Fairstar Heavy Transport N.V.

Annual Report 2008

Fairstar Heavy Transport N.V.

Fairstar is a provider of long-distance ocean transportation services for the offshore and onshore energy industries. Fairstar operates two of the world`s largest and most modern self-propelled semi-submersible heavy transport vessels, Fjord and Fjell. The Fjord entered service in March 2008. The Fjell is currently being converted to a self-propelled vessel at Malta Shipyards Ltd in Malta and is expected to enter service early 2009.

Fairstar Heavy Transport N.V. 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 2008.

Adoption of the Financial Statements

The Supervisory Board has taken note of the report issued by KPMG Accountants N.V. The Supervisory Board authorises the Financial Statements as compiled by the Management Board. We recommend that the Annual General Meeting of Shareholders approves these Financial Statements. The Supervisory Board also recommends the loss be to allocated to retained earnings in accordance with the Management Board's proposal.

Composition of the Supervisory Board

The Supervisory Board currently consists of Mr Frits van Riet (Chairman), Mr Willem Dirkzwager, Mr Hans Verhagen, Mr Leif 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 Aker	Norwegian	1951	2006	2010
Mr	Roger Granheim	Norwegian	1964	2008	2012

Frits van Riet, Chairman

Mr van Riet has 32 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 51,200 shares and 0 options in Fairstar.

Willem Dirkzwager, Vice Chairman

Mr Dirkzwager is owner and managing director since 1987 of Independent Marine 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 51,200 shares and 0 options in Fairstar.

Leif 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 buses. 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 6,102,654 shares and 0 options in Fairstar.

Activities of the Board

On 14 April 2008 Mr W. Dirkzwager handed over the Chairmanship of the Supervisory Board to fellow Director Mr F.W. van Riet as part of the periodic rotation of board members.

At the Extraordinary General Meeting on 5th August 2008 the shareholders unanimously adopted the resolution to appoint Mr Roger Granheim as a member of the Supervisory Board.

The Supervisory Board held four regular meetings and various conference calls during 2008 in which the members all actively participated. Key items on the agenda related the situation regarding the conversion of the Fjell in Malta, legal and various operational matters. The Supervisory Board met twice 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 established 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.

Remuneration policy

Mr Philip Adkins is employed by the company through a management agreement with Cadenza Management Limited. His remuneration consists of both fixed and performance-related components, 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 an event. Mr Adkins has not been granted share options and has no pension rights granted by the company.

Mr Cristijn du Marchie Sarvaas is employed by the company through a management agreement with Centipede B.V. His remuneration consists 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 an event. Mr Du Marchie Sarvaas has no pension rights granted by the company.

Mr Willem Out was appointed by the General Meeting of Shareholders on 14 April 2008 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.

The other employment conditions are based on market standards. Director’s 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 transactions in securities of other entities than Fairstar (best practice provisions II.2.6).

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.

Rotterdam, 2 March 2009

For the Supervisory Board,

F.W. van Riet
Chairman

Health, Safety and Environment

Health, Safety and Environment (HSE) and Quality Assurance (QA) are integral elements in Fairstar's business practice. Fairstar has a stringent HSE-QA system in place. All employees are expected to take their individual responsibilities seriously and to contribute to safe working methods, healthy working conditions, environmental awareness and to maintain the highest level of service to customers.

The safety of both crews and cargoes is of paramount importance to our company. 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 some of the most experienced in the industry as new members of our team. The company is pleased to report no incidents resulting in injury to any of our employees nor any occurrences of damage to our vessel or clients' cargoes in the past year.

Strategy

Fairstar's strategy is to maximise value for its shareholders by utilising its vessels in those projects where it can maintain a distinct competitive advantage and continue generate predictable earnings. The transport of capital 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 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. However, the majority of jack-up and semi-submersible rigs in this segment can be transported by most of the competing vessels we face in the global fleet. 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 is too risky with a two-vessel fleet

Fairstar has learned from experience in 2008 that exposure to the spot market is risky for a two-ship company. Success in the spot market can be largely influenced by the luck of being in the right place at the right time. With only two vessels, Fairstar has an inherent disadvantage compared to our competitors with more vessels. Fairstar has no intention to rely on the spot market as its principal source of future revenue, however, the Company will still bid actively on spot market cargoes with the objective of trying to fill in the time gaps between pre-booked longer term commitments.

Field development industry is more attractive

Fairstar will focus its efforts in the field development industry that consists of large, long-term projects in the production phase of the industry lifecycle. Large parts of the offshore and onshore installations are fabricated in construction yards in South East Asia and the Far East and need to be transported to their final destination. The cargoes are large sections of the installations. Clients for transportation services are installation contractors and construction yards who operate for or on behalf of the oil and engineering companies. The projects are planned well in advance and transport is seen as an important component of the project. Frequently, platforms and related structures are constructed based on the design of a particular transportation vessel. Reliability and vessel performance are key attractions for clients working within a tight installation schedule. Fairstar's vessels are well-suited to these types of projects.

The field development industry is a much more attractive segment for Fairstar in terms of stable demand for dry transport vessels and Fairstar's vessels being able to create a competitive advantage given their specific characteristics. 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. Its vessels offer twin azimuth thrusters, an open stern configuration and they have a high draft to weight carrying ratio. Fjord has successfully operated in both extreme heat and severe cold weather environments, including a successful load-out above the Arctic Circle.

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.

Operations

Maiden Voyage, "Ice Maiden"

The Fjord's first cargo, the ice breaker "Ice Maiden" was successfully unloaded in Rotterdam in early June. The subsequent voyage, the transportation of a dry-dock for Bharati Shipyard Ltd was re-scheduled. This left Fjord with an open period in June/July. The crew of the Fjord used the available time in Rotterdam to finalise additional DNV certifications.

Module Support Frame and Centre Module for Heerema Marine Contractors

In July, the Fjord mobilised to Korea for the transportation of the Module Support Frame and Centre Module for Heerema Marine Contractors. In Korea the MSF/CM modules were skidded onto the vessel safely and efficiently in less than five hours. In October the Fjord left Korea for the Tombua Landana field offshore, Angola. The vessel safely arrived in Angola where the two modules were successfully offloaded early December.

"Energy Exerter" for Northern Offshore

When the Fjord departed from Angola she proceeded directly to Kirkenes, Norway to pick up the "Energy Exerter", a jack-up rig owned by Northern Offshore Ltd. In daily temperatures averaging 25 degrees below zero, this load-out was one of the most challenging and demanding operations executed within the off-shore heavy transport industry.

