Fairstar

FAIRSTAR HEAVY TRANSPORT NV

BOARD OF DIRECTORS' REPORT

FIRST QUARTER 2012

- **FAIRSTAR MAINTAINS OPERATING PROFIT IN FIRST QUARTER OF 2012**
- **FAIRSTAR FLEET ACHIEVES 85% UTILIZATION IN SPITE OF SAVAGE DISCOUNTING**
- **FORTE CONSTRUCTION ON SCHEDULE FOR DELIVERY ON MAY 23, 2012 AT ORIGINAL PURCHASE PRICE OF USD 101,888,000**

The First Quarter of 2011 continued to reflect the challenging pricing environment that has characterized the industry for the last three years. In spite of the fact that the global fleet for semi-submersible vessels was operating at an overall utilization rate of approximately 60%, Fairstar's FJORD and FJELL achieved 85% combined utilization for The Quarter. Contracts with DSME for the CLOV FPSO Project as well as Hercules Offshore and Northern Offshore re-affirmed the reputation of Fairstar as a premium provider of safe and reliable marine transportation for our clients in the energy industry. Unfortunately, the economics of the spot market will continue to be characterized by an excess of supply and a shortage of demand.

Fairstar continued to extend its success in the high value segment of the market. Two contracts for Golden Eagle were awarded to Fairstar in January 2012. Contract awards for Ichthys were signed in the end of February. These high-value, multi-voyage, long-term contracts are the foundation of Fairstar's "Red Box Strategy". The Gorgon, Golden Eagle and Ichthys Projects combined, would have a total contract value of as much as USD 300 million. Fairstar is carefully monitoring the status of other similar energy infrastructure projects requiring modern, asbestos free, true open stern vessels less than fifteen years of age. Our modern, purpose built fleet gives us a significant competitive advantage over the significantly older, converted oil tankers that are not qualified to compete for this business. We intend to leave the spot market to these types of vessels and seek out predictable earnings from energy infrastructure projects where our vessels and project experience combine to create sustainable pricing power for the foreseeable future.

Fairstar had been contracted in 2011 to provide marine transportation of a modularized fertilizer train from Kenai, Alaska to a Greenfield site near the port of Koko, Nigeria. Fairstar will also be responsible for the interface management of the land transportation in both Alaska and Nigeria. The details and timing of this project have been of some concern to our Stakeholders. At this time it is unclear if this project will commence at anytime soon. Fairstar continues to work closely with our client and remains optimistic that we will commence with our scope of work in 2012.

FINANCIAL RESULTS

Fairstar recorded an operating profit of USD 0.1 million and a net loss of USD 6.2 million in the First Quarter of 2012. Other financial gains and losses include a loss of USD 2.8 million attributable to a strengthening of the NOK/USD exchange rate during The Quarter. Fairstar will continue to conscientiously manage its NOK exposure in line with the Company's dynamic hedging policy.

Fairstar continued to de-leverage its balance sheet during The Quarter. Net interest bearing debt secured by the FJORD and FJELL has been reduced to 40% of the Book Value of these two vessels. Fairstar issued over USD 10 million in equity in January 2012 to augment its balance sheet strength.

FORTE AND FINESSE CONSTRUCTION UPDATE

Progress on the FORTE and FINESSE continues on schedule and on the original projected cost. The FORTE is now well into the commissioning phase of its construction. Sea-trials are expected to begin in early April 2012 and the ship will be formally named and delivered to Fairstar on May 23, 2012. FINESSE is scheduled to be floated out of the dry dock in April and will be delivered to Fairstar in October of 2012.

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 we never compromise our commitment to the proactive management of any risk involving safety, security and environmental awareness.

