the Supervisory Board before they may accept any other positions.

Please refer to the Notes to the Consolidated Income Statement in the Financial Statements for details on the remuneration currently in place.

Summary

The year under review was challenging. FJORD and FJELL are now successfully operating in the market and we have achieved a profit for the full year of over USD 12 million. This was achieved by an exceptional management team which worked tirelessly throughout 2009 to create and preserve value for all stakeholders. We would like to thank the Management Board and all our employees for their excellent performance last year and know that we can count on their support for Fairstar in exciting times ahead during 2010 and beyond.

On behalf of all of us within Fairstar we thank our shareholders for their ongoing support and trust in the Company.

Rotterdam, 2 March 2010

For the Supervisory Board,

F.W. van Riet, Chairman

Management Board Report

Letter from the CEO

Dear Fellow Shareholder,

2009 was filled with many memorable events for our young company. Almost every week produced new challenges for our team. Way back in January, plenty of outside observers doubted we would ever finish the FJELL. On May 17, FJELL left Malta and arrived the next day in Trapani, Sicily to launch the Marettimo M. in a challenging "roll-on float-off" operation that tested the performance of our ship and crew with no room for error. We have settled our final account with Malta Shipyards and closed the book on "Modern Miracles in Ship Conversion". After weathering the extremes of cold and darkness above the Arctic Circle to safely transport the "Energy Exerter" for Northern Offshore from Kirkness, Norway to Kavalla, Greece, FJORD sailed to Abu Dhabi to begin our work with Chevron and KBR transporting modules constructed for the EGTL Project in Escravos, Nigeria. In spite of the general state of crisis that focussed the World's attention in the first half of 2009, Team Fairstar has had a remarkably successful year.

Fairstar is a Dutch company. We are a natural extension of the Dutch maritime heritage that has established itself among many leading Dutch shipping, construction and offshore service companies. We believe this is one of our core strengths. Flying the Dutch flag on our vessels reinforces the values that we know are essential to our long-term success.

What we do at Fairstar is complex, dangerous and unpredictable. The risks we manage on a daily basis require a wide range of skills and professional qualities. The value of our cargoes is as high as the expectations of our clients.

Maintaining a competitive advantage is a fundamental requirement for any business. FJORD and FJELL are special ships. Each has her own strengths and weaknesses. However we know they are both valuable assets and have been proven to be attractive and competitive in the market today.

Fairstar has successfully built our own ships as well as a Team both onshore and offshore to operate them. We are well aware that our industry is highly regulated and requires high standards of quality and consistency. Fairstar has undertaken to achieve ISO 9001 as well as ISO 1400 within 2010. We are constantly monitoring the agenda of change that will require ship owners to upgrade their vessels to ensure higher standards of environmental sensitivity. FJORD and FJELL are the newest vessels in the heavy transport fleet. We are already compliant with the requirements for ballast water management as well as asbestos free ships that will be demanded by future areas of operation.

In spite of the challenges we face today, our future is filled with opportunity. Investment in the global energy infrastructure is growing. The transport of modules to remote locations off the coasts of Australia, South-East Asia, Brazil and Russia will keep us busy for many years to come.

Many other companies have surrendered in the face of the impossible. We could have quit in Malta countless times over the three years we worked together to build our ships. Walking away is easy. I am proud to be a part of a Team at Fairstar that does not give up. We have earned the respect of our clients and partners because we are committed to succeed. As I look back on 2009, it is easy to understand why the future is so bright for Fairstar Heavy Transport.

Philip Adkins
Chief Executive Officer
February 2010

Health, Environment, Safety and Security

Health, Environment, Safety, and Security (HESS) as well as Quality Assurance (QA) are fundamental elements of Fairstar's business. Fairstar regularly reviews the policies and procedures it has established to maintain compliance with all areas of regulatory supervision it may be subject to. Fairstar believes that safety is a core human value and fundamentally relates to everything that we do in the performance of our responsibilities to our employees, clients and other Fairstar stakeholders. Fairstar is committed to establishing the "Incident and Injury Free (IFF)" programme throughout Fairstar. All employees will be trained and educated regularly in order to meet and exceed the standards and expectations of our industry and clients.

The safety of both crews and cargoes is of paramount importance to our Company. The nature of our business exposes our employees, assets, clients and their cargoes to extremely high levels of risk.

Management understands that our customers expect us to provide experienced and knowledgeable heavy transport professionals on the vessels. In spite of a worldwide shortage of experienced offshore energy personnel, the Company has been successful in securing experienced heavy transport professionals to support our business both on and off shore. The Company is pleased to report no incidents resulting in injury to any of our employees nor any occurrences of damage to clients' cargoes in the past year.

Strategy

Fairstar's strategy is to create value for our Shareholders by contracting our vessels in those projects where the unique performance characteristics of FJORD and FJELL have a significant competitive advantage. The transport of high-value energy infrastructure and construction components for offshore and onshore field development projects will be Fairstar's primary focus. We intend to establish a 2 to 3 year pipeline of projects that may require multiple voyages, thus optimising the utilisation of our fleet. Transports generated in the spot market may be used to supplement these projects, filling open periods and optimising (de)mobilisation voyages. The offshore drilling segment is attractive in terms of the sheer numbers of rigs movements each year. The Global Fleet for marine heavy transport is now distinctly divided into two separate categories of ships. Purpose-built open stern semi-submersible vessels form one niche. The majority of the Fleet is comprised of semi-submersible converted oil tankers. There are now fourteen converted tankers in the market. This excess capacity has resulted in a significant decline in Time Charter rates attributable to those cargoes most suitable for these ships, namely jack-up rigs, barges and dredging equipment. In addition, these converted tankers are highly leveraged. The combined high-fixed cost of these assets has increased pressure on the owners of these types of ships to cut prices to levels in the spot market just above break-even. This results in a spot market with a tendency towards price competition, making this segment less attractive as a primary target market for Fairstar.

Spot market not attractive with a two-vessel fleet

Fairstar has learned from experience that exposure to the risks of the spot market is much higher with a limited fleet size. Success in the spot market is driven by not only price but the location of a vessel relative to the cargo. The mobilisation costs can undermine the attractiveness of a spot market bid to a potential client. With only two vessels, Fairstar has an inherent disadvantage compared to our competitors, all of whom are able to position their fleets with greater global efficiency. Fairstar has no intention to rely on the spot market as its principal source of future revenue, however, the Company will still bid opportunistically for spot market cargoes with the objective of trying to fill in the time gaps between pre-booked longer term commitments.

Energy Infrastructure Projects are most attractive

Fairstar will continue to focus our marketing strategy on a small core group of clients seeking high-value and complex solutions to their marine heavy transport requirements. In 2009 a number of these high-value projects within the energy and construction industries were awarded a final investment decision. Fairstar believes that a compelling opportunity exists in the future for our Shareholders by transporting high-value modules for energy infrastructure projects to remote and frequently inaccessible locations. FJORD and FJELL have unique performance capabilities within this niche that ensure Fairstar can maintain the pricing power necessary to achieve Time Charter equivalent guidance of USD 80,000 per day at an 80% annual utilisation rate. The long-term nature of the projects make long-term planning possible, creating more predictable cash flows for Fairstar.

FJORD and FJELL

Fairstar is well-positioned to compete within the heavy transport industry. FJORD and FJELL have unique performance features that make them particularly attractive transportation options within our target market client base. FJORD and FJELL are propelled by twin azimuth thrusters. The open stern configuration has fully removable buoyancy towers. The deck strength of 25 tonnes per square metre is rated among the highest in its class and contributes to the high draft to weight carrying ratio. The ballast system is powerful and sensitive to the needs of clients seeking stability at quay side for the efficient load-out of ultra heavy assets either by skidding or rolling onto the decks of FJORD and FJELL. FJORD has successfully operated in both extreme heat and severe cold weather environments, including a successful load-out above the Arctic Circle in January.

Vessel Characteristic	Projects able to benefit from the characteristic
Vessel width	**Cargoes requiring a specific vessel width:**
	Semis requiring support area (45.5m)
	Multiple-piece cargoes requiring deck space to avoid multiple transports
	Float-overs of heavy modules with small slots (36m)
Vessel depth	**Cargo requiring a specific vessel depth:**
	(Un)loading at locations others cannot reach – both at quayside and in restricted water-depth ports
Deck length	**Cargoes requiring a specific deck length:**
	Flexible solutions with casings enabling protrusion over the stern
Submerging draft	**Cargo requiring vessel submerging draft:**
	Semis with thruster protrusions
	Jack-ups with spud can protrusions
Unobstructed stern	**Cargo requiring unobstructed stern :**
	Float-over cargoes
	Module transports requiring roll-on/off over the stern
	Mating cargoes
	Military Sealift Command Intermediate Transfer System
	Floating docks protruding the vessel's deck on 3 or 4 sides
	Stern-to container crane shifts
Manoeuvrability	**Cargo requiring manoeuvrability/redundancy others cannot supply:**
	Float-over cargoes
	Mooring alongside SSCV
	Cargoes vulnerable to dead ship situations
Pumping capacity	**Cargo requiring pumping capacity others cannot supply:**
	Float-over cargoes
	Offshore discharge

If clients have cargoes which require one or more of the unique characteristics listed above, the pool of available vessels able to execute the transport is smaller and Fairstar's vessels have a competitive advantage.

