Fairstar

FAIRSTAR HEAVY TRANSPORT NV

BOARD OF DIRECTORS' REPORT

FIRST HALF YEAR OF 2010

- **FAIRSTAR AWARDED USD 90M TRANSPORTATION CONTRACT FOR GORGON LNG PROJECT**
- **FAIRSTAR INITIATES FLEET EXPANSION STRATEGY WITH SUCCESSFUL SHARE ISSUE**
- **FAIRSTAR ACHIEVES 2010 FIRST HALF YEAR EARNINGS OF USD 9 MILLION**

Fairstar Heavy Transport NV (Fairstar) continued to establish itself within the energy services industry as the leading operator in the marine heavy transport business. In spite of the global economic downturn and the current situation in the Gulf of Mexico, the first six months of 2010 were of enormous significance to the future success of Fairstar. The transportation contracts for the Gorgon LNG Project are among the largest ever awarded for marine heavy transport. The competition for these contracts was fierce. The choice of Fairstar reflects a number of important changes that have developed recently within the marine heavy transport industry. First of all, multi-billion dollar energy infrastructure projects demand modern, open-stern semi-submersible vessels to safely transport the heaviest and most valuable modules and topsides to increasingly remote production sites. The operation of these ships and the associated support services must be flawlessly executed by a Team of highly-skilled professionals. The standards of safety and environmental sensitivity required for these projects will continue to increase. Failure to meet and exceed these standards will result in brutal consequences for industry participants. For example, certain operating areas have now disqualified older ships, still containing asbestos, from participating in projects even though the asbestos may be "legal". Furthermore, the treatment of ballast water in the future will be subject to higher and inescapable environmental regulations. Fairstar faces these issues in all of the tender documents we prepare. We believe our involvement in the Gorgon Project will reflect the totality of our commitment to maintain our vessels at the highest possible standards and to attract and invest in the outstanding people we need to serve our clients in the energy industry by planning and executing safe and seamless solutions for their increasingly complex marine heavy transport requirements.

FINANCIAL RESULTS

The financial performance of Fairstar in the first six months of 2010 reflected the weak global economy as well as the excess of available capacity in the spot market for marine heavy transport services. Time charter revenues were USD 15.9 million. EBITDA was USD 8.9 million. A one-time charge of USD 2.6 million relating to the change in the value of the Company's foreign currency exposure (NOK and EUR), as well as additional re-financing costs incurred when the NOK 124 million bond was repaid earlier this year, resulted in a loss of USD 465 thousand for the first half of the year.

FINANCIAL HIGHLIGHTS

	First Half 2010	First Half 2009
Time Charter Equivalent Revenue	15,904	16,996
EBITDA	8,935	12,051
Net Profit (Loss)	(465)	7,435
Basic earnings per share	(0.01)	0.17
Fleet Utilisation Rate	58%	74%
Total Assets	211,493	185,554
Equity	106,148	62,173
Cash and cash equivalents	32,192	1,088
Net Interest Bearing Debt	56,900	92,257

Balance Sheet strength and access to new investment capital will continue to be crucial competitive factors in the marine heavy transport industry. Fairstar's Balance Sheet continued to strengthen. Net Interest Bearing Debt has declined by USD 35.4 million compared to last year. Shareholders' Equity increased by approximately USD 44 million in the period.

TRANSPORTATION PROJECTS REVIEW

FJORD and FJELL were both involved in the transportation of a jacket and topside from their respective construction yards in Asia to the Halfdan Field in the North Sea. Both of these voyages required precise timing and detailed long-term planning. In the current situation around the Gulf of Aden, coordinating a safe and efficient passage of our vessels and the valuable cargoes we transport through the Suez Canal is another example of the wide variety of unique and constantly changing risks the Fairstar Team manages within each and every transportation project.

FAIRSTAR FLEET EXPANSION UPDATE

In May of 2010 Fairstar announced its intention to expand its fleet of true open-stern, semi-submersible heavy transport vessels. Fairstar is committed to maintaining our leadership in the marine heavy transport industry. Additional fleet capacity is essential in the coming years to satisfy the demand for the transport by sea of modules, topsides and other related components involved in the construction of multi-billion dollar energy infrastructure projects in remote locations. Fairstar gained considerable ship construction and project management experience when we converted the FJORD and FJELL in Malta. Our choice of Guangzhou Shipbuilding International (GSI) was based on their reputation for on time deliveries as well as their current experience building semi-submersible ships. The FORTE is expected to be delivered to Fairstar in May of 2012 and will immediately go to work transporting modules for the Gorgon Project under a 12-16 month contract. The recent equity placement of 25 million shares raised the necessary capital to fully fund the FORTE. Fairstar has obtained an extension from GSI for the payments relating to the FINESSE. Fairstar is considering a number of alternative funding options for the FINESSE. Fairstar will avoid issuing additional equity that does not properly reflect the future value of our Company.

