ZITON

Can do. Will do.

ANNUAL REPORT 2019

COMPANY
ZITON A/S
Bygholm Søpark 21E
8700 Horsens
Denmark

WEBSITE
www.ziton.eu

PRODUCTION
OTW A/S

J/U WIND PIONEER
at quay in Esbjerg harbour.

TABLE OF CONTENTS

ABOUT ZITON

THE OFFSHORE WIND INDUSTRY AND O&M SERVICES

STRATEGIC DIRECTION

BUSINESS PERFORMANCE

FINANCIAL STATEMENTS AND FINANCIAL REVIEW

ZITON
AT A GLANCE

ZITON is the market-leading service provider within offshore wind operations & maintenance. ZITON has carried out more than 900 service interventions at 54 wind farms across 7 countries.

ZITON's business arises from owning and operating jack-up vessels designed to carry out O&M services on turbines at offshore wind farms. In recent years, the business model has evolved to include full-service and turnkey solutions.

ZITON provides full-service solutions with maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to jack-ups manned by experienced crews. Full-service solutions are provided for major component replacements, including gearboxes, blades, generators, transformers, main bearings, main shafts etc.

ZITON also offers turnkey solutions for blade campaigns. In addition to full-service solutions, this also includes blade repair and upgrades as well as facilities that meet the requirements for temperature and humidity, among other things.

ZITON also offers turnkey solutions for decommissioning. In addition to a full-service solution, this also includes cutting, recycling of waste materials, seabed inspections and other services.

Our customers are leading wind turbine manufacturers and wind farm owners.

ZITON operates a fleet of dedicated O&M jack-ups that provides us with the flexibility and versatility to operate at almost every offshore wind farm in northern Europe, from 2.0 MW to over 10.0 MW. The fleet consist of the following vessels:

- J/U WIND ENTERPRISE has been bareboat chartered from 28 May 2019 to end March 2021. ZITON has an option to acquire the vessel. With the addition of J/U WIND ENTERPRISE to the fleet, ZITON can service customers on 6+ MW platforms;
- J/U WIND SERVER is the first jack-up vessel purpose built to provide offshore wind operations & maintenance services;
- J/U WIND PIONEER is a converted jack-up vessel adapted to the offshore wind industry, and;
- J/U WIND has the longest proven track-record in the industry in terms of major component replacements.

ZITON has about 130 employees, is headquartered in Horsens, Denmark, and has subsidiaries in Germany, the UK and China.

FOUR MAIN PHASES OF AN OFFSHORE WIND FARM

Orange shading indicates services provided by ZITON.

	SURVEY AND DEVELOPMENT (typically 2-5 years)		CONSTRUCTION (around 2 years)		O&M (20-25 years)		DECOMMISSIONING (1-2 years)	
SERVICES	Environmental survey	Geophysical survey	Turbine foundation installation	Substation and cable installation	Remote monitoring	Major component replacement	Turbine foundation decom-missioning	Met mast decom-missioning
	Geotechnical survey	Installation of met mast	Turbine installation	Installation support	O&M routines	Blade repair	Turbine decom-missioning	Substation decom-missioning

ZITON provides jack-up services for replacement of the major components shown in the illustration.

HIGHLIGHTS **OF THE YEAR**

ZITON CEO Thorsten Jalk comments on the performance of 2019 and the outlook for the coming year.

Q&A

Q: What were the main achievements of 2019?
A: In 2019, we finally managed to expand our fleet. We are very excited to have bareboat chartered J/U WIND ENTERPRISE. The vessel fits nicely with the rest of our current fleet of dedicated O&M jack-ups. We can now operate almost at every offshore wind farm in northern Europe, from 2.0 MW to over 10.0 MW.

Our current fleet of vessels enables us to provide the vessel that is the best fit for any specific assignment, and as smaller vessels consume less bunker fuel, we believe we can offer the lowest carbon footprint in the industry.

We have taken learnings from the West of Duddon Sands ("WoDS") blade campaign. It has been a really expensive lesson, but we are now in a much stronger position to successfully carry out future blade campaigns and to manage the risks inherent to such projects.

Q: What drove the company's performance in 2019?
A: 2019 was clearly a year of transition for ZITON. The steady income for J/U WIND SERVER from the three-year charter with Siemens Gamesa Renewable Energy ended. This contract was replaced by the WoDS blade campaign. Initially, we were thrilled to win this contract, as it was the culmination of our strategic focus on blade campaigns and value-added services including the ability to provide technicians through ZITON Contractors. Unfortunately, the WoDS blade campaign

Thorsten Jalk, CEO, ZITON.

started up three months later than we expected, and when it began our efficiency turned out to be much lower than we had expected. Even though we strengthened the project management on the blade campaign, our learning curve was steeper than expected. When we finally got the project streamlined, we were hit by weather conditions that were among the worst seen in the past 10 years. This lasted into the beginning of 2020, but we feel the worst is now behind us on this project.

J/U WIND and J/U WIND PIONEER both had a tremendous year in 2018, which unfortunately we were not able to repeat in 2019. In 2018, we had a strong pipeline of other projects to complement major component replacements in our framework agreements. We strive to significantly improve performance from these two vessels again in 2020.

We bareboat charted J/U WIND ENTERPRISE at the end of May 2019. Unfortunately, we did not have the vessel in operation until early August 2019 because it was necessary to extend its crane boom to reach the 6+ MW turbines at the most challenging locations. From that point on, however, we saw strong demand for the vessel and it clearly fills a void in the market for dedicated service vessels for 6+ MW turbines.

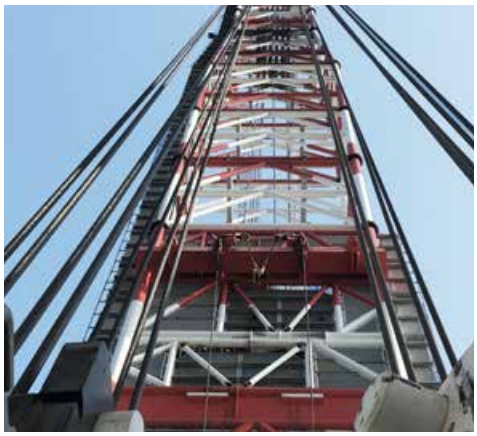
Q: How do you see the outlook for 2020?
A: The first two months of 2020 started out terribly. The weather was much worse than expected, not just at the WoDS wind farm, but actually across Europe. Furthermore, there were not as many turbine breakdowns during January and February as expected, but since then our performance has improved strongly. We are working very hard every day to show that the poor 2019 performance was a one-off event and that our future performance will be much better.

J/U WIND ENTERPRISE

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 100.0 m
Width, overall: 40.0 m
Hull depth: 8.0 m
Pre-drive capacity, active: 6,750 t/leg
Elevating speed: 0.7 m/minute
Transit speed: Approx. 6 knots
Accommodation: 28 single cabins for charterer and 20 single cabins for crew
Ownership: Bareboat chartered until end of March 2021 with an option to acquire the vessel



CARGO CAPACITY

Payload: 4,500 t
Main deck area: Approx. 2,850 m²

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 35000
Main crane boom length: 102 m
Main crane max. lifting capacity: 800 t at 25 m radius at 116 m height above deck

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)
Endurance: 21 days
Jacking operations - wave height: 2 m
Jacking operations - wind: 15 m/s
Jacking operations - tidal current: Up to 1.2 kn.
Jacking operations - max. depth: Up to 48m

J/U WIND SERVER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 79.6 m
Width, overall: 32.3 m
Hull depth: 7.4 m
Pre-drive capacity, active: 2,700 t/leg
Elevating speed: 1.0 m/minute
Transit speed: Approx. 9 knots
Accommodation: 24 single cabins for charterer and 15 single cabins for crew
Ownership: Owned since 2014

CARGO CAPACITY

Payload: 1,500 t
Main deck area: Approx. 1,000 m^2

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 14000
Main crane boom length: 87 m
Main crane max. lifting capacity: 400 t at 20 m radius at 96 m height above deck

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)
Endurance: 30 days
Jacking operations - wave height: Up to 2.6 m
Jacking operations - wind: Up to 15 m/s
Jacking operations - tidal current: Up to 3 kn.
Jacking operations - max. depth: Up to 45 m

J/U WIND PIONEER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 56.0 m
Width, overall: 28.0 m
Hull depth: 4.5 m
Pre-drive capacity, active: 1,200 t/leg
Elevating speed: 0.5 m/minute
Transit speed: 5 knots (towed)
Accommodation: 22 single cabins for charterer and 12 single cabins for crew
Ownership: Owned since 2012

CARGO CAPACITY

Payload: 650 t
Main deck area: Approx. 530 m²

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 7500
Main crane boom length: 78 m
Main crane max. lifting capacity: 150 t at 19 m radius at 78 m height above deck

OPERATING CONDITIONS

Service: R2 (as per DNV rules)
Endurance: 30 days
Jacking operations - wave height: Up to 1.35 m
Jacking operations - wind: Up to 14 m/s
Jacking operations - tidal current: Up to 2.5 kn.
Jacking operations - max. depth: Up to 34 m

J/U WIND

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 55.1 m
Width, overall: 18.1 m
Hull depth: 4.0 m
Pre-drive capacity, active: 600 t/leg
Elevating speed: 0.7 m/minute
Transit speed: Approx. 6 knots
Accommodation: 20 single cabins for charterer and 11 single cabins for crew
Ownership: Owned since 2006

CARGO CAPACITY

Payload: 220 t
Main deck area: Approx. 430 m^2

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr LTR 11200
Main crane boom length: 28-110 m (telescopic)
Main crane max. lifting capacity: 30 t at 30 m radius at 100 m height above deck

OPERATING CONDITIONS

Service: Weather restricted, site specific
Endurance: 30 days
Jacking operations - wave height: Up to 0.75 m
Jacking operations - wind: Up to 10 m/s
Jacking operations - tidal current: Up to 1 kn.
Jacking operations - max. depth: Up to 35 m

MANAGEMENT AND BOARD

ZITON's governance structure aims to support the Company's strategic development and long-term value creation.

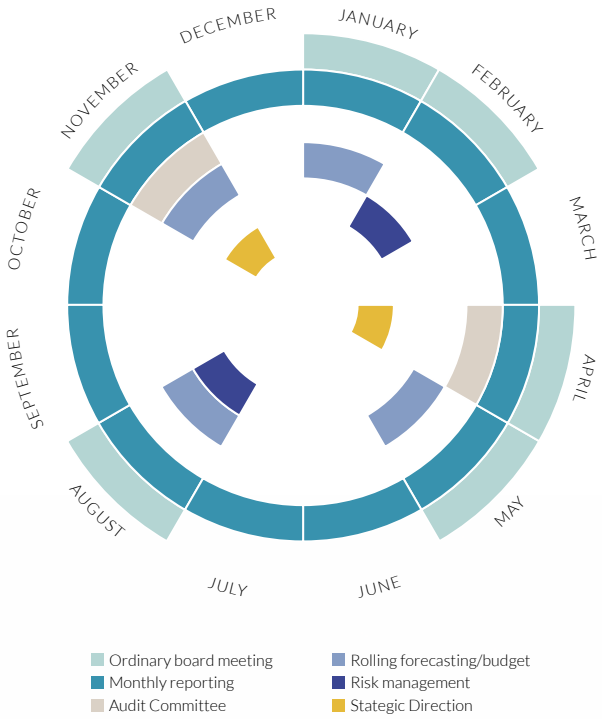
RESPONSIBILITIES OF THE BOARD

Pursuant to Danish legislation, ZITON has a two-tier management structure consisting of the Board of Directors and the Executive Management team, with no one individual being a member of both. The division of responsibilities between the Board of Directors and the Executive Management team is outlined in the Rules of Procedure for the Board of Directors.

In 2019, the Board of Directors held a total of seven board meetings. The board meeting attendance rate was at 90% in 2019, which was lower than in prior years.

	2016	2017	2018	2019
Board meeting attendance rate *(number of board meetings attended / number of board meetings * 100)*	96%	97%	97%	90%

The Board of Directors has established an audit committee consisting of the entire Board of Directors. The Audit Committee held two meetings in 2019. The annual cycle of board meetings, illustrated to the right, ensures that the Board regularly reviews all topics relating to strategic development, risk management, operational and financial performance and compliance.



RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Board of Directors has the overall responsibility for ZITON's control environment. The Audit Committee is responsible for monitoring on an ongoing basis the internal control and risk management systems related to the financial reporting process. The Board of Directors approves the overall policies and procedures in key areas of financial reporting. ZITON has implemented formalised processes for its internal and external financial reporting.

DIVERSITY IN MANAGEMENT

ZITON's Articles of Association require the Board of Directors to have from three to six members elected by the shareholders at an annual general meeting. Currently, the Board has six members, all elected for terms of one year. ZITON aims to employ the best candidates, and a candidate's qualifications must therefore always be the decisive factor in external and internal recruitment processes. Nominations for the Board of Directors are based on an evaluation of factors such as competences, diversity, independence and prior performance.

ZITON recognises the value of diversity, including gender-related diversity. The Board of Directors has set target figures for the representation of the underrepresented gender on the Board of Directors and has drawn up a policy for increasing the representation of the underrepresented gender at other management levels. The target is for an increase from 0% (0 out of 6) to 33% (2 out of 6). The measurement period runs from the annual general meeting held in April 2017 to the annual general meeting to be held in April 2020. The Board of Directors had a strong focus in 2019 on the execution of the West of Duddon Sands blade campaign and securing the liquidity required for running the business. As a result, continuity on the Board of Directors was considered essential, which led to a reduced effort to nominate candidates from the underrepresented gender in 2019. Consequently, the Board of Directors has resolved to maintain the target of increasing the underrepresented gender to 2 out of 6 board members no later than at the board meeting to be held in April 2022.

It is our ambition at ZITON to increase diversity at all management levels by providing equal opportunities for men and women. ZITON sets targets for gender diversity at all management levels and seeks to have both genders represented as candidates in all recruitment processes. ZITON has not succeeded in increasing the proportion of women at management levels. We believe this is due to the general employment patterns in the offshore wind and shipping industries, where men are generally overrepresented.

	2016	2017	2018	2019
Diversity at Board of Directors level *(Board members of underrepresented gender to board members)*	0 of 5	0 of 6	0 of 6	0 of 6
Diversity at management level *(Managers of underrepresented gender to total managers)*	0 of 5	0 of 5	0 of 5	0 of 5
Diversity at officer level *(Officers of underrepresented gender to total officers)*	0 of 48	0 of 52	0 of 53	0 of 62

Thruster raised during jacking at J/U WIND PIONEER.

EXECUTIVE MANAGEMENT TEAM

THORSTEN JALK
Chief Executive Officer
Appointed CEO in 2011
Born 1967

Mr Jalk has 20 years of experience from the offshore wind industry and held numerous high-level positions prior to being appointed CEO of ZITON A/S.
Previous engagements: Mr Jalk has experience from being an owner and senior consultant with WayPoint Consult ApS in Denmark. During the period from 2000 to 2011, Mr Jalk worked for A2SEA A/S where he held the following positions: Head of Service Solutions, Director of Marine Operations and Logistics Manager. Mr Jalk served in the Danish armed forces from 1987 to 2000.
Educational background: Master of Transport and Maritime Management (MTMM) from the University of Southern Denmark, 2010. In addition, Mr Jalk has completed the Executive Management Programme at INSEAD, 2016.

JENS MICHAEL HAURUM
Chief Financial Officer
Appointed CFO in April 2015
Born 1966

Previous engagements: Mr Haurum was CFO with Borg Automotive A/S and Head of Group Finance and Investor Relations with BioMar Group A/S and has also held various positions in the financial services industry.
Educational background: Mr Haurum holds a HD Graduate Diploma in Business Administration (Accounting) from Aarhus University, a HD Graduate Diploma in Business Administration (International Management) from Copenhagen Business School and a Master of Business Administration from Henley Business School in the UK.

RASMUS MÜHLEBACH
Chief Legal Officer
Appointed CLO in April 2015
Born 1980

Mr. Mühlebach joined ZITON in June 2012 as Chief Financial Officer and was appointed Chief Legal Officer in April 2015.
Previous engagements: Prior to joining ZITON, Mr Mühlebach held positions as CFO and Business Developer with NordEstate A/S.
Educational background: Mr Mühlebach graduated in 2007 with a Master of Science in Business Administration and Commercial Law and a Bachelor of Science in Economics and Corporate Law from the Aarhus School of Business (Aarhus University).

BENT THAMBO JENSEN
Chief Commercial Officer
Appointed CCO in September 2015
Born 1972

Previous engagements: Prior to joining ZITON, Mr Jensen held positions as Key Account Manager with A2SEA A/S, Sales and Marketing Manager with Statoil Gazelle A/S, Commercial Sales Manager at Siemens Wind Power A/S and as Regional Manager with Energi Danmark A/S.
Educational background: MA in Business, Language and Culture (cand. negot) from Odense University.

MADS ALBÉR
Chief Operating Officer
Appointed COO in April 2015
Born 1970

Previous engagements: Prior to joining ZITON, Mr Albér worked as Operations Manager with Fred. Olsen Windcarrier. He worked for ZITON from 2008 to 2011 as Master Mariner (2009-2011) and HSEQ Manager (2008-2009). Before joining ZITON, Mr Albér held positions as SQE Manager (2008) and Marine Superintendent (2006-2008) with the Clipper Group.
Educational background: Mr Albér is a Master Mariner and holds a degree in navigation from Marstal Navigationsskole.

BOARD OF DIRECTORS

VAGN LEHD MØLLER
Chairman of the board since March 2012
Born 1946
Appointed by BWB Partners

Current engagements: Mr Møller is Chairman of the Board of Directors of ZITON A/S. He is also a member of the boards of directors of Jack-Up InvestCo 3 Plc and Costamare Inc.
Previous engagements: Mr Møller has worked his entire career in different positions with A.P. Møller-Maersk. He has also held numerous positions as chairman or member of the boards of directors of a number of A.P. Møller-Maersk affiliated companies.
Educational background: Studies within Management at CEDEP (European Center for Executive Development), INSEAD and the University of Western Ontario.

ESBEN BAY JØRGENSEN
Member of the board since January 2012
Born 1969
Appointed by BWB Partners

Current engagements: Mr Jørgensen is a founder and partner of BWB Partners. He serves as a member of the boards of directors of Hydratech Industries A/S, Logos Design A/S, Nordic Petrol Systems A/S, SH Group A/S, System Frugt A/S and Qubiqa Holding A/S.
Previous engagements: Prior to founding BWB Partners in 2005, Mr Jørgensen worked with the consultancy firm AlixPartners. Before that, Mr Jørgensen spent some eight years with the Boston Consulting Group.
Educational background: Master of Science in Economics and Business Administration from Copenhagen Business School, McGill University, Montreal, and Università degli Studi di Siena, Italy.

LARS THORSGAARD JENSEN
Member of the board since January 2012
Born 1974
Appointed by BWB Partners

Current engagements: Mr Jensen is a partner at BWB Partners. He serves as a member of the board of directors of Heatex AB.
Previous engagements: Mr Jensen has a background in investment banking. He previously worked for six years as a director with Carnegie Investment Banking in Copenhagen and for two years with Morgan Stanley Investment Banking in London.
Educational background: Master of Science in Management & Economics (cand. oecon) from Aarhus University.

OVE C. ERIKSEN
Member of the board since January 2008
Born 1960
Appointed by Dansk Bjergning og Bugsering Holding ApS

Current engagements: Mr Eriksen serves as a director of Dansk Bjergning og Bugsering A/S.
Previous engagements: Founded Dansk Bjergning og Bugsering A/S in 1987. Founded DBB Jack-Up Services A/S in 2008 (renamed ZITON A/S in 2016). He serves as a member of the boards of directors of Dansk Bjergning og Bugsering A/S, DBB Dredging ApS, DBB ROV Service A/S, as well as various family investment companies.
Educational background: Electrician.

MORTEN MELIN
Member of the board since April 2017
Born 1968
Appointed by BWB Partners

Current engagements: Mr Melin serves as Executive Vice President, Construction of Northland Power Inc.
Previous engagements: Mr Melin has held a number of positions with both wind turbine manufacturers and utilities. Most recently, he served as Vice President EPC & Construction Management with Ørsted and as a member of the board of A2SEA A/S. Previously served as Vice President Project & Technology at MHI Vestas Offshore.
Educational Background: BSc. Mechanical Engineering from Aarhus Teknikum. Advanced Corporate Finance Programme from London Business School and Executive Leadership Development from INSEAD.

HENRIK KLEIS
Member of the board since December 2019
Born 1954
Appointed by OY Finans ApS

Current engagements: Mr Kleis is a partner at DLA Piper. He serves as a member of the boards of directors of Dansk Bjergning og Bugsering A/S, Danske Transport Medier ApS, DBB Dredging ApS, DBB ROV Service A/S, Dissing A/S, Finn Allan Eriksen Automobiler A/S, Funderholme Smedie A/S, Global Reach Aviation A/S, H. Daugaard A/S, I & N Vest Holding A/S, Iterators ApS, Jesma Vejeteknik A/S, Martin Bencher (Scandinavia) A/S, Nordic Seaplanes A/S, PMW Engineering A/S, Trailer Solution Holding A/S, Vejstruplund A/S and Warehouse Aarhus A/S.
Previous engagements: Mr Kleis has worked his entire career as a lawyer with Delacour Advokatfirma, which currently operates under the name of DLA Piper Denmark.
Educational Background: Master of Laws.

CORPORATE STRUCTURE

The ownership structure and legal structure of the ZITON Group are set out below

LEGAL STRUCTURE

The ZITON Group consists of the parent company ZITON A/S and six wholly-owned subsidiaries, including Jack-Up InvestCo 2 A/S and ZITON Contractors A/S in Denmark, and Jack-Up InvestCo 3 Plc. in Malta. Recently, ZITON expanded geographically, establishing the subsidiaries ZITON GmbH in Germany, ZITON Ltd. in the UK and ZITON Offshore Wind Power Technology (Beijing) Limited in China. In addition, ZITON established Hangout A/S in March 2019 as a joint venture with Flex Wind ApS.

J/U WIND is owned by ZITON A/S, J/U WIND PIONEER is owned by Jack-Up InvestCo 2 A/S, and J/U WIND SERVER is owned by Jack-Up InvestCo 3 Plc.

JACK-UP HOLDING A/S - BWB PARTNERS

BWB Partners is an independent owner-led Danish investment firm investing in small and medium-sized companies with a turnover of up to EUR 100 million and a strong growth potential.