Financial highlights

2009 FJORD and FJELL successfully completed a total of nine voyages for clients including KBR/Chevron, Saipem, Northern Offshore and China's CCCC. This resulted in an annualised fleet utilisation of 81% (100% for FJORD and 64% for FJELL). The Company enjoyed a significant increase in gross revenue, time charter revenue and net profits. Full year revenues amount to USD 50.7 million versus USD 15.7 million in 2008. Time-charter equivalent revenues amounted to USD 36 million (2008: USD 10 million). EBITDA amounted to USD 24.3 million (2008: USD 242 thousand negative).

Performance was enhanced through an efficient shore-based organisation and disciplined cost control. FJORD and FJELL are the newest ships in the global heavy transport fleet. Fairstar is able to maintain capital expenditure for its vessels well below their annual depreciation.

Management will continue to reduce leverage and create genuine value for shareholders. In February 2009, the Company successfully placed 10.2 million new shares resulting in an increase of equity by USD 9.5 million. The Company repaid a total of USD 3.2 million of principal of HSH Nordbank. Fairstar has USD 72.8 million remaining under this eight year facility. Average interest (rate including fixed rate swaps) was approx. 5.2%.

In September, Fairstar signed a loan agreement with Fortis Bank Nederland for a USD 15 million, four year facility secured by a second mortgage over the Company's two vessels FJORD and FJELL. The proceeds will be used to redeem the Company's outstanding NOK 124 million Bond. Fairstar has extended the final repayment of its outstanding NOK 124 million Bond until 1 March 2010.

Key Financial information

The table below lists the (financial) key data since incorporation of the Company in 2005. In 2006 and the first half of 2007 the Company was able to secure and successfully execute a number of contracts for (barge) FJELL, before the conversion started in Malta. In 2007 the Company started to build up its own shore based organisation.

	2009	2008	2007	2006	2005
(USD IN THOUSANDS)					
Gross revenue	50,672	15,698	8,280	16,341	1,905
Voyage related costs	-14,644	-5,632	-2,269	-10,363	-2,385
Time charter equivalent revenue	**36,028**	**10,066**	**6,011**	**5,978**	**-480**
Other income	5,290	-	155	129	-
Other Expense	-3,960	-	-	-	-
Vessel operating expenses	-7,676	-5,054	-4,193	-1,268	-664
General and Administrative expenses	-5,347	-5,254	-3,493	-2,968	-657
Operating expenses, other than depreciation	**-13,023**	**-10,308**	**-7,686**	**-4,236**	**-1,321**
EBITDA	**24,335**	**-242**	**-1,520**	**1,871**	**-1,801**
Depreciation	-6,324	-3,045	-388	-1,255	-711
EBIT	**18,011**	**-3,287**	**-1,908**	**616**	**-2,512**
Net financing costs	-5,653	-4,476	2,139	243	123
Result before tax	**12,358**	**-7,763**	**231**	**859**	**-2,389**
Income tax	**-**	-	-	-	-
Result after tax	**12,358**	**-7,763**	**231**	**859**	**-2,389**
Basic earnings per share	**0.30**	-0.24	0.01	0.03	-0.09
Diluted earnings per share	**0.30**	-0.23	0.01	0.03	-0.09
Total non-current assets	179,687	167,539	133,281	95,592	54,744
Total current assets	11,170	8,103	6,366	17,635	2,831
Total assets	**190,857**	**175,642**	**139,647**	**113,227**	**57,575**
Current liabilities	58,938	59,215	16,726	4,637	6,144
Non-current liabilities	64,550	70,950	65,364	48,034	5,554
Total equity	67,369	45,477	57,557	60,556	45,877
Total equity and liabilities	**190,857**	**175,642**	**139,647**	**113,227**	**57,575**
Average number of fte's employed	39	29	17	5	-

Outlook

The global fleet for offshore heavy transport is now clearly separated into two distinct market segments characterised by distinctly different levels of pricing power. Open stern purpose-built vessels like FJORD and FJELL proved throughout 2009 to have pricing power significantly higher than the fourteen converted tankers now in the market. The excess capacity represented by these converted tankers combined with a dramatic decline in the transportation of jack-up rigs in 2009, resulted in a collapse of day rates now averaging approximately USD 30-40 thousand per day for these types of vessels. Unless there is an increase in rig transports or a reduction in converted tankers, there is no reason to believe this benchmark will increase in the future. In this market environment, balance sheet strength is critical. In recent years, the heavy transport industry has been characterised by excessive leverage. Fairstar has continued to reduce long-term debt on its balance sheet and currently maintains the lowest level of long-term debt to the book value of our ships within the industry. A strong balance sheet is a prerequisite to position our vessels with clients involved in complex high-value transport contracts. Fairstar will continue to focus its marketing strategy on a core group of clients seeking high-value and complex solutions to their marine heavy transport requirements.

In 2009 a number of these projects within the energy and construction industries were awarded final investment decisions. Fairstar believes that a compelling opportunity exists in the future for our Shareholders by transporting high-value modules for energy infrastructure projects to remote and frequently inaccessible locations. FJORD and FJELL have unique performance capabilities within this niche that ensure Fairstar can maintain the pricing power necessary to achieve Time Charter equivalent guidance of USD 80,000 per day at an 80% annual utilisation rate.

Legal update

On 7 December 2007, Oude Maas Beheer B.V., a company controlled by Mr Henk van den Berg, Managing Director of Fairmount Marine B.V., filed a request against the Company with the Enterprise Chamber of the Court of Appeals in Amsterdam. Oude Maas Beheer B.V. requested the court to take emergency action and immediately suspend the members of the Managing and Supervisory Boards of Fairstar and order an inquiry into the affairs of the Company on the basis of alleged mismanagement. In February 2008, the Enterprise Chamber of the Court of Appeals heard arguments for both sides. Since this hearing no decision has been issued by this court.

In June 2008, the Company initiated arbitration proceedings in Rotterdam with the Netherlands Arbitration Institute against Fairmount Marine B.V. for damages totalling EUR 43.6 million citing Fairmount Marine B.V. for mismanagement and gross negligence while Fairmount Marine B.V. had been acting as manager for the conversion of the FJORD at Malta Shipyards.

Other cases have been finalised.

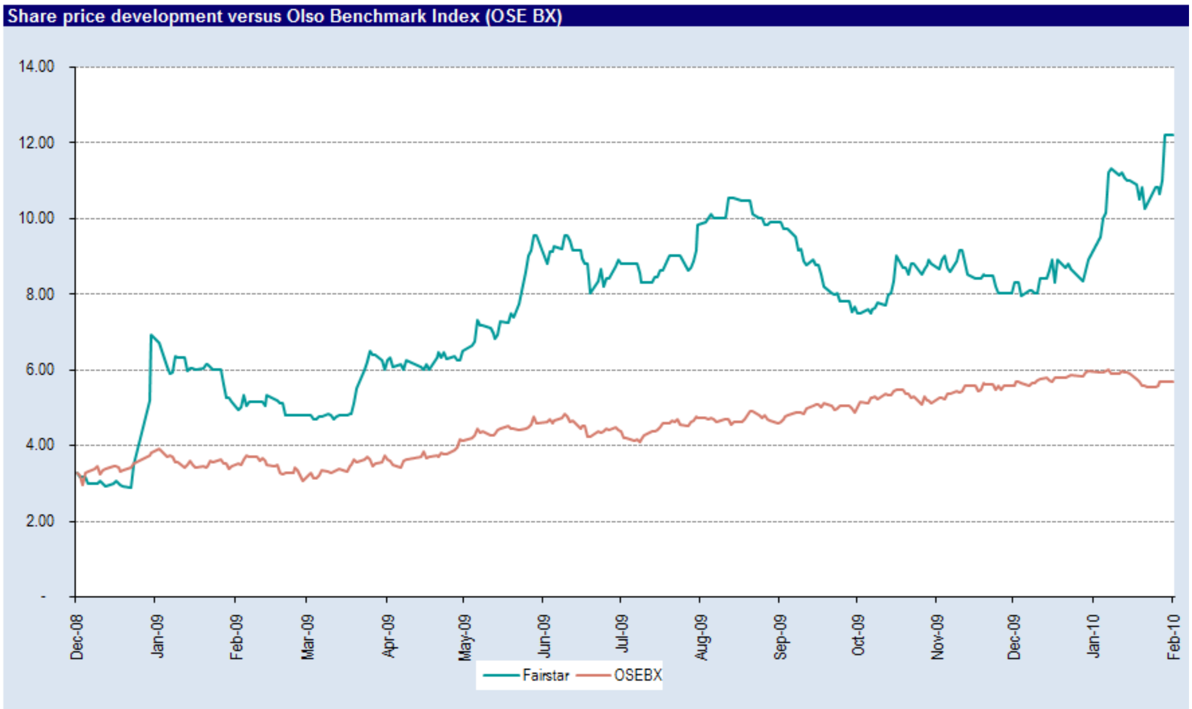
Corporate Governance

Fairstar's corporate governance structure is based on the requirements of the Dutch Civil Code, the Company's Articles of Association and the rules and regulations applicable to companies listed on the Oslo Stock Exchange, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations. Please refer to the Corporate Governance section of this report for a detailed report, including the best practice provisions that are not adopted.