Health, Environment, Safety, Security (HESS)

Fairstar believes that safety is a core human value and fundamentally relates to everything we do in the performance of our responsibilities to our employees, clients and other Fairstar Stakeholders. The nature of our business exposes our employees, assets, clients and their cargoes to extremely high levels of risk. The appropriate management of these risks as well as any environment we operate in demands a consistent and ongoing commitment to maintaining the integrity of our ships and the systems we have developed to ensure that we never compromise our commitment to the proactive management of any risk involving safety, security and environmental awareness. Fairstar continues to believe that the "Incident and Injury Free (IIF)" programme championed by Chevron will be the foundation for training all Fairstar employees to strive towards a daily standard that is incident and injury free. We are pleased to report that throughout the First Half Year, there were no injuries to Fairstar's employees. Nor was there any damage to the assets of our clients or the vessels.

Outlook

2010 will continue to be a challenging year for the Marine Heavy Transport Industry. The current spot market for low-value, large, heavy cargoes such as jack-up rigs, dredgers and equipment barges, shows no signs of recovery. There continues to be significant excess capacity of the ships competing most aggressively for this segment. Time charter rates for these ships continue to be around USD 40 thousand a day. We believe our strategy to focus on multi-voyage, high-value cargoes for complex energy infrastructure projects is the best way to capture significant and sustainable value for our shareholders.

In the last few months there has been a significant increase in tender invitations for multi-voyage energy infrastructure projects. Fairstar is actively pursuing projects similar to Gorgon, as well as a wide variety of offshore field development projects. We expect 2012 through 2016 to be a period of peak demand for marine heavy transport services. Fairstar intends to position ourselves to capture this value for our shareholders. We believe Gorgon is just the beginning. We are determined to prove that leadership in the harsh and demanding world of marine heavy transport will not be determined by size.

Financial Calendar

Third quarter 2010 results	October 20, 2010
Fourth quarter 1010 results	February 16, 2011
Annual Report 2010	March 2, 2011

Joint Management and Supervisory Board
Fairstar Heavy Transport NV
22 July 2010

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First Half Year 2010 Report

In thousands of USD unless otherwise indicated

Condensed Statement of Comprehensive Income	**Q2 2010 YTD**	Q2 2009 YTD	**Q2 2010 Periodic**	Q2 2009 Periodic
Gross revenue	19,831	25,765	7,944	17,645
Voyage-related costs	(3,927)	(8,769)	(1,328)	(6,882)
Time charter equivalent revenue	**15,904**	**16,996**	**6,616**	**10,763**
Vessel operating expenses	(3,167)	(2,582)	(1,439)	(1,509)
General and administrative expenses	(3,802)	(2,363)	(2,123)	(1,022)
Operating expenses, other than depreciation	**(6,969)**	**(4,945)**	**(3,562)**	**(2,531)**
Earnings before Interest, Tax and Depreciation (EBITDA)	**8,935**	**12,051**	**3,054**	**8,232**
Depreciation	(3,987)	(2,606)	(1,983)	(1,595)
Earnings before Interest and Tax (EBIT)	**4,948**	**9,445**	**1,072**	**6,637**
Net financing costs	(5,413)	(2,010)	(2,790)	(1,159)
Result before tax	**(465)**	**7,435**	**(1,719)**	**5,478**
Income taxes	-	-	-	-
Net Profit	**(465)**	**7,435**	**(1,719)**	**5,478**
Change in derivate financial instruments	(635)	2,031	(478)	325
Net expenses recognised directly in equity	(2,578)	(861)	(2,127)	(861)
Total recognised income and expenses	**(3,678)**	**8,605**	**(4,324)**	**4,942**
Total comprehensive income for the period	**(3,678)**	**8,605**	**(4,324)**	**4,942**
Weighted average number of ordinary shares	46,899,438	43,179,547	48,870,673	43,179,547
Diluted average number of shares issued (including options exercisable at the end of the period)	47,571,271	43,632,214	49,542,506	43,632,214
Basic earnings per share	-0.01	0.17	-0.04	0.13
Diluted earnings per share	-0.01	0.17	-0.03	0.13