BWB Partners manages two funds, investing on behalf of Danish and international investors. Both are active funds and open for new investment opportunities. BWB Partners I has committed capital of EUR 175 million, while BWB Partners II has committed capital of EUR 130 million. ZITON is an investment held in BWB Partners II.

The investor base at BWB Partners includes Danish and international institutional investors and dedicated private-equity investors (fund-of-funds). BWB Partners II consists of Danish pension funds (15.1%), foreign financial investors (83.7%) and other foreign investors (1.2%).

BWB Partners takes an active ownership approach in respect of its portfolio companies. The aim is to drive each company towards becoming an attractive medium-sized business with a strong market position and healthy earnings. As achieving such transformation of a company can be a major task, the investment horizon is usually four to seven years.

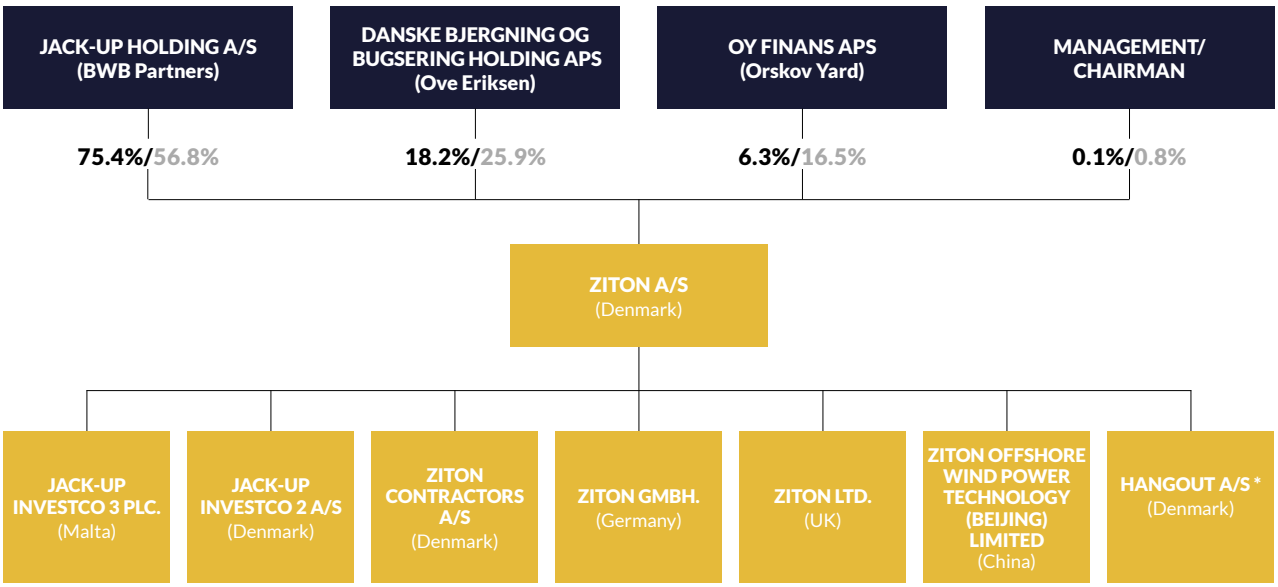
BWB Partners is a member of the DVCA trade association and follows DVCA guidelines on corporate governance and recommendations on responsible ownership. Consequently, ZITON is also subject to the DVCA's corporate governance guidelines. For further information, please visit the DVCA website at www.dvca.dk.

DANSK BJERGNING OG BUGSERING HOLDING APS

Dansk Bjergning og Bugsering Holding ApS is controlled by Ove Eriksen who founded DBB Jack-Up Services A/S in 2008, the company that was renamed ZITON A/S in 2016. In addition to its shareholding in ZITON A/S, the company owns Dansk Bjergning og Bugsering A/S, DBB Dredging ApS and DBB ROV Service A/S.

OY FINANS APS

OY Finans ApS is related to the Orskov Group, which owns and operates Orskov Yard in Frederikshavn, Denmark, where the conversion of J/U WIND PIONEER took place. The yard employs 200 people and comprises three docks.



75.4%/56.8% (percentage of share capital/voting capital)

*** 50% owned joint venture**

Hydraulic piston in jacking system at J/U WIND.

HISTORY OF THE COMPANY

ZITON has its roots in the offshore wind industry, dating back to the 2007 acquisition of the vessel J/U WIND.

Dansk Bjergning og Bugsering A/S was founded in 1989 by Ove Eriksen. In 2007, that company acquired the vessel J/U WIND, and in 2008 the jack-up operations were carved out into a separate company, which had J/U WIND as part of its assets.

BWB Partners invested in the company in 2012, appointing Thorsten Jalk as CEO. The company has since accelerated both commercially and through the acquisition of another two vessels, J/U WIND PIONEER and J/U WIND SERVER.

J/U WIND ENTERPRISE was bareboat chartered in May 2019. ZITON holds an option to acquire the vessel.

2012

- J/U WIND PIONEER acquired, and J/U WIND SERVER ordered from Nordic Yards
- BWB Partners invested in ZITON
  Joint venture with BWC to finance J/U WIND SERVER

2014

- 3-year charter signed for J/U WIND SERVER with Siemens Wind Power
  1-year framework agreement with MHI Vestas
- Fresh equity and issuance of EUR 40 million bond

2015

- J/U WIND SERVER operational in March 2015 and J/U WIND PIONEER in September 2015
  2-year extension of agreement with MHI Vestas
- Issuance of EUR 100 million bond

2016

- J/U WIND SERVER initiated 3-year charter with Siemens Gamesa Renewable Energy
  Framework agreement with Ørsted with duration to March 2019
  3-year framework agreement with Vattenfall
- DBB Jack-Up Services A/S changed its name to ZITON A/S

ZITON

Vessels, operations and contracts

Corporate

2007

J/U WIND acquired

J/U WIND on first long-term charter with Vestas

2008

Jack-up operations carved out into separate entity

2011

J/U WIND initiated three-year charter with Siemens via third party

2017

Foundation of ZITON Contractors A/S

Extension of agreement with MHI Vestas until further notice

2018

Subsidiaries in Germany and UK

Two bonds issued for a total of EUR 125 million

Ownership in Jack-Up InvestCo 3 Plc. increased to 100% for EUR 23.7m

First full-service main component replacement carried out

First decommissioning of offshore wind farm

2019

Subsidiary in China

Hangout A/S established as a joint venture to provide blade repair solutions

Bareboat charter of J/U WIND ENTERPRISE

New framework agreement with Ørsted. Duration to March 2022

Framework agreement with Vattenfall extended to November 2020

MHI Vestas framework agreement amended and extended to December 2022

Turnkey solution for blade campaign at West of Duddon Sands

2020

Amendment of corporate loans and new working capital facility improving liquidity by up to EUR 14.3 million

MARKET DEVELOPMENT OF OFFSHORE WIND

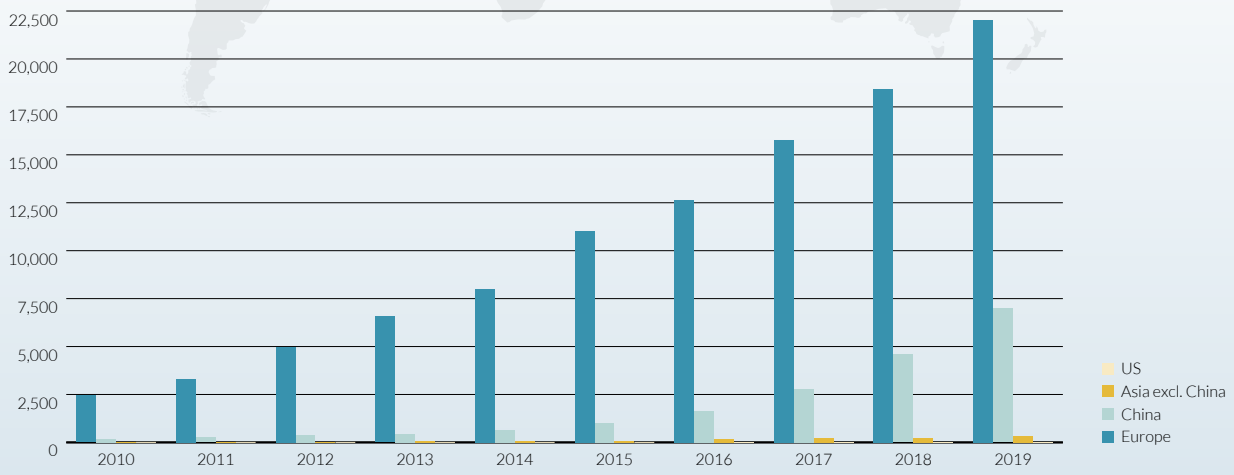
The outlook for the offshore wind market remains strong. According to the International Energy Agency, the offshore wind power capacity is set to increase at least 15-fold worldwide by 2040. This projection puts offshore wind on track to become the European Union's largest source of electricity in the 2040s.

GLOBALISATION OF OFFSHORE WIND

The world's first offshore wind farm, Vindeby, had a total capacity of 4.95 MW and was inaugurated off the coast of Denmark in 1991. It was in operation for more than ten years until the first wind farm with more than 100 MW capacity, Horns Rev 1 (capacity 160 MW), was established in Denmark in 2002. Since then, offshore wind has steadily expanded because wind speeds are higher and more consistent at sea than on land. At the end of 2019, there were 4,893 turbines installed at 92 wind farms in Europe, mainly in the Irish Sea, the English Channel, the Baltic Sea and the North Sea.

For many years, offshore wind remained mainly a European phenomenon accounting for more than nine out of ten offshore wind turbines installed. In recent years, globalisation of offshore wind has increased, and in 2019 China accounted for 24% of the 29 MW global capacity, according to Global Wind Energy Council. In both China and the USA, many of the big cities with large populations are located in coastal areas. Building offshore wind farms in these areas can help address their energy needs from nearby sources. Over the next decade, offshore wind is expected to accelerate in countries like China, USA, Taiwan, South Korea and Japan.

Offshore wind
Global installed capacity (MW)



Source: Global Wind Energy Council, Annual Market update 2019

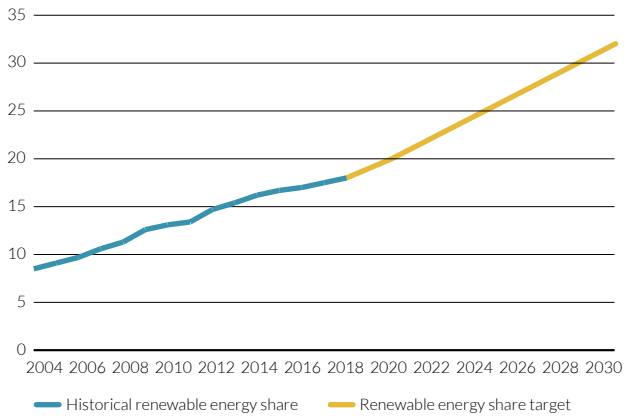
OFFSHORE WIND IN EUROPE

Growth in offshore wind capacity in Europe is driven primarily by EU-level targets to reduce greenhouse gas emissions. The Renewable Energy Directive from 2009 requires the EU to meet at least 20% of its total energy needs with renewables by 2020, while the revised directive from 2018 establishes a new binding renewable energy target for 2030 of at least 32%; this compares to 9% in 2005. The European Environment Agency's report "The European environment – state and outlook 2020" states that although the EU's environmental and climate policy has contributed to improving the environment in recent decades, Europe is not making enough progress and the outlook for the environment in the coming decade is not positive. Thus, unless more radical actions are taken over the next ten years, Europe will not achieve its 2030 goals nor the EU's commitment to becoming the first climate neutral continent by 2050 – the so-called Green Deal.

Offshore wind energy plays an important role in meeting these targets, and today, offshore wind accounts for just 2% of Europe's energy mix. According to the International Energy Agency's report "Offshore Wind Outlook 2019", the offshore wind power capacity is set to increase by at least 15-fold worldwide by 2040. This growth puts offshore wind on track to become the EU's largest source of electricity in the 2040s. Further, Europe needs offshore wind capacity of between 230 and 450 GW by 2050 to deliver the Green Deal, according to the European Commission. This requires Europe to build 7 GW of new offshore wind a year between now and 2030, and 18 GW a year between 2030 and 2050, which offers lots of opportunities in the industry – both in the short-term and in a long-term perspective.

EU renewable energy targets

EU-27 and UK renewable energy share of energy consumption (per cent)

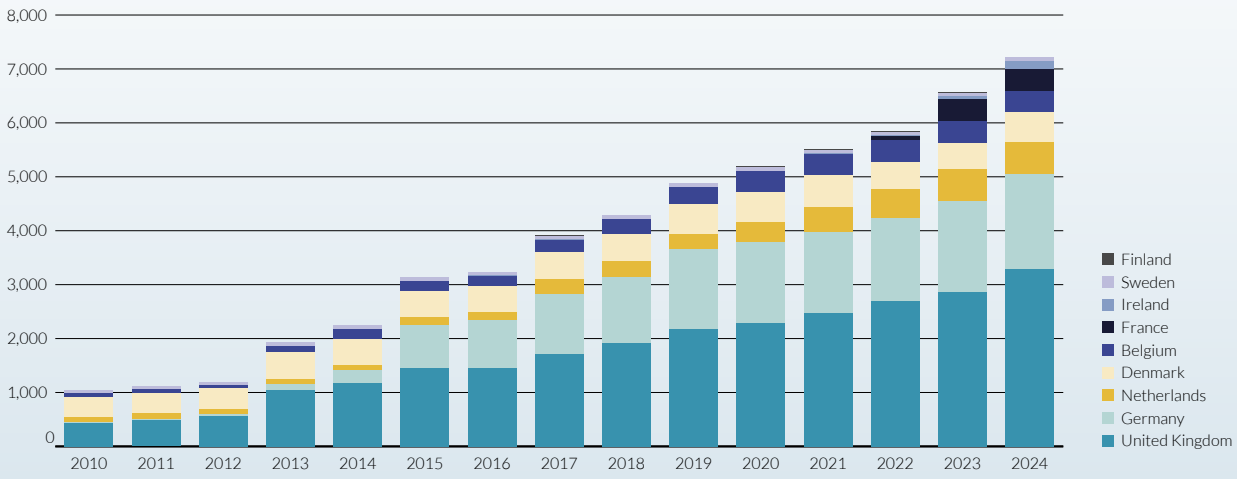


Source: Eurostat and EU Renewable Energy Directive, December 2018

In the short-term, the number of offshore wind turbines is expected to grow continuously over the next five years with a slight increase of 6% per year over the first three years, followed by an acceleration in growth to 10-12%. In 2022, the installed base is expected to be around 5,846 turbines with the largest increases coming from the Dutch and UK markets. The increase in 2023 comes mainly from further expansion of the French market, where five farms are projected to be commissioned, while the UK and German markets are also expected to contribute. In 2024, the total installed base of offshore wind turbines in Europe will be around 7,229 turbines – a 48% increase over 2019.

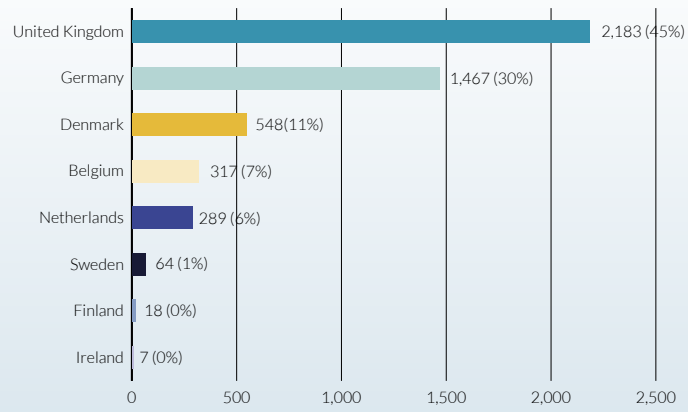
Expected growth in the number of turbines installed in Europe

Turbines grid connected, end of period



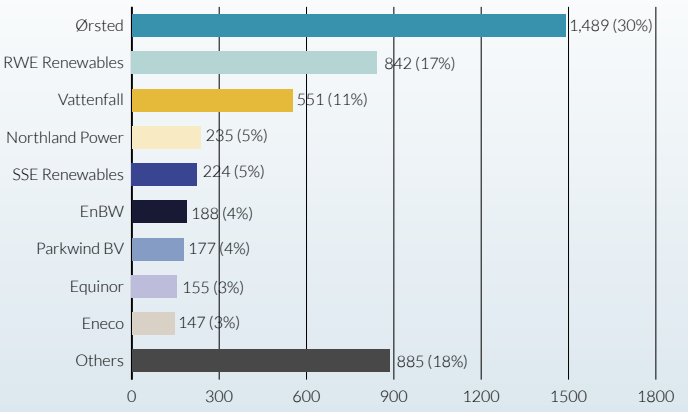
Source: ZITON data

Country distribution
Turbines installed in Europe, end 2019



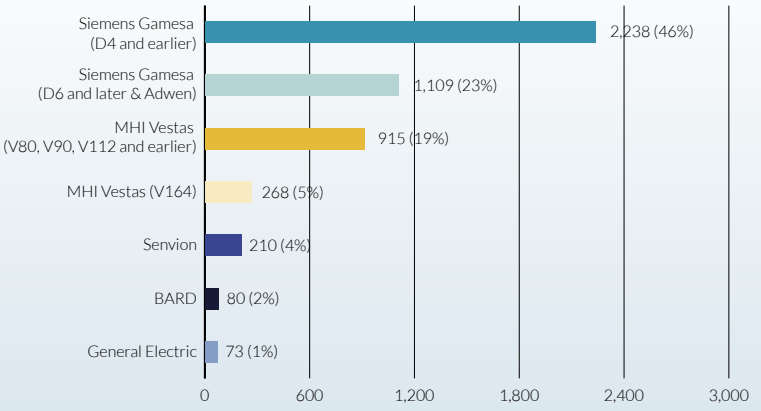
Source: ZITON data

Wind farm operator distribution
Turbines installed in Europe, end 2019



Source: ZITON data

Turbine model distribution
Turbines installed in Europe, end 2019



Source: ZITON data

The UK remains the dominant nation within the European offshore wind industry. At the end of 2019, the UK accounted for 2,183 turbines, or 45% of the total installed base. Germany is the second-largest player with 1,467 turbines (30%). Other notable countries are Denmark, Belgium and the Netherlands, which combined have 1,154 installed turbines (24%).

A few companies control a significant proportion of the installed capacity of wind farms in Europe. Ørsted maintains the position as the largest offshore wind farm operator (WFO), operating 30% of Europe's installed base at the end of 2019. Other major European WFOs are RWE Renewables (E.On and Innogy's renewables businesses are now combined at RWE) and Vattenfall, operating 17% and 11% respectively of the installed turbine base. The remaining capacity is relatively fragmented among several operators.

Manufacturing of offshore turbines in Europe has traditionally been the domain of two OEMs, Siemens Gamesa Renewable Energy ("SGRE") and MHI Vestas Offshore Wind ("MHI Vestas").

At the end of 2019, SGRE had delivered 69% of the installed turbine base in Europe, with MHI Vestas having delivered 24%. SGRE had installed a total of 1,109 turbines of their new and larger generation of D6 & D7 direct drive and Adwen models at 20 wind farms, while MHI Vestas had installed their new, large V164 model across 8 wind farms for a total of 268 turbines. SGRE had an installed base of 2,238 turbines of their previous smaller turbine models, while MHI Vestas had 915.

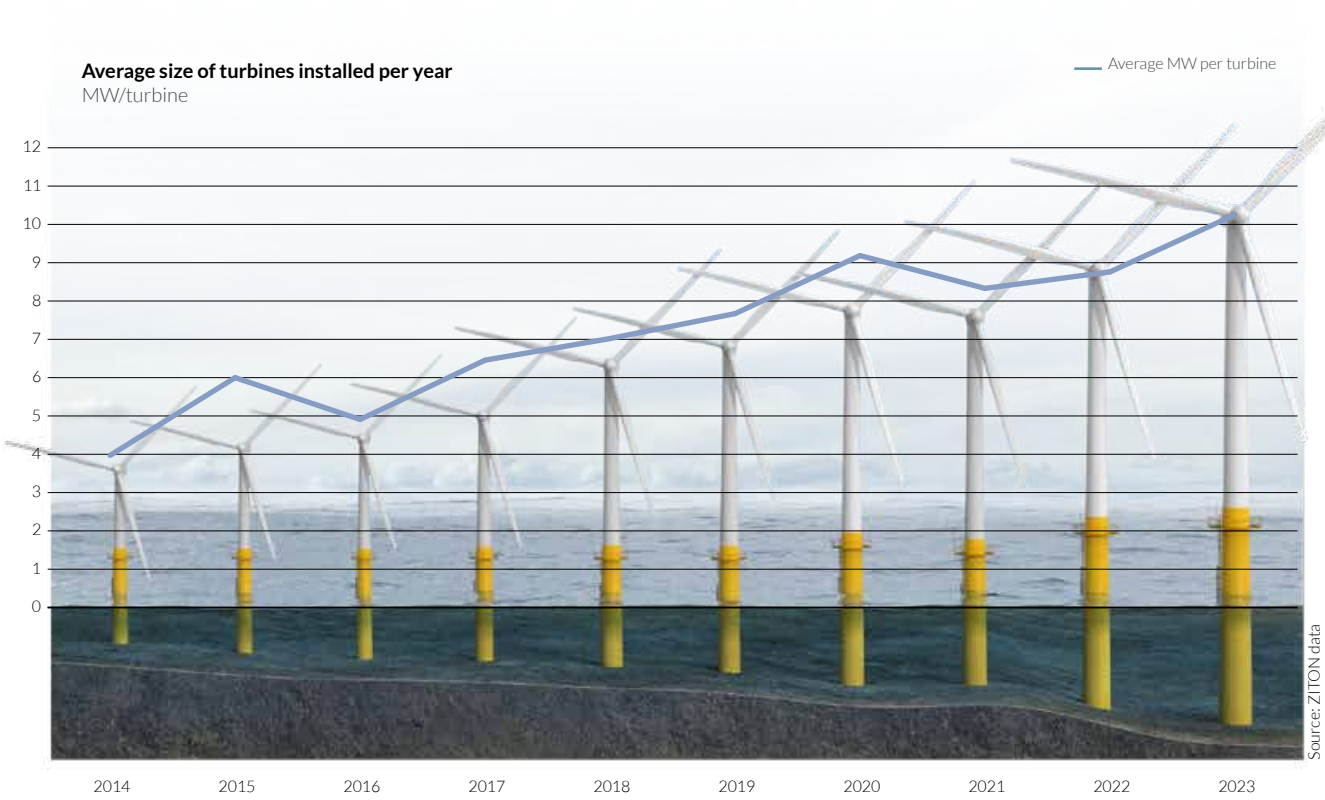
At the end of 2019, Senvion and General Electric had market shares of 4% and 1%, respectively.