Shareholder Information

Fairstar maintains open and transparent communications with its capital providers and the financial community, by regularly communicating with analysts, investors and the financial media. Furthermore, the communication and contacts are evaluated on a regular basis. Once published, the presentation reports that Fairstar hands out to analysts and (institutional) investors and at press releases can be accessed on the Company's website and through the Oslo Stock Exchange information system.

At the end of 2009 Fairstar had approximately 380 shareholders. A list of the Company's largest shareholders is available on the website (www.fairstar.com).



Directors' statement of responsibilities

In accordance with statutory provisions, the Directors state, to the best of their knowledge, that:

- The Financial Statements, as shown on pages 18 to 43 of this report, provide a true and fair view of the assets, liabilities, financial position and result for the financial year of Fairstar Heavy Transport NV and its subsidiaries included in the consolidated Financial Statements;
- This annual report provides a true and fair view of the position at the balance sheet date and the business conducted during the financial year of Fairstar Heavy Transport NV and its subsidiaries, details of which are contained in the Financial Statements. The annual report provides information on any material risks to which Fairstar is exposed.

Rotterdam, 2 March 2010

The Fairstar Management Board,

Mr Philip Adkins
CEO

Mr Willem Out
Fleet Director

Corporate Governance Report

Introduction

Fairstar's corporate governance structure is based on the requirements of the Dutch Civil Code, the Company's Articles of Association and the rules and regulations applicable to companies listed on the Oslo Stock Exchange, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations. Over the last few years, Fairstar has been consistently enhancing and improving its corporate governance standards in accordance with applicable laws and regulations. Most notable are the revised Dutch Corporate Governance Code adopted in 2008 (the "Code") and its implementation rules. The Code contains principles and best practices for Dutch companies with listed shares. Fairstar agrees both with the general approach and with the vast majority of its principles and best practice provisions. The Management Board and the Supervisory Board have taken these discussions into account in formulating a position on the Company's corporate governance.

This chapter describes Fairstar's corporate governance. Deviations from the Code are explained, in accordance with the Code's "apply or explain" principle. Fairstar applies all provisions from the Code, with the following exceptions:

- The Supervisory Board currently does not have the authority to reclaim remuneration paid to a member of the Management Board, claw back clause (Best practice II.2.11), this will be reconsidered in future Management Board member contracts;
- Given the size of the Company, no list shall be held with Board members' holdings in securities other than securities issued by Fairstar (best practice provision III.6.5), this will create an unnecessary administrative burden;
- In view of the size of the Company, no Remuneration, Audit and Selection committee will be established. These roles are fulfilled by the Supervisory Board as a whole (best practice provision III.5);
- As a Dutch legal entity the Company's shares are certified to accomplish trading on the Oslo Stock Exchange. Certification does not impact voting rights of the underlying shares (best practice provision IV.2);
- Shareholders are not offered any possibilities for following presentations to analysts or investors by webcasting or similar methods (best practice provision IV.3);
- Given the size of the Company, no internal audit function or department has been established (best practice provision V.3).

The Management Board and the Supervisory Board believe that the Company's corporate governance structure as described here is the most appropriate for Fairstar at this point in time. Except for those aspects of the Company's governance structure which can only be amended with the approval of the Annual General Meeting of shareholders, the Management Board and the Supervisory Board may make adjustments to the way the Code is applied as described below, if this is considered to be in the interest of the Company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

The Company's Compliance Officer is Mark de Haas.

Legal structure

Fairstar Heavy Transport NV is a public limited liability company ("Naamloze Vennootschap") established under the laws of the Netherlands. Its common shares are listed on Oslo Stock Exchange (OSE). Fairstar has been listed on the Oslo Stock Exchange since November 2006.

Fairstar's management and supervision structure is organised in a so-called two-tier system, comprising a Management Board solely composed of executive directors, and a Supervisory Board, solely composed of non-executive directors. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders for the performance of their functions.

The Supervisory Board is subject to the Company's Regulations on Insider Trading, which include rules concerning possession of and transactions in securities in the Company by the members of the Supervisory Board. The Company has not adopted the Code's best practice governing the possession of and transactions in securities of other entities than Fairstar (best practice provisions III.6.5).

The profile for the composition of the Supervisory Board, the Retirement Schedule and the Supervisory Board Regulations as well as the Regulations on Insider Trading are available on the Company's website. The Supervisory Board will be assisted by the Company Secretary. The Company Secretary ensures that the correct procedures are followed and that any actions undertaken are in accordance with the statutory obligations and with those obligations laid down in the Articles of Association. In 2009 the CFO, Mark de Haas, has assumed the role of Company Secretary.

The Management Board is responsible for managing the Company. The Company's strategy and objectives, which are submitted to the Supervisory Board for approval, are set down in the annual report. The strategy presentations are published on the Company's website. Fairstar's Management Board currently comprises two members. The Chief Executive Officer and the Fleet Manager are the Company's directors under the Articles of Association. The Chief Executive Officer is the Chairman of the Management Board. The

Supervisory Board proposes appointment and dismissal of the members of the Management Board to the Annual General Meeting of Shareholders, lays down the conditions for appointments and their remuneration.

Rules on Inside Information and Code of Conduct

The members of the Management Board and of the Supervisory Board are subject to the Fairstar Rules on Inside Information, which limit the opportunities of members of the Management Board and of the Supervisory Board to trade in Fairstar – and in certain circumstances – other companies' shares. Transactions in Fairstar shares executed by members of the Management Board or of the Supervisory Board are notified to the Dutch Authority for Financial Markets in accordance with Dutch law and, if necessary, to other relevant authorities. Certain employees are subject to the same limitations under the Fairstar Rules on Inside Information.
The Fairstar Rules on Inside Information provide that executing transactions in Fairstar securities is prohibited if the person concerned has inside information regarding securities. Furthermore, the Compliance Officer may determine that members of the Management Board, members of the Supervisory Board and certain designated employees may not carry out transactions in Fairstar securities or other securities, both during a closed period and outside a closed period.

Fairstar demands that all their management and their staff conduct themselves in an ethical manner at all times. The Company has a Code of Conduct for the Management Board and Supervisory Board as well as Rules of Conduct Related to Suspected Irregularities ("whistle-blower's regulations"). Both are available on the Company's website.

Risks and Risk Management

Effective risk management is a fundamental business foundation. The integrated risk management process considers all relevant safety, environmental, social and governance issues. The Management Board is responsible for the organisation and operation of the internal risk management and control systems. The purpose of these systems is aimed at the long-term sustainable management of its business activities and to minimise the principal risks to which Fairstar is exposed and to ensure compliance with legislation and regulations.

The risk management and control system has the continuous attention of the Management Board and forms an essential part of the management of Fairstar. Procedures have been put in place in key areas to manage risks, such as:

Project risks: As part of its business the Company regularly carries out high-risk projects. There are various risk areas, such as Health, Safety, Environment, Security and finance. Proper project (risk) management is essential in managing these risks. Management identifies these risks on a project by project basis and defines specific risk control measures. The effects of these risk control measures are assessed during the project and adjusted if needed.

Market risks: Demand for heavy transport services in connection with exploration, development and production in the offshore oil and gas industry is particularly sensitive to oil and gas price fluctuations, low production levels and disappointing exploration results as well as possible geo-political influences. Demand for the Company's services may also be impacted by increased supply of similar or other vessels.

International operations: Operations in international markets are subject to risks inherent to international business activities, including, in particular, general economic conditions in each such market, overlapping differing tax structures, managing an organisation spread over various jurisdictions, unexpected changes in regulatory requirements, complying with a variety of foreign laws and regulations.

Insurance: The Company is insured against a number of risks. Risks related to occupational liability and general liability are covered. Tangible assets are insured at an appropriate level.

Financial risks: Exposure to credit, interest rate and currency risks arises in the normal course of Fairstar's business. Derivative financial instruments are used to hedge the vast majority of exposure to fluctuations in foreign exchange rates and interest rates. An extensive discussion on financial risk is included in the financial report.

Future capital needs: The Company may need to raise additional funds in the future in order to invest in or acquire complementary businesses, technologies, products or services. Any required additional financing may not be available on acceptable terms, or at all. If the Company raises additional funds by issuing equity securities, shareholders may experience dilution, and the newly-issued securities may have rights senior to current shareholders.

The Management Board is confident that the Risk Management and Internal Control Systems are in place to identify and mitigate material risks and that these systems provide an acceptable level of assurance that the Financial Statements do not contain any material misstatements and that these systems are operated properly during the year under review. The Management Board has no indication that these systems will not operate properly during the current year.

For further information about the financial instruments and currency risk management, please refer to policy notes in the Financial Statements.

Annual General Meeting of shareholders

The Annual General Meeting of Shareholders is convened at least once every year. The Company's shareholders are entitled to attend, speak at and vote at the Annual General Meeting of Shareholders. Each share entitles the relevant party to cast a single vote. Shareholders' rights to assemble may be exercised by a person authorised in writing. The power of attorney permitting the exercising of the rights to assemble must be filed with the Management Board at the latest on the day stated in the notice convening a meeting.