Fairstar has developed a "behavioural-based" safety program in 2011 for all Fairstar employees. The "4STAR SAFETY LEADERSHIP PROGRAM" is driven by the four CORE PRINCIPALS we use at Fairstar throughout our organization, namely, "ANTICIPATE" "COMMUNICATE" "COOPERATE" "LEAD". 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. The 4STAR SAFETY LEADERSHIP PROGRAM is intended to foster a commitment by all Fairstar personnel to lead by example. We define leadership not as being charismatic behaviour, but based on a willingness to put the interests of our colleagues ahead of our own and to accept that sacrifice and selflessness will create a culture that will serve the interests of our Stakeholders while maintaining a fiercely competitive attitude towards the marketplace.

During the First Quarter of 2012, there were no injuries to any Fairstar employees. There was no damage to the assets of our clients or to our vessels.

RISKS AND UNCERTAINTIES

In our Annual Report 2011 (on page 23) we have described our risk management framework and our principal risks which could have a material adverse effect on our strategic objectives, our financial position and results. The risks mentioned on this page are deemed to be included by reference in this report. For the year 2012, the same risks are valid. Although we regularly review our internal and external risk profile, additional risks currently not known to us or believed to be material, may apply and could later turn out to have a material impact.

OUTLOOK

The marine heavy transportation market continues to evolve into three distinct segments. The spot market continues to be characterized by extreme price competition. Operating margins in the First Quarter were at levels close to or even below OPEX for most cargoes when more than one vessel was in the area. Fairstar successfully won business throughout The Quarter at levels higher than our competitors were offering. This resulted from a number of factors including the operational superiority of the FJORD and FJELL as well as the consistent ability of Fairstar's in-house Engineering Team to develop loading and discharge solutions that provided our clients with demonstrably higher levels of security with respect to their true transportation costs. The commitment of Fairstar to transparency and reliability has been welcomed by our clients and rewarded Fairstar with a high level of repeat business over the last four years. Nevertheless, the spot market will continue to be dominated by downward pricing pressure. The barriers to entry will continue to be easily breached. Speculative tonnage from Asia will continue to be a significant threat to current market participants. The construction cost of a converted oil tanker today is about USD 45 million, significantly less than the USD 95 million levels reached as recently as two years ago. In this environment, Fairstar continues to believe the most valuable assets are our people. We continued to invest heavily in human resources in The Quarter. We now have a scalable business model that will allow us to provide our clients with the high levels of navigational expertise, precise engineering support and skilled project management by a Team of Fairstar Professionals committed to maintaining the highest standards of safe practise and environmental stewardship set by our clients in the Energy Industry.

FINANCIAL CALENDAR

Extraordinary General Meeting	1 June 2012
Second quarter 2012 results	30 August 2012
Third quarter 2012 results	1 November 2012

Joint Management and Supervisory Board
Fairstar Heavy Transport NV
18 May 2012

For more information please contact us:

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First Quarter 2012 Report

In thousands of USD unless otherwise indicated

Statement of Comprehensive Income	Note	Q1 2012 YTD	Q1 2011 YTD
Gross revenue		8,336	1,111
Voyage related costs		(3,961)	(773)
Time charter equivalent revenue		**4,375**	**338**
Vessel operating expenses		(1,749)	(1,978)
General and administrative expenses		(2,554)	(2,412)
Operating expenses, other than depreciation		**(4,303)**	**(4,390)**
Earnings before Interest, Tax and Depreciation (EBITDA)		**72**	**(4,052)**
Depreciation		(2,026)	(2,015)
Earnings before Interest and Tax (EBIT)		**(1,954)**	**(6,067)**
Interest income and expenses		(1,619)	(1,810)
Other financial gains and losses		(2,642)	1,454
Result before tax		**(6,215)**	**(6,423)**
Income taxes		-	-
Net Profit		**(6,215)**	**(6,423)**
		-	
		-	
Change in derivate financial instruments		351	543
Expenses recognised directly in equity		96	99
Total recognised income and expenses		**447**	**642**
			-
Total comprehensive income for the period		**(5,768)**	**(5,781)**
Weighted average number of shares		82,515,245	69,812,555
Fully diluted average number of shares		84,144,245	72,028,555
Basic earnings per share		(0.08)	(0.09)
Diluted earnings per share		(0.07)	(0.09)