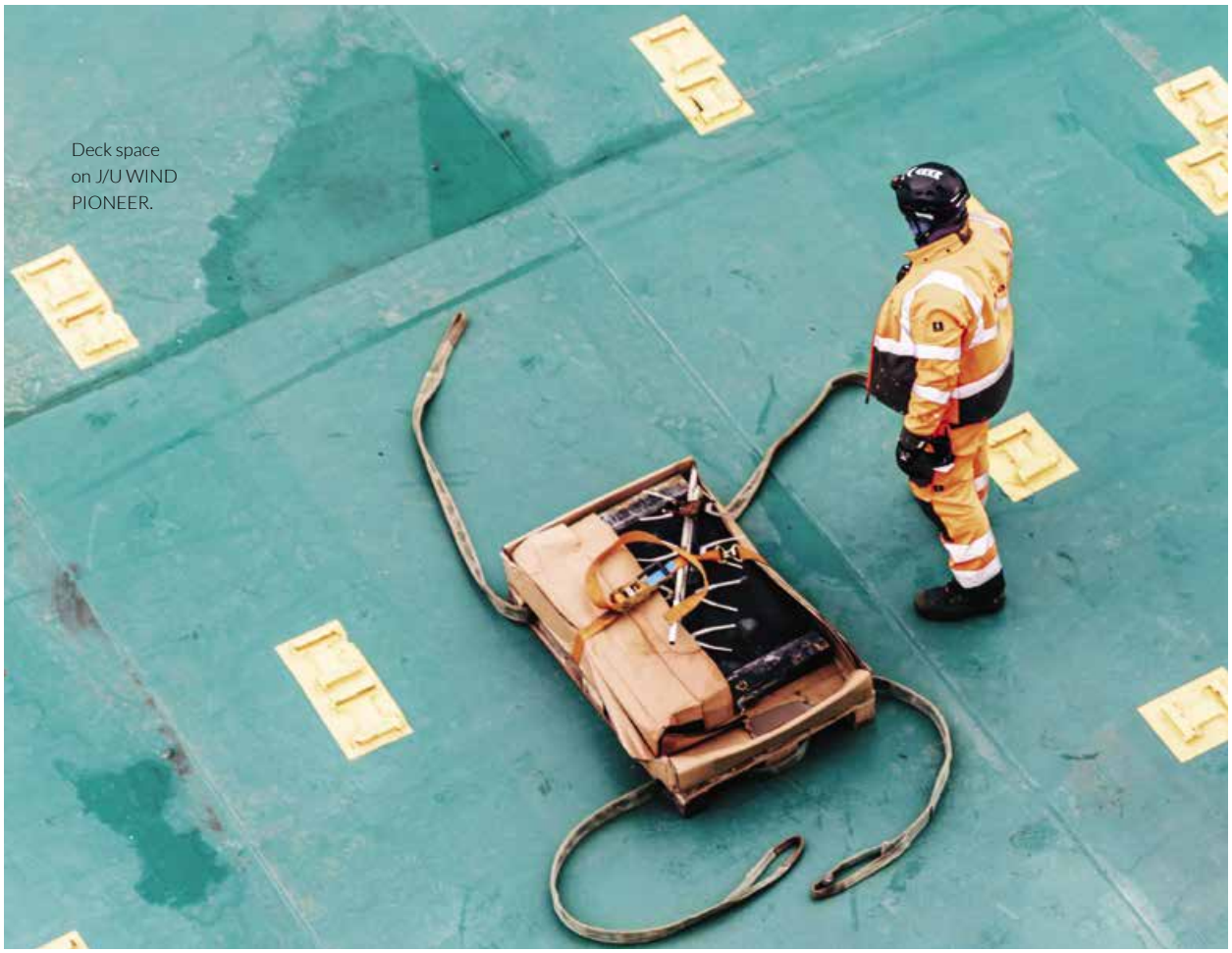
The new turbine models (D6, D7 and Adwen from SGRE and V164 from MHI Vestas) made up 28% of the installed base at the end of 2019. Over the next three years or so, these models are expected to make up the majority of turbines installed offshore. The drive towards larger turbines comes from the fact that the size of the swept area determines the amount of electricity a turbine can generate. As the swept area increases with the square of the rotor length, the swept area and electricity generation will quadruple with a doubling of the blade length. A larger swept area combined with high and consistent wind speeds makes it economically viable for wind farm developers to continue installing larger turbines, even if the larger sizes implies higher installation costs. SGRE, MHI Vestas and General Electric have all developed turbines of 10 MW or more, and eventually, larger turbines of 10-12 MW are expected to become the industry standard. Currently, more than 400 of these are already projected to be commissioned in northern Europe in 2022 and 2023.

ZITON'S ADRESSABLE MARKET

The market for major component replacement, such as gearboxes, blades, generators, transformers, main bearings and main shafts is driven by the number of turbines installed and turbine failure rates.

The first of the two major drivers of demand for O&M services is the number of installed turbines. The number of installed offshore turbines in Europe has grown at a compound annual growth rate of 20% from 2010 to 2019 and is expected to grow by 8% annually for the next five years. The 4,893 turbines installed in Europe at the end of 2019 will require servicing during the turbines' lifespan of about 20-25 years.





Deck space on J/U WIND PIONEER.

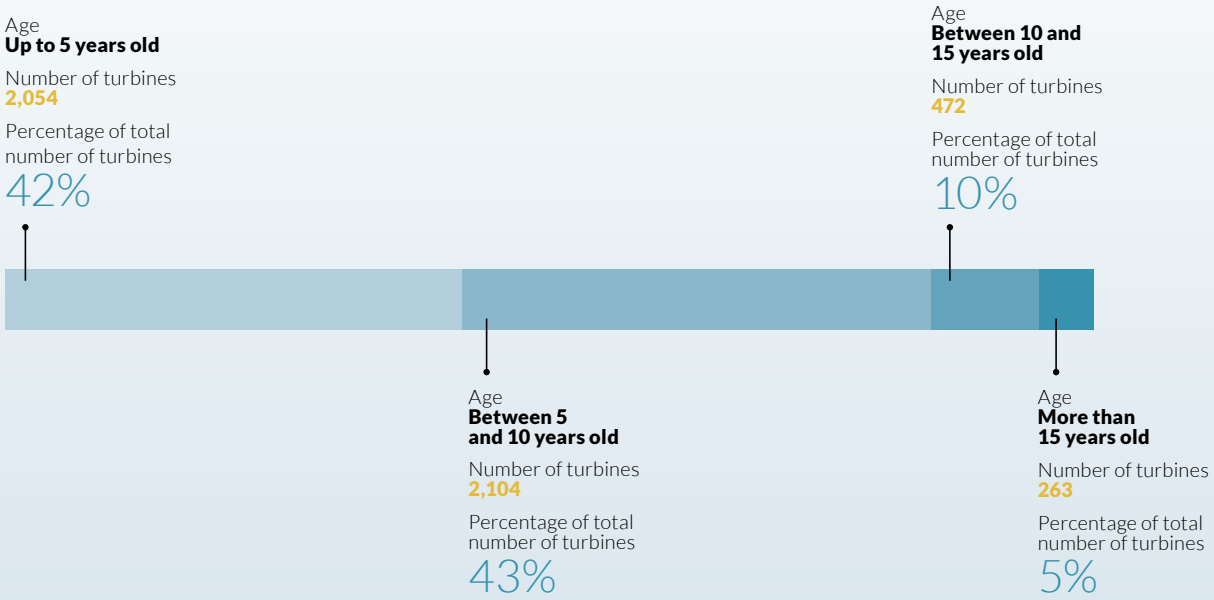
The second driver is the turbine failure rate. The offshore wind industry is still relatively young, meaning that the first generation of turbines installed in the early 2000s remains in operation. Hence, there is limited long-term, empirical data available on the failure rate of major components. Moreover, the data varies between first, second and later generations of turbines, and it varies from OEM to OEM, location to location etc. Earlier generations of turbine models suffered from serial defects caused by design or sub-component failures. These defects will often manifest themselves during the first few years after installation, but the prevalence of such serial defects has fallen as the industry has matured and OEMs have improved on turbine designs from generation to generation.

As illustrated by the chart below, the offshore wind industry in Europe is still relatively young, with 42% of the installed base being less than five years old and thus still within the respective OEM's warranty period, which is typically five years. Once maintenance responsibility is handed over to an owner and operator with a direct financial interest in maximising turbine uptime, predictive maintenance is often intensified. During the next two years, around 900 turbines will pass five years of age, which is thus expected to lead to increased turbine maintenance. Furthermore, ZITON's proprietary data shows that failure rates increase considerably between year 5 and year 10 due to wear-and-tear.

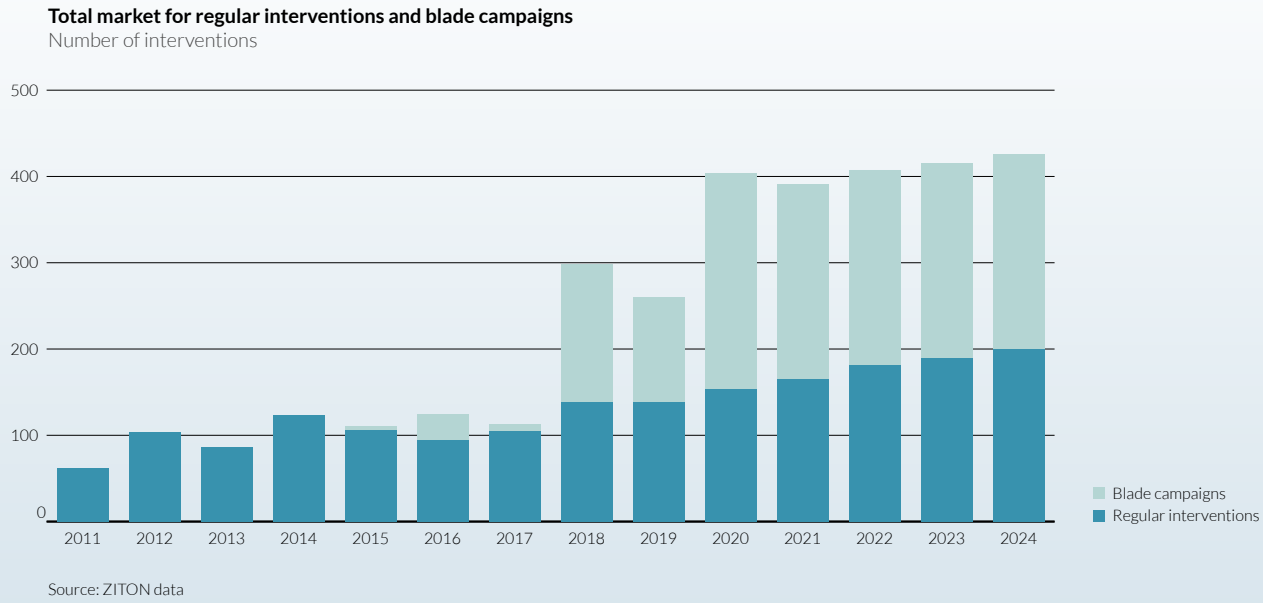
By tracking the age of installed turbines, the forecast installation pipeline and the expected failure rate of turbines (based on ZITON's proprietary data), it is possible to arrive at an estimate of the number of interventions required during the period to 2024. The forecast can be divided into regular interventions caused by normal wear and tear and blade campaigns. Blade campaigns are separate from regular interventions and are caused by blade edge erosion, which necessitates repair and a possible upgrade of the blades. While the full extent of blade edge erosion among European turbines is still unknown, ZITON believes that it will result in substantial O&M assignments going forward.

As illustrated by the chart to the right, the total number of interventions requiring a jack-up vessel more than doubled from 2017 to 2019, with the main growth coming from blade campaigns. ZITON and the vessel J/U WIND SERVER completed the first major blade campaign by replacing 88 sets of blades from February to September 2018 at the Anholt wind farm in Denmark. We are currently carrying out another major campaign covering 108 sets of blades at the West of Duddon Sands ("WoDS") wind farm in the UK. The need for regular major component replacements is also forecasted to grow steadily over the coming years on the back of an increasing, and ageing, installed base.

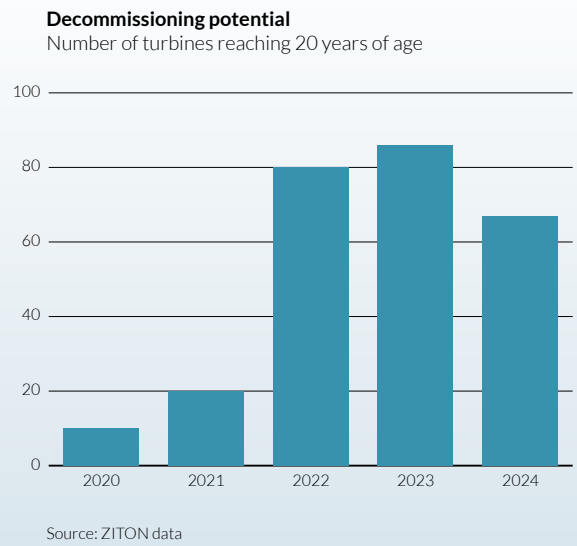
Age of turbines installed
Turbines installed in Europe, end 2019



Source: ZITON data



Finally, as the European offshore wind market matures, older WTGs will eventually reach the end of their useful life and will have to be decommissioned. ZITON has already carried out a number of met mast and turbine decommissionings and expects this area to become an increasing contributor to overall revenue in the coming years, as illustrated by the chart to the right.



CUSTOMER CONTRACTS

ZITON applies different types of contracts with its customers; time charters ("T/C"), framework agreements and turnkey contracts. A T/C is characterised by being the hire of a vessel for a certain predetermined period at a fixed day rate. T/Cs can be short-term (up to three months), medium-term (from 3 to 24 months) or long-term (beyond two years). Customers often have extension options at the end of a contract period. The contracts generally follow international standards for T/C contracts, typically a BIMCO standard. Under T/C contracts, the customer is generally required to pay for fuel, port calls and for necessary logistical support from supply boats in addition to the day rate. The cost of delays resulting from adverse weather lies with the customer.

ZITON also enters into framework agreements with its customers. Framework agreements ensure that contract terms including pricing are agreed upon beforehand, thus reducing the time required by ZITON to respond to requests for major component replacements. Framework agreements are based on either fixed prices or T/C rates. For fixed prices per replacement, ZITON bears all costs including fuel, port calls, etc., as well as costs incurred due to delays resulting from adverse weather or maintenance work on the vessel. Due to the harsh weather conditions that often occur during the winter period, weeks can go by without the weather permitting any major component replacement. During the summer, on the other hand, several components can be replaced in a week if the turbines are located in close proximity to one another.

ZITON enters into turnkey contracts in market segments where it has a competitive edge. In general, this is in segments where maritime knowledge, availability of a jack-up vessel with a crane combined with strong knowledge of the offshore wind

industry is essential. These market segments include decommissioning of met masts, foundations, turbines and blade campaigns. As for lump sum agreements, costs related to fuel, port calls and delays due to adverse weather, etc. are borne by ZITON, as are the risks related to the subpar performance of any sub-supplier. The responsibility of a turnkey project requires strong project management skills in order to avoid cost overruns.

ZITON has entered into contracts with four of the leading companies within offshore wind.

FRAMEWORK AGREEMENT WITH ØRSTED

ZITON has a framework agreement with Ørsted covering the period from May 2019 until March 2022 on nine of Ørsted's offshore wind farms. Ørsted is Europe's largest operator of offshore wind farms. The agreement is not vessel specific. The framework agreement allows Ørsted to time charter ZITON's vessels, when available, with charter rates being dependent upon the number of interventions that Ørsted carries out.

FRAMEWORK AGREEMENT WITH VATTENFALL

ZITON has extended the framework agreement with Vattenfall entered into in November 2016, meaning that ZITON will remain the main partner for major component replacements at Vattenfall's offshore wind farms until November 2020. Vattenfall is Europe's second-largest operator of offshore wind farms. The agreement is not vessel specific. Remuneration to ZITON takes place on a fixed price basis, with the price varying with the type and site of the intervention, and ZITON's response time to Vattenfall's request. According to the contract, Vattenfall is required to perform a minimum number of major component replacements annually.

FRAMEWORK AGREEMENT WITH MHI VESTAS

ZITON has a framework agreement with MHI Vestas entered into in December 2019 and running for three years. This agreement is an extension and amendment of the two companies' former framework agreement, and it further expands the scope to include sites where MHI Vestas' 8.0-10.0 MW V164 turbine model are installed. The agreement is not vessel specific. Remuneration to ZITON takes place on a fixed price basis, with the price varying with the type and site of the intervention.

TURNKEY CONTRACT FOR BLADE CAMPAIGN WITH SGRE

In May 2019, ZITON signed a blade campaign contract with SGRE, which was initiated in July 2019. The blade campaign covers replacement, repair and upgrade of the blades of 108 turbines at the WoDS wind farm in the UK. ZITON provides a full turnkey solution including jack-up, lifting equipment, lift planning, technicians and blade repair with repair facilities. The blade campaign shows ZITON's ambition to remain an important player in both the market for blade campaigns and its traditional market for regular major component replacement.

Crane at J/U WIND PIONEER.

54

wind farms

FROM THE BALTIC TO THE IRISH SEA. DEEP TO SHALLOW – ANY SEABED

7

countries

PROVIDING OFFSHORE SERVICES ALL OVER EUROPE

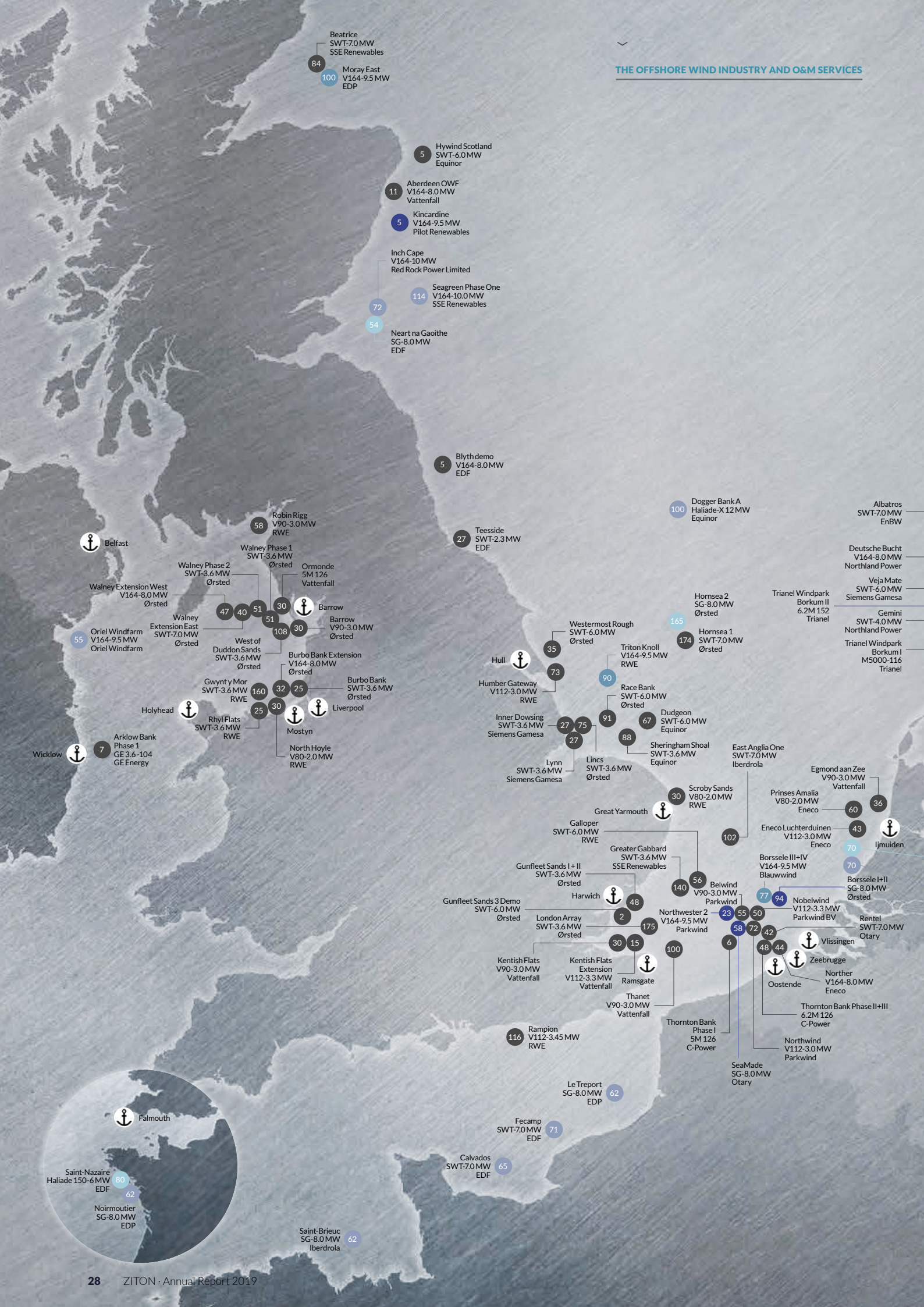
910

interventions made

TURBINES, BLADES, GEAR BOXES, GENERATORS TRANSFORMERS, SHAFTS, BEARINGS

"The West of Duddon Sands blade upgrade campaign is one of the key projects for NEME Service. At Siemens Gamesa Renewable Energy, we fully support ZITON in successfully completing the project. Together with ZITON, we have gained tremendous experience from the WoDS blade campaign that will benefit us and our customers as we carry out more blade upgrade campaigns in the coming years.

