FAIRSTAR HEAVY TRANSPORT NV

BOARD OF DIRECTORS' REPORT

FIRST HALF YEAR OF 2011

- **FAIRSTAR FLEET ACHIEVES 100% UTILIZATION IN THE SECOND QUARTER OF 2011**
- **FORTE AND FINESSE CONSTRUCTON PROGRESS IN CHINA ON SCHEDULE**
- **FAIRSTAR REPORTS SIGNIFICANT INCREASE IN TENDER ACTIVITY FOR HIGH VALUE, MULTIPLE VOYAGE ON-SHORE AND OFF-SHORE ENERGY PROJECTS**

Fairstar achieved 100% utilization for its vessels FJORD and FJELL in the second quarter of 2011. The FJORD safely transported the ENSCO 105 jack-up rig from Malta to Singapore. After discharging the rig, FJORD was loaded with 26 tug boats and will transport the tugs to Maracaibo, Venezuela. FJELL was loaded with the first shipment of 16 tug boats in Singapore and discharged the tugs in Maracaibo at the end of the second quarter. The loading of the 42 tugs on FJORD and FJELL was an industry first and required significant planning and operational coordination throughout the loading of the tugs. Maintaining a stable platform while the decks of the FORD and FJELL were submerged 10 meters below the surface during a long loading period tested the ships' ballast systems as well as the expertise of the officers and crew on board. Securing the individual tugs for a voyage around the Cape of Good Hope in the Southern Winter required the application of a newly designed sea fastening system developed by Fairstar's engineering team in Rotterdam.

Fairstar can report that the first flotilla of tugs was discharged without incident in Maracaibo, Venezuela without any damage to any of the individual tug boats. The FJORD is expected to arrive in Maracaibo in early August.

Fairstar was not expecting to be awarded the contract to transport the ENSCO 105 from Malta to Singapore. The market for transporting rigs, barges and dredgers continues to be characterized by intense price competition and excess transportation capacity. Day rates continue to decline and most contracts are being awarded at levels close to industry OPEX rates. Nonetheless, the ENSCO 105 is a shape and weight that requires particular vessel size and strength characteristics.

The voyage around the Cape of Good Hope would be challenging. Fairstar understood the high expectations of ENSCO to safely transport this valuable asset to Singapore. The economics of the transportation were attractive to both parties since FJORD was expected to be in Singapore for the 42 Tug contract. The ENSCO 105 was safely delivered to Singapore in June. The deck was cleared and prepared for loading of the tugs within 48 hours of discharge.

The Fairstar Team was well aware of the pressure to perform within limited windows. Nevertheless, safety and safe practice are always at the forefront of the Fairstar approach to marine heavy transport. Fairstar continues to invest in highly skilled marine heavy transport personnel. We consider the most valuable assets at Fairstar to be our people.

Fairstar is unique in the Marine Heavy Transport industry today by maintaining a Team of full time employees to crew our vessels. It may be tempting to cut costs at trough periods in our business cycle. Third party ship management companies and crewing agencies regularly try to solicit our business by promising significant savings in soft costs. The complexity of the services we provide to our clients depends on the skill of our people and the experience they have acquired over many years of working together. One of the biggest challenges we face as a company will be to continue to attract and retain a pool of marine heavy transport professionals. Fairstar is well

advanced in the hiring process for the crews who will sail with FORTE and FINESSE next year.
There has been a steady increase in tendering activity for marine heavy transportation services. In particular tenders were announced for three major Australian LNG facilities.

The multi-voyage nature of these module transports for the construction of multi-billion dollar LNG facilities is particularly attractive to Fairstar strategically. Tenders for Australian based LNG facilities continue to require the highest possible compliance with environmental and quarantine standards. One tender has required all vessels to be less than fifteen years old as well as being asbestos free in order to qualify for consideration. These vessel compliance standards, as well as the complexity of the project planning and engineering interfaces will continue to be formidable barriers to entry.

The Fairstar "Red-Box Strategy" has been based on focussing our resources towards high value, complex multi-voyage energy infrastructure projects. We are confident that our successful participation in the Gorgon LNG Project will provide Fairstar with a powerful competitive advantage that will lead to additional long-term multi-voyage contracts for FJORD, FJELL, FORTE and FINESSE.

FINANCIAL RESULTS

Fairstar achieved an operating profit of USD 1.4 million in the second quarter of 2011. The costs incurred for the settlement of the outstanding arbitration of USD 1.3 million reduced profitability for the quarter to a net figure of USD 90 thousand. This was a non-recurring expense. Fairstar is no longer involved in any outstanding litigation.

Net financing costs include a gain of USD 1.6 million relating to the close out of a foreign exchange forward contract for an amount of NOK 150 million. This foreign exchange position had been established to cover a portion of Fairstar's NOK exposure related to the NOK bond that was repaid in full at the end of February 2010.

Fairstar continued to de-leverage its balance sheet during the Quarter. Net interest bearing debt secured by the FJORD and FJELL has been reduced to 43% of the value of the vessels. The company made the second instalment of USD 10 million to Guangzhou Shipbuilding International (GSI) due under the terms of the construction contract for the FINESSE. Fairstar has now invested a total of USD 60 million in the FORTE and FINESSE. Fairstar closed the second quarter with a net cash position USD 6.8 million. The Company has signed contracts for future marine heavy transportation services totalling USD 128.3 million.

