



ZITON

Interim report 2nd quarter 2018

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Highlights of the report

Highlights of Q2 2018

- The activity level during the second quarter was at a high level. Furthermore, we executed very well on the strong pipeline of projects. We maintained a satisfactory market share in Q2 2018.
- EBITDA was a EUR 8.7m profit in Q2 2018 compared to a profit of EUR 5.6m in Q2 2017, an increase of 55%. The main reason for the increase is the high activity level.
- The weighted average utilisation rate for Q2 2018 was at 103%, substantially above the full year guidance in the range of 75-85%.
- As a consequence of the better than expected performance during the first half 2018, we increase our guidance for the full year 2018 to expectations of:
 - Weighted average utilisation rate. We expect a utilisation rate in the range of 80%-90%, compared to previous guidance in the range of 75%-85%.
 - EBITDA. We expect EBITDA to be in the range of EUR 25-28m, compared to our previous guidance of EUR 21-25m.
 - Cash flow from operating activities is defined as EBITDA less changes in working capital and financial payments. We expect cash flows from operating activities of EUR 15-18m, compared to our previous guidance of EUR 11-15m.
 - CAPEX. We expect CAPEX of up to EUR 4.0m, which is unchanged guidance.
- ZITON A/S will be considering its refinancing options during 2018.

Information in this report

The information in this interim report is submitted in accordance with the Bond Agreement on FRN ZITON A/S Senior Secured Callable Bond Issue 2016/2019 (ISIN NO 0010751332) dated 25 November 2015 between ZITON A/S and, representing the bondholders, Nordic Trustee ASA.

According to the Bond Agreement, the consolidated financial statements of ZITON A/S are prepared in accordance with IFRS with Euro as the reporting currency.

This report has not been reviewed by the company's auditors.

Disclaimer

This report may contain certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates. Although the Company believes that these assumptions were reasonable when made, the statements provided in this report are solely opinions and forecasts which are uncertain and subject to risks, contingencies and other important factors which are difficult or impossible to predict and are beyond its control. A multitude of factors can cause actual results to differ significantly from any anticipated development expressed or implied in this document. No representation is made that any of these forward-looking statements or forecasts will come to pass or that any forecast result will be achieved and you are cautioned not to place any undue reliance on any forward-looking statement.

Management Review

Market activity

The activity level during the second quarter was at a high level. Furthermore, we executed very well on a strong pipeline of projects.

We maintained a satisfactory market share in Q2 2018.

Contract developments

No new contract development took place in the second quarter. ZITON's current contracts within offshore wind O&M includes:

- A three-year charter with Siemens Gamesa Renewable Energy ("SGRE") for J/U WIND SERVER; commenced on 14 March 2016. It is expected that SGRE will enter into a tender process to cover their future requirements.
- Framework agreement with Ørsted expiring in March 2019. It is expected that Ørsted will initiate a tender process to enter into a new framework agreement.
- Framework agreement with Vattenfall that expires in November 2019.
- In addition, we entered into a framework agreement with MHI Vestas Offshore Wind in December 2014. This agreement is prolonged until one of the parties cancels the agreement.

Having contracts with four of the leading players within the offshore wind industry demonstrates the strength of ZITON's business model of providing dedicated offshore wind O&M services and having vessels available at all times to ensure reduced wind turbine down-time.

Competitive environment

The offshore wind industry is moving towards zero-subsidy for new wind farms. Consequently, it is important for suppliers to the industry, to continuously search for greater efficiencies. Therefore, consolidation among owners of jack-up vessels is expected. In July 2018 Vroon Group divested most of their MPI business. The vessel MPI Discovery and crew was sold to Jan De Nul Group. A letter of intent was signed with Van Oord regarding the vessels MPI Adventure and

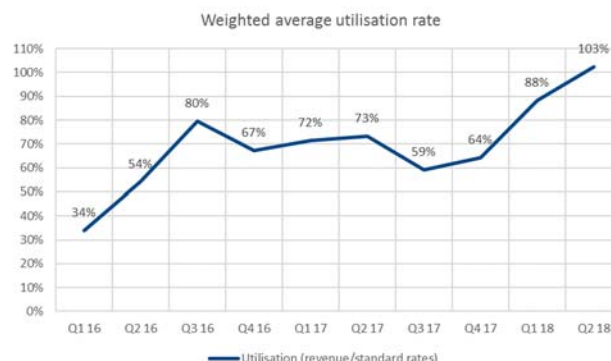
MPI Resolution including crew, as well as the MPI organisation in the UK.