The principal areas in which the Annual General Meeting of Shareholders has authority are the following:

- Appointing and dismissing the members of the Management Board.
- Appointing the members of the Supervisory Board and dismissing the entire membership of the Supervisory Board.
- Determining the remuneration policy of the Management Board.
- Determining the remuneration of the Supervisory Board.
- Adopting the Company's Annual Report.
- Determining the dividend to be paid.
- Approving management decisions concerning important changes to the Company, including acquisitions, partnerships and disposals.
- Discharging the Management Board for its management activities.
- Discharging the Supervisory Board for its Supervisory activities.
- Placing items on the agenda of the Annual General Meeting of Shareholders.
- Appointing the external auditor charged with the task of auditing the Company's Financial Statements.
- Resolving to issue shares or authorising the Management Board to issue shares, subject to the Supervisory Board's prior approval.
- Deciding to exclude or limit preferential subscription rights or to authorise the Management Board to exclude or limit preferential subscription rights subject to the prior approval of the Supervisory Board.
- Authorising the Management Board to buy back own shares in the Company subject to the prior approval of the Supervisory Board.
- Resolving that the Company's capital be reduced, if proposed by the Management Board and also approved by the Supervisory Board.
- Resolving to amend the Articles of Association or dissolve the Company.
- Resolving to effect statutory mergers and statutory de-mergers of the Company.

Financial reports and the role of the auditor

The way in which financial announcements are compiled and the supervision on that compilation are the responsibilities and working methods of the persons involved, the Management Board, the Supervisory Board and the Company's external auditor. The procedures are evaluated on a regular basis and adapted where necessary. The Company's Financial Statements are compiled by the Chief Financial Officer and signed by the Management Board and the Supervisory Board. The Annual Report is adopted by the Annual General Meeting of Shareholders. The external auditor attends the Supervisory Board meeting at which the Annual Accounts are discussed.

The policy on reserves and dividends is dealt with and accounted for as a separate agenda item at the Annual General Meeting of Shareholders. One of Fairstar's primary objectives is to create shareholder value, both by realising growth and by distributing dividends to shareholders. Fairstar's reserves policy is aimed at realising and maintaining the financial balance sheet ratios needed to achieve the Company's growth targets. At the same time, Fairstar advocates stable distribution of profits to its capital providers. The dividend is distributed in a form that suits the Company's financial structure and as far as possible the interests of the shareholders.

The external auditor is appointed by the Annual General Meeting of Shareholders after a recommendation by the Supervisory Board. The appointment of the external auditor is discussed every year. Once every four years, the external auditor's performance is the subject of an in-depth review by the Supervisory Board and the Management Board. The Management Board reports to the Supervisory Board on any changes in the relationship with the external auditor, or in the external auditor's independence from the Company. In line with the applicable professional rules, the external auditor will report to the Management Board and the Supervisory Board about his or her independence vis-à-vis Fairstar. The Company's external auditor also attends the Annual General Meeting of Shareholders. This presents an opportunity for asking the external auditor questions concerning the opinion on the true and fair view presented by the Annual Report.

Anti-takeover measures

Fairstar has no anti-takeover measures in place.

Financial Statements 2009

Consolidated Financial Statements 2009

Statement of Comprehensive Income for the year 2009

(USD IN THOUSANDS)	*Note*	2009	2008
Gross revenue		50,672	15,698
Voyage related costs		-14,644	-5,632
Time charter equivalent revenue		**36,028**	**10,066**
Other income	*1*	5,290	-
Other expense	*1*	-3,960	-
Vessel operating expenses	*2*	-7,676	-5,054
General and administrative expenses	*3-4*	-5,347	-5,254
Operating expenses, other than depreciation		**-13,023**	**-10,308**
Earnings before Interest, Tax and Depreciation (EBITDA)		24,335	**-242**
Depreciation		-6,324	-3,045
Earnings before Interest and Tax (EBIT)		**18,011**	**-3,287**
Financial income	*5*	5,594	8,832
Financial expenses	*5*	-11,247	-13,308
Net financing costs		**-5,653**	**-4,476**
Profit (loss) before tax		**12,358**	**-7,763**
Income tax expenses	*6*	–	–
Profit (loss)		**12,358**	**-7,763**
Change in valuation of derivative financial instruments	*10*	2,278	-4,709
Cancellation of option programs		–	565
Net expenses recognised in equity		-861	-
Total comprehensive income and expense for the period		**13,775**	**-11,907**
Weighted average number of ordinary shares		41,057,888	32,990,000
Diluted average number of shares issued (including options exercisable per the end of the year)		41,580,221	33,309,000
Basic earnings per share		USD 0.301	USD -0.235
Diluted earnings per share		USD 0.297	USD -0.233

Consolidated Statement of Financial Position as per 31 December 2009

After appropriation of result

(USD IN THOUSANDS)	*Note*	**2009**	2008
Assets			
Property, plant and equipment	*7*	179,687	167,539
Total non-current assets		**179,687**	**167,539**
Inventories	*8*	1,506	689
Trade and other receivables	*9*	9,524	577
Derivative financial instruments	*10*	112	28
Cash and cash equivalents	*11*	28	6,809
Total current assets		**11,170**	**8,103**
Total assets		**190,857**	**175,642**
Equity and liabilities			
Liabilities			
Bank overdraft		4,239	–
Trade and other payables	*12*	18,164	19,011
Short-term part of long-term loans	*13*	29,417	25,332
Derivative financial instruments	*10*	7,118	14,872
Current liabilities		**58,938**	**59,215**
Long-term loans	*13*	64,550	70,950
Total non-current liabilities		**64,550**	**70,950**
Total liabilities		**123,488**	**130,165**
Equity	*14*		
Issued share capital		23,478	56,242
Share premium		45,019	5,042
Retained earnings		3,861	-8,497
Hedging reserve		-5,171	-7,449
Share-based payments reserve		182	139
Total equity		**67,369**	**45,477**
Total equity and liabilities		**190,857**	175,642

Consolidated Cash Flow Statement for the year 2009

(USD IN THOUSANDS)	2009	2008
Cash flows from operating activities		
Profit (loss) after taxation	12,358	-7,763
Change in valuation of derivatives and NOK bond loan	-1,368	120
Depreciation/amortisation	6,324	3,045
Share-based payments	43	392
	17,357	-4,206
Changes in working capital (excluding cash and cash equivalents, derivative financial instruments and long-term loan)	-10,611	10,050
Net cash from operating activities	**6,746**	**5,844**
Cash flow from investing activities		
Investments in:		
Property, plant and equipment (Vessels)	-18,472	-37,303
Net cash from investing activities	**-18,472**	**-37,303**
Cash flow from financing activities		
Issue of equity net of fees (issue and conversion)	3,906	–
Draw down (repayment) Term debt HSH	-3,200	5,136
Draw down (repayment) NOK bond loan	–	28,220
Net cash from financing activities	**706**	**33,356**
Net increase in cash and cash equivalents	**-11,020**	**1,897**
Cash and cash equivalents at 1 January	**6,809**	4,912
Cash and cash equivalents including bank overdraft at 31 December	**-4,211**	**6,809**

Consolidated Statement of Changes in Equity

2009	Note	Issued share capital	Share premium	Retained earnings	Hedging reserve	Share-based payments reserve	Total
(USD IN THOUSANDS)							
Balance as at 1 January		56,242	5,042	-8,497	-7,449	139	**45,477**
Issue of equity (net of fees)		3,583	677	–	–	–	**4,260**
Conversion of bonds (net of fees)	*13*	2,479	474	–	–	–	**2,953**
Reduction of capital	*14*	-38,826	38,826	–	–	–	**–**
Share based payments	*4*	–	–	–	–	43	**43**
Cash flow and fair value hedges		–	–	–	2,278	–	**2,278**
Result for the period		–	–	12,358	–	–	**12,358**
Balance as at 31 December		**23,478**	**45,019**	**3,861**	**-5,171**	**182**	**67,369**

2008		Issued share capital	Share premium	Retained earnings	Hedging reserve	Share-based payments reserve	Total
(USD IN THOUSANDS)							
Balance as at 1 January		56,242	5,042	-1,299	-2,740	312	57,557
Share based payments	*4*	–	–	–	–	392	392
Cancellation of option programs		–	–	565	–	-565	–
Cash flow hedges		–	–	–	-4,709	–	-4,709
Result for the period		–	–	-7,763	–	–	-7,763
Balance as at 31 December		**56,242**	**5,042**	**-8,497**	**-7,449**	**139**	**45,477**

Notes to the consolidated Financial Statements

General Information

Background

Fairstar Heavy Transport NV ('the Company') is a provider of long-distance ocean transportation services for the offshore and onshore industries. Fairstar operates two of the world's largest and most modern self-propelled semi-submersible heavy transport vessels, FJORD and FJELL. The Vessels transport large floating and non-floating cargoes mainly used in the offshore oil and gas industry, such as drilling rigs, floating production platforms, modules, etc. on a contract-to-contract basis.

The Company was incorporated on 8 July 2005. Since 17 November 2006, the Company has been quoted on the official Oslo Stock Exchange (OSE) under the ticker FAIR. At year-end the Company had 43,179,547 shares outstanding.

The Company is domiciled in Rotterdam, The Netherlands.

Business description

On 10 August 2005, the Company purchased and took delivery of two barges from BOA Offshore AS in Trondheim, Norway. The barges were renamed FJORD and FJELL. The barges were converted to self-propelled semi-submersible heavy transport vessels able to transport valuable floating and non-floating cargoes with complex specifications, over long ocean distances, worldwide.

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with Part 9 of Book 2 of The Netherlands Civil Code using International Financial Reporting Standards (IFRS) as endorsed in the EU and its interpretations adopted by the International Accounting Standards Board (IASB).