FORTE AND FINESSE CONSTRUCTION UPDATE

All of the blocks required to construct the FORTE have been delivered to GSI by their block sub-contractors. The hull of the FORTE is fully formed. The ship is 60% complete and is on schedule to be floated out of the dry dock on September 15, 2011. Block construction of the FINESSE accelerated throughout the Quarter. One hundred blocks for the FINESSE have been delivered to the shipyard. The total number of blocks required for construction is two-hundred and seventy- seven Once the FORTE has left the dry-dock in September, the keel will be laid for FINESSE and assembly of the blocks will commence. Fairstar is impressed with not only the quality of the work by the GSI Team on site, but by the energy, enthusiasm and dedication by everyone on the Project Team to deliver the FORTE on time to begin its work for the Gorgon LNG facility. Regular updates of construction progress can be found on the Fairstar website under "Greetings from China"

HEALTH, ENVIRONMENT, SAFETY, SECURITY (HESS)

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

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

"COMMUNICATE". A natural, vibrant and permanent safety culture is essential in our industry. It is now commonplace for safety and risk management issues to be discussed frequently throughout Fairstar in a variety of formal and informal settings. In addition to our goal to foster our own safety culture, Fairstar continues to believe that the "Incident and Injury Free (IIF)" programme championed by Chevron will be a powerful tool in our overall safety and risk management skill set. During the second quarter, Fairstar invested considerable time training the crews aboard FJORD and FJELL in preparation for the Gorgon Project.

The quarantine and environmental standards we are committed to meet within our contractual scope to not only the Kellogg Joint Venture Gorgon but to the Australian Authorities and local community as well. The marine transportation of the Gorgon modules to Barrow Island is unprecedented in size, and complexity. We are committed to making our Team the best prepared and thoroughly trained contributor to Gorgon. Our first voyage is scheduled for early 2012. During the second quarter of 2011, there were no injuries to any Fairstar employees. There was no damage to the assets of our clients or to our vessels.

OUTLOOK

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

As a result, we expect some of the speculative tonnage being built in Asia by industry newcomers will enter into the spot market in the second half of 2011 and 2012, exacerbating the downward price spiral. Fairstar has no intention of competing for this business now and in the future. The First Half financial results reflect this decision.

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

The third segment of the market appears to involve super massive, ultra-heavy cargoes. Fairstar has examined this segment in detail and remains unconvinced that there are suitable numbers of clearly identifiable cargoes to justify the investment risks associated with building any vessel with an investment cost of USD 240 million or more. We will continue to watch this segment with interest but have no intention of trying to enter it. We believe the returns to our shareholders will not be justified by the risks. Recent events in the drilling industry suggest that Impairment Write-downs will continue to affect companies with "old steel". There is strong reason to believe this will become an issue for the marine heavy transport industry. The average age of some industry participants' vessels will soon be in excess of thirty years. Many of these ancient vessels recently changed hands at levels close to what Fairstar is paying for the FORTE and FINESSE.

Fairstar is confident that Impairment Write-downs will not affect our balance sheet and that we will be able to achieve our target of 80% fleet utilization and T/C revenues averaging USD 80,000 per vessel, per day on a 365 day basis for the next 5 years.

LEGAL UPDATE

Fairstar has no outstanding litigation as of June 30, 2011

FINANCIAL CALENDAR

Third quarter 2011	October 12, 2011

Joint Management and Supervisory Board
Fairstar Heavy Transport NV
July 13, 2011

For more information please contact us:

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First Half Year 2011 Report

In thousands of USD unless otherwise indicated

Statement of Comprehensive Income	Note	2011 Q2	2011 YTD	2010 Q2	2010 HY1
Gross revenue		9,346	10,457	7,944	19,831
Voyage related costs		(3,845)	(4,618)	(1,328)	(3,927)
Time charter equivalent revenue		**5,501**	**5,839**	**6,616**	**15,904**
Vessel operating expenses		(1,850)	(3,828)	(1,439)	(3,167)
General and administrative expenses		(2,249)	(4,661)	(2,123)	(3,802)
Non-recurring legal expenses		(1,312)	(1,312)	-	-
Operating expenses, other than depreciation		**(5,411)**	**(9,801)**	**(3,562)**	**(6,969)**
Earnings before Interest, Tax and Depreciation (EBITDA)		**90**	**(3,962)**	**3,054**	**8,935**
Depreciation		(2,014)	(4,029)	(1,983)	(3,987)
Earnings before Interest and Tax (EBIT)		**(1,924)**	**(7,991)**	**1,072**	**4,948**
Interest income and expenses		(1,509)	(3,319)	(1,229)	(2,806)
Other financial gains and losses		496	1,950	(1,562)	(2,607)
Result before tax		**(2,937)**	**(9,360)**	**(1,719)**	**(465)**
Income taxes		-	-	-	-
Net Profit		**(2,937)**	**(9,360)**	**(1,719)**	**(465)**
		-			
		-			
Change in derivate financial instruments		(54)	489	(478)	(635)
Expenses recognised directly in equity		99	198	(2,127)	(2,578)
Total recognised income and expenses		**45**	**687**	**(2,605)**	**(3,213)**
		-			
Total comprehensive income for the period		**(2,892)**	**(8,673)**	**(4,324)**	**(3,678)**
Weighted average number of shares		81,047,779	78,040,272	48,870,673	46,899,438
Fully diluted average number of shares		81,741,446	80,125,272	49,542,506	47,571,271
Basic earnings per share		(0.04)	(0.12)	-0.04	-0.01
Diluted earnings per share		(0.04)	(0.12)	-0.03	-0.01