ZITON operates in a satisfactory competitive environment, being the only dedicated provider of O&M services for major components replacement. All other jack-up companies have installation of new wind farms as their primary business.

Utilisation rates

The weighted average utilisation rate for Q2 2018 was at 103%, substantially above the full year guidance in the range of 75-85%.

As the framework agreements are based upon fixed prices for each major component replacement, it is possible to achieve a utilisation above 100% when projects are completed faster than expected. During the quarter we had a very strong pipeline of projects that we executed very well, resulting in the high utilisation.



Note: the weighted average utilisation rate is calculated as revenue during the quarter divided by full utilisation at standard rates of EUR 135k/day. Each vessel has a different weighting depending on its specifications.

Vessel status

J/U WIND SERVER remains on charter with Siemens Gamesa Renewable Energy, having commenced a three-year charter on 14 March 2016.

J/U WIND PIONEER and J/U WIND mainly operate on the framework agreements with Ørsted, Vattenfall and MHI Vestas Offshore Wind.

During the next five years we expect annual maintenance CAPEX of between 1-2% of acquisition value, equivalent to 2-4 MEUR. In addition, cost of five-year classing is estimated at around 2 MEUR for each vessel. Next five-year classing is planned for December 2019 for J/U WIND SERVER, June 2020 for J/U WIND PIONEER and June 2022 for J/U WIND.

Outlook for 2018

Performance during the first half 2018 was better than expected. Further, performance so far and sales pipeline for Q3 2018 is satisfactory. As a result, we increase our guidance for the full year 2018 to expectations of:

- **Weighted average utilisation rate.** We expect a utilisation rate in the range of 80%-90%, compared to previous guidance in the range of 75%-85%.
- **EBITDA.** We expect EBITDA to be in the range of EUR 25-28m, compared to our previous guidance of EUR 21-25m.
- **Cash flow from operating activities** is defined as EBITDA less changes in working capital and financial payments. We expect cash flows from operating activities of EUR 15-18m, compared to our previous guidance of EUR 11-15m.
- **CAPEX.** We expect CAPEX of up to EUR 4.0m, which is unchanged guidance.

Risks and uncertainties

ZITON A/S is exposed to various risks that may be of significance to the company's future operations, results and financial position. For a description of ZITON A/S risks, please refer to the Risk Management section on pages 38-39 and note 4.1 "Risk management" in the annual report 2017 pages 74-75. Apart from the general risks, we have identified no specific risks affecting the outlook for the financial year 2018.

Financial Review

REVIEW OF THE INCOME STATEMENT FOR Q2 2018

EUR '000	Q2 18	Q2 17	Change	YTD 18	YTD 17	Change
Revenue	12 967	9 072	3 895	24 055	17 924	6 131
OPEX and project-related expenses	-2 971	-2 408	-563	-5 662	-4 836	-826
SG&A	-1 301	-1 041	-260	-2 365	-2 502	137
EBITDA	8 695	5 623	3 072	16 028	10 586	5 442
Depreciation	-1 954	-1 980	26	-3 896	-3 937	41
EBIT	6 741	3 643	3 098	12 132	6 649	5 483
Financials, net	-3 295	-3 228	-67	-6 571	-6 559	-12
Income before tax	3 446	415	3 031	5 561	90	5 471
Key ratios						
EBITDA margin	67.1%	62.0%	5.1%	66.6%	59.1%	7.6%

Review of income statement for Q2 2018

The fully consolidated results for ZITON shows net revenue for Q2 2018 of EUR 13.0m compared to EUR 9.1m in Q2 2017. The main reason for the increase in revenue is solid execution of the strong pipeline of projects.

Vessel OPEX and project related costs increased to EUR 3.0m in Q2 2018 from EUR 2.4m in Q2 2017. The main reason for the cost increase is the high activity level during the quarter.

SG&A expenses amounted to EUR 1.3m in Q2 2018 an increase compared to EUR 1.0m Q2 2017. The cost increase is mainly related to execution of strategic projects.