Financial Results

The financial year 2008 was in many ways a start-up year for Fairstar. Fjord became operational in March. It has now transported a variety of different cargoes, providing strong proof of Fjord's performance capabilities. The shore-base organisation in Rotterdam was strengthened in 2008 with six additional marine executives, giving Fairstar the capability to manage its vessels independently and at the high levels of performance demanded by our clients.

For the full year 2008, the gross revenues were USD 15.7 million, time charter equivalent revenues of USD 10 million and operating costs and G&A of USD 10.3 million. This resulted in an EBITDA loss of USD 0.3 million. G&A was negatively impacted by various one-time items, such as legal expenses and temporary workers, which total approximately USD 1.5 million.

Key Financial information

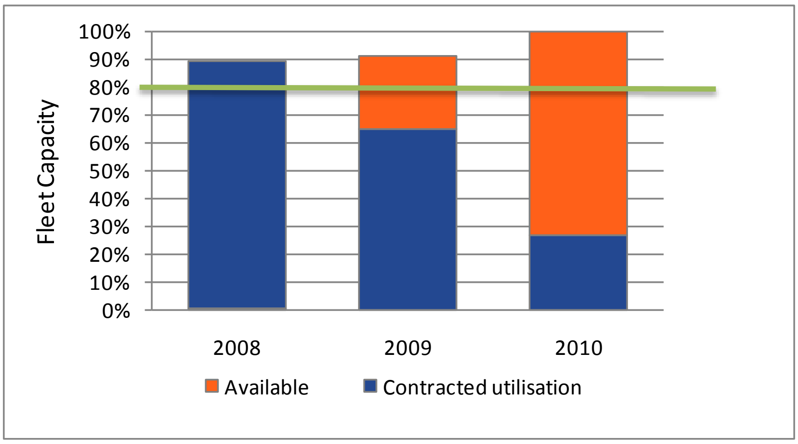
The table below lists the key data for 2005, 2006, 2007 and 2008.

	2008	2007	2006	2005
(USD IN THOUSANDS)				
Gross revenue	**15,698**	8,280	16,341	1,905
Voyage-related costs	**-5,632**	-2,269	-10,363	-2,385
Time charter equivalent revenue	**10,066**	6,011	5,978	-480
Other income	**0**	155	129	0
Vessel operating expenses	**-5,054**	-4,193	-1,268	-664
G&A	**-5,254**	-3,493	-2,968	-657
Operating expenses, other than Depreciation	**-10,308**	-7,686	-4,236	-1,321
EBITDA	**-242**	-1,520	1,871	-1,801
Depreciation	**-3,045**	-388	-1,255	-711
EBIT	**-3,287**	-1,908	616	-2,512
Net financing costs	**-4,476**	2,139	243	123
Result before tax	**-7,763**	231	859	-2,389
Income tax	**-**	-	-	-
Result after tax	**-7,763**	231	859	-2,389
Basic earnings per share	**-0.24**	0.01	0.03	-0.09
Diluted earnings per share	**-0.23**	0.01	0.03	-0.09
Total non-current assets	**167,538**	133,281	95,592	54,744
Total current assets	**8,105**	6,366	17,635	2,831
Total assets	**175,643**	139,647	113,227	57,575
Total equity	**45,477**	57,557	60,556	45,877
Current liabilities	**33,884**	16,726	4,637	6,144
Non-current liabilities	**96,282**	65,364	48,034	5,554
Total equity and liabilities	**175,643**	139,647	113,227	57,575
Average number of fte's employed	**29**	17	5	-

Outlook and order book

In spite of the severe downturn in the overall shipping industry and the collapse in the price of oil, Fairstar has seen very little drop-off in demand for heavy transport services within our target market. Fairstar intends to continue to focus on serving the needs of field development clients. The unique operational features of Fjord and Fjell give Fairstar a competitive advantage which we believe will allow us to maintain pricing power in the current market environment. Fairstar will avoid actively targeting rig transports.

Fairstar's current order book for 2009 and 2010 is solid. For 2009, the Company has a utilisation rate of 98% for the Fjord and more than 60% for the fleet in total. This represents approximately USD 49 million gross revenues in 2009. For 2010, utilisation is around 25% with gross revenues of USD 19 million. These revenues are all for signed contracts with our key clients: Heerema Marine Contractors, KBR, DSME and Northern Offshore.



Fairstar's contracted utilisation rate. Includes both Fjord and Fjell, the green line represents the company's annual target.

Fairstar believes it will be possible to improve projected gross revenues for 2009 from the current firm level of USD 49 million in line with the assumptions the Company are using to calculate both its short-term and long-term capital requirements. There is no evidence in the market today to suggest a material downturn in vessel demand for the next 24-36 months.

In the next few years, there are a large number of development projects planned. As many of the oil and gas fields being developed have equipment transportation requirements over the next 3-7 years, the company will build its order book well into 2010 and 2011. Fairstar has the necessary contacts within the market to pursue these cargoes opportunistically and effectively.

Legal update

On 13 October 2006, the Company filed a law suit against former CEO, Mr Frederik Steenbuch, in order to recover fees surreptitiously paid to Mr Steenbuch's wholly owned company Capricorn Offshore AS pursuant to un-disclosed side agreements between Steenbuch's company and Fairmount Marine as well as an un-disclosed commission paid to Mr Steenbuch by BOA Offshore while Mr Steenbuch was negotiating the purchase of the BOA barges 19 and 20 on behalf of Fairstar. The details of this commission were never disclosed to Fairstar or its shareholders.

In November 2008, Fairstar filed a demand on Sea of Solutions to recover an un-disclosed commission paid by Wärtsilä to Sea of Solutions associated with the purchase of the propulsion systems for the Fjord and Fjell conversions. Wärtsilä has confirmed in writing to Fairstar that this commission would never have been paid to Sea of Solutions if they had been informed that Sea of Solutions was in fact acting on behalf of Fairstar at the time the purchase contract was signed. Fairstar has received a Letter of Credit securing its claim against Sea of Solutions.