Paulina Hobbs, CEO Service NEME, SGRE


Beatrice
SWT-7.0 MW
SSE Renewables
84
100
Moray East
V164-9.5 MW
EDP
5
Hywind Scotland
SWT-6.0 MW
Equinor
11
Aberdeen OWF
V164-8.0 MW
Vattenfall
5
Kincardine
V164-9.5 MW
Pilot Renewables
Inch Cape
V164-10 MW
Red Rock Power Limited
114
Seagreen Phase One
V164-10.0 MW
SSE Renewables
72
54
Neart na Gaoithe
SG-8.0 MW
EDF
5
Blyth demo
V164-8.0 MW
EDF
100
Dogger Bank A
Haliade-X 12 MW
Equinor
Albatros
SWT-7.0 MW
EnBW
Deutsche Bucht
V164-8.0 MW
Northland Power
Veja Mate
SWT-6.0 MW
Siemens Gamesa
Trianel Windpark
Borkum II
6.2M 152
Trianel
Gemini
SWT-4.0 MW
Northland Power
Trianel Windpark
Borkum I
M5000-116
Trianel
27
Teesside
SWT-2.3 MW
EDF
58
Robin Rigg
V90-3.0 MW
RWE
Belfast
Walney Phase 1
SWT-3.6 MW
Ørsted
Walney Phase 2
SWT-3.6 MW
Ørsted
Ormonde
5M 126
Vattenfall
Walney Extension West
V164-8.0 MW
Ørsted
47
40
51
30
Barrow
51
108
30
Barrow
V90-3.0 MW
Ørsted
Walney
Extension East
SWT-7.0 MW
Ørsted
55
Oriel Windfarm
V164-9.5 MW
Oriel Windfarm
West of
Duddon Sands
SWT-3.6 MW
Ørsted
Burbo Bank Extension
V164-8.0 MW
Ørsted
Gwynt y Mor
SWT-3.6 MW
RWE
160
32
25
Burbo Bank
SWT-3.6 MW
Ørsted
Holyhead
25
30
Liverpool
Rhyl Flats
SWT-3.6 MW
RWE
Mostyn
Wicklow
7
Arklow Bank
Phase 1
GE 3.6 -104
GE Energy
North Hoyle
V80-2.0 MW
RWE
Hornsea 2
SG-8.0 MW
Ørsted
165
174
Hornsea 1
SWT-7.0 MW
Ørsted
Westermost Rough
SWT-6.0 MW
Ørsted
35
Triton Knoll
V164-9.5 MW
RWE
Hull
73
90
Humber Gateway
V112-3.0 MW
RWE
Race Bank
SWT-6.0 MW
Ørsted
91
67
Dudgeon
SWT-6.0 MW
Equinor
Inner Dowsing
SWT-3.6 MW
Siemens Gamesa
27
75
27
88
Sheringham Shoal
SWT-3.6 MW
Equinor
Lynn
SWT-3.6 MW
Siemens Gamesa
Lincs
SWT-3.6 MW
Ørsted
East Anglia One
SWT-7.0 MW
Iberdrola
Egmond aan Zee
V90-3.0 MW
Vattenfall
36
Prinses Amalia
V80-2.0 MW
Eneco
60
30
Scroby Sands
V80-2.0 MW
RWE
Great Yarmouth
Eneco Luchterduinen
V112-3.0 MW
Eneco
43
Ijmuiden
102
Galloper
SWT-6.0 MW
RWE
70
70
Borssele III+IV
V164-9.5 MW
Blauwwind
Greater Gabbard
SWT-3.6 MW
SSE Renewables
Borssele I+II
SG-8.0 MW
Ørsted
Gunfleet Sands I + II
SWT-3.6 MW
Ørsted
140
56
Belwind
V90-3.0 MW
Parkwind
77
94
Nobelwind
V112-3.3 MW
Parkwind BV
Harwich
48
Gunfleet Sands 3 Demo
SWT-6.0 MW
Ørsted
2
Northwester 2
V164-9.5 MW
Parkwind
23
55
50
Rentel
SWT-7.0 MW
Otary
London Array
SWT-3.6 MW
Ørsted
175
58
72
42
Vlissingen
30
15
6
48
44
Zeebrugge
Kentish Flats
V90-3.0 MW
Vattenfall
Kentish Flats
Extension
V112-3.3 MW
Vattenfall
Ramsgate
100
Oostende
Norther
V164-8.0 MW
Eneco
Thanet
V90-3.0 MW
Vattenfall
Thornton Bank Phase II+III
6.2M 126
C-Power
Thornton Bank
Phase I
5M 126
C-Power
116
Rampion
V112-3.45 MW
RWE
Northwind
V112-3.0 MW
Parkwind
SeaMade
SG-8.0 MW
Otary
Le Treport
SG-8.0 MW
EDP
62
Falmouth
Fecamp
SWT-7.0 MW
EDF
71
Calvados
SWT-7.0 MW
EDF
65
Saint-Nazaire
Haliade 150-6 MW
EDF
80
62
Noirmoutier
SG-8.0 MW
EDP
Saint-Brieuc
SG-8.0 MW
Iberdrola
62

OFFSHORE WIND FARMS IN EUROPE

- GRID CONNECTED END 2019
- GRID CONNECTED 2020
- GRID CONNECTED 2021
- GRID CONNECTED 2022
- GRID CONNECTED 2023

111 Anholt (Site name) SWT-3.6 MW (Turbine) Ørsted (Operator)

No. of turbines at the wind farm

PORTS

Updated March 2020

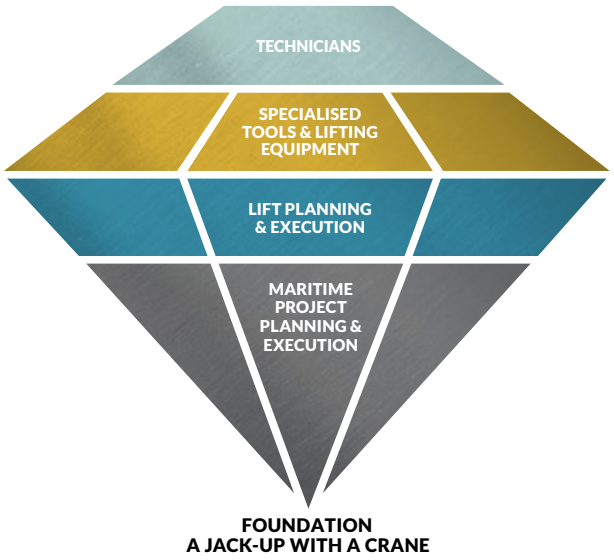
ZITON'S SERVICE OFFERINGS

ZITON's business arises from owning and operating jack-up vessels designed to carry out O&M services on turbines at offshore wind farms. The business model has evolved in recent years and now includes full-service and turnkey solutions.

FULL-SERVICE SOLUTIONS

ZITON's core business is to own and operate jack-up vessels. In recent years, we have expanded on this platform by introducing value-added services.

ZITON provides full-service solutions for major component replacements, including maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to jack-ups with experienced crews. Our expanded scope of a full-service solution is illustrated below.



Full-service solutions have their obvious advantages from the customers' point of view. They have built their skills and expertise in day-to-day O&M routines, but those routines do not include major component replacements. Even for a large wind farm of 100 turbines, the wind farm operator may only need to perform a major component replacement once every three months. That makes it difficult to build the experience necessary to carry out major component replacements smoothly and efficiently. ZITON has performed more than nine hundred major component replacements and has developed processes and procedures enabling safe and efficient operations. We have invested significant resources in the ZITON Portal, which enables us to deliver cost-efficient project documentation and to collaborate with our customers on such operations.

TURNKEY SOLUTIONS

ZITON has expanded its scope further by offering turnkey solutions for blade campaigns and decommissioning. For blade campaigns, ZITON collaborates with sub-suppliers to repair and upgrade blades, provides facilities that offer temperature and humidity management and other compulsory requirements when it comes to blade repair. For decommissioning, ZITON collaborates with sub-suppliers where relevant, and provides a turnkey solution for cutting, recycling of waste materials, seabed inspection, etc.

In a turnkey solution, ZITON takes full responsibility for the solution and assumes the risks that we feel we are better equipped to handle than our customers are, and that customers are willing to pay for. ZITON has the experience to handle risks better than anyone, including when it comes to weather risk, project management, coordination with sub-suppliers, etc. This has its obvious advantages from the customer's point of view, as it means less risk and only one contracting partner. From ZITON's perspective, the benefit is equally attractive as it further differentiates ZITON's service offering from that of the competition.

BLADE CAMPAIGNS

Blade campaigns are increasingly developing into an important segment for O&M services. The reason is mainly erosion of the leading edge of the blades, and the top coat. Erosion occurs because the offshore environment is very rough on the blades with rain, hail and salt water damaging the blades as the tip speed often exceeds 300 km/h. This will lead to a notable reduction in electricity generation if not mitigated.

To mitigate this problem, leading edge protection ("LEP") in the form of protective tape or shells are mounted on the leading edge of the blade to prevent further erosion and ensure the integrity of the blade. Reshaping the aerodynamic profile of the

blade is often required before applying LEP, thus recreating the aerodynamic properties of the blade and ensuring energy productivity of the turbines. Repair is often combined with an upgrade of the blade performance by adding aerodynamic add-on components and upgrading software.

A few OEMs and wind farm operators have applied varying solutions for addressing blade erosion. Blade repair is still in its infancy, thus no one solution has emerged that solves all needs at the most cost-effective price.

ZITON is determined to remain an important player both in the blade campaign segment and in major component replacement. As a result, ZITON offers a range of solutions for blade campaigns that meets the requirement of customers at the most cost-effective price, including:

Onshore blade repair and upgrade solutions that specifically targets blades with deeper structural damages and upgrade of blade performance, in addition to LEP. Blades are transported from the offshore wind farm to an onshore blade repair facility, repaired, and then used to replace worn blades on the next turbine.

On-deck blade repair and upgrade solutions that is similar to onshore in scope, but carried out on the deck of the vessel.

HangOut tip repair that mainly involves basic repair of the tip and the leading edge of a blade. This solution is more limited in scope, but also more cost effective than the others. ZITON has invested in this solution called "HangOut", which is an advanced container that is raised from the deck of the jack-up and lowered over the tip of the blade using vacuum suction cups. The HangOut contains all the necessary equipment to make the repairs, and it provides a safe and protected working zone for blade technicians. Also, it is operational at harsher weather than basic blade repair performed using rope or platforms, thus providing significantly more working days per year.

All ZITON's solutions mentioned above, enable a considerable higher process quality than other blade access solutions like rope access or platform, due to improved work ergonomics and by providing climate-controlled habitats. All solutions are illustrated on the next pages.

TYPICAL O&M SETUP

OEMs or wind farm operators monitor offshore turbines remotely, as wind farms are often located in harsh and difficult-to-access areas. Remote monitoring is an important part of O&M, and includes supervision of the turbines and diagnostics should a malfunction occur. In many cases, turbine restarts can also be performed remotely.

Day-to-day O&M routines include inspections, minor repairs, greasing or electrical work, for example, performed on a weekly or monthly basis. An offshore wind farm of about 100 turbines usually operates two or three small crew transfer vessels (CTV) on a full-time basis as part of its O&M setup. For wind farms further offshore, the use of large service operation vessels (SOV) helps reduce travel times, because SOVs also function as a spare-part warehouse, hotel and workshop.

Jack-up vessels such as those operated by ZITON are required for major component replacement jobs involving the replacement of gearboxes, blades, generators and other components.

A typical O&M setup and ZITON's solutions are illustrated on the next pages

OFFSHORE WIND FARMS

TYPICAL O&M SETUP AND ZITON'S SOLUTIONS

CREW TRANSFER VESSEL (CTV)

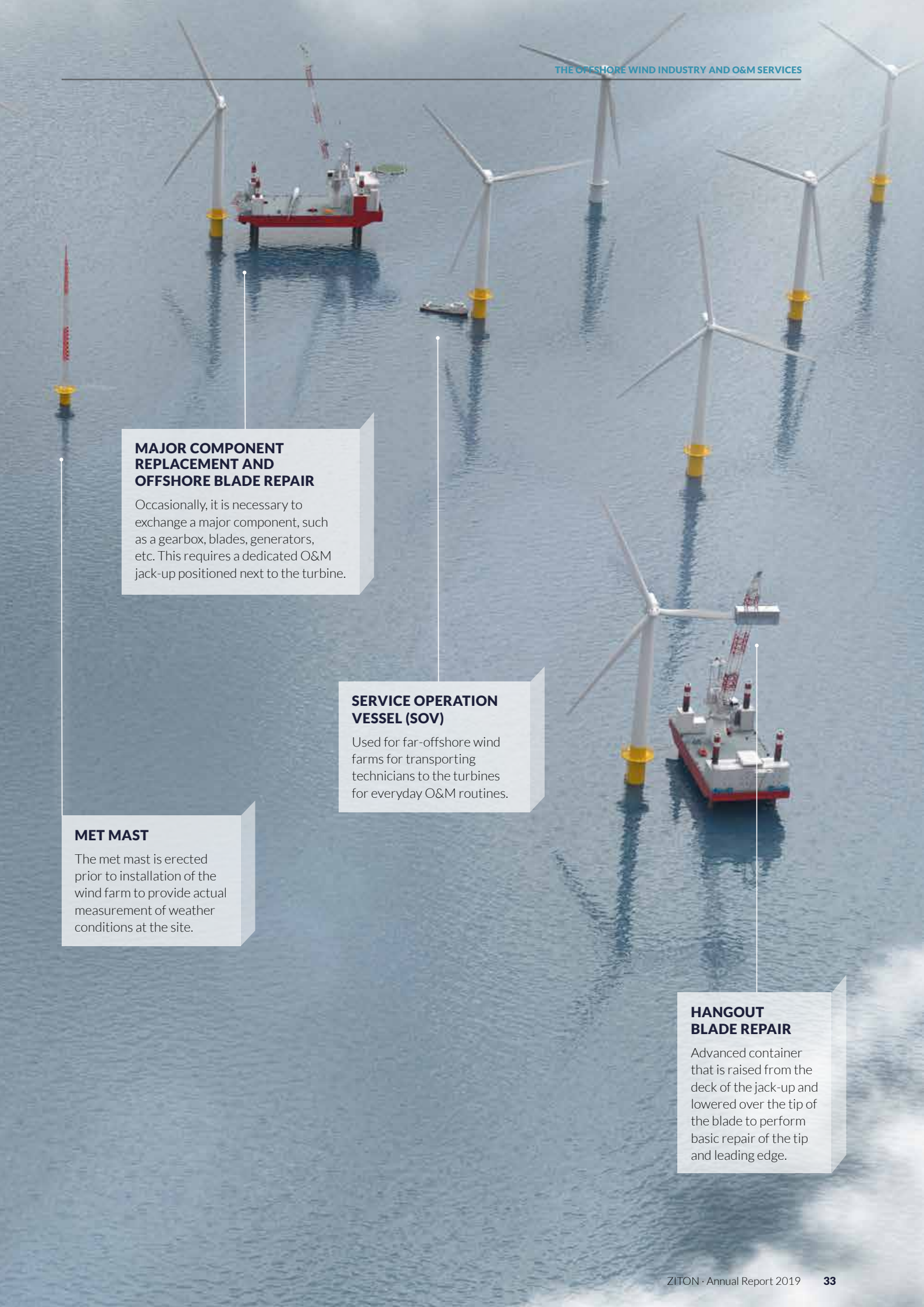
Used for near-shore wind farms for transporting technicians to the turbines for everyday O&M routines.

SUBSTATION

The substation connects the offshore wind farm to the onshore electricity network and converts and transmits the power.

ONSHORE BLADE REPAIR AND UPGRADE FACILITY

Blades are transported from the offshore wind farm to the onshore blade repair and upgrade facility.



MAJOR COMPONENT REPLACEMENT AND OFFSHORE BLADE REPAIR

Occasionally, it is necessary to exchange a major component, such as a gearbox, blades, generators, etc. This requires a dedicated O&M jack-up positioned next to the turbine.

SERVICE OPERATION VESSEL (SOV)

Used for far-offshore wind farms for transporting technicians to the turbines for everyday O&M routines.

MET MAST

The met mast is erected prior to installation of the wind farm to provide actual measurement of weather conditions at the site.

HANGOUT BLADE REPAIR

Advanced container that is raised from the deck of the jack-up and lowered over the tip of the blade to perform basic repair of the tip and leading edge.

DIGITAL TRANSFORMATION

ZITON continually invests in the digitalisation of the business to improve operations and its interaction with customers. Digitalisation is one of four key strategic initiatives at ZITON.

Digital transformation at ZITON encompasses the processes across the company from operation to connectivity with customers, and automation of processes to data-driven decision making. We continually review process by process. Initially, we strive to reduce waste and streamline processes. Then we investigate the digitalisation and automation potential of each process. We also review technology trends to evaluate whether there are solutions we can utilise in our digital transformation.

It is our leadership philosophy that innovation does not necessarily occur in a top-down approach, but one that is rooted in individual initiative by all employees of ZITON. Likewise, digital transformation initiatives are often driven by the curiosity of our people and their enthusiasm for continual improvement.

We have successfully developed the ZITON Portal over the past few years in a process driven by a team dedicated to improving connectivity with our customers. The portal enables us to exchange project documentation seamlessly with our customers. We use a cloud-based solution on which customers can interact with us using an ordinary browser. This is a very cost-effective solution that allows customers to access all documentation in one place. We also maintain all our safety and quality management documentation on the ZITON Portal, for our own and for our customers' convenience.

OPERATIONS

- Use of geographic information systems for turbine locations, positioning of jack-up, etc.
- Use of sensor data to support operation of crane and jacking system

CONNECTIVITY

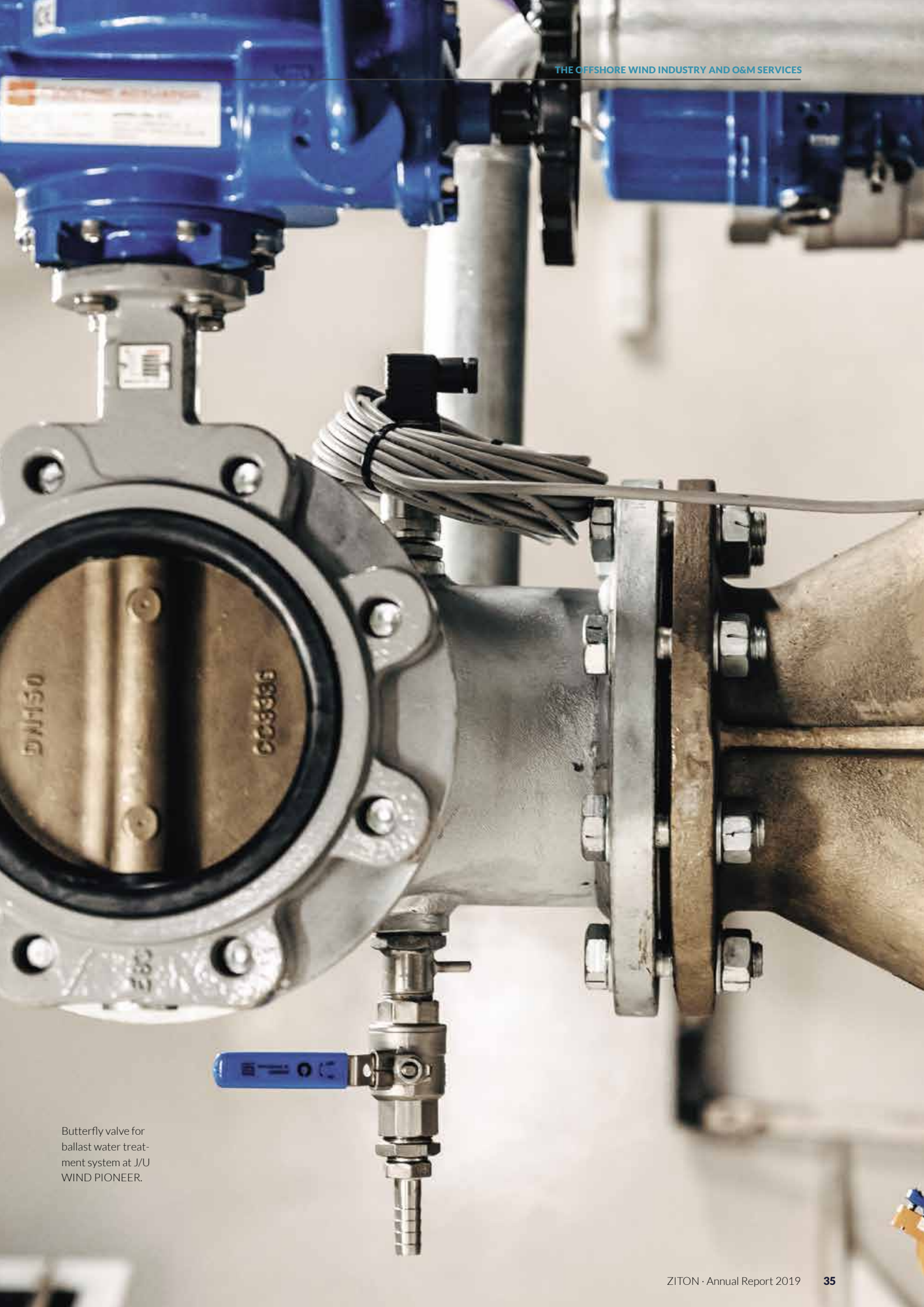
- Collaboration with customers on project documentation using a cloud-based collaboration platform
- Document repository for customers of Daily Progress Reports, HSE plans, operating procedures, vessel certificates, crew certificates, technical information of vessels, etc.

AUTOMATION OF PROCESSES

- Automation of processes and support for work flow of financial processes using modern ERP
- Add-on modules to ERP system for expense management, invoice payment processes and reconciliation of accounts
- Automation of manual processes and integration of systems using Robotic Process Automation

DATA-DRIVEN DECISION MAKING

- Use of machine learning and advanced analytics to predict future market demand
- Wind farm database to monitor industry development
- Prediction of industry-wide vessel utilisation
- Cloud-based Financial Planning & Analysis platform used for both short- and long-term planning



Butterfly valve for ballast water treatment system at J/U WIND PIONEER.

ENVIRONMENT, SOCIAL & GOVERNANCE

ZITON maintains various policies in relation to environmental, social and governance criterias.

ZITON maintains policies within environmental, social and governance criterias ("ESG"). This section covers the statutory requirements for ESG reporting in accordance with section 99a of the Danish Financial Statements Act within the areas of social and employee conditions, climate impact, environmental impact, human rights and measures to combat bribery and corruption.

SOCIAL AND EMPLOYEE CONDITIONS

At ZITON, we have a relentless focus on health, safety, environment and quality ("HSEQ") for our employees, subcontractors and customers. HSEQ is an important risk factor to ZITON. Management believes the implementation of various policies, systems and procedures has effectively mitigated the company's HSEQ risk exposure.