Consolidated balance sheet	Note	30/06/2011	31/12/2010
ASSETS			
Vessels		168,689	172,657
Vessels under construction		64,721	52,293
Office equipment, computers, cars		530	547
Non-current assets		**233,940**	**225,497**
Inventories		1,414	1,350
Derivative financial instruments *		4,580	1,138
Other current assets		2,395	2,632
Cash and cash equivalents		14,238	36,514
Currents assets		**22,627**	**41,634**
TOTAL ASSETS		**256,567**	**267,131**
EQUITY			
Issued Capital	2	45,866	45,866
Share premium		74,684	74,684
Retained earnings		4,089	3,861
Other Reserves		(3,914)	(4,601)
Result for the period		(9,360)	228
Equity		**111,365**	**120,038**
LIABILITIES			
Borrowings **		109,486	108,116
Non-current liabilities		**109,486**	**108,116**
Trade and other payables		6,353	5,560
Derivative financial instruments		4,498	6,668
Current portion of debt		17,400	19,262
Bank overdraft		7,465	7,487
Current liabilities		**35,716**	**38,977**
EQUITY & LIABILITIES		**256,567**	**267,131**

* Includes a USD 3.5 million gain on NOK forward contracts entered into in connection with the bond loan
** Borrowings include principal payments of USD 3.2 million and USD 4.6 million of exchange loss on the NOK bond

Statement of Cash Flows	Note	Q2 2011 YTD	Q2 2010 YTD
Result after taxation		(9,360)	(465)
Share-based payments	3	198	25
Change in valuation of financial instruments		(5,123)	2,668
Depreciation and Amortization		4,029	3,987
Cash flows from operating activities		(10,256)	6,215
Changes in working capital		967	(4,481)
Net cash from operating activities		**(9,289)**	**1,734**
Net cash from investing activities		**(12,473)**	**(311)**
Issue of equity net of fees		-	39,855
Net Change Borrowings		(492)	(11,348)
Cash flow from financing activities		**(492)**	**28,507**
Net change in cash and cash equivalents		**(22,254)**	**29,930**
Cash and cash equivalent as per opening balance		29,027	(4,211)
Cash and cash equivalents per closing balance		**6,773**	**25,719**

Changes in equity	Issued Capital	Share Premium	Retained Earnings	Other Reserves	Result for the period	Total
Opening Balance	45,866	74,684	4,089	(4,601)	-	120,038
Issue of Equity (net of fees)	-	-	-	-	-	-
Cash Flow hedges	-	-	-	489	-	489
Change in option reserve	-	-	-	198	-	198
Result for the period	-	-	-	-	(9,360)	(9,360)
Balance as at end of the period	**45,866**	**74,684**	**4,089**	**(3,914)**	**(9,360)**	**111,365**

Notes to First Half Year 2011 Report

In thousands of USD unless indicated otherwise

1 Accounting policies

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

2 Share Capital

The authorised share capital of the Company is EUR 98,900,000 divided into 215 million ordinary shares with a nominal value of EUR 0.46, of which 81,047,779 shares have been placed at the end of the period.

3 Share Options

At the end of the period the Company has 1,476,000 employee options outstanding of which 674,333 are fully vested.

	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	1,566,000	7.96
Granted	-	
Forfeited	(131,000)	
Expired/ cancelled	-	
Exercised	-	
Outstanding at the end of the period	1,435,000	7.93

4 Contingent liabilities

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

Cash and cash equivalents includes an amount of USD 5.2 million that has been collateralized for currency forward contracts entered into.

5 Contingent assets

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

6 Related Party Transactions

The Supervisory and Management Board of the Company directly control 0.6% of the voting shares of the Company. Roger Granheim represents Torghatten Group, controlling 15.7% of the voting shares of the Company. Torghatten acquired 44,829 shares in the Company during the quarter.

Statement by the Executive Board

In accordance with the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*), section 5.25d, paragraph 2 sub c, we confirm that, to the best of our knowledge:

- The interim consolidated financial statements for the six months ended on 30 June 2011 have been prepared in accordance with IAS 34 (*Interim Financial Reporting*) as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of Fairstar Heavy Transport N.V. and its consolidated companies (jointly referred to as the 'Group'); and
- The interim management report for the six month ended at 30 June 2011 gives a fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Financial Markets Supervision Act.

Rotterdam, 13 July 2011

The Executive Board

Philip Adkins (CEO)
Willem Out (COO)