EBITDA was a EUR 8.7m profit in Q2 2018 compared to a profit of EUR 5.6m in Q2 2017. The main reason for the increase in EBITDA is the high activity level.

The illustration below shows the development in EBITDA since begin 2016.



Depreciation charges of EUR 2.0m in Q2 2018 were, more or less, unchanged compared to Q2 2017.

EBIT was a EUR 6.7m profit in Q2 2018 compared to a profit of EUR 3.6m in Q2 2017. The main reason for the increase in EBIT is the high activity level.

Financials, net at EUR -3.3m in Q2 2018 was, more or less, unchanged compared to Q2 2017.

Income before tax was a EUR 3.4m profit in Q2 2018 compared to a EUR 0.4m profit in Q2 2017.

Review of income statement 1st half 2018

The fully consolidated results for ZITON shows net revenue for 1H 2018 of EUR 24.1m compared to EUR 17.9m in 1H 2017, an increase of 34%. The main reason for the increase in revenue is solid execution of the strong pipeline of projects.

Vessel OPEX and project related costs increased to EUR 5.7m in 1H 2018 from EUR 4.8m in 1H 2017. The main reason for the cost increase is the high activity level, as well as expenses related to a decommissioning project.

SG&A expenses amounted to EUR 2.4m in 1H 2018 slight a reduction compared to EUR 2.5m 1H 2017.

EBITDA was a EUR 16.0m profit in 1H 2018 compared to a profit of EUR 10.6m in 1H 2017, an

improvement of 51%. The main reason for the increase in EBITDA is the improved activity level.

Depreciation charges of EUR 3.9m in 1H 2018 were, more or less, unchanged compared to 1H 2017.

EBIT was a EUR 12.1m profit in 1H 2018 compared to a profit of EUR 6.6m in 1H 2017. The main reason for the increase in EBIT is the improved activity level.

Financials, net at EUR -6.6m in 1H 2018 was, more or less, unchanged compared to 1H 2017.

Income before tax was a EUR 5.6m profit in 1H 2018 compared to a EUR 0.1m profit in 1H 2017.

REVIEW OF BALANCE SHEET AT THE END OF Q2 2018

<i>EUR '000</i>	Q2 18	Q2 17	Change	Q2 18	Q4 17	Change
Assets						
Vessel, including fixtures & equipment	150 800	158 482	-7 682	150 800	154 517	-3 717
Other non-current assets	6 147	6 103	44	6 147	6 494	-347
Non-current assets	156 947	164 585	-7 638	156 947	161 011	-4 064
Trade and other receivables	9 788	4 319	5 469	9 788	3 967	5 821
Cash and cash equivalents	5 773	1 824	3 949	5 773	2 753	3 020
Current assets	15 561	6 143	9 418	15 561	6 720	8 841
Total assets	172 508	170 728	1 780	172 508	167 731	4 777
Equity and Liabilities						
Equity	37 592	36 011	1 581	37 592	33 843	3 749
Subordinated loans	37 663	34 305	3 358	37 663	35 560	2 103
Bond loans	88 206	93 639	-5 433	88 206	90 923	-2 717
Bank loans and lease liabilities	286	226	60	286	165	121
Other liabilities	8 761	6 547	2 214	8 761	7 240	1 521
Total liabilities	134 916	134 717	199	134 916	133 888	1 028
Total equity and liabilities	172 508	170 728	1 780	172 508	167 731	4 777
Key ratios						
Subordinated capital ratio	43.6%	41.2%	2.4%	43.6%	41.4%	2.2%
NIBD (adjusted for capitalised financing costs)	83 513	93 402	-9 889	83 513	89 412	-5 899
Loan to Vessel ratio (NIBD/Vessel book value)	55.4%	58.9%	-3.6%	55.4%	57.9%	-2.5%

Review of balance end of Q2 2018

The total value of the vessels amounted to EUR 150.8m at the end of Q2 2018. This compares to EUR 158.5m at the end of Q2 2017, and EUR 154.5m at the end of Q4 2017. The reduced value is due to depreciation of the vessels.

Trade and other receivables amounted to EUR 9.8m at the end of Q2 2018 compared to EUR 4.3m at the end of Q2 2017, and EUR 4.0m at the end of Q4 2017. The increase in receivables is mainly a consequence of high activity level towards the end of the quarter, for customers with extended payments terms. As a result, we expect to importantly improve "Cash and cash equivalents" to around 10 MEUR at the end of Q3 2018.