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 2007, the Enterprise Chamber of the Court of Appeals heard arguments for both sides. Since this hearing no decision has been issued by this court. Accordingly it is clear that The Enterprise Chamber does not share the sense of urgency pleaded by Van den Berg more than one year ago since no injunctive relief was granted. In addition, the Enterprise Chamber apparently considers the whole matter of minor importance otherwise it would have been ruled on the alleged mismanagement at an earlier stage. Furthermore, the Company considers this episode to be another chapter in the attempts of Van den Berg, Fairmount Marine and Louis Dreyfus B.V. to acquire disproportionate control of Fairstar without the appropriate measure of equity ownership.

In June 2008, the Company initiated arbitration proceedings in Rotterdam with the Netherlands Arbitration Institute against Fairmount Marine B.V. for damages totaling 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. The basis of the claim is that Fairmount Marine B.V. represented itself to shareholders as an expert manager, fully capable of managing all aspects of the conversions of the Fjord and Fjell including the selection of Malta Shipyards, the design and engineering work, as well as the supervision of the conversion itself. Fairmount Marine B.V. undertook to deliver the Fjord to the Company on December 1, 2006. When it failed to deliver the vessel, a subsequent investigation into Fairmount Marine B.V.'s performance uncovered clear evidence of gross negligence and mismanagement.

This disposition will be presented to the arbitrators in 2009. The Company believes that both the basis of the claim as well as the magnitude of the damages sought are appropriate. In the process of preparing for this arbitration, Fairstar was aware of the risk that Fairmount Marine would not have the financial resources to satisfy an award of damages to Fairstar once the arbitration proceedings were concluded. In order to protect its position, Fairstar sought to obtain security for a future award by obtaining a lien against any available Fairmount Marine assets. Coincidental to serving this lien, Fairmount Marine was restructuring its assets in such a way as to move these assets out of Fairmount Marine and into the direct control of its new parent company, Louis Dreyfus Armateurs. If this action had been successful, Fairmount Marine would have been nothing more than a "shell company" and there would be a significant risk to Fairstar that the arbitration award could not be paid. Fairstar has notified Louis Dreyfus Armateurs that it considers this attempt to move assets out of Fairmount Marine prior to the arbitration to be an act of "fraudulent conveyance." A third party involved in this arrangement, namely Hanzevast Shipping is now claiming to have suffered damages totaling approximately USD 8 million by Fairstar and is claiming that Fairstar "illegally arrested" the Fairmount Marine tugboats. Fairstar rejects this claim and considers it without merit since the arrest lasted very short time and can therefore not have caused damages to Hanzevast.

Corporate Governance

Fairstar is mindful of the increasing importance of the Corporate Governance. Fairstar has reviewed the Corporate Governance Code published by the financial regulatory authorities in The Netherlands. Fairstar applies a significant part of the best practice provisions from the Code. 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 currently has some 300 shareholders. A list of the company's largest shareholders is available on the website.

Fairstar aims to communicate actively, openly and transparently with its shareholders through regular investor presentations in Norway, The Netherlands and London as well as directly through its email alert system and the company's website www.fairstar.com.

Share price development 2008 (source; Yahoo Finance).

Risk factors

Risks and Risk Management

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:

Project risks: As part of its business the company regularly carries out high-risk projects. There are various risk areas, such as safety, environment 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 are assessed during the project and adjusted if needed.

Market risks: Demand for heavy transport vessel 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 political incidents. Demand for the Company's services and products may also be negatively impacted by increased supply of similar or other vessels.

International operations: Operations in international markets are subject to risks inherent in 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 statements.

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 internal risk management and internal control systems are in place to identify and mitigate material risks and that these systems provide a reasonable level of assurance that the financial statements do not contain any material misstatements and that these systems operated properly during the year under review. The Management Board has no indication that these systems will not operate properly during the current year.

Corporate Governance Report

Introduction

Proper corporate governance is an important concept for Fairstar Heavy Transport N.V. (Fairstar). Fairstar feels that it is important that the Dutch Corporate Governance Code ("the Code") be properly embedded within the company's rules and regulations. The chapter on corporate governance is available on the company's website and summarises our corporate governance policy and the relevant regulations and documents, in accordance with the Code.

Fairstar applies all provisions from the Code, with the following exceptions:

- 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 provisions II.2.6 and III.7.3);
- In view of the size of the Company, no Audit, Remuneration or Selection committee has been established. These roles are fulfilled by the Supervisory Board as a whole (best practice provisions III.5.10 and III.5.13);
- Sections not applicable to Fairstar (best practice provisions IV.2 and IV.4);

Shareholders are not offered any possibilities for following presentations to analysts or investors by webcasting or similar methods (best practice provision IV.3.1).

The Company's Compliance Officer is Cristijn du Marchie Sarvaas.

Supervisory Board

The Supervisory Board's principal tasks are supervising the Management Board's policies, monitoring the company's general state of affairs and advising the Management Board. The members of the Supervisory Board are guided by Fairstar's corporate interests in carrying out these duties.

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.7.3).

All members of the Supervisory Board are independent of Fairstar. Under strict application of provision III.2.2.a of the Dutch Corporate Governance Code, Mr Hans Verhagen is not considered independent as he was a member of the Management Board for a short period from July through October 2005, prior to becoming a Supervisory Board member. Mr Granheim is CEO of Fosen ASA, a company currently in a merger process with Torghatten Trafikkselskap ASA. Torghatten Trafikkselskap ASA and its subsidiaries hold 6,102,654 shares in Fairstar, which represents 18.50% of the issued share capital.

The profile for the composition of the Supervisory Board, the Retirement Schedule and the Supervisory Board Regulations as well as the Insider Trading regulations 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 2007 Cristijn du Marchie Sarvaas has assumed the role of Company Secretary.

Management Board

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 three members. The Chief Executive Officer, the Fleet Director and an independent Director 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.

Code of conduct and code for perceived irregularities

Fairstar demands that all its companies, 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.

Risk management

The proper functioning of the company's internal risk management and control systems is a continual area of attention for the Management Board, and a topic of the meetings between the Management Board and the Supervisory Board. The code for internal risk management and control systems can be found in the Company's annual report.

The Fairstar Heavy Transport N.V. listing

Fairstar Heavy Transport N.V. is a public limited liability company incorporated under the laws of The Netherlands. The Fairstar share has been listed on the Oslo Stock Exchange since November 2006.

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 Accounts.
- 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 Annual Accounts.
- 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.

Provision of operation

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 conferences can be accessed on the company's website and through the Oslo Stock Exchange information system.