Consolidated condensed balance sheet	Note	30/06/2010	31/12/2009
ASSETS			
Vessels		175,595	179,556
Office equipment, computers, cars		415	131
Non-current assets		**176,010**	**179,687**
Inventories		753	1,506
Cash and cash equivalents		32,192	28
Other current assets		2,538	9,636
Currents assets		**35,483**	**11,170**
TOTAL ASSETS		**211,493**	**190,857**
EQUITY			
Issued Capital	2	40,298	23,478
Share premium		68,054	45,019
Retained earnings		3,861	(8,497)
Other Reserves		(5,599)	(4,989)
Result for the period		(465)	12,358
Equity		**106,148**	**67,369**
LIABILITIES			
Borrowings		72,219	64,550
Non-current liabilities		**72,219**	**64,550**
Trade and other payables		5,944	18,164
Financial instruments		10,309	7,118
Current portion of debt		10,400	29,417
Bank overdraft		6,473	4,239
Current liabilities		**33,126**	**58,938**
EQUITY & LIABILITIES		**211,493**	**190,857**

Condensed Statement of Cash Flows	Note	Q2 2010 YTD	Q2 2009 YTD
Result after taxation		(465)	7,435
Share-based payments	3	25	17
Change in valuation of financial instruments		2,668	(2,665)
Depreciation and Amortisation		3,987	2,606
Cash Flows from operating activities		6,215	7,393
Changes in working capital		(4,481)	(262)
Net cash from operating activities		**1,734**	**7,131**
Net cash from investing activities		**(311)**	**(17,126)**
Issue of equity net of fees		39,855	7,213
Net Change Borrowings		(11,348)	(2,937)
Cash Flow from financing activities		**28,507**	**4,276**
Net change in cash and cash equivalents		**29,930**	**(5,719)**
Cash and cash equivalent as per opening balance		(4,211)	6,807
Cash and cash equivalents per closing balance		**25,719**	**1,088**

Changes in equity	Issued Capital	Share Premium	Retained Earnings	Other Reserves	Result for the period	Total
Opening Balance	23,478	45,019	3,861	(4,989)	-	67,369
Issue of Equity (net of fees)	16,820	23,035	-	-	-	39,855
Cash Flow hedges	-	-	-	(635)	-	(635)
Change in option reserve	-	-	-	25	-	25
Result for the period	-	-	-	-	(465)	(465)
Balance as at end of the period	**40,298**	**68,054**	**3,861**	**(5,599)**	**(465)**	**106,148**

Notes to First Half Year 2010 Report

In thousands of USD unless otherwise indicated

1 Accounting Policies

The unaudited financial report complies with International Financial Reporting Standards (IFRS) and has been prepared in accordance with IAS 34 "Interim Financial Reporting". The Interim Report should be read in conjunction with the consolidated financial statements as at 31 December 2009. The accounting policies and methods of computation applied in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2009. Preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about the carrying values of the assets and liabilities that are not readily apparent from other sources. The estimates and the underlying assumptions are reviewed on an ongoing basis.
The audited financial statements 2009 can be found on our website at www.fairstar.com.

Management hereby declares that, to the best of their knowledge, the semi-annual financial statements. which have been prepared in accordance with lAS 34 give a true and fair view of the assets, liabilities, financial position and profit or loss of Fairstar Heavy Transport NV and the undertakings included in the consolidation as a whole, and the semiannual management report includes a fair review of the information required pursuant to section 5:25d. subsections 8 and 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

2 Share Capital

The authorised share capital of the Company is EUR 205,500,000 divided into 150 million ordinary shares with a nominal value of EUR 0.46, of which 72,497,047 shares have been placed at the end of the period.

3 Share Options

As per the end of the period the Company has 878,000 employee options outstanding of which 649,500 are fully vested.

	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	885,500	6.33
Granted	-	
Forfeited	(7,500)	
Expired/ cancelled	-	
Outstanding at the end of the period	**878,000**	**6.33**

4 Capital commitments

At the end of the period the Company has capital commitments in relation to the FORTE amounting to USD 100 million which are not included in the balance sheet.

5 Related Party Transactions

The Supervisory and Management Board of the Company control 15.4% of the voting shares of the Company either directly or indirectly. No transactions were conducted during this quarter.