The Financial Statements were authorised for issue by the Management Board on 2 March 2010.

Basis of measurement

The consolidated Financial Statements have been prepared on the historical cost basis except for derivative financial instruments that are stated at fair value and the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur and reported in the Financial Statements of the periods to which they relate.

Functional and presentation currency

These Financial Statements are presented in USD, which is the functional currency of the Company. All financial information presented in USD has been rounded to the nearest thousand.

At year-end 2009 the most important exchange rates were the Euro and the Norwegian Kroner.

	EUR	NOK
1 January 2008	1.47185	0.18454
31 December 2008	1.39190	0.14336
31 December 2009	1.43320	0.17272

Use of estimates and judgments

The preparation of the accounts of the Company in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Management has made no judgements in the application of IFRS that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year.

Changes in Accounting Policies

Although the main elements of IFRS have been approved by the IASB, there are still areas of IFRS that have to be finally clarified. It is therefore likely that there will be continuous updating, adjustments and interpretations that may affect the Company's accounting principles in the future.

The following accounting standards have been (early) adopted in 2009:

- IFRS 8, Operating Segments;
- Revised IAS 1, Presentation of Financial Statements;
- Revised IFRS 3 Business Combinations.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The figures of the subsidiaries are included in the Financial Statements from the date that control commences until such control ceases.

Foreign currency

Transactions in foreign currencies are translated into USD using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the balance sheet date are translated to USD at the applicable exchange rate ruling at that date. Exchange differences arising on translations are recognised in the income statement.

Segment reporting

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. Management currently looks at its operations on a project-by-project basis. Detailed financial project information is regarded as competition-sensitive. As a result no detailed segment information has been included in the Financial Statements.

Significant accounting principles

Time-charter equivalent revenue

The time-charter equivalent revenue is calculated as revenues minus direct voyage related costs. The time-charter equivalent of a voyage is estimated and recognised on a straight-line basis over the duration of the voyage. Probable losses on voyages are provided for in full at the time such losses can be estimated. Advance payments are recorded as deferred income.

Revenues

Revenues include lump-sum freights including any demurrage payments generated by projects.

Voyage-related costs

Voyage-related costs are costs directly related to transportation projects.

Vessel operating expenses

Vessel operating expenses comprise the operating costs of the vessels as crew and crew related costs, repairs and maintenance, insurance, damage accruals and miscellaneous operating expenses directly attributable to the vessels.

Employee benefits

Defined-contribution plans

Pension scheme contribution liabilities under defined-contribution plans are recognised as an expense in the income statement when the contributions fall due. This is also the case for contributions paid to the multi-employer plan “Pensioenfonds voor de Koopvaardij”. Although the industry pension fund in fact has a defined-benefit plan, it is accounted for as a defined-contribution plan because the pension fund concerned does not supply sufficient information for defined-benefit accounting to be applied.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Financial income and expenses

Financial income comprises interest income on bank deposits, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and losses on hedging instruments that are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

Borrowing costs that are directly attributable to the acquisition and construction of the vessels are capitalised as part of the cost of that asset.

Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company has elected to be taxed on the basis of the Dutch tonnage regime for the qualifying vessels rather than on the basis of the taxable profits actually made. The taxable profit generated by each individual vessel is calculated for a book year according to the following sliding scale.

Net tonnage of ship	Fixed profit per 1000 net ton per day
0-1,000 net tons	€ 9.08
For the excess up to 10,000 net tons	€ 6.81
For the excess up to 25,000 net tons	€ 4.54
25,000 net tons or more	€ 2.27

The taxable profits calculated on the basis of this schedule are subject to the normal Dutch corporate tax rate. The tonnage regime was awarded at the time the vessels went into conversion. FJORD (30,000 net tons) as per 1 January 2006 and FJELL (25,000 net tons) as per 1 July 2007.

Income tax on other income and income from transportation activities prior to the vessel conversion are levied in accordance with Dutch corporate income tax regulations, taking into account fiscal facilities and non-deductible expenses. Income tax is calculated at the nominal tax rates.

Deferred tax is recognised at the nominal tax rate using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, which in the case of Dutch tonnage regime is unlikely.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Property, plant and equipment (PP&E)

General

In accordance with IAS 16 the Company has adopted the component approach for its two heavy transport vessels FJORD and FJELL. PP&E consist mainly of vessels and other equipment acquired by the Company. PP&E are stated at cost less accumulated depreciation and impairment losses, if any. Costs include expenditure that is directly attributable to the acquisition or conversion of the assets.

Interest costs on borrowings to finance the conversion and external management costs relating to the conversion are capitalised during the period required to complete and prepare the vessels for their intended use.

Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they incur. Any subsequent costs (such as major renovations) are included in the vessels' carrying amount when it is probable that the Company will derive future economic benefits in excess of the originally assessed standard of performance. Any major renovations are depreciated over the useful lives of such renovations.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the item and are included in operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

The vessels will undergo a survey typically every 5 years. The costs incurred for dry-docking of vessels are capitalised and depreciated over the period to the next dry-docking.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life. The two vessels are depreciated from the moment of completion of the conversion. When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment and deprecated over five to thirty years.

The estimated remaining useful life is as follows:

- Hull and Accommodation : 30 years
- Ballast Systems : 30 years
- Engines : 30 years
- Electrical Machinery : 25 years
- Safety Equipment : 25 years
- Navigation Equipment : 15 years
- Survey and Docking : 5 years

Useful lives, residual values and depreciation methods are, if not insignificant, reassessed annually.

Impairment of assets

The carrying amount of the Company’s vessels and any other qualifying non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash flows (cash-generating units). The recoverable amount is the greater of the asset's net selling price and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years.

Inventories

Inventories mainly consist of bunker and lubricants on board of the vessels. The value of inventories is based on historical cost and includes expenditure incurred in acquiring and bringing the inventories to their existing location and condition. Inventories are stated at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise of cash and petty cash on the vessels, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Provisions

A provision is recognised in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligations, determined using the estimated risk free interest rate as discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as interest expense.

Borrowings (Long-term loans)

Borrowings are recognised initially at fair value minus direct transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to non-USD exchange, its floating interest rate risks and, in specific instances, commodities (bunkers). In compliance with the treasury policy, the Company does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting principle regarding hedging).

Fair Value

Financial instruments carried at fair value are included in the "level two" category. This means that valuation of these instruments is based on a periodic valuation provided by financial institutions.

Hedge accounting

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. When a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (for example, when interest income or expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge financially the non-USD exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Equity

Share capital

Share capital is classified as equity. The Company has issued one kind of shares. No preference shares have been issued.

Costs in connection with share issuance

External costs directly attributable to the issuance of new shares are recognised directly in equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Cash flow statement

The cash flow statement has been prepared applying the indirect method.

New standards and interpretations not yet adopted

Other than those adopted early as explained above, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

Notes to the consolidated income statement

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

The Management Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Supervisory Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company's exposure to credit risk is significantly influenced by the individual characteristics of project and/ or customer. Management has a strict credit policy in place to control exposure to credit risk. Credit evaluations are performed on all customers before signing a contract, if needed specific contract terms are amended or a Letter of Credit is requested.

At the balance sheet date there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The treasury function ensures stringent cash control. As a result of the Company's inherent project limitations (project income is usually received in two instalments, while an average project can take up to three or more months) the Company has secured a USD 5 million overdraft facility for working capital.

The following are the contractual maturities of financial liabilities:

2009	Carrying amount	Month 1-6	Month 7-12	Year 1-2	Year 3-4	More than 5 years
(USD IN THOUSANDS)						
Trade creditors	9,135	-7,374	-1,761	-	-	-
Tax payable	110	-110	-	-	-	-
Accruals and deferred income	8,846	-7,077	-1,769	-	-	-
Short-term debt	21,126	-21,126	-	-	-	-
Long-term loan, including interest	84,080	-6,143	-4,693	-10,750	-15,811	-46,683
Interest rate swaps used for hedging	5,395	-	-	-622	-1,650	-3,123
Forward exchange contracts used for hedging	1,835	-1,835	-	-	-	-
Total	130,527	-43,665	-8,223	-11,372	-17,461	-49,806

2008	Carrying amount	Month 1-6	Month 7-12	Year 1-2	Year 3-4	More than 5 years
(USD IN THOUSANDS)						
Trade creditors	7,931	-7,931	–	–	–	–
Tax payable	55	-55	–	–	–	–
Accruals and deferred income	11,025	-11,025	–	–	–	–
Short-term debt	25,332	-1,600	-23,732	–	–	–
Long-term loan	70,950	–	–	-12,800	-12,800	-45,350
Commitments, not accounted for in the balance sheet	8,000	-8,000	–	–	–	–
Interest rate swaps used for hedging	7,477	-500	-500	-2,000	-2,000	-2,477
Forward exchange contracts used for hedging	7,395	–	-7,395	–	–	–
Total	138,165	-29,111	-31,627	-14,800	-14,800	-47,827

Interest rate risk

The Company adopts a policy of ensuring that between 80% and 100% of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

(USD IN THOUSANDS)	**31 December 2009**	31 December 2008
Fixed Financial Liabilities (swapped from floating)	48,985	58,985
Floating rate Financial Liabilities	46,119	44,119
Total Interest bearing liabilities	**95,104**	**103,104**

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at 31 December 2009 would have increased equity with USD 4.6 million (31 December 2008: USD 5.8 million). A decrease of 100 basis points in interest at 31 December would have had the equal but opposite effect.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

Foreign currency risk

The Company has its assets valued in USD and the main portion of its debt in USD. Clients normally pay lump sum freights in USD, and a portion of the Company cost is in USD, such as bunkers cost, harbour cost, war insurances and other voyage-related cost. Most of the companies operating cost are in USD, i.e. such as repairs and maintenance and insurance. Most of the crew and general and administrative expenses are in EUR. The Company has not entered into financial instruments that are not shown on the balance sheet.

