Fairstar

FAIRSTAR HEAVY TRANSPORT NV

BOARD OF DIRECTORS' REPORT

FOURTH QUARTER 2008

- **ENERGY EXERTER SUCCESSFULLY LOADED IN EXTREME ARCTIC CONDITIONS**
- **100% VESSEL UTILISATION IN Q4**
- **OUTSTANDING FINANCIAL PERFORMANCE IN Q4, USD 3 MILLION EBITDA**
- **FJELL NEARING COMPLETION IN MALTA**

Fairstar Heavy Transport N.V. (Fairstar) is pleased to present the Directors' report for the fourth quarter 2008.

Health, Safety and Environment

Fairstar strives to maintain high standards of safety. We always seek to ensure that the health and well-being of our personnel is consistent with the standards of our industry. We are pleased to report that in this quarter there were no incidents resulting in injury to any of our employees nor any occurrences of damage to our vessel or clients' cargoes.

Fjord above the Arctic circle

Financials

The fourth quarter of 2008 begins to show the revenue generating capacity of Fairstar. The utilisation rate of the Fjord was 100%, based on the Tombua Landana and the Energy Exerter transports.

Fairstar booked gross revenues of USD 7 million, time-charter equivalent revenues of USD 4.9 million and operating costs and G&A of USD 1.9 million. This resulted in an EBITDA profit of USD 3 million for the quarter.

For the full year 2008, the gross revenues were USD 15.6 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 3.3 million. Please see attached consolidated condensed financial statements for the period. G&A has been negatively impacted by various one-time items which total approximately USD 1.5 million.

In 2006, Fairstar entered into several interest rate swaps to protect the company from rising interest rates and to fix its interest costs. In accordance with International Financial Reporting Standards (IAS 39), these 'floating to fixed' interest rate swaps are mark-to-market through equity on the company's accounts. The unprecedented collapse of floating interest rates in the second half of 2008 has had an unforeseen accounting effect. Namely, it creates a technical breach with the covenant in our Bond Loan Agreement requiring the company to maintain an equity ratio of above 30%.

The company has notified the Loan Trustee and requested a Bondholders meeting. An amendment to the company's Bond Loan Agreement has been submitted to the Bondholders for approval. The amendment will remedy the breach by disregarding the current and future effects of any non-cash losses caused by the change in fair market value of interest rate hedges when calculating total assets and equity. This meeting will be held 19 February 2009.

Operations

The Fjord's second voyage, the transportation of the Module Support Frame and Centre Module from DSME in Korea to the Tombua Landana field offshore Angola for Heerema Marine Contractors was completed successfully.

In Korea, the modules were skidded onto the vessel in a complex loading operation. In October the Fjord left Korea bound for offshore Angola where the modules were discharged safely and without incident. The Fjord subsequently mobilised to Kirkenes Norway, above the Arctic Circle. Northern Offshore's drilling rig, Energy Exerter, was successfully loaded with outside temperatures averaging -23 degrees Celsius. The Fjord is currently on its way to Kavala, Greece.

Conversion

The conversion of the Fjell at Malta Shipyards continued to be a key priority for the company.

The third and early fourth quarter saw a significant reduction in productivity of the Malta Shipyards' workforce. This loss in productivity can be directly attributed to the announcement by the Government of Malta that Malta Shipyards would offer a redundancy scheme to its workforce in order to prepare Malta Shipyards for sale. Approximately 1600 of the yard's 1700 workers have accepted this buy-out package. The yard has retained the services of many workers who had accepted the buy-out package in a separate agreement to complete the Fjell. Productivity returned to the levels achieved prior to the early retirement announcement. Nevertheless this did have a disruptive effect on the Fjell conversion.

Malta Shipyards, through its Board of Directors, speaking on behalf of its Shareholder (Government of Malta) have confirmed to Fairstar that the funding, materials and manpower required to fulfil the obligations of Malta Shipyards under the Fjell Conversion Contract are committed. The Fjell is expected to leave Malta by the end of March 2009. Malta Shipyards had committed to finish mechanical completion of the vessel by February 1st. This has not been achieved. Malta Shipyards is now liable for liquidated damages of EUR 20 thousand per day. Fairstar is responsible for commissioning the vessel and working with DNV to obtain Class Approval. The Fairstar commissioning team is made up of Fjord veterans and Fairstar is determined to achieve the March sailaway target. On February 10th the ship was floated and exited the dry dock.

In a colourful ceremony on December 12th, Fjell was named by Mrs Heidsma, wife of the Netherlands Ambassador to Malta. Several hundred guests and shipyard workers witnessed the ceremony. Fjell was also blessed by His Grace Monsignor Paul Cremona O.P., Archbishop of Malta.