Our HSEQ system has been certified by Bureau Veritas to satisfy the requirements of the ISM Code / MLC 2006 and to the ISO9001:2015 / ISO14001:2015 & OHSAS 18001:2008 standards. The ISO and OHSAS standards are all voluntary, but the company applies them to strengthen its safety and quality standards. During the annual ISM review, Bureau Veritas reviews ZITON's performance according to various HSEQ performance measures.

Our 'safety first' culture permeates our entire organisation and is the all-encompassing rule onboard our vessels. Emergency drills are held monthly on all our vessels and we conducted more than 62 drills on each vessel in 2019. In addition, we have a ship-to-shore drill at least once a year to train the procedures between the onshore Emergency Group and the masters of the vessels. This means we are trained for almost any unexpected situation that may arise. Further, we apply a vessel risk assessment management system which includes a toolbox talk before each assignment and a Safety Observation Card system, enabling us to react proactively to potentially unsafe conditions.

Group management diligently monitors that the established procedures for operations, projects and work on all vessels are followed to the letter and carefully reviews the monthly HSEQ report. The monthly HSEQ report includes reporting on the following categories of incidents, which are consistent with the Oil Companies International Marine Forum's Marine Injury

Reporting Guidelines, which are most commonly used in the industry:

- Near miss reports – an event or sequence of events which did not result in an injury but which, under slightly different conditions, could have done so.
- Medical treatment cases – any work-related loss of consciousness (unless due to ill health), injury or illness requiring more than first aid treatment by a physician, dentist, surgeon or registered medical personnel.
- Lost-time Iinjuries ("LTIs") – any work-related incident where the injured person is not able to work the day after the incident occurred.
- Lost-time injury frequency ("LTIF") – Lost-time incidents per million hours vessel crew are exposed to risk offshore.

Despite our high level of safety standards, incidents do occur within the three different categories. However, our objective is still to avoid any incidents altogether, and in 2019 the number in each category were lower or at the same level as in 2017 and 2018.

	2016	2017	2018	2019
Near miss reports *(Number of incidents)*	8	11	10	10
Medical treatment cases *(Number of incidents)*	0	3	2	1
Lost-time injuries (LTIs) *(Number of incidents)*	1	1	1	0
Lost-time injury frequency (LTIF) *(Number of incidents / exposure hours * 1,000,000)*	3.5	3.4	3.1	0.0

Having an objective of avoiding any incidents is also highly related to the retention of experienced officers, since this is considered important for maintaining a culture of high HSEQ standards on board our vessels. ZITON has successfully maintained a high officer retention rate during the past four years, mainly by facilitating generally good working conditions. ZITON applies the BIMCO Shipping KPI system to monitor and follow-up on the retention rate.

	2016	2017	2018	2019
Officer retention rate *(Officers end period – officers resigned / officers end period)*	99.0%	98.5%	99.1%	97.3%

To support safety at sea further, ZITON also employs a policy of zero drug and alcohol tolerance. This policy is undebatable and never open to question. The policy applies not only to ZITON staff, but also to customers, subcontractors and suppliers. Unannounced examinations are standard procedure and are conducted by an independent, external agency with expertise in drug and alcohol-testing programmes. In 2017, the worryingly high level of 4.9% positive tests resulted in the immediate dismissals of the persons tested positive, and our zero tolerance policy was emphasized for all offshore staff. In 2018, no positive tests were performed, but in 2019 we had two incidents – one caused by an internal employee, and one caused by an external, resulting in the internal being dismissed immediately and the external being denied any future work for ZITON. In relation to these incidents, the number of tests conducted in 2019 was 23% higher than in 2018, and 59% higher than in 2017.

	2016	2017	2018	2019
Drug and alcohol positive testing *(Positive test / number of tests * 100)*	2.0%	4.9%	0.0%	3.1%

Working offshore is a demanding occupation with uneven working hours (four weeks on duty, four weeks off). Further, it may be difficult to maintain a healthy lifestyle with a proper diet and exercise on board a vessel. ZITON maintains a policy of offering good working conditions for its crews, which include a healthy and balanced diet and access to a well-equipped fitness centre. In 2019, three employees were on long-term leave due to health issues, resulting in an increased absenteeism ratio compared to 2018 when no employees were on long-term leave. Out of more than 88 offshore employees, the three accounted for 58% af all absence.

	2016	2017	2018	2019
Absenteeism ratio *(Number of hours of absence / exposure hours * 100)*	3.5%	4.6%	2.2%	5.7%

In addition to the offshore staff, ZITON also employs technicians in ZITON Contractors A/S as well as office staff at offices in Denmark, the UK, Germany and China. ZITON had a full-time workforce at 31 December 2019 of 130 employees, of whom 96 were Danish citizens and the rest representing other nationalities. The total headcount has increased significantly over the past four years, which is due to the increased activities in the company, the West of Duddon Sands blade repair campaign and the expansion to the UK, Germany and China, where offices were opened in 2019.

	2016	2017	2018	2019
Full-time workforce, Danish *(Number of full-time employees at year end)*	75	78	80	96
Full-time workforce, other nationalities *(Number of full-time employees at year end)*	18	17	19	34

CLIMATE IMPACT

ZITON maintains a DNV-GL-certified Ship Energy Efficiency Management Plan ("SEEMP") to optimise fuel consumption, hull and machinery with a view to keeping energy consumption as low as possible, making our vessels less harmful to the environment compared to many of the other vessels in the market. CO_2 and SO_X (sulphur) emissions are monitored in accordance with the BIMCO Shipping KPI system. CO_2 emissions from our vessels increased to 17,081 tonnes in 2019 from 7,792 tonnes in 2018, and SO_X emissions increased from 3,262 kilograms to 9,311 kilograms – in both cases because of our bareboat charter of J/U WIND ENTERPRISE, which consumes signicantly more fuel than the other vessels due to its size. The volume of CO_2 emissions in 2019 was equivalent to the greenhouse gas emissions avoided by 3.7 wind turbines running for a year, according to the US Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

ZITON's consumption of fuel is aligned with Annex VI of the MARPOL 73/78 convention, which effective from 1 January 2020 specifies a maximum sulphur content outside of the Emission Control Areas of 0.5%, while the maximum content allowed inside the areas has been 0.1% since 2015. The Baltic Sea and the North Sea are both part of an Emission Control Area, while the Irish Sea is the only one of ZITON's primary markets, which is not within such an area. To be able to work in the Baltic Sea and the North Sea, ZITON has been using Marine Gas Oil both before and during the entire measurement period. Marine Gas Oil is a clean fuel with a sulphur content below the maximum limit of 0.1%.

Emissions per intervention, where "intervention" is the number of component replacements, blade exchanges, or turbines decommissioned, increased significantly due to a lower activity level and the bareboat charter of the more consuming J/U WIND ENTERPRISE despite the improved energy efficiency of the other vessels.

	2016	2017	2018	2019
CO_2 emissions from vessels *(Tonnes CO_2)*	5,897	7,391	7,792	17,081
CO_2 emissions per intervention *(Tonnes CO_2 per intervention)*	91	95	44	153
SO_X emissions from vessels *(Kilograms SO_X)*	2,641	2,821	3,262	9,311
SO_X emissions per intervention *(Kilograms SO_X per intervention)*	41	36	18	83

Water consumption on the vessels has also increased over the past four years, mainly due to our increased activity level from 2016 to 2018, while the bareboat charter of J/U WIND ENTERPRISE caused the significant increase in 2019. Most of our water consumption is for cleaning purposes on the vessels, while relatively small amounts are used in kitchens and for bathing. ZITON employs a policy of keeping water consumption at a level as low as possible, and our sewage and waste water policy is part of Annex IV of the MARPOL 73/78 convention, which all crew members are made aware of.

	2016	2017	2018	2019
Water consumption on vessels *(Cubic metres)*	2,849	3,015	3,819	4,645

ENVIRONMENTAL IMPACT

ZITON maintains an environmental policy specifying the objective to prevent environmental spills including oil, ballast water, garbage, etc. Our environmental policy is tested regularly through port stay controls performed by the maritime authorities of the country in question. Inspections are performed to check a vessel's certificates, its general condition as well as its compliance with various regulations including environmental regulations. If a vessel is not compliant with the regulations, the maritime authorities can place it in detention until the issue is resolved. ZITON has had zero detentions during the past four years.

Accidental fuel oil and hydraulic oil spills is an important environmental issue. ZITON uses biodegradable hydraulic oil so as not to harm the environment in case of accidental spills. ZITON had two incidents of accidental spills related to wear and tear on hoses carrying hydraulic oil to thrusters in 2018. The hoses were designed to have a product life of five years, but after the incidents in 2018, it was decided that future replacements would be carried out every three to four years. ZITON had no spills in 2019, but it has become clear that wear and tear on the hoses occurs even sooner, and as a result they are now examined frequently and replaced well in advance. As a result of these measures, we still target zero oil spills going forward.

Ballast water management violations are increasingly subject to scrutiny by maritime authorities due to the negative impact on the environment if ballast water from one biological area is emptied into other waters. ZITON has had zero ballast water violations during the past four years.

Our policy for garbage management aims to minimise the production of waste on board our vessels and also at our office

premises. Our garbage management policy is part of Annex V of the MARPOL 73/78 convention. The policy stresses, among other things, that the volume of packaging brought on board our vessels must be kept at an absolute minimum, and where packaging is imperative, we prefer two-way-packaging or recyclable material. All crew members must be fully familiar with the content of the ZITON garbage management policy. Crew members are required to sign a statement confirming that they have familiarised themselves with and fully understand the garbage management policy. ZITON has had zero garbage disposal violations during the past four years.

	2016	2017	2018	2019
Port stay control detentions *(Number of detentions)*	0	0	0	0
Accidental oil spills *(Number of oil spills)*	0	0	2	0
Ballast water management violations *(Number of violations)*	0	0	0	0
Garbage disposal violations *(Number of violations)*	0	0	0	0

RESPECT FOR HUMAN RIGHTS

Within the area of Human Rights and Labour, ZITON maintains a policy of not employing people under the age of 18 on board the company's vessels. The aim is to avoid people under the age of 18 performing hazardous work when working for ZITON. We have been certified to the Maritime Labour Convention by the Danish Maritime Authority. We enforce this policy for all work carried out on board our vessels by our own employees and by those of our suppliers or subcontractors. As in previous years, the policy was successfully applied in 2019, as no direct employees or employees of suppliers or subcontractors under the age of 18 worked on our vessels during the year.

	2016	2017	2018	2019
Employees under the age of 18 *(Number of employees under 18)*	0	0	0	0

ANTI-BRIBERY AND ANTI-CORRUPTION

ZITON maintains an anti-bribery and anti-corruption policy. The aim is to conduct our business in a lawful and ethical manner with integrity towards our stakeholders. We enforce this policy mainly by our management promoting our values across our organisation. In addition, we require receipts for all costs consumed and all costs must be approved by a superior to the person consuming the costs. To the best of our knowledge, the policy was successfully applied in 2019, as it was in previous years, since we have not identified any indications of bribery or corruption.

	2016	2017	2018	2019
Number of bribery and corruption cases *(Number of incidents revealed)*	0	0	0	0


uvex
GLENN
KRANFØRER

Can do. Will do.

VISION AND MISSION

OUR VISION

Offshore renewables are the preferred future source of energy.

OUR MISSION

To provide second-to-none solutions to the offshore renewables industry through our dedication to skilled people, specialist equipment and safe operations.

9

YEARS AT SEA

Glenn Mortensen
Crane operator
J/U WIND ENTERPRISE

Thruster containers at J/U WIND PIONEER.

STRATEGIC DIRECTION

The strategic direction for ZITON contains four key elements described below in conjunction with recent strategic achievements and focus areas for 2020

VALUE-ADDED SERVICES

ZITON offers value-added services within the categories of maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to a jack-up with an experienced crew. In a turnkey solution, ZITON takes full responsibility for the solution and assumes the risks that we feel better equipped to handle than our customers are, and that customers are willing to pay for. From the customer's point of view, this means less risk and a one-stop contracting partner. From ZITON's perspective, the arrangement further differentiates ZITON's service offering from that of the competition.

RESULTS ACHIEVED IN 2019

In 2019, ZITON signed a turnkey solution to upgrade the blades on 108 turbines at the West of Duddon Sands ("WoDS") wind farm. ZITON encountered several challenges when executing the project including a delayed project start-up, adverse weather and incidents leading to further delays.

FOCUS AREAS FOR 2020

While the WoDS blade campaign was consistent with the strategic direction, the execution of the project did not live up to expectations. Consequently, the focus for 2020 is to make the project a success for ZITON and the customer. To make up for the lost time, ZITON and Siemens Gamesa Renewable Energy have implemented a plan to carry two sets of blades at a time on J/U WIND SERVER and ZITON will improve project risk management for future blade campaigns. For further information, please refer to the risk management section of this annual report.

SERVICE LARGER TURBINES

Turbine sizes continue to grow, because the economics of turbines improve with increases in the swept area of the blades. Consequently, adding a larger vessel to the fleet is a strategic priority to grow with the market and serve our customers in the future.

RESULTS ACHIEVED IN 2019

On 28 May 2019, Vroon and ZITON signed a bareboat agreement for J/U WIND ENTERPRISE until the end of March 2021. ZITON holds an option to acquire the vessel. J/U WIND ENTERPRISE completes ZITON's fleet of dedicated vessels, and the company can now service almost every offshore wind farm in northern Europe, from 2.0 MW to over 10.0 MW.

FOCUS AREAS FOR 2020

We will continue to make J/U WIND ENTERPRISE a success in the O&M market and seek to secure a strong utilisation of the vessel to make it feasible to exercise the purchase option of the vessel.

STRATEGIC DIRECTION

GEOGRAPHICAL EXPANSION

ZITON and many of our people have been part of the offshore wind industry since its infancy. Offshore wind has evolved in northern Europe since the year 2000, but only in the last couple of years has it begun to gain traction across the globe. ZITON has gained significant offshore wind experience over the years and is now exploring opportunities to apply this experience in other parts of the world.

RESULTS ACHIEVED IN 2019

We opened an office in Beijing, China and employed business development staff to explore market opportunities in the Chinese market using our experience from northern Europe.

FOCUS AREAS FOR 2020

We will continue to focus on the Chinese market and seek to deepen relationships within different areas of the offshore wind supply chain.

DIGITALISATION

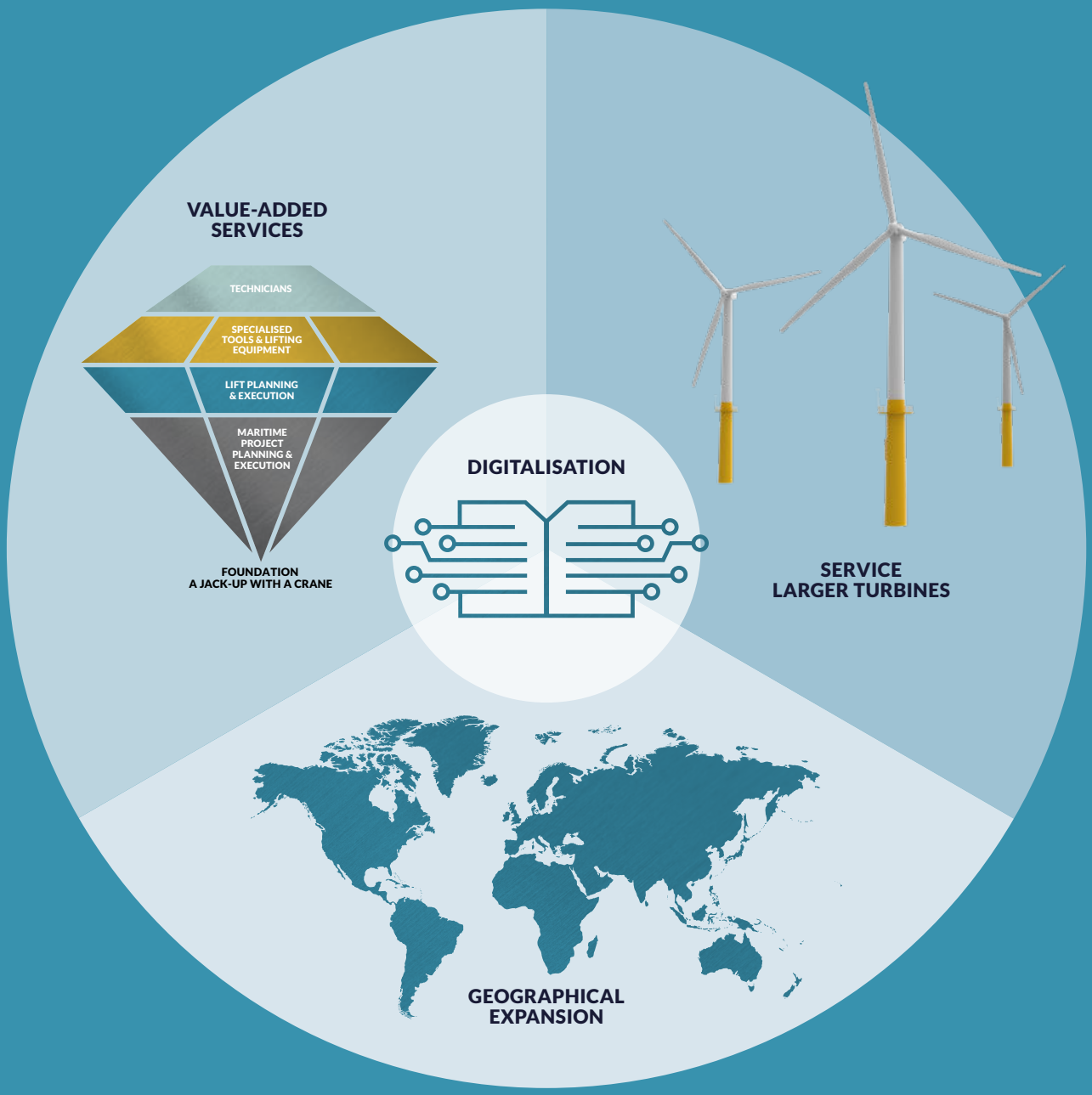
ZITON continually invests in the digitalisation of the business to improve operations and customer interaction. Achieving operational efficiency in major component replacement in the offshore wind industry is very much subject to weather conditions and also depends on the many touchpoints and the coordination needed between ZITON, customers and suppliers. ZITON seeks to digitise and integrate internal processes and touchpoints in the supply chain.

RESULTS ACHIEVED IN 2019

We mainly focused on improving customer interaction and the depth of information available to customers, on planning and execution of O&M projects. Furthermore, we focused on streamlining internal processes by implementing add-on modules to our core ERP system as well as robotic process automation for the automation of manual processes and integration of various systems.

FOCUS AREAS FOR 2020

We intend to further explore machine learning and advanced analytics to predict future market demand for major component replacement, blade campaigns, decommissioning, etc.


VALUE-ADDED SERVICES
TECHNICIANS
SPECIALISED TOOLS & LIFTING EQUIPMENT
LIFT PLANNING & EXECUTION
MARITIME PROJECT PLANNING & EXECUTION
FOUNDATION
A JACK-UP WITH A CRANE
DIGITALISATION
SERVICE LARGER TURBINES
GEOGRAPHICAL EXPANSION

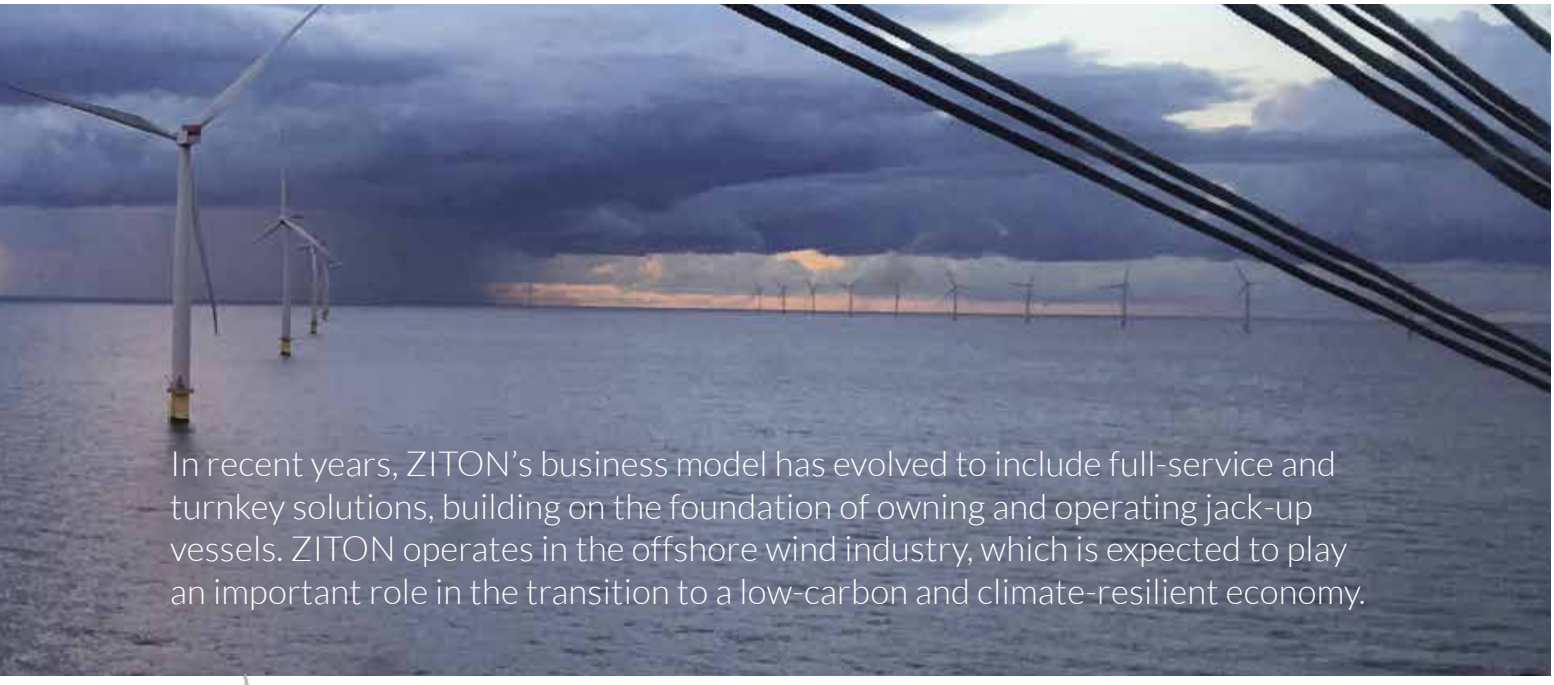
BUSINESS MODEL

CLIMATE-RELATED RISKS AND OPPORTUNITIES

- ZITON operates within the offshore wind industry. Offshore wind is expected to play an important role in the transition to a low-carbon and climate-resilient economy. For ZITON, the offshore wind industry provides important climate-related opportunities for growth as the number of turbines installed in northern Europe is expected to continue to increase in the foreseeable future. In addition, as the offshore wind industry becomes increasingly global, it will provide opportunities for ZITON to expand its global presence.
- Operating vessels involves fuel consumption. However, ZITON's vessels are generally lighter and smaller than their installation counterparts. Thus, our fleet enables customers to select the vessel that provides the industry's lowest carbon footprint. However, ZITON's operations are considered to have a very positive net effect on climate as CO_2 emissions in 2019 merely amounted to the greenhouse gas emissions equivalent avoided by 3.7 wind turbines running for a year. For more information, please refer to the ESG section of this annual report.