In respect of other monetary assets and liabilities held in currencies other than the USD, the Company ensures that the net exposure is kept at an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. When necessary, forward exchange contracts are rolled over at maturity.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts. Balance sheet items not shown below are in USD. The other accruals are excluding the accrued income (2008: USD 0.2 million).

2009	**Carrying amount**	**Of which:**	
	USD 1,000	EUR 1,000	NOK 1,000
Tax receivable	128	89	-
Cash	-4,239	-123	998
Trade creditors	-9,148	-5,058	-1,561
Tax payable	-110	-77	-
Accruals	-8,919	-	-6,223
Short-term debt	-29,417	-	-124,000
Forward exchange contracts	1,835	-	150,000
Exposure in local currency		**-5,169**	**19,214**

2008	Carrying amount	Of which:	
	USD 1,000	EUR 1,000	NOK 1,000
Tax receivable	165	118	–
Cash	3,875	2,783	3
Trade creditors	-7,112	-5,051	-568
Tax payable	-55	-39	–
Accruals	-1,412	-576	-4,255
Short-term debt	-20,532	–	-150,000
Commitments, not accounted for in the balance sheet	-8,000	-5,747	–
Forward exchange contracts	-7,396	–	168,000
Exposure		**-8,512**	**13,180**

Sensitivity analysis

A 10 percent strengthening of the USD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

2009	Equity	Income statement
(USD IN THOUSANDS)		
EUR	1,664	1,664
NOK	185	185

2008	Equity	Income statement
(USD IN THOUSANDS)		
EUR	350	350
NOK	172	172

A 10 percent weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of risk management is to manage and control risk exposures within acceptable parameters, while optimising the return.

Risk assessment and adherence to sound working principles play an integral part in all of the Company's activities. Risk Management process starts early in the proposal phase, evaluating every item with great scrutiny including but not limited to: cargo and legal position, counterparty, timing, bunkers, insurances, weather and sea conditions.

Every cargo operation is carefully planned and simulated in advance by experienced engineers.

Capital management

During 2009 the Company maintained its focus on a strong and sustainable capital base with a number of long-term (strategic) investors. Our goal is to provide high-quality information to investors and analysts about developments at Fairstar, ensuring that relevant information is equally and simultaneously provided and accessible to all interested parties.

The Management Board spends significant efforts to maintain its long standing relations with key suppliers and bankers to sustain future development of the business.

The Company's dividend policy is to disburse excess cash flow to shareholders unless there are strategic value-creating opportunities. There were no changes in the Company's approach to capital management during the year.

Other than our financial covenants which are discussed in the report, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

1 Other Income and Expense

Other income and other expense relate to a claim the Company has on its insurer in relation to the damage of the FJORD.

2 Vessel operating expenses

A breakdown of the vessel operating expenses is as follows:

(USD IN THOUSANDS)	2009	2008
Crewing	3,633	3,268
Maintenance, stores and spare parts	2,027	1,083
Insurances	1,483	536
Other vessel operating costs	533	167
	7,676	**5,054**

3 General and administrative expenses

A breakdown of the general and administrative expenses is as follows:

(USD IN THOUSANDS)	2009	2008
Remuneration of the Board and employee benefit expenses	2,510	1,802
Temporary work staff and advisory costs	1,273	2,220
Costs relating to the listing on the Oslo Stock Exchange	111	170
Travel and lodging expenses	673	494
Other general and administrative expenses	780	568
	5,347	**5,254**

The KPMG fee for auditing the Financial Statements has been included in the other general and administrative expenses and amounts to EUR 60,000 (2008: EUR 44,500). Other fees paid to KPMG relate to an assessment of ICT security and amounted to EUR 15,760 in 2009 (2008: tax work EUR 16,745).

4 Employee benefits

The employee benefit expenses are included in the following items of the consolidated income statement:

(USD IN THOUSANDS)	2009	2008
Vessel operating expenses	1,891	1,970
General and administrative expenses	1,393	995
	3,284	**2,965**

A breakdown of the employee benefit expenses is as follows:

(USD IN THOUSANDS)	2009	2008
Wages and salaries	2,623	2,350
Social security contributions	352	252
Retirement benefits	284	227
Share Option expenses	25	136
	3,284	**2,965**

A breakdown of the retirement benefits is as follows:

(USD IN THOUSANDS)	2009	2008
Contributions to the defined-benefit plan (maritime crews)	157	152
Contributions to the defined-contribution plan (shore-based staff)	127	75
	284	**227**

The contributions to the defined-benefit plan relate to the multi-employer plan “Pensioenfonds voor de Koopvaardij”. The Company accounts for this multi-employer plan as if the plan is a defined-contribution plan. The Company does not have access to information about this plan in order to account for this plan as a defined-benefit plan. The expected contribution to the defined-benefit plan amounts to USD 250,000 for 2010.

The average number of employees in 2009 was 39 (2008: 29), which can be divided as follows:

(IN FTE)	2009	2008
Maritime crews	27	23
Shore-based staff, including member of the Board	12	6
	39	**29**

The Company employed all employees inside The Netherlands.

Share Option expense

Since 2008 Fairstar has one option programme for all its employees including the Management Board. The management and Supervisory Board are committed to granting options to all its employees. Options vest in three equal instalments over a period of three years. If you were granted 15,000 options: 5,000 options are vested in one year, 10,000 in two years and the complete series are vested after three years. Options have a five year life and cliff vest in three years in three equal instalments.

The programme includes a condition that new shares are issued when options are exercised. The Management Board is granted the authority to issue a maximum of 10% of the outstanding issued capital of common shares for general purposes, including issuance of shares under share option plans in 2008 without further approval of the shareholders. Through 31 December 2009 Fairstar did not issue any new shares in relation to the option programme since no options were exercised. In the event of change in control all outstanding options will be cancelled and will be paid in cash the consideration per share over the exercise price.

The number and weighted average exercise prices of share options are as follows:

(Number of Options)	2009	2008
Outstanding at 1 January	722,500	489,000
Granted during the period under old programmes	–	50,000
Cancellation of old option programmes	–	-539,000
Forfeited during the period	-70,000	
Granted during the period	233,000	722,500
Outstanding at 31 December	**885,500**	**722,500**
Options exercised during the year	–	–
Average exercise price at	NOK 6.22	NOK 5.00
Exercisable at 31 December	522,333	319,000

In 2006, the Company established a share option programme that entitled employees to purchase shares in the Company. The exercise price was established at NOK 30. In 2008 the Company concluded that three existing programmes failed to offer the intended benefits. The Company cancelled all outstanding 539,000 options and initiated one new programme. The Company accelerated the vesting of the old programme and reversed the share option reserve into retained earnings.

The fair value of share options granted is measured using a standard Black & Scholes model, with the following inputs:

	2009	2008
Fair value at grant date in USD	233,000	188,000
Share price at issue date in NOK	8.35	3.51
Exercise price in NOK	10	5.00
Expected volatility	50%	70%
Option life in years	5	5
Expected dividends	0%	0%
Risk-free interest rate	3.70%	3.70%

The breakdown of the share option expense is as follows:

(USD IN THOUSANDS)	2009	2008
Share options granted in 2006	–	163
Share options granted in 2007	–	90
Share options granted in 2008	35	139
Share options granted in 2009	8	–
Total expense recognised	**43**	**392**

The share option expense is included in general and administrative expenses.

5 Financial income and expense

A breakdown of the financial income and expenses is as follows:

(USD IN THOUSANDS)	2009	2008
Financial income		
Interest received on short-term deposits	34	294
Foreign currency gains and losses (in 2008 mainly the NOK bond loan) and gains on hedging instruments	5,560	8,538
	5,594	**8,832**
Financial expenses		
Interest paid on borrowings	-7,325	-8,514
Interest capitalised during the year relating to the conversion of the vessels	1,313	4,067
Changes in the fair value of hedging instruments	-4,860	-6,964
Foreign currency gains and losses	-375	-1,897
	-11,247	**-13,308**
Net financing costs	**-5,653**	**-4,476**

6 Income tax expenses

No income tax is recognised in the profit for the reporting period. It is expected that accumulated taxable results will be negative in the foreseeable future due to the fact that start-up losses in the period until conversion are tax-deductible, whereas results in the years after conversion of the barges will be taxed in accordance with the Dutch tonnage tax regime.

Due to the tonnage regime no material losses are carried forward.