Based on the current budget, the total cost of the Fjell is estimated to be around USD 75 million, including the purchase of the barge, costs of converting the Fjell into a self-propelled vessel and excluding financing charges. As the Fjell capital expenditure is mainly settled in Euros, the final USD conversion cost will vary based on the USD/EUR exchange rate.

Fjord sailing to Kavala, Greece with Energy Exerter

Shareholders

Fairstar currently has some 300 shareholders. In this quarter, the company's share price opened the quarter at NOK 9.80 and closed at NOK 7.00.

A list of the company's largest shareholders is available on the website. The 2008 Annual Accounts will be released on 27 February 2009 and the Annual General Meeting will take place on 24 March 2009. An Extraordinary General Meeting will be held on 16 February 2009.

Equity Issue to Retire Bond

Fairstar is obliged to retire NOK 150 million in outstanding junior secured bonds on 9 October 2009. The global bond market today is unstable and illiquid. The Norwegian bond market in particular has little appetite for bond issues below investment grade. Whether or not the global capital markets situation will improve over the course of the next 9 months is impossible to predict. This uncertainty surrounding Fairstar's ability in these capital markets to refinance the bond in October 2009 may have a negative impact on Fairstar's share price. Fairstar believes that a financial strategy of "de-leveraging" our balance sheet by reducing debt will give our shareholders the benefit of the strong future cash flows expected to be produced by Fjord and Fjell. We expect this will have a positive effect on the company's valuation.

In line with this strategy, Fairstar announced, in late January, that it successfully arranged an underwritten equity issue of up to NOK 75 million. 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 priced at NOK 5 combined with a conversion of NOK 25 million of outstanding bonds into equity at a price of NOK 6 for an additional 4.1 million shares. The successful completion of this transaction will strengthen the company's balance sheet and facilitate a re-purchase of the bonds while maintaining a competitive cost of capital.

The company will hold an Extraordinary General Meeting on 16 February 2009 to approve the transaction. Fairstar will prepare a prospectus for the Offering which will be distributed to the market once it has been approved by the Oslo Stock Exchange.

Proceeds from the Offering will be used by Fairstar to retire outstanding debt obligations. When combined with cash flows generated from current contracts and the Company's banking facilities, Fairstar will have secured the liquidity necessary to redeem all of its outstanding Bonds no later than 11 October 2009.

Marketing & Sales

Early December, Fairstar entered into an agreement with Northern Offshore LLC to transport their drilling rig, "Energy Exerter" from Kirkenes, Norway to Kavala, Greece. The total contract value is approximately USD 6.5 million. The transit including loading and unloading is expected to take 65 days.

The Fairstar project pipeline is secure. Contracts worth USD 69 million have been signed for 2009, 2010 and 2011. Our current client base includes Heerema Marine Contractors, KBR, DSME, Chevron, Northern Offshore and Gazflot. Fairstar actively reviews counterparty risk. The company has no reason to believe any of its current contracts will default. These contracts will generate a utilisation rate in 2009 for the Fjord of 99%. Fjell will begin to generate revenue in Q2. Fjell is scheduled to arrive in Angola on May 20th to load various FPSO components for transport to DSME in Korea, total contract value is USD 6.6 million. Fairstar is highly confident it will achieve a time charter equivalent of USD 80 thousand per day with an 80% fleet utilisation rate in 2009.

Outlook/ Market Guidance

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. We believe the nine converted tankers now in the market represent potential excess capacity. These vessels are highly suited to transport drilling rigs. We expect the transportation costs for rig owners may fall considerably as these converted tankers compete agressively for business.

At this time we continue to believe our time charter equivalent guidance of USD 80 thousand per day at an 80% utilisation rate can be met for at least the coming 2 to 3 years.

Joint Management and Supervisory Board
Fairstar Heavy Transport NV
13 February 2009

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Fairstar Heavy Transport N.V.
Fourth Quarter 2008

In thousands USD unless otherwise indicated

Consolidated Condensed Balance Sheet	31/12/2008	31/12/2007
ASSETS		
Non-current assets	**167.539**	133.281
Current assets	**8.103**	6.366
TOTAL ASSETS	**175.642**	139.647
LIABILITIES		
Non-current liabilities	**70.950**	70.614
Current liabilities	**59.215**	11.476
Equity	**45.477**	57.557
EQUITY & LIABILITIES	**175.642**	139.647