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 Annual Accounts are compiled by the Management Board and signed by the Management Board and the Supervisory Board. The Annual Accounts are 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 picture presented by the Annual Accounts.

Anti-takeover measures

Fairstar has no anti-takeover measures in place.

Directors' statement of responsibilities

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

- The financial statements, as shown on pages 20 to 46 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 N.V. 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 N.V. 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 2009

Management Board,

Mr Philip Adkins
CEO

Mr Cristijn du Marchie Sarvaas
Member of the Management Board and CFO up until 30 November 2008

Mr Willem Out
Fleet Director

Fairstar Heavy Transport N.V.

Financial Statements 2008

Consolidated Financial statements 2008

Consolidated income statement for the year 2008

	Note	2008	2007
(USD IN THOUSANDS)			
Gross Revenue		**15,698**	8,280
Voyage-related costs		**-5,632**	-2,269
Time-charter equivalent revenue		**10,066**	6,011
Other income		**–**	155
		10,066	6,166
Vessel operating expenses	*1*	**-5,054**	-4,193
General and administrative expenses	*2-4*	**-5,254**	-3,493
Operating expenses, other than depreciation and amortisation		**-10,308**	-7,686
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**-242**	-1,520
Depreciation		**-3,045**	-388
Operating profit (loss) before financing costs		**-3,287**	-1,908
Financial income	*5*	**8,832**	2,193
Financial expenses	*5*	**-13,308**	-54
Net financing costs		**-4,476**	2,139
Profit (loss) before tax		**-7,763**	231
Income tax expenses	*6*	**–**	–
Profit (loss)		**-7,763**	231

Weighted average number of ordinary shares	**32,990,000**	32,990,000
Diluted average number of shares issued (including options exercisable per the end of 2008)	**33,309,000**	32,690,000
Basic earnings per share	**USD -0.24**	USD 0.01
Diluted earnings per share	**USD -0.23**	USD 0.01

Consolidated balance sheet as at 31 December 2008

After appropriation of result

(USD IN THOUSANDS)	*Note*	**2008**	2007
Assets			
Property, plant and equipment	*7*	**167,539**	133,281
Total non-current assets		**167,539**	133,281
Inventories	*8*	**689**	–
Trade and other receivables	*9*	**577**	594
Derivative financial instruments	*10*	**28**	860
Cash and cash equivalents	*11*	**6,809**	4,912
Total current assets		**8,103**	6,366
Total assets		**175,642**	139,647
Equity and liabilities			
Liabilities			
Trade and other payables	*12*	**19,011**	8,289
Short-term part of long-term loans	*13*	**25,332**	5,250
Derivative financial instruments	*10*	**14,872**	3,187
Current liabilities		**59,215**	16,726
Long-term loans	*13*	**70,950**	65,364
Total non-current liabilities		**70,950**	65,364
Total liabilities		**130,165**	82,090
Equity	*14*		
Issued share capital		**56,242**	56,242
Share premium		**5,042**	5,042
Retained earnings		**-8,497**	-1,299
Hedging reserve		**-7,449**	-2,740
Share-based payments reserve		**139**	312
Total equity		**45,477**	57,557
Total equity and liabilities		**175,642**	139,647

Consolidated statement of recognised income and expense

(USD IN THOUSANDS)	**2008**	2007
Profit (loss) for the period	**-7,763**	231
Change in valuation of derivative financial instruments	**-4,709**	-3,487
Cancellation of option programmes	**565**	–
Total recognised income and expense for the period	**-11,907**	-3,256
Attributable to:		
Equity holders	**-11,907**	-3,256

Consolidated cash flow statement

(USD IN THOUSANDS)	**2008**	2007
Cash flows from operating activities		
Profit (loss) after taxation	**-7,763**	231
Change in valuation of derivatives and NOK bond loan	**120**	-413
Depreciation/amortisation	**3,045**	388
Share-based payments	**392**	257
	-4,206	463
Changes in working capital (excluding cash and cash equivalents, derivative financial instruments and long-term loan)	**10,050**	7,016
Net cash from operating activities	**5,844**	7,479
Cash flow from investing activities		
Investments in:		
Property, plant and equipment	**-37,303**	-38,077
Net cash from investing activities	**-37,303**	-38,077
Cash flow from financing activities		
Draw down long-term loan HSH	**5,136**	22,580
Draw down short-term NOK bond loan	**28,220**	–
Net cash from financing activities	**33,356**	22,580
Net increase in cash and cash equivalents	**1,897**	-8,018
Cash and cash equivalents at the beginning of the period	**4,912**	12,930
Cash and cash equivalents at 31 December	**6,809**	4,912

Notes to the consolidated financial statements

General Information

Background

Fairstar Heavy Transport N.V. ('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. Shortly thereafter the Company successfully raised approximately USD 50 million in equity through a private placement and the Depository Receipts became tradable on the over the counter (OTC) market in Oslo, Norway. Since 17 November 2006, the Company is quoted on the official Oslo Stock Exchange (OSE) under the ticker FAIR. On 27 December 2006, the Company successfully raised another USD 13 million in equity.

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 (initially Fairmount 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.

The anticipated total cost is approximate USD 170 million for both vessels. This excludes borrowing cost but includes the purchase of the barges, the cost of converting them to self-propelled vessels as well as the costs associated with important changes made to the vessels to further improve the safety levels and operational effectiveness.

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 2009.

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 2008 the most important exchange rates for the company are the Euro and (since March 2008) the Norwegian Kroner.

	EUR	NOK
1 January 2007	1.31860	-
31 December 2007	1.47185	0.18454
31 December 2008	1.39190	0.14336

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.

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 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 at 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

The Company has not included segment information. Management is of the opinion that segment information adds no reporting value for 2008 because the limited number of projects and the fact that the Company still has one vessel under conversion. The Company will present segment information as soon as both vessels are in operation.

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 recorded deferred income.

Revenues

Revenues are lump-sum freights plus any demurrage payments generated by transportation 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

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 (in Euro)
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 (max. 25,5% in 2008). The tonnage regime was awarded from the time the Vessel 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 conversion of the barges to vessels 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

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 of the barges to vessels 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.

Dry-docking

After conversion the vessels will undergo a survey typically every 2.5 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 barges are depreciated from the moment of acquisition. No depreciation is accounted for during the conversion of the barges. 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 ten years.

The estimated remaining useful life is as follows:

- Barges/vessels : 25 years
- Conversion of barges : 5 - 25 years
- Transportation equipment : 2-5 years

Transportation equipment mainly includes company cars in Malta.