Total equity increased to EUR 37.6m at the end of Q2 2018, as compared to EUR 36.0m at the end of Q2 2017, and EUR 33.8m at the end of Q4 2017. The higher equity is a result of positive earnings during the period.

The subordinated capital ratio (defined as total equity plus subordinated capital divided by total assets) at end of Q2 2018 was 43.6%. This is higher than 41.2% end of Q2 2017, and 41.4% at the end of Q4 2017. The subordinated capital ratio has a safe margin relative to the company's only financial covenant, which requires a subordinated capital ratio of 34.0% or higher, at the end of Q2 2018.

Senior Net Interest-Bearing Debt (NIBD) amounted to EUR 83.5m at the end of Q2 2018. This is lower than EUR 93.4m end of Q2 2017. Hence, the senior Loan to Vessel value stood at 55.4% at the end of the period.

REVIEW OF STATEMENT OF CASH FLOWS FOR Q2 2018

<i>EUR '000</i>	Q2 18	Q2 17	Change	YTD 18	YTD 17	Change
EBITDA	8 695	5 623	3 072	16 028	10 586	5 442
Working capital adjustments	-2 888	1 429	-4 317	-5 360	-513	-4 847
Financial payments, net	-1 976	-2 119	143	-4 010	-4 314	304
Other adjustments	184	214	-30	-439	196	-635
Net cash flows from operating activities	4 015	5 147	-1 132	6 219	5 955	264
Investing activities	-303	-449	146	-337	-1 023	686
Net cash flows after investing activities	3 712	4 698	-986	5 882	4 932	950
Financing activities	-3 001	-2 500	-501	-3 001	-2 500	-501
Net cash flows after financing activities	711	2 198	-1 487	2 881	2 432	449
Available liquidity						
Cash and cash equivalents	5 773	1 824	3 949			
Cash on retention account	1 200	1 203	-3			
Liquidity	4 573	621	3 952			
Available draw on working capital facility	6 570	6 664	-94			
Available liquidity	11 143	7 285	3 858			

Cash flows from operating activities was positive of EUR 4.0m in Q2 2018 as result of positive EBITDA of EUR 8.7m that was partly counterbalanced by financial payments and working capital adjustments. The working capital adjustments are mainly a consequence of high activity level towards the end of the quarter.

Investing activities was at a very low level of EUR 0.3m during Q2 2018.

Available liquidity including available draw on working capital facility amounted to EUR 11.1m at the end of Q2 2018. This is EUR 3.8m higher than at the end of Q2 2017, mainly due to positive operating cash flows during the period.

Consolidated financial statements for ZITON A/S

INCOME STATEMENT

<i>EUR '000</i>	Note	Q2 18	Q2 17	YTD 18	YTD 17
Revenue	2	12 967	9 072	24 055	17 924
Project-related expenses		-577	-260	-1 405	-866
Operating expenses		-2 394	-2 148	-4 257	-3 970
Gross profit		9 996	6 664	18 393	13 088
Administrative expenses		-510	-322	-822	-1 129
Staff costs, office staff		-791	-719	-1 543	-1 373
EBITDA		8 695	5 623	16 028	10 586
Depreciation and amortisation		-1 954	-1 980	-3 896	-3 937
EBIT		6 741	3 643	12 132	6 649
Financial income		-	25	-	-
Financial expenses		-3 295	-3 253	-6 571	-6 559
Income before tax		3 446	415	5 561	90
Tax on profit (loss)		-1 300	-685	-1 815	-939
Income for the year		2 146	-270	3 746	-849
<i>Attributable to:</i>					
Owners of ZITON A/S		1 292	-990	2 052	-2 290
Non-controlling interests		854	720	1 694	1 441
Income for the year		2 146	-270	3 746	-849

STATEMENT OF COMPREHENSIVE INCOME

<i>EUR '000</i>	Note	Q2 18	Q2 17	YTD 18	YTD 17
Income for the year		2 146	-270	3 746	-849
<i>Items that will be reclassified subsequently to the income statement when specific conditions are met:</i>					
Exchange adjustments of foreign entities, net of tax		-12	-6	4	34
Total comprehensive income for the year, after tax		2 134	-276	3 750	-815
<i>Attributable to:</i>					
Owners of ZITON A/S		1 281	-996	2 056	-2 256
Non-controlling interests		854	719	1 694	1 441
Total comprehensive income for the year, after tax		2 134	-276	3 750	-815