Notes to the consolidated balance sheet

7 Property, plant and equipment

The movements can be shown as follows:

(USD IN THOUSANDS)	Heavy Transport Vessels	Cars	Office Equipment	Total 2009	Total 2008
Balance as at 1 January 2009	167,380	19	140	167,539	133,281
Investments	18,444	–	28	18,472	37,303
Depreciation	-6,267	-19	-38	-6,324	-3,045
Balance as at 31 December 2009	**179,557**	**–**	**130**	**179,687**	**167,539**
Composed as follows:					
Purchase price	191,101	–	**253**	**191,354**	172,935
Accumulated depreciation	-11,544	–	**-123**	**-11,667**	-5,396
Balance as at 31 December 2009	**179,557**	**–**	**130**	**179,687**	**167,539**

At 31 December 2009, the Company's two Heavy Transport Vessels FJORD and FJELL, with a carrying amount of USD 179,557 thousand are subject to registered mortgages to secure bank facilities.

8 Inventories

Inventories include bunker fuel and lubricants for both vessels, amounting to USD 1,506,000 (2008: USD 689,000). No inventories are subject to retention of title clauses. In 2009 and 2008 no write-offs of inventories were accounted for.

9 Trade and other receivables

Details are:

(USD IN THOUSANDS)	31 December 2009	31 December 2008
Trade receivables	6,247	–
Tax receivable	128	165
Prepaid expenses and other receivables	3,149	412
	9,524	**577**

Other receivables mainly consist of a receivable on our insurance company in relation to the incidents with the FJORD in the third quarter of 2009.

10 Derivative financial instruments

At 31 December 2009, the Company held one (2008: four) forward exchange contract designated as hedges for the NOK bonds. Furthermore, the Company holds six (2008: seven) “floating-to-fixed” interest rates swaps contracts and one (2008: one) “cap/ floor”. These derivates are designated as hedges of underlying variable interest rate (LIBOR) on the HSH debt.

The fair value of the derivative financial instruments included in the balance sheet can be summarised as follows:

(USD IN THOUSANDS)	31 December 2009 Asset	31 December 2009 Liability	31 December 2008 Asset	31 December 2008 Liability
Cap/ Floor	112	–	28	-
Interest rate swaps	–	5,283	-	7,477
Forward currency contracts	–	1,835	–	7,395
	112	**7,118**	**28**	**14,872**

11 Cash and cash equivalents

From the total cash and cash equivalents amounting to USD 28,000 (2009: USD 6,809,000) is an amount of USD nil (2008: USD 5,800,000) restricted due to a guarantee provided.

12 Trade and other payables

Details are:

(USD IN THOUSANDS)	31 December 2009	31 December 2008
Trade creditors	9,135	7,931
Tax payable	110	55
Accrued income	6,243	8,860
Other accruals	2,676	2,165
	18,164	**19,011**

13 Borrowings

Details are:

(USD IN THOUSANDS)	31 December 2009		31 December 2008	
	Current carrying amount	Non-Current carrying amount	Current carrying amount	Non-Current carrying amount
USD 60 million, HSH Nordbank Term loan with 8 year repayment schedule (LIBOR + 1,25%)	6,250	51,000	3,750	56,000
USD 16 million, HSH Nordbank Mezzanine loan with 8 year repayment schedule (LIBOR + 1,75%)	1,750	13,550	1,050	14,950
NOK 150 million, private placement debenture loan at NIBOR + 6%	21,417	–	20,532	–
	29,417	**64,550**	**25,332**	**70,950**

HSH Nordbank

HSH Nordbank AG in Hamburg is Fairstar's senior lender with a total facility of USD 76 million at the end of 2009. For the facilities HSH Nordbank received a first mortgage on both Fairstar's vessels, FJORD and FJELL.

HSH Nordbank Term loan

- In October 2005, Fairstar entered into a 12-year facility with the HSH Nordbank AG in Hamburg for the original financing of the conversion. During the years 2005, 2006 and 2007 Fairstar drew down a total of USD 60 million in various tranches.
- The facility is priced at 125 basis points over LIBOR.
- The term loan shall be repaid in 31 consecutive quarterly instalments of USD 1,250,000 with a final instalment of USD 21,250,000. The repayments started in the second quarter of 2009.

HSH Nordbank Mezzanine loan

- In 2006 the Mezzanine facility was established with the HSH Nordbank AG in Hamburg. During 2007 and 2008 Fairstar drew down a total of 16 million USD in various tranches.
- The facility is priced at 175 basis points over LIBOR.
- The mezzanine facility shall be repaid in 31 quarterly instalments of USD 350,000 with a final instalment of USD 5,150,000. The repayments started in the second quarter of 2009.

HSH Nordbank credit facility

- Fairstar has a committed overdraft facility available of USD 5 million. This committed revolving credit facility for liquidity back-stop and working capital financing purposes was entered into in October 2005 with HSH Nordbank AG.
- Amounts drawn under the overdraft credit facility carry a variable interest rate based on Fedfund Rate plus 200 basis points.

Private placement debenture loan

In March of 2008 Fairstar successfully placed a NOK 150 million private debenture loan. Early 2009 Fairstar converted NOK 25 million of the bond into equity. In July 2009 Fairstar repurchased and cancelled one million (face value of the bond) at a discount. The remaining NOK 124 million matures the first of March 2010 and will be replaced by a USD 15 million bank loan from Fortis Nederland BV.

The bond is priced at 600 basis points over NIBOR.

Bank loan Fortis Nederland

Fairstar has a committed bank facility from Fortis Nederland BV for USD 15 million. This commitment can be drawn down, no later than the first of March 2010 to repay the private placement of NOK 124 million.

Financial Covenants

Other than general and information covenants, the following specific covenants are in place:

- The mezzanine facility agreement states that if the Company pays a dividend to its shareholders, it must repay tranche B (USD 16 million facility) loan in an amount equal to such dividend.
- Fairstar is required to maintain a minimum equity level of 45 million under the terms of the NOK 150 million private bond placement.
- Equity ratio of 30% under the terms of the NOK 124 million private bond placement.

14 Equity

Issued share capital

The authorised share capital of the Company amounts to EUR 98,900,000, divided into 215,000,000 shares of EUR 0.46, of which at year-end 43,179,547 (2008: 32,990,000 at EUR 1.37) shares have been placed.

The Company held an Extraordinary General Meeting on 16 February 2009. At this meeting the Company was given the authority to issue 10 million new shares at a price of NOK 5 as well as to offer Fairstar's bond holders the opportunity to convert Fairstar secured bonds into a total of 4.2 million new shares equity at a price of NOK 6. All resolutions were passed by shareholders. The transaction closed on 17 March 2009.

The transaction cost of USD 861 thousand has been recorded directly in share premium.

Under the terms of the Company´s current Articles of Incorporation (the "Articles") it was necessary to amend the Articles to effect a reduction of the par value of the Company's ordinary shares from EUR 1.37 to EUR 0.46. The effect of the reduction (USD 38.8 million) has been recorded in Issued Capital and Share Premium.

The Company does not hold any Depository Receipts or Registered Shares in its own capital.

Share premium

The share premium equals the proceeds of share placements insofar as these exceed the nominal amount of the shares (proceeds above par) less expenses attributable to the issuance of the shares.

Hedging reserve

The hedging reserve consists of the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

15 Related parties

Identity of related parties

During the year, the Company had a related party relationship with its subsidiaries, Supervisory Board and Management Board.

Transactions with related parties

Fairstar Heavy Transport NV has the following transaction with its fully owned subsidiaries;

- Fairstar Maritime Services BV (Rotterdam) – Employs all Fairstar's Maritime Crew
- Fairstar Beheer BV (Rotterdam) – No transactions
- Fairstar FJORD BV (Rotterdam) – No transactions
- Fairstar FJELL BV (Rotterdam) - No transactions

The related parties of the Company and their immediate relatives control 24.737% (2008: 25.012%) of the voting shares of the Company either directly or indirectly. Details are:

	2009		2008	
	%	**Number of shares**	%	Number of shares
P. J. Adkins (CEO)	0.278	120,000	0.364	120,000
W.A. Out	0.093	40,000	0.121	40,000
R. Granheim (indirectly via Torghatten)	23.588	10,185,033	18.498	6,102,654
F. W. van Riet	0.155	66,718	0.155	51,200
W. Dirkzwager	0.384	166,000	0.503	166,000
J.J.H. Verhagen	0.155	66,718	0.155	51,200
C.J.C. du Marchie Sarvaas	-	-	0.203	67,000
Other Fairstar employees	0.158	68,100	0.322	106,300

Remuneration of the Board

Details of the remuneration of the Management Board are:

	Remunera-tion	**Bonus Paid**	**Pension Expense**	**Option Expense**	**Total 2009**	Total 2008
(USD IN THOUSANDS)						
P. J. Adkins (CEO)	369	322	-	-	691	451
W.A. Out	135	143	31	11	320	247
C.J.C. du Marchie Sarvaas (2009: 5 months)	81	-	-	-	81	371
	504	**465**	**31**	**11**	**1,092**	1,069

Mr Out holds 100 thousand Fairstar options. Mr du Marchie Sarvaas resigned from the Management Board June 2009.

Details of the remuneration of the Supervisory Board are:

	2009	2008
(USD IN THOUSANDS)		
F.W. van Riet (Chairman)	51	34
W. Dirkzwager	36	48
J.J.H. Verhagen	36	34
L.O. Aaker	36	34
R. Granheim (2008: 4 months)	36	11
	196	161

All members of the Supervisory Board are independent of management.