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 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 cost of the inventories are based on historical cost and include 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 attributable 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).

The fair value of interest rate swaps is that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

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 not issued preference shares.

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Company will present segment information from the moment both the Company's converted vessels will work under contract.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's

2009 consolidated financial statements and will not constitute a change in accounting policy for the Group, as the Group already capitalises directly attributable borrowing costs as part of qualifying assets.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any impact on the consolidated financial statements.

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

- Revised IFRS 3 Business Combinations (2008) incorporates the following changes:

  The definition of a business has been broadened,

  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The amendments to IFRS 2, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

It should be noted that not all above new IFRS standards and interpretations have been endorsed by the EU.

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 a 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:

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, excluding interest payments	**25,332**	**-1,600**	**-23,732**	–	–	–
Long-term loan, excluding interest payments	**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**

2007	Carrying amount	Month 1-6	Month 7-12	Year 1-2	Year 3-4	More than 5 years
(USD IN THOUSANDS)						
Trade creditors	7,374	-7,374	–	–	–	–
Tax payable	74	-74	–	–	–	–
Accruals and deferred income	841	-841	–	–	–	–
Long-term loan, including interest payments	70,614	2,693	2,693	-15,000	-15,000	-46,000
Commitments, not accounted for in the balance sheet	28,000	-16,500	-10,500	-1,000	–	–
Interest rate swaps used for hedging, maturities included in long-term loans	3,078	-200	-200	-800	-800	-1,078
Forward exchange contracts used for hedging	-751	751	–	–	–	–
Total	109,230	-21,545	-8,007	-16,800	-15,800	-47,078

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:

	31 December 2008	31 December 2007
(USD IN THOUSANDS)		
Floating rate financial liabilities swapped to fixed	**58,985**	58,985
Variable rate financial liabilities	**44,119**	11,629
Total Interest bearing liabilities	**103,104**	70,614

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at 31 December 2008 would have increased equity with USD 5.8 million (31 December 2007: USD 2.5 million). A decrease of 100 basis points in interest at 31 December would have had the equal but opposite effect.

A change in interest rates at the reporting date would have little impact on the income statement for 2008, because a significant portion of the interest paid is capitalised as part of the investment in the conversion of the barges.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

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 the bulk of the Company cost will also be in USD, such as bunkers cost, harbour costs and other voyage -related costs. Most of the companies operating costs are in USD, such as repairs, maintenance and insurance. Most of the crew and general and administrative expenses are in EUR. Compared to the Company's overall costs these expenses are relatively low. 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.

The principal amounts of the Company’s EUR liabilities with regard to the conversion of the barges have been hedged to a certain amount using forward contracts that mature on the payment date of these liabilities. When necessary, forward exchange contracts are rolled over at maturity. Further quantitative disclosures are included throughout annual accounts.

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 and 2007: USD 0.2 million).

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**

2007	Carrying amount	Of which:	
	USD 1,000	EUR 1,000	NOK 1,000
Tax receivable	228	155	–
Cash	4,912	2,248	65
Trade creditors	-7,374	-4,414	-906
Tax payable	-74	-50	–
Accruals	-482	-327	–
Commitments, not accounted for in the balance sheet	-28,000	-19,310	–
Forward exchange contracts	-16,920	12,000	–
Exposure		-9,698	-841

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 2007.

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

2007	Equity	Income statement
(USD IN THOUSANDS)		
EUR	-1,286	320
GBP	60	60
NOK	14	14

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, evaluation 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 2008 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 Vessel operating expenses

A breakdown of the vessel operating expenses is as follows:

(USD IN THOUSANDS)	**2008**	2007
Crewing	**3,268**	2,265
Maintenance, stores and spare parts	**1,083**	1,411
Insurances	**536**	74
Management fee (Fairmount Marine B.V.)	**–**	438
Other vessel operating costs	**167**	5
	5,054	4,193

From vessel operating expenses an amount of approximately USD 2.9 million relates to the period that the Fjord was in operation (9 months in 2008).

2 General and administrative expenses

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

(USD IN THOUSANDS)	**2008**	2007
Remuneration of the board and employee benefit expenses	**1,802**	941
Temporary work staff and advisory costs	**2,220**	886
Costs relating to the listing on the Oslo Stock Exchange	**170**	110
Travel and lodging expenses	**494**	462
Office and staff expenses manager (Fairmount Marine B.V.)	–	852
Other general and administrative expenses	**568**	242
	5,254	3,493

The KPMG fee for auditing the financial statements has been included in the other general and administrative expenses and amounts to EUR 44,500 (2007: EUR 39,500). Other fees paid to KPMG relate to tax work and amount to EUR 16,745 in 2008 (2007: EUR 9,610).

3 Employee benefit expenses

A breakdown of the employee benefit expenses is as follows:

(USD IN THOUSANDS)	**2008**	2007
Wages and salaries	**2,350**	1,521
Social security contributions	**252**	132
Retirement benefits	**227**	164
Share Option expenses	**136**	129
	2,965	1,946

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

(USD IN THOUSANDS)	**2008**	2007
Vessel operating expenses	**1,970**	1,683
General and administrative expenses	**995**	263
	2,965	1,946

A breakdown of the retirement benefits is as follows:

(USD IN THOUSANDS)	**2008**	2007
Contributions to the defined benefit plan (maritime crews)	**152**	153
Contributions to the defined contribution plan (shore-based staff)	**75**	11
	227	164

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 because 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 USD 250,000 for 2009.

The average number of employees in 2008 was 29 (2007: 18), which can be divided as follows:

(IN FTE)	**2008**	2007
Maritime crews	**23**	17
Shore-based staff, including member of the board	**6**	1
	29	18

The company employed all employees inside The Netherlands.

4 Share Option expenses

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.

Early December 2008 the company concluded that three existing programmes failed to offer the indented benefits. The company decided to cancel 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.

When issuing the 722,500 option under the new programme, the company was cautious to stay within the authorisation limits set by the general meetings. In the general meeting April 14, 2008 shareholders provided the Management Board with approval to issue 150.000 share options on top of the already authorised 600.000 options at the shareholders meeting dated 31 July 2006.