BALANCE SHEET
EUR '000

		Q2 18	Q4 17	Q2 17
Assets				
Non-current assets				
Vessels, including fixtures & equipment	3	150 800	154 517	158 482
Intangible assets		97	105	46
Financial assets		6 050	6 055	6 057
Deferred tax assets		-	334	-
Non-current assets		156 947	161 011	164 585
Current assets				
Inventories		41	39	-
Trade and other receivables		9 747	3 928	4 319
Cash and cash equivalents		5 773	2 753	1 824
Current assets		15 561	6 720	6 143
Total assets		172 508	167 731	170 728
Equity and Liabilities				
Equity				
Share capital		11 093	11 093	11 093
Reserves		193	189	222
Retained earnings		5 569	3 517	7 548
Total equity attributable to owners of ZITON A/S		16 855	14 799	18 863
Non-controlling interests		20 737	19 044	17 148
Total equity		37 592	33 843	36 011
Liabilities				
Non-current liabilities				
Subordinated loans		37 663	35 560	34 305
Bank and bond loans		82 916	85 596	88 203
Deferred income tax liabilities		5 627	4 029	3 491
Provision for other liabilities		-	-	-
Total non-current liabilities		126 206	125 185	125 999
Current liabilities				
Bank and bond loans		5 576	5 492	5 662
Trade and other payables		2 152	2 008	2 229
Provision for other liabilities		982	1 203	827
Total current liabilities		8 710	8 703	8 718
Total liabilities		134 916	133 888	134 717
Total equity and liabilities		172 508	167 731	170 728

STATEMENT OF CASH FLOWS

<i>EUR '000</i>	Note	Q2 18	Q2 17	YTD 18	YTD 17
Income before tax		3 446	415	5 561	90
<i>Operating activities</i>					
<i>Adjustments for non-cash items</i>					
Reversal financial expenses, net		3 242	3 227	6 503	6 559
Depreciation and writedowns for the period		1 954	1 980	3 896	3 937
Other adjustments		237	215	-371	196
<i>Working capital adjustments</i>					
Change in trade receivables		-3 128	1 397	-5 589	130
Change in inventories		-8	-	-3	-
Change in trade payables		248	32	232	-643
<i>Financial payments</i>					
Financial receipts		-	-	-	-
Financial payments		-1 976	-2 119	-4 010	-4 314
<i>Income tax expense</i>					
Income tax expense		-	-	-	-
Net cash flows from operating activities		4 015	5 147	6 219	5 955
<i>Investing activities</i>					
Purchase of vessel, including fixtures & equipment (excl. interest)		-303	-449	-337	-1 023
Other cash flows from investing activities		-	-	-	-
Net cash used in investing activities		-303	-449	-337	-1 023
<i>Financing activities</i>					
Proceeds from issuance of ordinary shares		-	-	-	-
Proceeds from bank and bond loans		-	-	-	-
Change of subordinated loans		-	-	-	-
Repayment of debt to bank and bond holders		-3 001	-2 500	-3 001	-2 500
Net cash used/received in financing activities		-3 001	-2 500	-3 001	-2 500
Net (decrease)/increase in cash and cash equivalents		711	2 198	2 881	2 432
Cash and cash equivalents at beginning of period		4 924	-436	2 753	-670
Exchange gains/losses on cash and cash equivalents		-1	-	-	-
Cash and cash equivalents at end of period*		5 634	1 762	5 634	1 762

* Cash and cash equivalents in the cash flow statement include drawings on working capital facility

STATEMENT OF CHANGES IN EQUITY

YTD 18 <i>EUR '000</i>	Share capital	Attributable to owners of ZITON A/S				Total	Non-controlling interests	Total equity
		Reserve for warrants	Translation reserves	Total reserves	Retained earnings			
Balance at 31 December 2017	11 093	143	46	189	3 517	14 799	19 044	33 843
Total comprehensive income, after tax	-	-	4	4	2 052	2 056	1 694	3 750
Balance at YTD	11 093	143	50	193	5 569	16 855	20 738	37 593

Share capital

In 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

Reserves

Reserves on equity consist of the following:

Reserve for warrants consists of warrants to management, selected employees and the subordinated loan provider.