KEY RESOURCES

- Building or acquiring jack-up vessels requires a high initial investment and design requirement know-how.
- Project management capabilities are essential for planning and successfully executing projects. ZITON employs a customer portal to deliver cost-efficient project documentation and to collaborate with customers on projects.



In recent years, ZITON's business model has evolved to include full-service and turnkey solutions, building on the foundation of owning and operating jack-up vessels. ZITON operates in the offshore wind industry, which is expected to play an important role in the transition to a low-carbon and climate-resilient economy.

VALUE TO CUSTOMERS

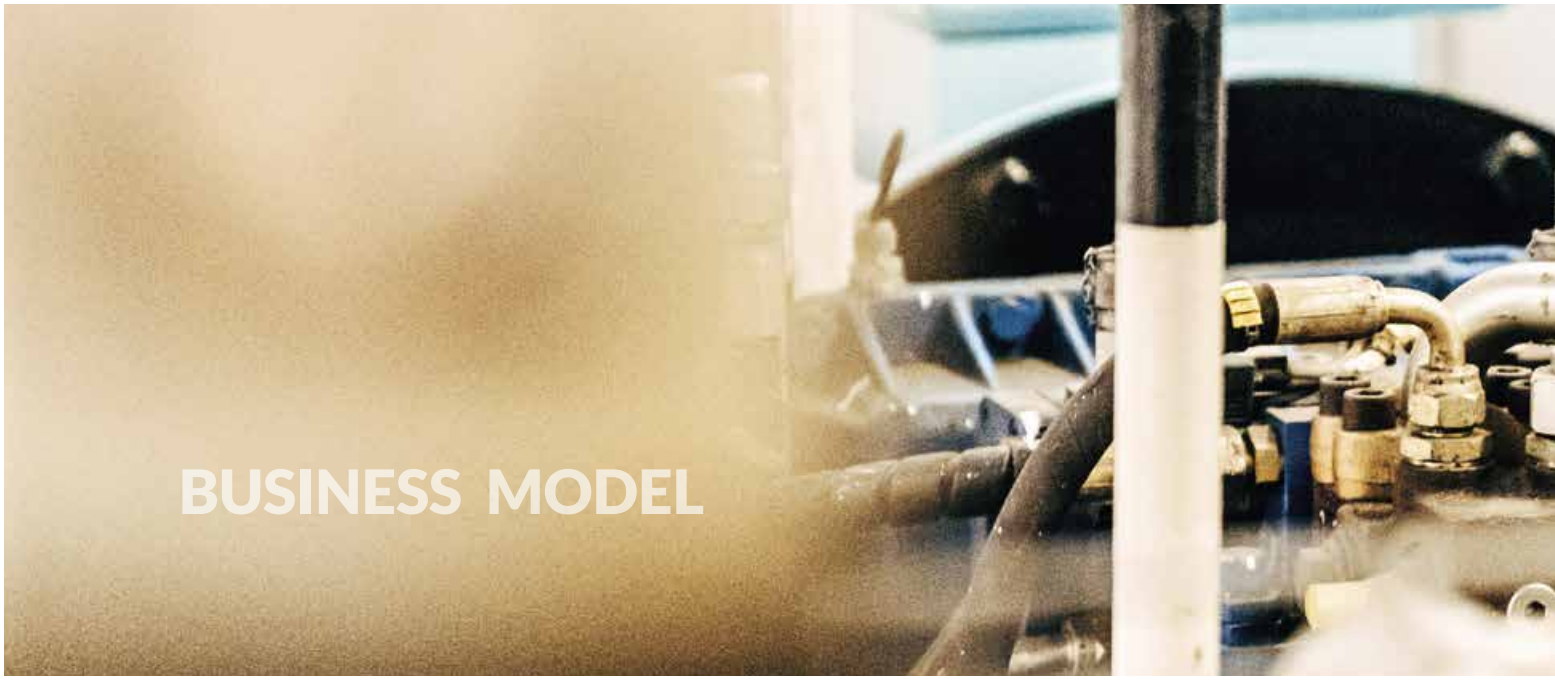
- It is important for wind farm owners to avoid unscheduled downtime, as that would reduce a wind turbine's power output. Customers use remote condition monitoring to avoid turbine breakdowns and optimise the timing of major component replacements. Our vessels are dedicated to operations & maintenance and are always ready to provide swift assistance to "keep the blades turning" at offshore wind farms.
- Blade repair provides important value for customers, as wear and tear of blades reduces the output of the turbines and consequently the profitability of wind farms.

CUSTOMER SEGMENTS

- There are two customer segments in the offshore wind industry; turbine manufacturers and wind farm operators.
- Turbine manufacturers include Siemens Gamesa Renewable Energy, MHI Vestas Offshore Wind and GE Renewable Energy. Wind farm operators are primarily utilities like Ørsted, RWE Renewables, Vattenfall, Northland Power, SSE, EnBW, Parkwind, Equinor, Eneco, among others. Once an offshore wind farm has been installed, turbine manufacturers normally provide operations & maintenance services under their warranty programmes, which typically extend for two to five years. It is customary for wind farm operators to assume full O&M responsibility when the warranty period ends.

COST STRUCTURE

- Owning a fleet of jack-up vessels requires a high initial investment that must be recouped over the life-time of the vessel.
- Operating a maritime organisation that serves offshore wind farms implies a predominantly fixed-cost structure with relatively limited variable costs. For example, staff, insurance, catering and other costs are fixed regardless of the level of activity.
- Providing turnkey solutions involves ZITON taking full responsibility for the solution and assuming all risk, including for the collaboration with sub-contractors. If the cost of a project exceeds budget, ZITON may be liable not only for its own costs, but also for those of its sub-contractors. This could severely increase ZITON's fixed cost base.



BUSINESS MODEL

REVENUE STREAMS

- To the extent possible, ZITON endeavours to secure longer-term contracts with customers to ensure predictability of revenue. Longer-term contracts may be in the form of time charter contracts or right-of-first refusal framework agreements. It may also be in the form of turnkey solutions that may provide comparable predictability on revenue.
- It may not be feasible to secure longer-term contracts with predictable revenue. As a result, revenue may vary significantly from quarter to quarter and significantly increase the risk of fluctuations in earnings and cash flows.

DIFFERENCE BETWEEN DEDICATED O&M SERVICE PROVIDERS AND PROVIDERS OF INSTALLATION JACK-UPS

There are some 25 jack-up vessels regularly operating in the offshore wind industry. Most of them are used for installing new wind farms. There are certain important differences between a dedicated O&M provider and a provider of installation jack-ups, such as:

- **Dedicated provider of O&M services**
  ZITON is the only dedicated provider of jack-ups for major component replacement. A dedicated provider operates vessels dedicated to O&M assignments like major component replacement, blade campaigns or decommissioning. Such vessels are not occupied by long-lasting installation assignments.

- **Coverage of all turbines from 2MW to 10MW and beyond**
  Our fleet of dedicated O&M jack-ups provides us with the flexibility and versatility to operate at almost every offshore wind farm in northern Europe, from 2.0 MW to over 10.0 MW. Our fleet allows us to offer our customers a cost-effective set-up for their particular needs to service locations with varying draft and soil.

- **Lower carbon footprint**
  Being lighter and smaller, O&M jack-ups consume less bunker fuel than their installation counterparts. Thus, not only does our fleet provide customers with a cost-effective set-up, it also allows customers to select the vessel that provides the industry's lowest carbon footprint. For more information, please refer to the ESG section of this annual report.

- **Technical capability of the vessel**
  To carry out O&M assignments, our vessels do not require a large deck space and crane lifting capacity, such as installation jack-ups generally do. Moreover, smaller crews are required to operate them. This means significantly higher OPEX and CAPEX for installation jack-ups than for dedicated O&M jack-ups and, accordingly, a need to charge higher charter rates. Thus, owners of installation jack-ups are less inclined to use their jack-ups for O&M purposes.

- **Experience of the crew**
  Crews with 10 years of experience are rarely seen in this young industry, but that is what we can provide at ZITON. Our crews have experience from working with a variety of wind turbine models, sites, ports and under various operating conditions. Everyone in our crews knows exactly the sequence and details of operations including the imperative of 'safety first' in all operations. The experience of our crews enables us to execute major component replacement with unrivalled efficiency. For further elaboration on our officer retention rate, please refer to the ESG section of this annual report.

- **Organisation**
  ZITON has a lean organisation, geared towards completing efficient major component replacement operations in a matter of days, and often at short lead times requested by customers. The costs of O&M operations would simply be too high for large organisations geared towards the complexity of projects with a duration of six months and beyond. We have invested significant resources in the ZITON Portal, which enables us to cost-effectively deliver project documentation and to collaborate with our customers on operations.

Corridor at J/U WIND.

RISK MANAGEMENT

At ZITON, we define risk as "anything that can adversely affect our ability to execute our strategy and achieve our objectives".

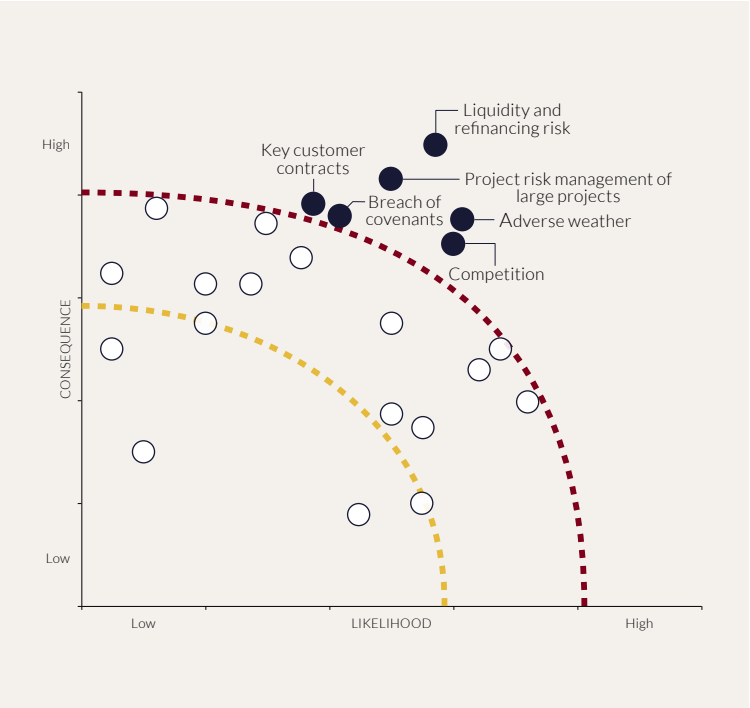
RISK MANAGEMENT PROCESS

The risk assessment process is anchored in the Executive Management team, which regularly reviews the process of risk identification, analysis, evaluation and considers which steps should be taken, as illustrated below. At regular board meetings, the Board of Directors and the Executive Management assess and discuss main changes to key risks.

Depending on their origin, risk factors are categorised as strategic, operational, financial or compliance risk. Financial risks, including risks related to credit, liquidity, interest rates and markets, are addressed in note 4.1 to the consolidated financial statements. Risk factors are not only perceived as risks, but also as opportunities to further develop the strategy. Strategic responses to risk factors may in some cases lead to an improved market position.

RISK HEAT MAP

To help visualise risks and opportunities, we prepare a heat map to illustrate the net risks after possible mitigation. Risk is defined as the combination of the likelihood of an event occurring and its consequences (defined as the impact on EBITDA and/or cash flow). The risks beyond the dotted red line are assessed to be the most significant risks to which the Company is exposed.



EVALUATION OF MAIN CHANGES TO RISK

The Board of Directors and the Executive Management have reviewed the risk assessment and compared it to the assessment in last year's annual report. One risk factor, "Turbine technology innovation", has been reduced and is no longer considered significant in terms of the combined risk of consequence and likelihood. This risk factor mainly consisted of the industry's continued emphasis on building larger and larger turbines. While turbines continue to increase in size, the Board believes that with the bareboat charter of, and the option to acquire, J/U WIND ENTERPRISE, the company will over the next five years be capable of servicing more than 90% of turbines installed.

In the Board's assessment, four risk factors have an increased risk. These are "liquidity and refinancing risk", "project management of large projects", "adverse weather" and "breach of covenants". These risk factors are elaborated upon in the table below.

The Board has also reviewed the potential impact of 'Brexit'. In 2019, ZITON generated about 69% of its revenue in the UK, as can be seen from note 2.1 to the consolidated financial statements. Accordingly, the UK market is of substantial importance, but management believes that 'Brexit' will not create trade barriers that will prevent ZITON from operating in the UK. However, there may be short-term disruptions to trade and, as a precaution, ZITON has established ZITON Ltd. in order to be able to continue doing business in the UK. Further, ZITON has established a business continuity plan concerning how to ensure free movement of people and vessels in and out of UK territory in the unlikely event that trade barriers are established.

The Board has also reviewed the potential impact of the virus that is causing the COVID-19 disease. The potential impact on ZITON is the risk that vessel crews are quarantined and not allowed or able to operate the vessels because someone from the crew has been infected, or delays caused by other parties in the value chain beyond the control of ZITON. ZITON has taken a number of precautions to avoid quarantine of vessel crews, which are based on the recommendations from the Danish Health Authorities, and we are continuously informing all ZITON employees and subcontractors of any changes in the recommendations.

THE SIX MOST IMPORTANT RISK FACTORS SHOWN IN THE RISK HEAT MAP ARE ELABORATED UPON BELOW

RISK FACTORS	POSSIBLE CAUSES	POTENTIAL CONSEQUENCES	ENSUING MITIGATION
Liquidity and refinancing risk	· Liquidity and refinancing risk include the risk of the group experiencing liquidity shortage and/or the inability to refinance its maturing bond loan and credit lines as needed · ZITON has bareboat chartered J/U WIND ENTERPRISE from May 2019 until March 2021 with an option to acquire the vessel. If the option is not exercised by 20 December 2020, the company is liable to pay a breakaway fee	· If ZITON does not have the liquidity available to pay its obligations as they fall due, the company may be forced to seek to refinance its credit facilities, renegotiate terms of its bond loans and working capital facility, or otherwise get a capital injection · If ZITON is not able to refinance or renegotiate bond loans and credit facilities or otherwise get a capital injection, the company may have to seek receivership protection	· In April 2020, the restructuring of corporate loans and a new working capital facility collectively improved liquidity by up to EUR 14.3 million. Please refer to the Capital Structure section for more information
Project risk management of large projects	· ZITON provides turnkey solutions for blade repair, decommissioning etc. For turnkey solutions, we assume a much higher scope and risk than for a traditional time charter and also charge a fixed price per intervention. Risks involve cost overruns, extended project duration, and possible related liabilities caused by project delays or deviations from plans	· Project-related expenses increased from EUR 1.2 million in the second half of 2018 to EUR 4.9 million in the second half of 2019, as shown in the table on page 67. This increase is primarily a result of the costs of providing a turnkey solution for the WoDS blade campaign. Thus, turnkey projects increase the operational leverage and breakeven level for the company	· Good project planning to mitigate unforeseen events · In contract negotiations ensure that we do not take on excessive risks that cannot be effectively mitigated or controlled, such as adverse weather
Adverse weather	· Safe operations of a jack-up vessel and crane require wave heights, wind speeds etc. within certain parameters · Periods of adverse weather occur throughout the year, but are more frequent during the winter period	· In fixed price contracts (but not charter contracts) the risk of adverse weather lies with the company. The cost to the company can be longer idle periods for the vessels	· ZITON accepts that the risk of adverse weather is part of doing business in our industry, but excessive risks should be avoided. However, the company has extensive experience in planning operations and utilising periods of good weather for efficient O&M services

RISK FACTORS	POSSIBLE CAUSES	POTENTIAL CONSEQUENCES	ENSUING MITIGATION
Competition	· ZITON is clearly the current market leader within dedicated O&M services for major component replacements at offshore wind farms · Companies with jack-ups used for new wind farm installations may offer O&M services if there is inadequate demand for installation of new wind farms, or if turbines become too large for them to install · New industry players may invest in jack-ups to offer major component replacements	· Excess capacity of jack-up vessels could lead to low utilisation rates and price competition	· Seek to increase differentiation from the competition and create value to customers that peers are unable to match · Build barriers to entry that will make ZITON's dedicated O&M services more difficult to compete with
Breach of covenants	· ZITON's credit facilities loan agreements include financial covenants that if broken involve default on the credit facilities. Further information regarding covenants are available in the Capital Structure section, and in note 4.3	· If we breach our financial covenants, the credit facilities fall due for repayment. Thus, if ZITON is not able to obtain alternative financing the company may go into receivership	· The owners of ZITON injected additional capital at the end of 2019. In April 2020, covenants for subordinated capital ratio were waived until 31 December 2020. Please refer to the Capital Structure section for more information
Key customer contracts	· ZITON relies on being able to fulfil contracts with its key customers to secure future revenue. The inability to meet requirements of contracts with key customers would have material consequences for the company's cash flows. In the medium term, the company relies on the prolongation of existing contracts or on winning new contracts	· Contracts with Siemens Gamesa Renewable Energy, Ørsted, Vattenfall and MHI Vestas collectively account for most of the 2019 revenue	· ZITON believes that the best means of retaining customers is to provide value to customers by offering turnkey solutions, by being a dedicated O&M supplier with a diverse fleet, experienced crew and by having an organisation geared to provide efficient O&M services

ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measures ("APMs") are non-IFRS financial measures used as supplements to financial statements.

APMS	DEFINITION	RECONCILIATION
Weighted average utilisation rate	Weighted average utilisation rate is calculated as vessel revenue plus other operating income less project-related expenses during the period divided by full utilisation at standard rates. The combined standard rate for the four vessels is EUR 185k per day. Each vessel has a different weighting depending on its specifications	Revenue – non-vessel-related revenue + other operating income (during the period) less project-related expenses / EUR 185k * days (in the period) * 100
EBITDA	EBITDA is short for Earnings Before Interest, Tax, Depreciation and Amortisation	Income before tax + financial payments, net + depreciation and amortisation
EBITDA margin	EBITDA divided by Revenue	Income before tax + financials, net + depreciation and amortisation / revenue * 100
Cash flows from operating activities	Cash flows from operating activities is defined as EBITDA less working capital adjustments and other adjustments	Income before tax + reversal of financial expenses, net + depreciation and amortisation + other adjustments + working capital adjustments
Subordinated capital	Subordinated capital consists of equity, subordinated loan and a second lien bond. Subordinated capital ranks last if the company goes into liquidation	Equity + subordinated loan + second lien bond loan + equity adjustments related to the effect of "call-option to purchase a Temporary Chartered Vessel shall be excluded"
Subordinated capital ratio	Subordinated capital ratio is subordinated capital as a percentage of total assets	Equity + subordinated loan + second lien bond loan + equity adjustments related to the effect of "call-option to purchase a Temporary Chartered Vessel shall be excluded" / total assets less adjustments related to the effect of "call-option to purchase a Temporary Chartered Vessel shall be excluded" * 100
Net Interest-Bearing Debt (adjusted for capitalised financing costs)	Net Interest-Bearing Debt ("NIBD") is senior debt with the highest priority level. It ranks ahead of subordinated debt if the company goes into liquidation	Bond loan, first lien (adjusted for capitalised financing costs) + lease obligations + amount drawn on working capital facility less cash and cash equivalents
Loan to Vessels ratio	The Loan to Vessels ratio expresses NIBD (adjusted for capitalised financing costs) compared to the book value of the company's vessels	Net Interest-Bearing Debt (adjusted for capitalised financing costs) / vessels * 100
Available liquidity	The liquidity available to the company less cash on retention account, which is provided as security for the company's credit facilities, plus available working capital credit facilities	Cash and cash equivalents less cash on retention account less draw on working capital facility + available draw on facility
Liquidity	The liquidity available to the company less cash on retention account, which is provided as security for the company's credit facilities	Cash and cash equivalents less cash on retention account

ZITON presents its consolidated financial statements in accordance with generally accepted accounting practices (IFRS). Accordingly, key figures and ratios have been prepared in accordance with CFA Society Denmark's online version of "Recommendations & Ratios". In addition, ZITON presents APMs according to the Directives of European Securities and Markets Authority ("ESMA"). Management uses APMs in its decision-making and to evaluate the performance of the company. Furthermore, APMs present useful information which supplements the financial statements. APMs are not defined under IFRS and may not be directly comparable with APMs for other companies. Set out below are details of disclosures required by ESMA on definition, reconciliation, explanation of use, comparisons and coherence of each APM.