The company streamlined the vesting conditions and issued new options to employees who did not own any share options till that date. 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 2008 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)	**2008**	2007
Outstanding at 1 January	**489,000**	300,000
Granted during under old programmes	**50,000**	189,000
Cancellation of old option programmes	**-539,000**	-
Granted during the period	**722,500**	-
Outstanding at 31 December	**722,500**	489,000
Options exercised during the year	**-**	-
Average exercise price at	**NOK 5.00**	NOK 25.09

Total number of options exercisable at the end of each year:

	2008	2009	2010	2011
(Number of Options)				
Management Board	**200.000**	316.667	333.333	350.000
Staff	**18.333**	68.333	118.333	150.000
Crew	**100.667**	174.833	217.667	222.500
Exercisable at 31 December	**319.000**	559.833	669.333	722.500

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

	2008 Employees	2007 Staff	2007 Crew
Fair value at grant date in USD thousands	**188**	93	129
Share price at issue date in NOK	**3.51**	28.70	25.00
Exercise price in NOK	**5.00**	30.00	30.00
Expected volatility	**70%**	35%	35%
Option life in years	**5**	5	3
Expected dividends	**0%**	0%	0%
Risk-free interest rate	**3.70%**	5.77%	5.10%

The breakdown of the share option expense is as follows:

	2008	2007
(USD IN THOUSANDS)		
Share options granted in 2006	**163**	128
Share options granted in 2007	**90**	129
Share options granted in 2008	**139**	–
Total expense recognised	**392**	257

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:

	2008	2007
(USD IN THOUSANDS)		
Financial income		
Interest received on short-term deposits	**294**	463
Foreign currency gains and losses (in 2008 mainly the NOK bond loan) and gains on hedging instruments	**8,538**	1,730
	8,832	2,193
Financial expenses		
Interest paid on borrowings	**-8,514**	-3,514
Interest capitalised during the year relating to the conversion of the vessels	**4,067**	3,514
Changes in the fair value of hedging instruments	**-6,964**	–
Foreign currency gains and losses	**-1,897**	-54
	-13,308	-54
Net financing costs	**-4,476**	2,139

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 of the barges are expected to be tax-deductible, whereas results in the years after conversion of the barges will be taxed in accordance with the Dutch tonnage tax regime.

Due 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)	**Barges**	**Conversion of the barges**	**Transport equipment**	**Other**	**Total 2008**	Total 2007
Balance as at 1 January 2008	**42,580**	**90,497**	**35**	**169**	**133,281**	95,592
Investments	**–**	**37,272**	**–**	**31**	**37,303**	38,077
Depreciation	**-722**	**-2,247**	**-16**	**-60**	**-3,045**	-388
Balance as at 31 December 2008	**41,858**	**125,522**	**19**	**140**	**167,539**	133,281
Composed as follows:						
Purchase price	**44,888**	**127,769**	**55**	**223**	**172,935**	135,632
Accumulated depreciation	**-3,030**	**-2,247**	**-36**	**-83**	**-5,396**	-2,351
Balance as at 31 December 2008	**41,858**	**125,522**	**19**	**140**	**167,539**	133,281

At 31 December 2008, the Company's two barges, with a carrying amount of USD 167,380,000 are subject to registered mortgages to secure bank loans and guarantees.

8 Inventories

Inventories include bunker fuel and lubricants amounting to USD 689,000 (2007: nil).

No inventories are subject to retention of title clauses. In 2008 and 2007 no write-offs of inventories were accounted for.

9 Trade and other receivables

Details are:

(USD IN THOUSANDS)	**31 December 2008**	31 December 2007
Trade receivables	**–**	142
Tax receivable	**165**	228
Prepaid expenses and accrued income	**412**	224
	577	594

10 Derivative financial instruments

At 31 December 2008, the Company held five forward exchange contracts designated as hedges for the NOK bonds for which the Company has firm commitments for 2009. Furthermore, the Company holds seven “floating-to-fixed” interest rates swaps contracts and 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:

	31 December 2008 Asset	**31 December 2008 Liability**	31 December 2007 Asset	31 December 2007 Liability
(USD IN THOUSANDS)				
Cap/ Floor	**28**	**-**	109	-
Interest rate swaps	**-**	**7,477**		3,187
Forward currency contracts	**–**	**7,395**	751	–
	28	**14,872**	860	3,187

11 Cash and cash equivalents

From the total cash and cash equivalents amounting to USD 6,809,000 an amount of USD 5,800,000 is restricted due to a guarantee provided.

12 Trade and other payables

Details are:

	31 December 2008	31 December 2007
(USD IN THOUSANDS)		
Trade creditors	**7,931**	7,374
Tax payable	**55**	74
Accrued income	**8,860**	210
Other accruals	**2,165**	631
	19,011	8,289

13 Borrowings

Details are:

	31 December 2008		31 December 2007	
	Current carrying amount	**Non-current carrying amount**	Current carrying amount	Non-current carrying amount
(USD IN THOUSANDS)				
USD 60 million, HSH Nordbank Term loan with 8 year repayment schedule (LIBOR + 1,25%)	**3,750**	**56,000**	3,750	55,975
USD 16 million, HSH Nordbank Mezzanine loan with 8 year repayment schedule (LIBOR + 1,75%)	**1,050**	**14,950**	1,500	9,389
NOK 150 million, private placement debenture loan at NIBOR + 6%	**20,532**	**–**	–	–
	25,332	**70,950**	5,250	65,364

HSH Nordbank Term loan

In October 2005, the company 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 the company drew down a total of 60 million USD in various tranches.

The term loan shall be repaid in 31 consecutive quarterly installments of USD 1,250,000 with a final installment of USD 21,250,000. The repayments will start 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 the company drew down a total of 16 million USD in various tranches.

The mezzanine facility shall be repaid in 31 quarterly installments of USD 350,000 with a final installment of USD 5,150,000. The repayments will start 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 2%.

HSH Nordbank AG in Hamburg is the company's senior lender with a total facility of USD 81 million. For this facility HSH Nordbank received a first mortgage on both the company's vessels, Fjord and Fjell.

Interest rate swap agreements

In 2005 and 2006, the Company entered into interest rate swap agreements for the HSH Nordbank loans for a total amount of USD 59,000,000. The original term of the swaps is seven years. The fixed swap rates range from 6.4% to 7.35% (including the margin of the bank).

Private placement debenture loan

The NOK 150 million private placement debenture loan matures in October 2009.

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 USD 45 million under the terms of the NOK 150 million private bond placement.