The translation reserve comprises foreign exchange differences arising on translation of financial statements of entities that have a functional currency different from DKK and translation from the functional currency to the presentation currency.

YTD 17 <i>EUR '000</i>	Share capital	Attributable to owners of ZITON A/S				Total	Non-controlling interests	Total equity
		Reserve for warrants	Translation reserves	Total reserves	Retained earnings			
Balance at 31 December 2016	11 093	143	45	188	9 838	21 119	15 707	36 826
Total comprehensive income, after tax	-	-	34	34	-2 290	-2 256	1 441	-815
Balance at YTD	11 093	143	79	222	7 548	18 863	17 148	36 011

Share capital

In 2017, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

Note 1 – Total Comprehensive Income by Quarter

Income statement by quarter EUR '000	Q2 18	Q1 18	Q4 17	Q3 17	Q2 17
Revenue	12 967	11 088	7 950	7 353	9 072
Project-related expenses	-577	-828	-353	-61	-260
Operating expenses	-2 394	-1 863	-2 368	-1 834	-2 148
Gross profit	9 996	8 397	5 229	5 458	6 664
Administrative expenses	-510	-312	-180	-389	-322
Staff costs, office staff	-791	-752	-756	-689	-719
EBITDA	8 695	7 333	4 293	4 380	5 623
Depreciation	-1 954	-1 942	-1 996	-1 997	-1 980
EBIT	6 741	5 391	2 297	2 383	3 643
Financial income	-	-	-	-	25
Financial expenses	-3 295	-3 276	-3 306	-3 302	-3 253
Income before tax	3 446	2 115	-1 009	-919	415

Note 2 - Segment reporting

The internal reporting framework used for reporting on revenue and expenses to the Executive Management Team and the Board of Directors has been set up to reflect and report on jack-up vessel revenue and expenses. As all three jack-up vessels operate on similar assignments, management reviews the results of the Group as a whole to assess performance. Thus, there is only one operating segment.

Revenue

The Group operates in northern Europe. The geographical distribution of revenue is based on the country in which the wind farm is located.

Geographical distribution of revenue EUR '000	Q2 18	Q2 17	YTD 18	YTD 17
Denmark	7 580	6 431	16 329	6 850
Sweden	587	-	587	-
UK	4 249	2 465	5 687	10 468
Germany	316	-	516	-
Holland	-	176	701	606
Belgium	235	-	235	-
Total	12 967	9 072	24 055	17 924

Sales to the two largest customers (above 10% of total revenue) make up 50% and 22%, respectively, of total revenue for YTD 2018 (YTD 2017: Top two were 66% and 12%, respectively).

Note 3 - Vessels and equipment

YTD 18			
<i>EUR '000</i>	Fixtures & equipment	Vessels	Total
Cost at 1 January	776	184 296	185 072
Exchange rate adjustments	-1	-81	-82
Additions	134	203	337
Disposals	-	-101	-101
Cost YTD	909	184 317	185 226
Depreciation at 1 January	-195	-30 360	-30 555
Exchange rate adjustments	-	16	16
Depreciation	-70	-3 817	-3 887
Disposals	-	-	-
Depreciation YTD	-265	-34 161	-34 426
Impairment losses at 1 January	-	-	-
Impairment losses YTD	-	-	-
Carrying amount YTD	644	150 156	150 800
- of which capitalised interests		17 388	17 388

YTD 17			
<i>EUR '000</i>	Fixtures & equipment	Vessels	Total
Cost at 1 January	693	183 395	184 088
Exchange rate adjustments	-	-30	-30
Additions	266	909	1 175
Disposals	-94	-	-94
Cost YTD	865	184 274	185 139
Depreciation at 1 January	-318	-22 458	-22 776
Exchange rate adjustments	-	5	5
Depreciation	-84	-3 853	-3 937
Disposals	50	-	50
Depreciation YTD	-352	-26 306	-26 658
Impairment losses at 1 January	-	-	-
Impairment losses YTD	-	-	-
Carrying amount YTD	513	157 968	158 481
- of which capitalised interests		17 742	17 742

Impairment of vessels

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount – measured using the higher of the fair value less cost to sell and value in use. An impairment loss is recognised if the higher of the fair value less cost to sell and value in use is less than the carrying amount of the assets.