EXPLANATION OF USE	COMPARISON	COHERENCE
The weighted average utilisation rate at standard day rates expresses our ability to effectively utilise and capture the value of our fleet of vessels. This performance measure is a key driver of profitability	Prior-year comparative figures are presented in the "How we measure performance" section. However, J/U WIND ENTERPRISE was included in Q2 2019 when the vessel was bareboat chartered	The criteria used to calculate the weighted average utilisation rate are unchanged from last year with the exception that project-related expenses are deducted. Project-related costs are deducted as the purpose of the weighted average utilisation rate is to show the utilisation of the vessels alone, without turnkey revenue
EBITDA is a good approximation of pre-tax operating cash flow before working capital variations. This performance measure is a key driver of overall operational efficiency	Prior-year comparative figures are presented in the "Key figures" section	We applied the modified retrospective approach when implementing IFRS 16. Hence, in 2018, operational leases were included in administrative expenses. In 2019 they are included in depreciation and financial expenses. All other criteria used to calculate EBITDA are unchanged
EBITDA margin is a good measure of operating efficiency	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate the EBITDA margin are unchanged from last year, with the effect on EBITDA of IFRS 16 elaborated upon above
Cash flows from operating activities is a good measure of the company's cash generating power, and the ability to pay interest, service loans and carry out investments	Prior-year comparative figures are presented in the "Key figures" section	The definition of cash flows from operating activities has been changed from 2018 when we also deducted financial payments. Part of finance leases are included in financial expenses in 2019. In 2018, they were included in administrative expenses, consequential to implementation of IFRS16
Subordinated capital can be considered risk capital provided to the company. It consists of equity and loans that are subordinated to the first lien bond loan, working capital facility and guarantees	Prior-year comparative figures are presented in the "Key figures" section	Compared to prior years, a second lien bond loan was issued in Q4 2018 and forms part of the subordinated capital
The subordinated capital ratio is the only maintenance covenant defined in the company's loan agreements. Clause 13.15 (c) (v) states "in the calculation of the Net Interest-Bearing Debt and Subordinated Capital Ratio, the purchase price under any call-option to purchase a Temporary Chartered Vessel shall be excluded"	Prior-year comparative figures are presented in the "Key figures" section	Compared to prior years, a second lien bond loan was issued in Q4 2018 and forms part of the subordinated capital. Further, because we applied the modified retrospective approach when implementing IFRS 16, finance leases are now capitalised in the balance sheet, which has the effect of increasing total assets
NIBD (adjusted for capitalised financing costs) is a measure of the senior debt less cash and cash equivalents	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate NIBD (adjusted for capitalised financing costs) are unchanged from previous years
The Loan to Vessels ratio is considered a quick way for investors to assess the security of the company's vessels relative to the loans provided	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate the Loan to Vessels ratio is unchanged from previous years, with the effect on NIBD of IFRS 16 elaborated upon above
Available liquidity is a good measure of the liquidity available to the company incl. drawing rights on the working capital facility for paying interest and instalments and withstanding variations in future operating cash flows	Prior-year comparative figures are presented in the "Review of cash flows for 2019" section of the financial statements	The criteria used to calculate available liquidity are unchanged from previous years
Liquidity is a good measure of the liquidity available to the company and its ability to pay interest and instalments and to withstand variations in future operating cash flows	Prior-year comparative figures are presented in the "Review of cash flows for 2019" section of the financial statements	The criteria used to calculate liquidity are unchanged from previous years

HOW WE MEASURE PERFORMANCE

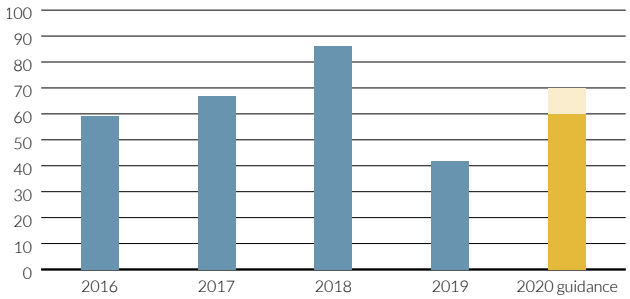
The Board of Directors and Executive Management monitor a number of key performance indicators ("KPIs") to evaluate the performance of our strategy over time.

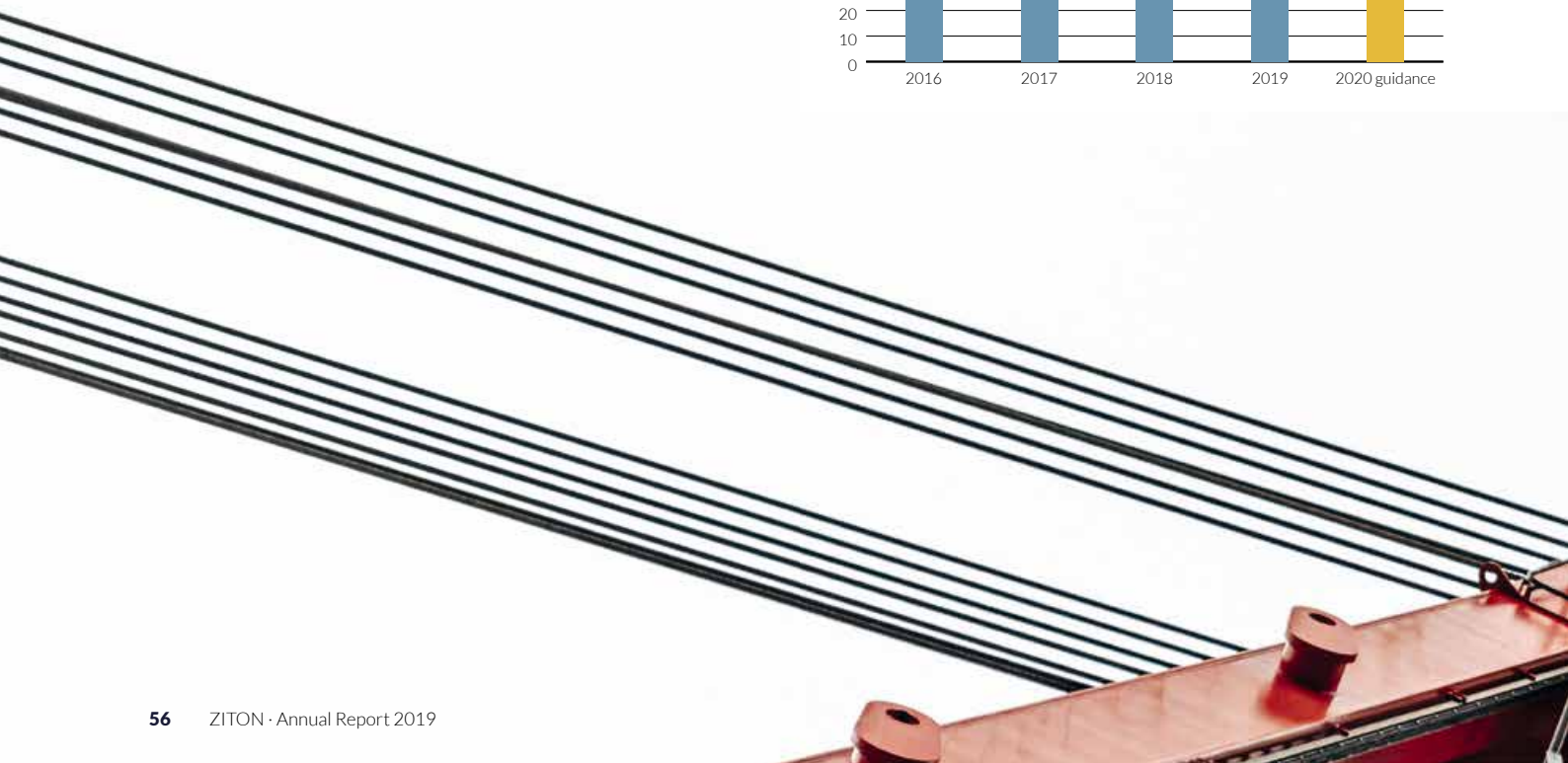
The Board of Directors and the Executive Management monitor a number of KPIs to evaluate the performance of our strategy over time. The KPIs applied are both financial and operational, internal and external, leading and lagging indicators. KPIs are maintained for various purposes in the organisation. To monitor the operational performance of individual vessels, we employ BIMCO's Shipping KPI system. At group level, we monitor, among other things, HSEQ reporting, vessel utilisation, day rates, return on invested capital and employee turnover. The three main KPIs, disclosed externally, are elaborated upon below. For specific definitions of the KPIs and an explanation of use, please refer to the section Alternative Performance Measures.

WEIGHTED AVERAGE UTILISATION RATE

In March 2016, J/U WIND SERVER entered into a three-year time charter with Siemens Gamesa Renewable Energy. This provided stable base utilisation of the company's fleet from 2016 to 2018. In 2018, the utilisation of J/U WIND and J/U WIND PIONEER improved markedly, resulting in a weighted average utilisation rate of 86% in that year. Utilisation declined significantly to 42% in 2019, primarily because the utilisation of J/U WIND SERVER dropped markedly when the three-year charter expired. The vessel continued on the West of Duddon Sands ("WoDS") blade campaign for which the initiation was delayed by a couple of months. We experienced a steep learning curve when the project was initiated and later suffered damage to a blade lifting system as well as adverse weather conditions. Furthermore, J/U WIND and J/U WIND PIONEER had very strong utilisation rates in 2018. The projected improvement in utilisation reflects, among other things an improvement in the execution of the WoDS blade campaign in 2020.

Weighted average utilisation rate
Per cent





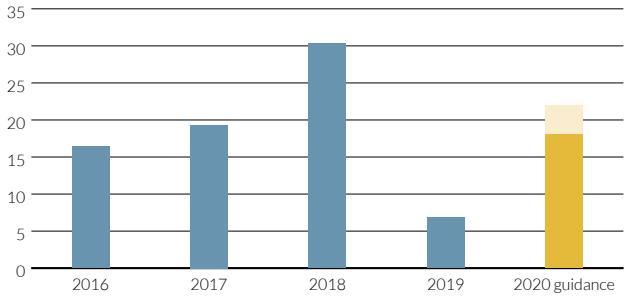
EBITDA

EBITDA improved steadily from 2016 to 2018, mainly as a consequence of the improved vessel utilisation. In 2019, EBITDA declined sharply as a result of the lower vessel utilisation rate, and the fact that ZITON's cost base mainly consists of a high percentage of fixed operating costs and a low percentage of variable costs. Consequently, as vessel utilisation and revenue declined, it caused a notable reduction of EBITDA. The projected improvement for 2020 reflects the higher expected vessel utilisation rate.

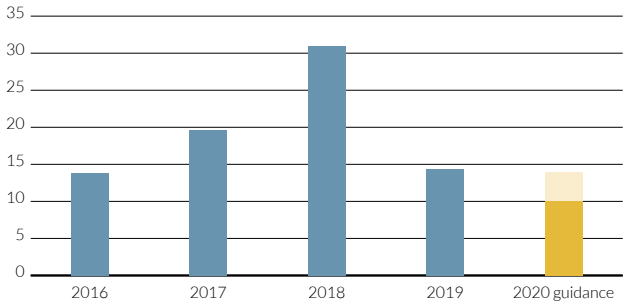
CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities are defined as EBITDA less working capital and other adjustments. Consequently, cash flows from operating activities is a good indication of the company's cash flow generation power. Cash flows from operating activities increased from 2016 to 2018, in line with the improvements in EBITDA. In 2019, the decline in cash flows from operating activities were relatively lower than the decline in EBITDA. The reason is that ZITON in 2019 received an advance payment for the WoDS blade campaign amounting to approximately EUR 6.5m. The projection for 2019 reflects the improved vessel utilisation rate expected and the resulting higher EBITDA offset by expectations that the advance payment will be reversed in 2020.

EBITDA
EUR million



Cash flows from operating activities
EUR million



2019 PERFORMANCE REVIEW

The following is a review of the guidance provided to bondholders in terms of our performance in 2019.

We provided initial guidance to the bondholders at the release of our Q4 2018 interim report published on 28 February 2019. We guided EBITDA of EUR 21-25m.

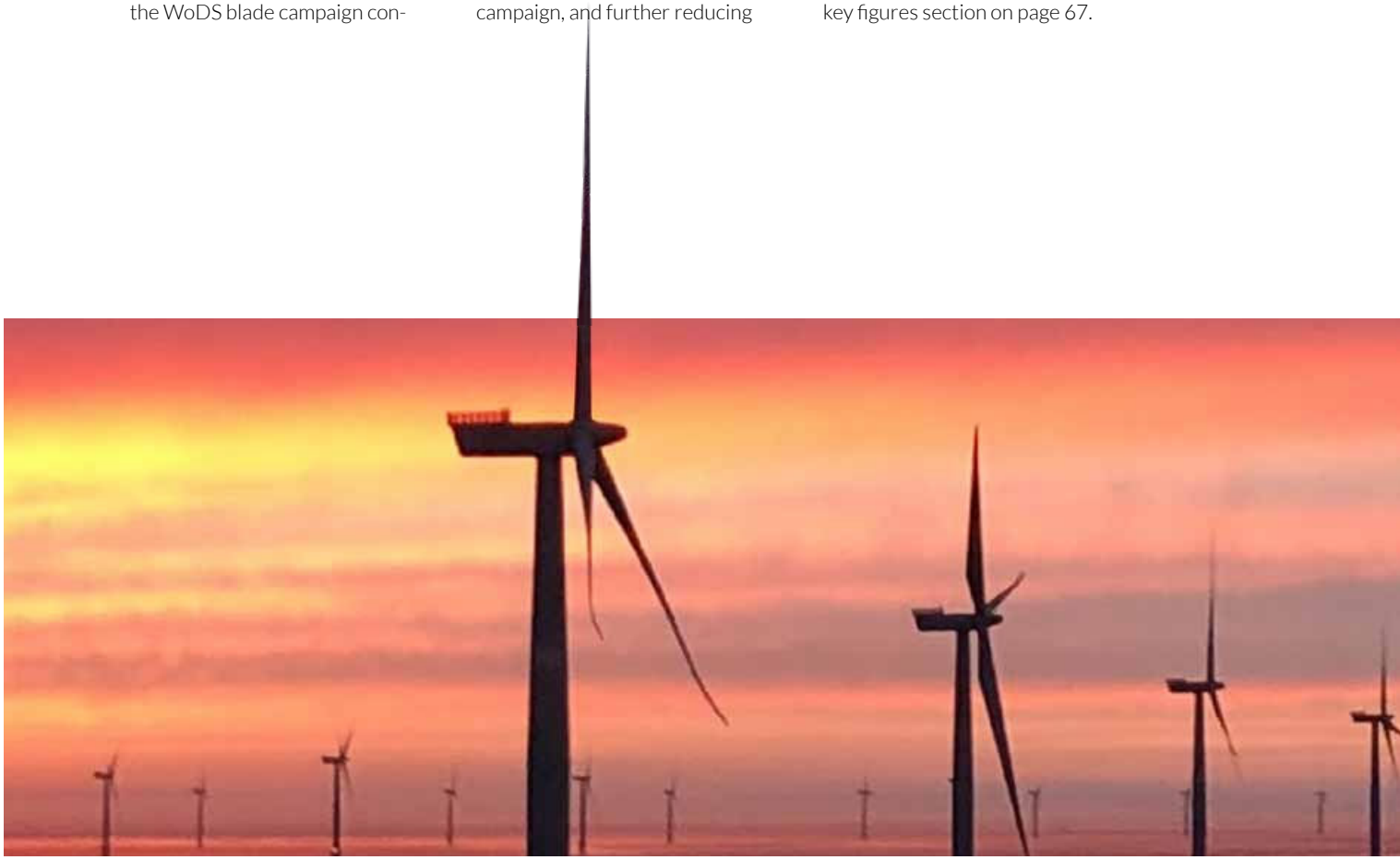
Our performance in the first half of 2019 was worse than expected mainly due to the delayed initiation of the West of Duddon Sands ("WoDS") blade campaign, costs to extend the crane boom on J/U WIND ENTERPRISE and lower-than-expected utilisation of J/U WIND and J/U WIND PIONEER. Consequently, we lowered our EBITDA guidance on 27 August 2019 to EUR 15-19m.

The mediocre performance at the WoDS blade campaign continued in Q3 2019, and utilisation of J/U WIND and J/U WIND PIONEER was also lower than anticipated. As a result, we lowered our EBITDA guidance on 4 November 2019 to the lower end of the EUR 15-19m range.

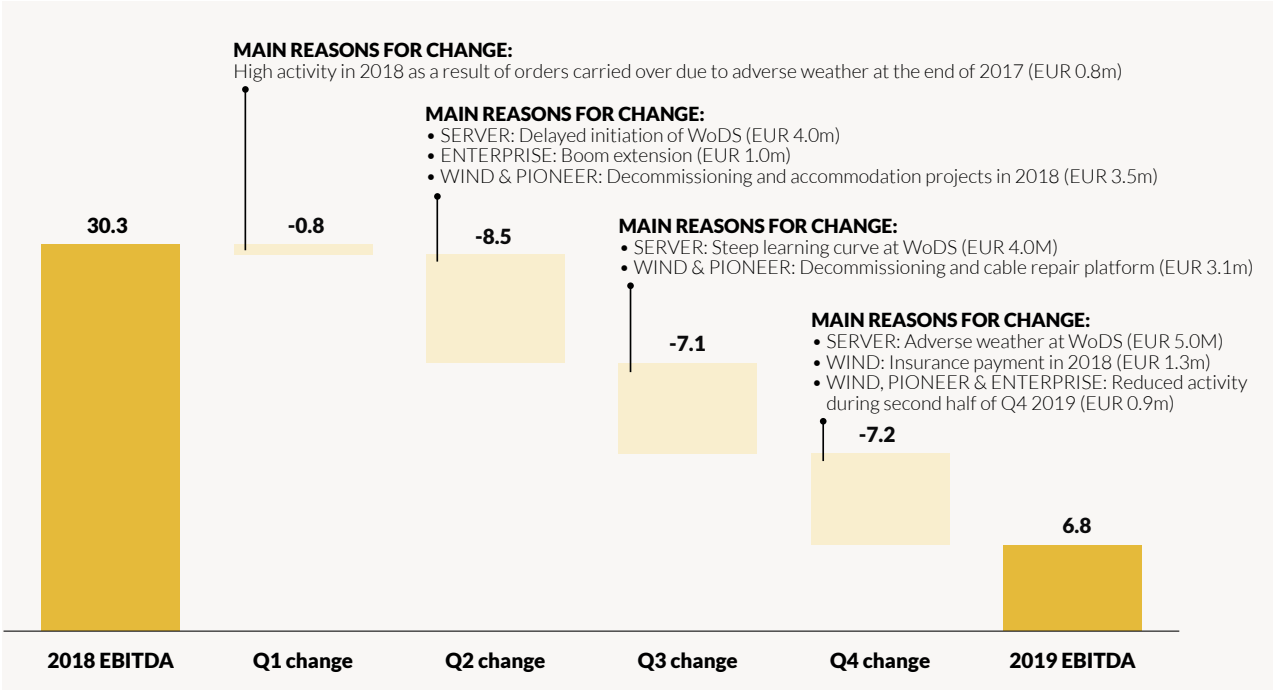
The misfortunes of the WoDS blade campaign continued into Q4 2019, with damage occurring to a blade lifting system along with adverse weather conditions. As a result, we lowered the adjusted EBITDA guidance on 4 December 2019 to EUR 8-10m.

The adverse weather continued during December, negatively impacting the WoDS blade campaign, and further reducing operating activity for J/U WIND, J/U WIND PIONEER and J/U WIND ENTERPRISE, all of which had a negative effect on ZITON's EBITDA, which ended the full year 2019 at EUR 6.8m.

EBITDA amounted to EUR 6.8m in 2019 compared to EUR 30.3m in 2018. The main reason for the decline was the lower level of activity, project-related expenses for the WoDS blade campaign and higher vessel OPEX for J/U WIND ENTERPRISE. The illustration to the right shows the variation in EBITDA from 2018 to 2019 quarter by quarter. Quarterly figures from Q1 2018 to Q4 2019 are also available in the key figures section on page 67.



	INITIAL GUIDANCE FEBRUARY 2019	REVISED GUIDANCE AUGUST 2019	REVISED GUIDANCE NOVEMBER 2019	REVISED GUIDANCE DECEMBER 2019	ACTUAL 2019 FEBRUARY 2020
WEIGHTED AVERAGE UTILISATION RATE	75-85%	60-70%	Lower end of 60-70%	No specific guidance	42%
EBITDA	EUR 21-25m	EUR 15-19m	Lower end of EUR 15-19m	EUR 8-10m	EUR 6.8m
CASH FLOWS FROM OPERATING ACTIVITIES	EUR 19-23m	EUR 13-17m	EUR 13-17m	No specific guidance	EUR 12.4m
CAPEX	Up to EUR 4m	Up to EUR 4m	Up to EUR 4m	No specific guidance	EUR 3.5m



OUTLOOK FOR 2020

The 2020 guidance is based on various assumptions for market developments for major component replacements and blade campaigns, volume of business based on current agreements with customers, failure rates of turbines installed and our ability to provide cost-effective solutions for projects requiring a jack-up vessel like blade campaigns, decommissioning assignments etc. Furthermore, the guidance is based on specific assumptions for an expected improvement in the execution of the West of Duddon Sands ("WoDS") blade campaign. The guidance also reflects that ZITON has J/U WIND ENTERPRISE on bareboat charter for the full year 2020, compared to seven months in 2019. In addition, the guidance reflects the challenge posed by adverse weather during the first two months of 2020, resulting in very low activity in the beginning of the year. The following sets out our guidance for our key performance indicators in 2020.

Weighted average utilisation rate

We expect a utilisation rate in the range of 60%-70%.

EBITDA

We expect EBITDA to be in the range of EUR 18-22m.

Cash flow from operating activities

is defined as EBITDA less changes in working capital. We expect cash flows from operating activities of EUR 10-14m. Towards the end of 2019, ZITON received an advance payment for the WoDS blade campaign amounting to approximately EUR 6.5m. The forecast assumes that the cash flows from operating activities will be an outflow as the advance payment is expected to be reversed in 2020.

CAPEX

We expect CAPEX of up to EUR 4.0m.

Crane at J/U WIND.


1600 rpm
CLASS
30

CAPITAL STRUCTURE

In April 2020, the company's available liquidity was strengthened by up to EUR 14.3 million in a solution agreed with the company's debtholders and shareholders. The financial leverage increased during the prior two years following refinancing in October 2018, and the bareboat charter of J/U WIND ENTERPRISE in May 2019.

The financial performance in 2019 turned out to be significantly worse than had been expected at the beginning of 2019, as described in the section "2019 Performance Review".

Consequently, the company's liquidity and capital structure were severely challenged towards the end of 2019. In December 2019, Siemens Gamesa Renewable Energy supported ZITON by making an advance payment equivalent to EUR 6.5 million on the West of Duddon Sands ("WoDS") blade campaign. The advance payment was supported by a performance guarantee that was approved by bondholders on 18 December 2019. In addition, the majority shareholder, BWB Partners, provided DKK 15 million in new equity.

Unfortunately, the challenges continued into 2020 following two months of adverse weather that had a negative impact on performance at the WoDS blade campaign.

During Q1 2020, a process was initiated to strengthen liquidity and create a sustainable capital structure for the company. As a first step, the terms of the company's corporate loans have been amended, which is to be followed by a capital issue of EUR 10 million in subordinated capital during 2020.