Equity ratio of 30% under the terms of the NOK 150 million private bond placement.

The unprecedented collapse of floating interest rates in the second half of 2008 has had an unforeseen accounting effect. Namely, it created a technical breach with the covenant in the Bond Loan Agreement requiring the company to maintain an equity ratio of above 30%.

The company notified the Loan Trustee and requested to permit the company to change the method of calculation for the debt/equity ratio covenant. The change removes the effect of non-cash gains and losses from fair market value change of the company's interest rate hedging agreements. In the Bondholders meeting on 27 February 2009 the resolution was obtained with 100% of the votes.

14 Equity

Statement of changes in equity

2007	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	-1,530	747	55	60,556
Share based payments	–	–	–	–	257	257
Cash flow hedges	–	–	–	-3,487	–	-3,487
Result for the period	–	–	231	–	–	231
Balance as at 31 December	56,242	5,042	-1,299	-2,740	312	57,557

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	–	–	–	–	**392**	**392**
Cancellation of option programmes	–	–	**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**

Issued share capital

The authorised share capital of the Company amounts to EUR 205,500,000, divided into 150,000,000 shares of EUR 1.37, of which 32,990,000 (2006: 32,990,000) shares have been placed.

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 N.V. has the following transaction with its fully owned subsidiaries;

- Fairstar Maritime Services B.V. (Rotterdam) – Employs all Fairstar's Maritime Crew
- Fairstar Beheer B.V. (Rotterdam) – No transactions
- Fairstar Fjord B.V. (Rotterdam) – No transactions

- Fairstar Fjell B.V. (Rotterdam) - No transactions

The related parties of the Company and their immediate relatives control 20.28% (2007: 0.206%) of the voting shares of the Company either directly or indirectly.

Details are:

	2008		2007	
	%	**Number of shares**	%	Number of shares
P. J. Adkins (CEO)	**0.36**	**120,000**	0.061	20,000
C.J.C. du Marchie Sarvaas	**0.20**	**67,000**	0.145	48,000
W. Out	**0.12**	**40,000**	–	–
F. W. van Riet	**0.16**	**51,200**	–	–
W. Dirkzwager	**0.50**	**166,000**	–	–
J.J.H. Verhagen	**0.16**	**51,200**	–	–
R. Granheim (indirect via Torghatten)	**18.50**	**6,102,654**		
Other personnel	**0.28**	**93,600**		

Remuneration of the Board

Details of the remuneration of the Management Board are:

	Remuneration	**Bonus**	**Option Expense**	**Total 2008**	Total 2007
(USD IN THOUSANDS)					
P. J. Adkins (CEO)	261	190	–	**451**	229
C.J.C. du Marchie Sarvaas	173	–	198	**371**	295
W. Out	130	50	67	**247**	–
	564	240	265	**1,069**	524

Details of the remuneration of the Supervisory Board are:

	2008	2007
(USD IN THOUSANDS)		
F.W. van Riet (Chairman)	**34**	9
W. Dirkzwager	**48**	49
J.J.H. Verhagen	**34**	35
L.O. Aaker	**34**	35
R. Granheim (4 months)	**11**	–
B.E. Henriksen (2007: 9 months)	–	26
	161	154

16 Commitments and contingencies

As per 31 December 2008, the Company entered into contracts relating to the conversion of the barges with total capital commitments amounting to USD 8 million (31 December 2007: USD 28million).

As per 31 December 2008, the Company has USD 6,321,000 guarantees outstanding in relation to received advance payments.

17 Subsequent events

Events after balance sheet date are discussed under footnote ‘Other Information’ at the end of the annual report.

Company Financial Statements of Fairstar Heavy Transport N.V.

Company income statement for the year 2008

(USD IN THOUSANDS)	2008	2007
Company result	**-7,763**	-34
Result subsidiaries	–	265
Profit (loss)	**-7,763**	231

Company balance sheet as at 31 December 2008

After appropriation of result

(USD IN THOUSANDS)	*Note*	2008	2007
Assets			
Property, plant and equipment	*1*	**167,573**	133,315
Investments in subsidiaries	*2*	**412**	412
Total non-current assets		**167,985**	133,727
Current assets			
Inventories	*3*	**689**	–
Trade and other receivables	*4*	**524**	594
Derivative financial instruments		**28**	860
Cash and cash equivalents	*5*	**6,571**	4,759
Total current assets		**7,812**	6,213
Total assets		**175,797**	139,940
Liabilities			
Current liabilities			
Trade and other payables	*6*	**19,166**	8,582
Short-term part of long-term loan		**25,332**	5,250
Derivative financial instruments		**14,872**	3,187
		59,370	17,019
Non-current liabilities			
Long-term loan		**70,950**	65,364
Total liabilities		**130,320**	82,383
Equity	*7*		
Issued share capital		**62,908**	66,522
Share premium		**5,042**	5,042
Retained earnings		**-15,163**	-11,579
Hedging reserve		**-7,449**	-2,740
Share-based payments reserve		**139**	312
Total equity		**45,477**	57,557
Total equity and liabilities		**175,797**	139,940

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 2008 financial statements of Fairstar Heavy Transport N.V. With reference to the company income statement of Fairstar Heavy Transport N.V., 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)	**Barges**	**Conversion of the barges**	**Transport equipment**	**Other**	**Total 2008**	Total 2007
Balance as at 1 January 2008	**42,580**	**90,531**	**35**	**169**	**133,315**	95,626
Investments	**–**	**37,272**	**–**	**31**	**37,303**	38,077
Depreciation	**-722**	**-2,247**	**-16**	**-60**	**-3,045**	-388
Balance as at 31 December 2008	**41,858**	**125,556**	**19**	**140**	**167,573**	133,315
Composed as follows:						
Purchase price	**44,888**	**127,803**	**55**	**223**	**172,969**	135,666
Accumulated depreciation	**-3,030**	**-2,247**	**-36**	**-83**	**-5,396**	-2,351
Balance as at 31 December 2008	**41,858**	**125,556**	**19**	**140**	**167,573**	133,315

At 31 December 2008, the Company's two barges, with a carrying amount of USD 167,414,000 are subject to registered mortgages to secure bank loans and guarantees.

2 Subsidiaries

This refers to 100% participations in Fairstar Beheer B.V. (Rotterdam), Fairstar Maritime Services B.V. (Rotterdam), Fairstar Fjord B.V. (Rotterdam) and Fairstar Fjell B.V. (Rotterdam).