Company Financial Statements of Fairstar Heavy Transport NV

Company income statement for the year 2009

(USD IN THOUSANDS)	2009	2008
Company result	**12,358**	-7,763
Result subsidiaries	–	–
Profit (loss)	**12,358**	-7,763

Company balance sheet as at 31 December 2009

After appropriation of result

(USD IN THOUSANDS)	*Note*	2009	2008
Assets			
Property, plant and equipment	*1*	**179,687**	167,573
Investments in subsidiaries	*2*	**445**	412
Total non-current assets		**180,132**	167,985
Current assets			
Inventories	*3*	**1,506**	689
Trade and other receivables	*4*	**9,546**	524
Derivative financial instruments		**112**	28
Cash and cash equivalents	*5*	**28**	6,571
Total current assets		**11,192**	7,812
Total assets		**191,324**	175,797
Liabilities			
Current liabilities			
Bank overdraft		**4,270**	–
Trade and other payables	*6*	**18,600**	19,166
Short-term part of long-term loan		**29,417**	25,332
Derivative financial instruments		**7,118**	14,872
		59,405	59,370
Non-current liabilities			
Long-term loan		**64,550**	70,950
Total liabilities		**123,955**	130,320
Equity	*7*		
Issued share capital		**28,467**	62,908
Share premium		**45,019**	5,042
Retained earnings		**-1,128**	-15,163
Hedging reserve		**-5,171**	-7,449
Share-based payments reserve		**182**	139
Total equity		**67,369**	45,477
Total equity and liabilities		**191,324**	175,797

Notes to the Company Financial Statements

General

The Company uses the option provided in section 2:362 (8) of The Netherlands Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company Financial Statements are the same as those applied for the consolidated Financial Statements. These consolidated Financial Statements are prepared according to standards laid down by the International Accounting Standards Board and adopted by the European Union (referred to as EU-IFRS). Reference is made to the consolidated Financial Statements for the principles used. Investments in subsidiaries over which significant influence is exercised, are stated at net asset value.

The Company Financial Statements are part of the 2009 Financial Statements of Fairstar Heavy Transport NV. With reference to the Company income statement of Fairstar Heavy Transport NV, the exemption pursuant to section 402 of Book 2 of The Netherlands Civil Code has been used.

For items where no differences between the Company and consolidated Financial Statements are applicable, we refer to the notes to the consolidated Financial Statements.

Notes to the Company balance sheet

Assets

1 Property, plant and equipment

The movements can be shown as follows:

(USD IN THOUSANDS)	**Heavy Transport Vessels**	**Cars**	**Other**	**Total 2009**	Total 2008
Balance as at 1 January 2009	167,414	19	140	167,573	133,315
Investments	18,410	–	28	18,438	37,303
Depreciation	-6,267	-19	-38	-6,324	-3,045
Balance as at 31 December 2009	**179,557**	**–**	**130**	**179,687**	167,573
Composed as follows:					
Purchase price	191,101	–	253	191,354	172,969
Accumulated depreciation	-11,544	–	-123	-11,667	-5,396
Balance as at 31 December 2009	**179,557**	**–**	**130**	**179,687**	167,573

At 31 December 2009, the Company's two vessels FJORD and FJELL, with a carrying amount of USD 179,557 thousand are subject to registered mortgages to secure bank loans and guarantees.

2 Subsidiaries

This refers to 100% participations in Fairstar Beheer BV (Rotterdam), Fairstar Maritime Services BV (Rotterdam), Fairstar FJORD BV (Rotterdam) and Fairstar FJELL BV (Rotterdam).

Movements were as follows:

(USD IN THOUSANDS)	**2009**
Balance as at 1 January	**412**
Capital increase	**33**
Result subsidiaries	–
Balance as at 31 December	**445**

Summary financial information on investments (100%)

(USD IN THOUSANDS)	Assets	Liabilities	Equity	Revenues	Profit/(loss)
31 December 2009	**1,438**	**993**	**445**	**1,995**	**–**

Current assets

3 Inventories

Inventories include bunker fuel and lubricants amounting to USD 1,506,000 (2008: USD 689,000).

No inventories are subject to retention of title clauses, in 2009 and 2008 no write-offs of inventories were accounted for.

4 Trade and other receivables

Details are:

(USD IN THOUSANDS)	**31 December 2009**	31 December 2008
Trade receivables	**6,247**	–
Tax receivable	**128**	163
Prepaid expenses and accrued income	**3,171**	361
	9,546	524

5 Cash and cash equivalents

From the total cash and cash equivalents amounting to USD 28,000 (2008: USD 6,571,000) is an amount of USD nil (2008: USD 5,800,000) restricted due to a guarantee provided.

Liabilities

6 Trade and other payables

Details are:

(USD IN THOUSANDS)	**31 December 2009**	31 December 2008
Trade creditors	**9,135**	7,869
Related parties	**1,429**	856
Tax payable	**96**	40
Accrued income	**6,243**	8,860
Other accruals	**1,697**	1,541
	18,600	19,166

7 Equity

Statement of changes in equity

2009 (USD IN THOUSANDS)	**Issued share capital**	**Share premium**	**Retained earnings**	**Hedging reserve**	**Share-based payments reserve**	**Total**
Balance as at 1 January	62,908	5,042	-15,163	-7,449	139	45,477
Issue of equity (net of fees)	3,583	677	–	–	–	4,260
Conversion of bonds (net of fees)	2,479	474	–	–	–	2,953
Reduction of capital	-38,826	38,826	–	–	–	–
Share-based payments	–	–	–	–	43	43
Cash flow and fair value hedges	–	–	–	2,278	–	2,278
Translation difference on issued share capital	-1,677	–	1,677	–	–	–
Result for the period	–	–	12,358	–	–	12,358
Balance as at 31 December	28,467	45,019	-1,128	-5,171	182	67,369

2008 (USD IN THOUSANDS)	Issued share capital	Share premium	Retained earnings	Hedging reserve	Share-based payments reserve	Total
Balance as at 1 January	66,522	5,042	-11,579	-2,740	312	57,557
Share-based payments	–	–	–	–	392	392
Cancellation of option programmes	–	–	565	–	-565	–
Cash flow hedges	–	–	–	-4,709	–	-4,709
Translation difference on issued share capital	-3,614		3,614	–	–	–
Result for the period	–	–	-7,763	–	–	-7,763
Balance as at 31 December	62,908	5,042	-15,163	-7,449	139	45,477

Issued share capital

The authorised share capital of the Company amounts to EUR 98,900,000, divided into 215,000,000 shares of EUR 0.46, of which at year-end 43,179,547 (2008: 32,990,000 at EUR 1.37) shares have been placed.

The Company held an Extraordinary General Meeting on 16 February 2009. At this meeting the Company was given the authority to issue 10 million new shares at a price of NOK 5 as well as to offer Fairstar's bond holders the opportunity to convert Fairstar secured bonds into a total of 4.2 new million shares equity at a price of NOK 6. All resolutions were passed by shareholders. The transaction closed on 17 March 2009.

Under the terms of the Company´s current Articles of Incorporation (the "Articles") it was necessary to amend the Articles to effect a reduction of the par value of the Company's ordinary shares from EUR 1,37 to EUR 0,46. The effect of the reduction (USD 38,826 thousand) has been recorded in Issued capital and Share Premium.

The issued share capital at 31 December 2009 has been translated into USD using a EUR/USD exchange rate of 1.4332 (31 December 2008: 1.39190). The translation difference has been deducted from the retained earnings.

The Company does not hold any Depository Receipts or Registered Shares in its own capital.

Share premium

The share premium equals the proceeds of share placements insofar as these exceed the nominal amount of the shares (proceeds above par) less expenses attributable to the issuance of the shares and translation differences on issued share capital.

Hedging reserve

The hedging reserve consists of the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Rotterdam, 2 March 2010

The Management Board:

P. J. Adkins (CEO)

W.A. Out (Fleet)

The Supervisory Board:

F.W. van Riet (chairman)

L.O. Aaker

W. Dirkzwager

R. Granheim

J.J.H. Verhagen

Other information

Provisions in the Articles of Association governing the appropriation of result

Under article 25 of the Company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity is greater than the paid-up and called-up part of the capital plus the legally required reserves.

Appropriation of the result

The profit for 2009 of USD 12,358,000 is added to the negative retained earnings.

Events after balance sheet

Tuesday 23 February 2010 the Company announced the successful completion of a private placement towards Norwegian and international institutional investors of 4,317,500 new shares at a price of NOK 12.50 per share. The share issue represented approximately 10% of the shares outstanding prior to the placement. The new shares to be issued in connection with the Private Placement were issued in accordance with the Board proxy established at the Company's Annual General Meeting held on 19 May 2009. The total number of outstanding shares after the issue will be 47,497,047 shares. Total gross proceeds from the Private Placement amounted to approximately USD 9 million.

Auditor's report

The auditor's report is set forth on the next page.

To the Annual General Meeting of shareholders of Fairstar Heavy Transport NV

Auditor's report

Report on the financial statements

We have audited the financial statements 2009 of Fairstar Heavy Transport NV, Rotterdam as set out on pages 18 to 43. The financial statements consist of the consolidated financial statements and the Company Financial Statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Company Financial Statements comprise the Company balance sheet as at 31 December 2009, the Company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Management Board Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Fairstar Heavy Transport NV as at 31 December 2009 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Company Financial Statements

In our opinion, the Company Financial Statements give a true and fair view of the financial position of Fairstar Heavy Transport NV as at 31 December 2009 and of the result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Management Board Report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 2 March 2010

KPMG ACCOUNTANTS N.V.

M. Blöte RA