Consolidated Income Statement	Q4 2008	Q4 2007	YTD 2008	YTD 2007
Gross revenue	**7.029**	0	**15.698**	8.280
Voyage related costs	**-2.093**	-149	**-5.632**	-2.269
Time charter equivalent revenue	**4.937**	-149	**10.066**	6.011
Other income	**0**	0	**0**	155
Vessel operating expenses	**-629**	-2.682	**-5.054**	-4.193
General and administrative expenses	**-1.259**	-1.274	**-5.254**	-3.493
Operating expenses, excluding depreciation & amortisation	**-1.887**	-3.956	**-10.308**	-7.686
EBITDA	**3.049**	-4.105	**-242**	-1.520
Depreciation	**-872**	-15	**-3.045**	-388
Operating result before financing costs	**2.177**	-4.120	**-3.287**	-1.908
Net financing costs	**-2.180**	328	**-4.476**	2.139
Result before tax	**-3**	-3.792	**-7.763**	231
Income tax	**0**	0	**0**	0
Result after tax	**-3**	-3.792	**-7.763**	231
Weighted average number of ordinary shares	**32.990.000**	32.990.000	**32.990.000**	32.990.000
Basic earnings per share	**0,00**	-0,11	**-0,24**	0,01
Diluted earnings per share	**0,00**	-0,11	**-0,24**	0,01

Consolidated Condensed Cash Flow Statement	Dec 2008 YTD	Dec 2007 YTD
Result after taxation	**-7.763**	231
Share-based payments	**392**	257
Change in valuation of derivate finanancial instruments	**120**	-413
Depreciation/Amortisation	**3.045**	388
Cash flows from operating activities	**-4.206**	463
Changes in working capital	**10.050**	7.016
Net cash from operating activities	**5.844**	7.479
Net cash from investing activities	**-37.303**	-38.077
Cash flow from financing activities	**33.356**	22.580
Net increase in cash and cash equivalents	**1.897**	-8.018
Cash and cash equivalent as per opening balance	**4.912**	12.930
Cash and cash equivalents per closing balance	**6.809**	4.912

Statement of Recognised Income and Expense	Dec 2008 YTD	Dec 2007 YTD
Result for the period	**-7.763**	231
Change in derivate financial instruments	**-4.709**	-3.487
Net expenses recognised directly in equity	**565**	0
Total recognised income and expenses for the period	**-11.907**	-3.256
Attributable to Equity holders	**-11.907**	-3.256

Fairstar Heavy Transport N.V.
Notes

Unaudited figures
This financial information has not been audited. The audited financial statements will be published on 27 February after the announced Supervisory Board meeting 24 February 2009.

Statement of compliance
The interim financial statements have been prepared in accordance with IAS34, using IFRS as endorsed in the EU and its interpretations adopted by the International Accounting Standards Board.

Condensed format
The interim financial information has been prepared in a condensed format, omitting most disclosures that are required to comply with IFRS when publishing a full set of financial statements, based on the assumption that the prior year's financial statement has been filed and that accounting principles have not been changed since then.

Equity
Statement of changes in equity

Movements in the reporting period were:	USD 1,000
Balance sheet as at 31 December 2007	57.557
Result for the period	-7.763
Changes to the hedging reserve	-4.709
Changes to share-based payments reserve	392
Balance sheet as at 31 December 2008	**45.477**

The authorised share capital of the Company is EUR 205,500,000 divided into 150 million shares of EUR 1.37, of which 32,990,000 shares have been placed.

Capital commitments
As per 31 December 2008, the Company has various contracts with total capital commitments amounting to approximately USD 8 million which are not included in the balance sheet. These capital commitments mainly relate to Fjell conversion and are financed through long term loans and future vessel income.

Non-USD currency risk and hedging
The Company has entered into a series forward contracts to hedge the NOK exposure of NOK 150 million and the interest payments.

Related parties
Transactions with management

The Supervisory and Management Board of the Company and their immediate relatives control 1.5% of the voting shares of the Company either directly or indirectly. Details are:	31-12-08
F. van Riet, chairman of supervisory board	0,155%
W. Dirkzwager, supervisory board member	0,503%
H. Verhagen, supervisory board member	0,155%
P. Adkins, management board member	0,364%
C. du Marchie Sarvaas, management board member	0,203%
W. Out, management board member	0,121%

Management and Supervisory Board remuneration	USD 1,000
Total remuneration is included in G&A (including share-based payments)	1,230

Employee benefits
In 2008, the Company granted 722,500 options while all 539,000 previously issued and outstanding options were cancelled. The options will vest in three years in three equal installments, in compliance with IFRS 2. The exercise price of the options is NOK 5.