Movements were as follows:

	2008
(USD IN THOUSANDS)	
Balance as at 1 January	**412**
Result subsidiaries	–
Balance as at 31 December	**412**

Summary financial information on investments (100%) :

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
(USD IN THOUSANDS)					
31 December 2008	**1,148**	**703**	**445**	**2,007**	–

3 Inventories

Inventories include bunker fuel and lubricants amounting to USD 689,000 (2007: nil).

No inventories are subject to retention of title clauses. In 2008 and 2007 no write-offs of inventories were accounted for.

4 Trade and other receivables

Details are:

	31 December 2008	31 December 2007
(USD IN THOUSANDS)		
Trade receivables	–	142
Tax receivable	**163**	228
Prepaid expenses and accrued income	**361**	224
	524	594

5 Cash and cash equivalents

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

6 Trade and other payables

Details are:

	31 December 2008	31 December 2007
(USD IN THOUSANDS)		
Trade creditors	**7,869**	7,368
Related parties	**856**	88
Tax payable	**40**	26
Accrued income	**8,860**	210
Other accruals	**1,541**	890
	19,166	8,582

7 Equity

Statement of changes in equity

2007	Issued share capital	Share premium	Retained earnings	Hedging reserve	Share-based payments reserve	Total
(USD IN THOUSANDS)						
Balance as at 1 January	59,596	5,042	-4,884	747	55	60,556
Share-based payments	–	–	–	–	257	257
Cash flow hedges	–	–	–	-3,487		-3,487
Translation difference on issued share capital	6,926	–	-6,926	–	–	–
Result for the period	–	–	231	–	–	231
Balance as at 31 December	66,522	5,042	-11,579	-2,740	312	57,557

2008	**Issued share capital**	**Share premium**	**Retained earnings**	**Hedging reserve**	**Share-based payments reserve**	**Total**
(USD IN THOUSANDS)						
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 205,500,000, divided into 150,000,000 shares of EUR 1.37, of which 32,990,000 (2006: 32,990,000) shares have been placed.

The issued share capital at 31 December 2008 has been translated into USD using a EUR/USD exchange rate of 1.39190 (31 December 2007: 1.47185). 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 2009

The Management Board:	**The Supervisory Board:**
P. J. Adkins (CEO)	F.W. van Riet (Chairman)
C.J.C. du Marchie Sarvaas (Director)	W. Dirkzwager (Vice Chairman)
W. Out (Fleet Director)	L.O. Aaker
	R. Granheim
	J.J.H. Verhagen

Other information

Provisions in the Articles of Association governing the appropriation of profit

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 loss for 2008 of USD 7,763,000 is added to the negative retained earnings.

Events after balance sheet date

Equity issue

January 26, 2009 the company announced it had successfully arranged for an underwritten equity issue of up to NOK 75 million. The Board of Directors of Fairstar called for an Extraordinary General Meeting on 16 February 2009, who approved the transaction.

The transaction structure is an innovative combination of a share capital increase in the form of a rights issue of up to 10,000,000 new shares each with a nominal value of EUR 0.46, with pre-emption rights for shareholders at a subscription price of NOK 5.0 ("Tranche A") and a directed share issue of up to 4,166,667 new shares each with a nominal value of EUR 0.46, towards the owners (the "Bondholders") of the Fairstar Heavy Transport Secured Bond Issue 2008/2009 (the "Bond Loan") at a subscription price of NOK 6.0 ("Tranche B") (collectively the "Offering").

A syndicate of the Company's current shareholders has underwritten 5.3 million new shares in Tranche A and a syndicate of the Company's current Bondholders has underwritten 3.8 million new shares in Tranche B. NOK 51 million of the Offering is fully underwritten. The additional NOK 24 million is not underwritten. All of the Company's eligible shareholders and bondholders will be offered pro-rata subscription rights. Proceeds from the Offering will be used by Fairstar to retire outstanding debt obligations.

The following table presents the impact of the equity issue and partial bond conversion:

(USD IN THOUSANDS)	**Balance sheet 31 December 2008**	Equity issue NOK 50m	Bond conversion NOK 25m	**Pro forma balance sheet 31 December 2008**
Assets				
Non-current assets	**167,539**	–	–	**167,539**
Currents assets	**8,103**	7,170	–	**15,273**
Total assets	**175,642**	7,170	–	**182,812**
Equity and liabilities				
Non-current liabilities	**70,950**	–	–	**70,950**
Current liabilities	**59,215**	–	-3,585	**55,630**
Equity	**45,477**	7,170	3,585	**56,232**
Total equity and liabilities	**175,642**	7,170	–	**182,812**

Note that this schedule assumes 100% of the offering is excepted at year-end NOK rates.

Hanzevast

In August 2008, related to the Fairmount Marine arbitration, Fairstar tried to attach purchase options that the owning partnerships of five tugboats, operated by Fairmount Marine, had granted to Fairmount Marine. These attachments were lifted by the Court in the same month. On February 10, 2009, Fairstar received a claim from Hanzevast, one of the managing partners of the owning partnerships, for damages amounting to USD 8m due to the unlawful attachment. Fairstar rejects liability and vigorously defends its position. Fairstar management is confident that this claim will not lead to any cash outflow; therefore no provision is recognised in the balance sheet.

Bondholders approve covenant change request

The unprecedented collapse of floating interest rates in the second half of 2008 has had an unforeseen accounting effect. Namely, it created a technical breach with the covenant in the Bond Loan Agreement requiring the company to maintain an equity ratio of above 30%.

The company notified the Loan Trustee and requested to permit the company to change the method of calculation for the equity ratio covenant. The change removes the effect of non-cash gains and losses from fair market value change of the company's interest rate hedging agreements. In the Bondholders meeting on 27 February 2009 the resolution was obtained with 100% of the votes.

Auditor's report

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

To: Annual General Meeting of Shareholders of Fairstar Heavy Transport N.V.

Auditor's report

Report on the financial statements

We have audited the financial statements 2008 of Fairstar Heavy Transport N.V., Rotterdam as set out on pages 20 to 46. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, income statement, statement of recognised income and expense and cash flow statement 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 2008, 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 Directors' 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 N.V. as at 31 December 2008 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 N.V. as at 31 December 2008 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 Directors' report as set out pages 8 to 18 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 2 March 2009

KPMG ACCOUNTANTS N.V.,

M. Blöte RA