*unaudited and also not reviewed by an auditor

Consolidated balance sheet	Note	31/03/2012	31/12/2011
ASSETS			
Vessels		163,492	165,468
Vessels under construction		103,659	101,367
Office equipment, computers, cars		923	727
Non-current assets		**268,074**	**267,562**
Inventories		2,035	1,453
Derivative financial instruments		2	4
Other current assets		4,697	1,914
Cash and cash equivalents		3,088	1,540
Currents assets		**9,822**	**4,911**
TOTAL ASSETS		**277,896**	**272,473**
EQUITY			
Issued Capital	2	50,792	45,874
Share premium		80,113	74,707
Retained earnings		(11,241)	3,157
Other Reserves		(2,812)	(3,259)
Result for the period		(6,215)	(14,398)
Equity		**110,637**	**106,081**
LIABILITIES			
Borrowings		101,785	100,809
Non-current liabilities		**101,785**	**100,809**
Trade and other payables		8,070	7,061
Derivative financial instruments		3,599	3,951
Current portion of debt		44,689	45,456
Bank overdraft		9,116	9,115
Current liabilities		**65,474**	**65,583**
EQUITY & LIABILITIES		**277,896**	**272,473**

*unaudited and also not reviewed by an auditor

Condensed Statement of Cash Flows	Note	Q1 2012 YTD	Q1 2011 YTD
Result after taxation		(6,215)	(6,423)
Share-based payments	3	96	99
Change in valuation of financial instruments		-	(3,787)
Depreciation and Amortisation		2,026	2,015
Cash flows from operating activities		(4,093)	(8,096)
Changes in working capital		(2,356)	381
Net cash from operating activities		**(6,449)**	**(7,715)**
Net cash from investing activities		**(2,536)**	**(868)**
Issue of equity net of fees		10,324	-
Net Change Borrowings		209	556
Cash flow from financing activities		**10,533**	**556**
Net change in cash and cash equivalents		**1,548**	**(8,027)**
Cash and cash equivalent (excluding bank overdraft) as per opening balance		1,540	29,027
Cash and cash equivalents (excluding bank overdraft) per closing balance		**3,088**	**21,000**

Changes in equity	Issued Capital	Share Premium	Retained Earnings	Other Reserves	Result for the period	Total
Opening Balance	45,874	74,707	(11,241)	(3,259)		106,081
Issue of Equity	4,918	5,406				10,324
Cash Flow hedges				351		351
Change in option reserve				96		96
Repurchase of shares						-
Result added to Retained Earnings						-
Result for the period					(6,215)	(6,215)
Balance as at end of the period	**50,792**	**80,113**	**(11,241)**	**(2,812)**	**(6,215)**	**110,637**

*unaudited and also not reviewed by an auditor

Notes to First Quarter 2012 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 2011. 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 2011. Preparation of the 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 2011 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 89,172,779 shares have been placed at the end of the period.

The Company currently holds 492,792 Depository Receipts or Registered Shares in its own capital.

3 Share Options

At the end of the period the Company has 1,079,000 employee options outstanding of which 615,667 are fully vested.

	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	1,082,000	7.89
Granted	325,000	
Forfeited	(3,000)	
Expired/ cancelled	-	
Exercised	-	
Outstanding at the end of the period	1,404,000	8.51

4 Contingent liabilities

At the end of the period the Company has capital commitments amounting to approximately USD 110 million which are not included in the balance sheet.

5 Contingent assets

The company has obtained a refund guarantee for the USD 90 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 15.2% of the voting shares of the Company. Belle de Bruin represents Indofin Group, controlling 10.2% of the voting shares of the Company. No transactions were conducted during the quarter.