The value in use is calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives. This includes any concluded framework agreements and signed charters and by using estimated utilisation and average day rates for the "open charter periods".

- The estimated utilisation is based on projected future installation of offshore turbines, the average rate which a turbine needs assistance from a jack-up vessel in the turbine's lifetime and ZITON's expected market share.
- Average day rates are based on either already signed framework agreement or historical prices.

Hence, the exact value used to measure impairment charges is subject to certain uncertainty and is based on what the company believes is the best estimate of the fair value. The budget used for impairment test is based on a five-year period, including a terminal period.

Management's assessment of indication of impairment on vessels is based on the cash-generating unit (CGU) in which all jack-up vessels are included (jack-up vessel operating segment).

An impairment test is carried out based on value in use. The impairment test is performed by estimating the recoverable amount at value in use calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives and a determined WACC of 8.1% and a growth rate in the terminal period of 0%.

The value in use was estimated to be materially higher than the carrying amount of EUR 150,156k

Management assesses that the long-term value at the close of the financial period exceeds the carrying amounts, and accordingly, there is no indication of impairment.

Note 4 - Commitments and contingencies

Since the end of 2017, no significant changes have occurred to contingent assets and liabilities other than those referred to in the annual report for 2017. The performance guarantee of EUR 1,732k for a decommissioning project in United Kingdom has been cancelled as the project was successfully completed. The performance guarantee to Siemens, amounts to EUR 1,777k end of the Q2 18 (end 2017: EUR 2,961k).

Note 5 - Related party transactions

No significant changes have occurred to related parties or types and scale of transactions with these parties other than what is disclosed in the annual report for 2017.

Note 6 - Subsequent events

Other than the developments disclosed in the review, no significant events have occurred between the end of the quarter and publication of this interim report which materially affect the results for the period or the financial position.

Note 7 – Basis of reporting

Accounting policies

Basis of consolidation

The interim report has been prepared in accordance with the international financial reporting standard IAS 34 on interim reports. No interim report has been prepared for the parent company (ZITON A/S).

The accounting policies adopted in the preparation of the interim report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The adoption did not effect recognition and measurement as disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim report of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other

standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. As presented in our annual report of 31 December 2017, the we applied the five-step model framework on our current revenue streams and did not identify any significant effect on recognition and measurement. The Group adopted IFRS 15 using the modified retrospective method of adoption, for contracts that were not completed at 31 December 2017. At 31 December 2017 only two contracts were not completed, it was the ongoing charter with J/U WIND SERVER and a project comprising of two interventions, were only one intervention was completed before 31 December 2017. As mentioned above there are no changes in recognising the revenue between the old revenue standards and the new IFRS 15, hence there are no monetary effect in adopting IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of IFRS 9, does not have an effect on the recognition, measurement and disclosure on the interim report.

For a complete description of accounting policies, please refer to the pages 61-63 in the annual report 2017.

Risks

We have identified no specific risks affecting the outlook for the remainder of the financial year 2018. For a description of ZITON A/S risks, please refer to the Risk Management section on pages 38-39 and note 4.1 "Risk management" in the consolidated annual report 2017 pages 74-75.

Management statement

The Board of Directors and Executive Management have considered and approved the interim report for ZITON A/S for the second of 2018. The interim report has not been audited or reviewed by the company's independent auditor.

The interim report for the second quarter of 2018 has been prepared in accordance with IAS 34, and disclosure requirements for issuers of bonds listed on the Oslo Stock Exchange.

In our opinion the interim report gives a true and fair view of the ZITON's assets, liabilities, and financial position at 30 June 2018, and of the results of the ZITON's operations and cash flow for the second quarter of 2018.

We further consider that the Management review gives a true and fair view of the development in the ZITON's activities and business, the results for the period and the ZITON's financial position as a whole, and a description of the most significant risks and uncertainties to which the ZITON is subject.

Horsens, 23 August 2018

Executive Management

Thorsten Jalk
CEO

Board of Directors

Vagn Lehd Møller
Chairman

Ove Carsten Eriksen

Esben Bay Jørgensen

Lars Thorsgaard Jensen

Niels Ørskov Christensen

Morten Melin

Financial calendar 2018

Interim report Q3 2018 - 15 November 2018

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