In April 2020, the corporate loans were restructured, and a new working capital facility was provided, collectively improving the company's available liquidity by up to EUR 14.3 million. The strengthened liquidity and revised capital structure were implemented with the support of all existing providers of capital.

Bondholders of the 1st lien bond approved on 6 April 2020 a proposal to:

- Extend the maturity of the loan by 1 year to 3 October 2022;
- Waive covenants for the subordinated capital ratio until 31 December 2020;
- Postpone semi-annual amortization payments from 3 April 2020 and 3 October 2020 by one year to 3 April 2021 and 3 October 2021 respectively. Improving the liquidity of a total of EUR 5.0 million in 2020, and;
- Option for the company to postpone quarterly interest payments on 3 April 2020 and 3 July 2020 until the bonds mature, improving the liquidity by up to EUR 3.3 million.

The bondholders of the 2nd lien bond approved on 6 April 2020 a proposal to:

- Extend the maturity of the loan by one year to 3 April 2023, and;
- Waive covenants for the subordinated capital ratio until 31 December 2020.

The subordinated loan provider approved a proposal to:

- Extend the maturity of the loan by one year to 3 October 2023, and;
- Waive covenants for the subordinated capital ratio until 31 December 2020.

The bondholders and subordinated capital providers are compensated by, among other things, an increase in the coupon of 1 percentage point, a new EBITDA covenant and an improved call structure for early repayment. Detailed terms of the amendments to the bond terms are available in note 4.3 to the financial statements. Furthermore, ZITON will seek to implement a capital issue of EUR 10 million in subordinated capital before the end of 2020.

To further strengthen the capital available to the company, ZITON's majority shareholder and providers of the 2nd lien bond and the subordinated loan capital have provided an additional working capital facility of up to EUR 6 million as a supplement to the current working capital facility provided by ZITON's bank. The capital providers will make EUR 3 million available immediately and EUR 3 million is intended to be made available, subject to administrative and legal approvals for the capital providers.

CAPITAL STRUCTURE

The illustration below shows how the capital structure of ZITON evolved from 2017 to 2019. Vessels made up 97% of assets at the end of 2019.

Financing of the vessels are illustrated below to the right. In October 2018, ZITON issued a three-year EUR 100 million first lien bond loan and a three-and-a-half year EUR 25 million second lien bond loan. Proceeds from the bond issues were used to refinance the outstanding bond, acquire shares in the subsidiary Jack-Up InvestCo 3 Plc., repay part of the subordinated debt and to pay transaction costs.

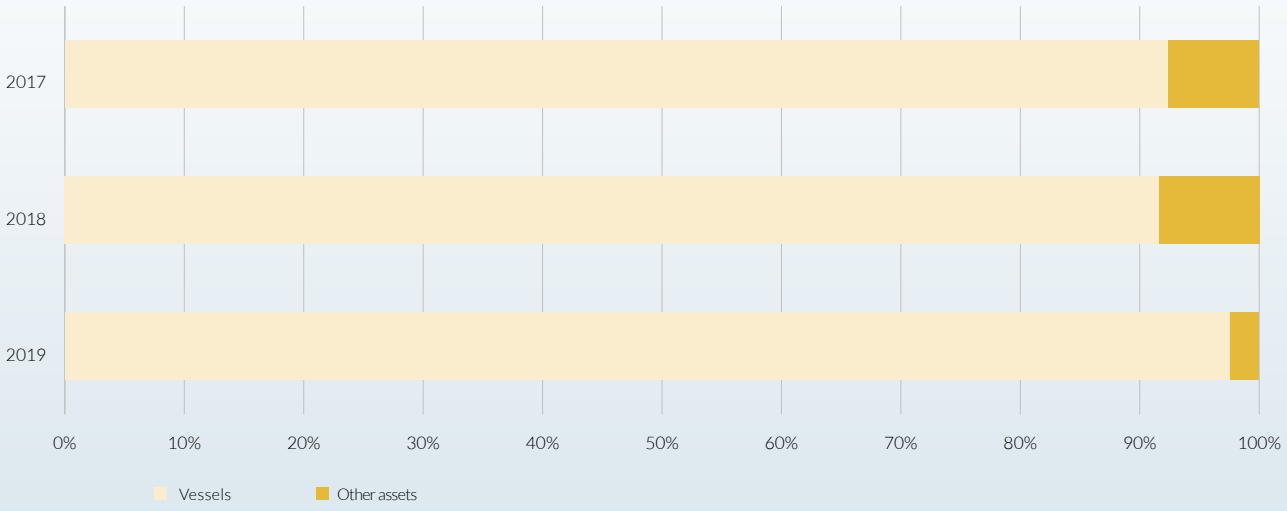
Jack-Up InvestCo 3 Plc. was established in 2013 as a joint venture between ZITON A/S and Blue Water Capital S.A. to construct J/U WIND SERVER. Jack-Up InvestCo 3 Plc. was fully consolidated in ZITON's financial statements at the end of 2017. As a result, Blue Water Capital's share of equity was accounted for as non-controlling interests at the end of 2017, amounting to EUR 19.0 million. ZITON A/S acquired the 50% ownership interest held by Blue Water Capital S.A. in October 2018. As a result, the non-controlling interests were eliminated from ZITON's financial statements.

Furthermore, a partial repayment of EUR 17.0 million of the subordinated loan was completed during the refinancing in October 2018.

As part of the refinancing, the non-controlling interests and partially repaid subordinated loan, amounting to EUR 36.0 million, were partially replaced by a new second lien bond loan of EUR 25 million. The net effect of EUR 11.0 million constituted an increase in financial leverage and resulted in the non-controlling interests being replaced by the second lien bond loan.

In May 2019, ZITON bareboat chartered J/U WIND ENTERPRISE until 31 March 2021. As part of the agreement, ZITON was given an option to acquire the vessel. According to IFRS 16, the bareboat charter commitments and the price at which the option can be called is discounted and capitalised in the balance sheet as assets and lease liabilities. The option to acquire J/U WIND ENTERPRISE can be exercised until 20 Decem-

ASSETS



ber 2020. If ZITON does not exercise the option, the company will be liable to pay a breakaway fee. The bareboat charter of J/U WIND ENTERPRISE constitutes almost the entire amount of the lease liabilities of EUR 43.4 million at the end of 2019.

Furthermore, the financial leverage has increased as a result of negative net income during the last two years. This has reduced equity from EUR 14.8 million at the end of 2017 to minus EUR 5.4 million at the end of 2019.

The equity is owned by BWB partners, Dansk Bjergning og Bugsering Holding ApS, OY Finans ApS and management.

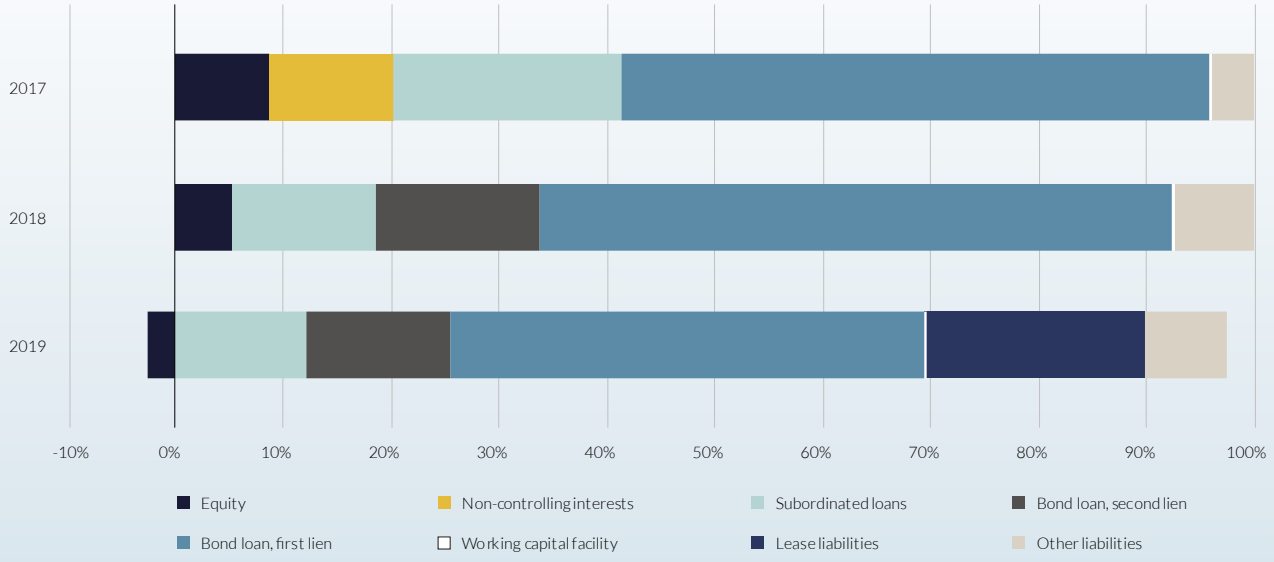
The subordinated loan matures on 3 October 2023 (extended by one year from 3 October 2022) and was provided by a Danish pension fund. There are no instalments on the subordinated loan, and interest accrues until maturity. Interest is a floating coupon of 3M CIBOR + 15.0% (increased from 3M EURIBOR + 14.0% on 8 April 2020).

The second lien bond matures on 3 April 2023 (extended by one year from 3 April 2022). There are no instalments on the second lien bond loan and interest accrues quarterly until maturity. Interest is a floating coupon of 3M EURIBOR + 12.85% (increased from 3M EURIBOR + 11.85% on 6 April 2020).

The first lien bond matures on 3 October 2022 (extended by one year from 3 October 2021). It bears a floating coupon of 3M EURIBOR + 7.9% (increased from 3M EURIBOR + 6.9% on 6 April 2020) with quarterly interest payments. The bond has fixed amortisation of EUR 2.5m on 3 April 2021 and 3 October 2020, as amortisations in 2020 have been waived.

The current working capital facility is provided by ZITON's bank and it is renewed annually. The providers of the current and second working capital facility and the bond loans make up a joint security package with security in all three vessels owned by the company. The main items of the security package are set out in note 6.1 to the financial statements.

LIABILITIES



KEY FIGURES

EUR '000	IFRS 2015	IFRS 2016	IFRS 2017	IFRS 2018	IFRS 2019
Income statement					
Revenue	9,138	29,042	33,227	45,504	33,572
EBITDA	-966	16,411	19,257	30,348	6,844
Net financial expenses	-14,221	-13,186	-13,168	-17,624	-16,999
Income before tax	-21,154	-4,550	-1,841	4,799	-20,025
Income after tax	-16,524	5,804	-2,984	-1,283	-15,549
Balance sheet items					
Non-current assets	173,108	167,370	161,011	153,424	195,586
Current assets	2,756	6,398	6,720	13,908	4,939
Total assets	175,864	173,768	167,731	167,332	200,526
Equity	42,580	36,824	33,843	8,902	-5,267
Equity and subordinated capital	71,892	69,197	69,403	56,483	48,807
Current liabilities	5,983	10,975	8,703	7,278	16,430
Cash flows					
Net cash flows from operating activities	-1,085	13,790	19,566	31,010	12,369
Net cash flows before investment activities	-15,071	4,049	10,401	18,416	3,109
Net cash used in investing activities	-11,061	-2,378	-1,474	-24,235	-3,477
Net cash used/received in financing activities	25,029	-2,500	-5,500	13,933	-8,465
Net change in cash and cash equivalents	-1,103	-829	3,427	8,114	-8,833
Financial ratios and other key figures					
EBITDA margin	-10.6%	56.5%	58.0%	66.7%	20.4%
Subordinated capital ratio	40.9%	39.8%	41.4%	33.8%	33.8%
NIBD (adjusted for capitalised financing costs)	99,888	98,209	89,412	89,321	135,282
Loan to vessel ratio	60.0%	61.0%	57.9%	58.3%	69.4%
Total number of operating vessels (average)	2	3	3	3	4

Key ratios have been prepared in accordance with CFA Society Denmark's online version of "Recommendations & Ratios".
Financial ratios and other key figures are described in the management review section "Alternative Performance Measures".

EUR '000 Quarterly key figures at a glance	Q1-19	Q2-19	Q3-19	Q4-19
Revenue	9,693	5,560	8,711	9,608
Other operating income	488	-	-	-
Project-related expenses	-232	-235	-1,965	-2,957
Operational expenses	-2,186	-3,656	-4,725	-5,904
Gross profit	**7,763**	**1,669**	**2,021**	**746**
SG&A	-1,199	-1,461	-1,060	-1,636
EBITDA	**6,564**	**208**	**961**	**-889**
Subordinated capital ratio	35.4%	32.8%	32.7%	33.8%
Weighted average utilisation	76%	34%	34%	31%

Quarterly key figures at a glance	Q1-18	Q2-18	Q3-18	Q4-18
Revenue	11,088	12,967	12,154	9,294
Other operating income	-	-	-	1,340
Project-related expenses	-828	-577	-616	-557
Operational expenses	-1,863	-2,394	-2,354	-2,574
Gross profit	**8,397**	**9,996**	**9,184**	**7,503**
SG&A	-1,064	-1,301	-1,128	-1,240
EBITDA	**7,333**	**8,695**	**8,056**	**6,263**
Subordinated capital ratio	42.2%	43.6%	44.2%	33.8%
Weighted average utilisation	82%	97%	88%	76%

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The Executive Management and the Board of Directors have today considered and approved the annual report of ZITON A/S for the financial year 1 January to 31 December 2019.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of the parent company are prepared in accordance with the Danish Financial Statements Act. The management commentary is also prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the financial statements of the parent company give a true and fair view of the financial position at 31 December 2019 of the Group and the parent company and of the results of the Group's and the parent company's operations and the Group's consolidated cash flows for the financial year 2019.

In our opinion, the management commentary provides a fair review of the development in the operations and financial circumstances of the Group and the parent company, of the results for the year and of the financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty, which the Group and the parent company are facing.

We recommend that the annual report be adopted at the annual general meeting.

Horsens, 23 April 2020

EXECUTIVE MANAGEMENT

Thorsten Henrik Jalk

BOARD OF DIRECTORS

Vagn Lehd Møller
Chairman

Henrik Kleis

Esben Bay Jørgensen

Ove Carsten Eriksen

Lars Thorsgaard Jensen

Morten Melin

INDEPENDENT AUDITOR'S REPORT

OPINION

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of ZITON A/S for the financial year 1 January - 31 December 2019, which comprise income statement and statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, notes including accounting policies, for both the Group and the Parent Company. The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and the Parent Company financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group and of the results of the Group operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Further in our opinion the Parent Company Financial Statements give a true and fair view of the financial position of the Parent Company at 31 December 2019 and of the results of the Parent Company's operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board Directors.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Parent Company Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our belief we have not performed any, prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014.

We were first appointed auditors of ZITON A/S for the financial year 2008. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 12 years including the financial year 2019.

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the financial year 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of vessels

Key audit matter

Vessels consist of several jack-up-vessels and the value amounts to 192,209 EUR '000 (December 31 2018: 152,431 EUR '000). Vessels are presented as a part of Vessels, including property, fixtures and equipment. Refer to note 3.1 in the consolidated financial statements. Vessels are subject to an impairment test where indicators of impairment exist. Lower utilisation than expected during 2019 has given rise to an indicator of impairment for the vessel fleet. Significant judgements are required by Management in determining the recoverability of the carrying amount of Vessels. Vessels have a relatively long-lived nature and Management's long-term estimates of cash flow and determining WACC are therefore the most significant judgements. The judgement in determining expected cash flow includes long-term estimates on charter rates, future market share and forecast on utilisation of the vessels and operating costs. The key assumptions related to Vessels are described in note 3.1 to the consolidated financial statements. Expected cash flow and WACC lead to management judgement. Combined with the significance of Vessels to the financial statements as a whole the valuation of Vessels is considered to be a Key Audit Matter.

How our audit addressed the key audit matter

Based on our risk assessment we assessed the relevant internal controls for Vessels primarily relating to Management's impairment test. We obtained management's impairment test of vessels. We considered and challenged management's assessment for indicators of impairment of vessels. We considered and challenged the judgements used to determine the value in use of the Vessels. This includes those relating to charter rates, expected utilisation rates and operating costs. We tested the judgements by reference to third-party documentation such as signed framework agreements with customers. We also assessed the Management's underlying key judgements including challenge of future market and market share and utilisation rates. We used valuation specialists to assess the discount rates (WACC) used by Management. We assessed and challenged the appropriateness of Management's presentation of these matters in the financial statements.

STATEMENT ON MANAGEMENT'S REVIEW

Management is responsible for Management's Review.

Our opinion on the Consolidated Financial Statements and the Parent Company Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Parent Company Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Consolidated Financial Statements or the Parent Company Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Parent Company Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Parent Company Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements and Parent Company Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Consolidated Financial Statements and the Parent Company Financial Statements, including the disclosures, and whether the Consolidated Financial Statements and the Parent Company Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also submit a statement, to those charged with governance, that we have met relevant ethical requirements in relation to independence, and inform of all relations and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. Based on the matters communicated to the Management, we determine which matters were the most significant in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hobro, 23 April 2020
BDO Statsautoriseret revisionsaktieselskab, CVR-no. 20 22 26 70

Claus Muhlig, MNE no.: mne26711
State Authorised Public Accountant

FINANCIAL REVIEW AND STATEMENTS

TABLE OF CONTENTS

READING GUIDE:
The following abbreviations I/S, B/S and C/F used in the notes to these financial statements indicate amounts that can be found in the income statement, balance sheet and cash flow statement respectively.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME **1 JANUARY - 31 DECEMBER**

INCOME STATEMENT

EUR´000	Note	2019	2018
Revenue	2.1	**33,572**	**45,504**
Other operating income		488	1,340
Project-related expenses		-5,389	-2,578
Operating expenses	2.2	-16,471	-9,186
Gross profit		**12,200**	**35,080**
Administrative expenses		-1,819	-1,559
Staff costs, office staff	2.3	-3,537	-3,173
EBITDA		**6,844**	**30,348**
Depreciation and amortisation	3.1	-9,870	-7,925
EBIT		**-3,026**	**22,423**
Financial income	4.4	43	1
Financial expenses	4.4	-17,042	-17,625
Income before tax		**-20,025**	**4,799**
Tax on profit (loss)	5.1	4,476	-6,082
Income for the year		**-15,549**	**-1,283**
Attributable to:			
Shareholders of ZITON A/S		-15,543	-3,701
Non-controlling interests		-6	2,418
Income for the year		**-15,549**	**-1,283**

STATEMENT OF COMPREHENSIVE INCOME

EUR´000	2019	2018
Income for the year	**-15,549**	**-1,283**
Items that will subsequently be reclassified to the income statement when specific conditions are met:		
Reserve for equity-settled warrants	-	-
Exchange adjustments of foreign entities, net of tax	-57	-
Cash flow hedges, realised (gains)/losses incurred during period	170	-
Cash flow hedges, deferred gains/(losses) incurred during period	-871	-
Total comprehensive income for the year, after tax	**-16,307**	**-1,283**
Attributable to:		
Shareholders of ZITON A/S	-16,301	-3,701
Non-controlling interests	-6	2,418
Total comprehensive income for the year, after tax	**-16,307**	**-1,283**

REVIEW OF THE INCOME STATEMENT FOR 2019

Revenue
The consolidated results for ZITON show net revenue for the full year 2019 of EUR 33.6m compared to EUR 45.5m in 2018. The main reasons for the decrease in revenue were challenges for J/U WIND SERVER at the West of Duddon Sands ("WoDS") blade campaign as well as a lack of orders for J/U WIND and J/U WIND PIONEER compared to 2018. In the first half of 2019, the initiation of the blade campaign was delayed due to inefficiency and a learning curve, which was steeper than expected, and in the second half of 2019, we damaged our blade lifting system, while adverse weather also affected the blade campaign negatively.

Other operating income
Other operating income comprised EUR 0.5m in loss-of-hire insurance for the vessel J/U WIND.

Expenses
Total expenses in ZITON increased to EUR 27.2m in 2019 from EUR 16.6m in 2018.

Project-related and operating expenses
Project-related and operating expenses increased to EUR 21.9m in 2019 from EUR 11.8m in 2018. The main reasons for the increase in costs were project-related expenses for providing a turnkey solution for the WoDS blade campaign, and operating expenses for the bareboat chartered vessel J/U WIND ENTERPRISE.

Administrative and salary expenses
SG&A expenses amounted to EUR 5.4m in 2019 compared to EUR 4.7m in 2018. The main reasons for the increase in costs were related to establishing subsidiaries in the UK, Germany and China, legal counseling regarding amendments to the WoDS contract, and the provisioning of a performance guarantee to Siemens Gamesa Renewable Energy ("SGRE").

EBITDA
EBITDA was a EUR 6.8m profit in 2019 compared to a profit of EUR 30.3m in 2018. The main reasons for the decrease in EBITDA were a lower activity level, project-related expenses for the WoDS blade campaign, and operating expenses for J/U WIND ENTERPRISE.

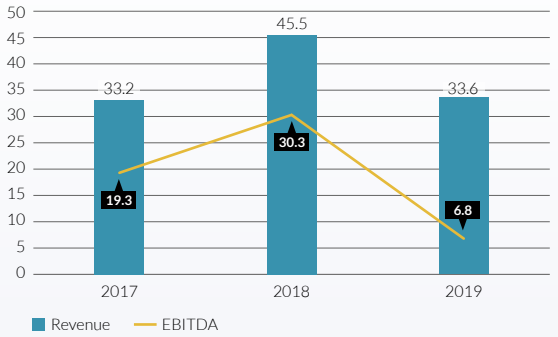
Depreciation and amortisation
Depreciation charges were EUR 9.9m in 2019 compared to EUR 7.9m in 2018. The increase in depreciation related to J/U WIND ENTERPRISE, and a call option exercised on Jack-Up InvestCo 3 Plc, which was reclassified to vessels from financial assets in Q4 2018.

Net financials
Net financials was an expense of EUR 17.0m in 2019 compared to an expense of EUR 17.6m in 2018. In October 2018, one-off costs related to refinancing amounted to EUR 4.2m. Adjusted for these one-off costs, the increase in 2019 was due to changes made to the capital structure in October 2018 when non-controlling interests in Jack-Up InvestCo 3 Plc were acquired against an increase in debt, which led to higher interest charges. Further, interests on leased offices, leased cars, and a leased vessel contributed to higher interest expenses compared to 2018. Financial income and expenses are described further in note 4.4.

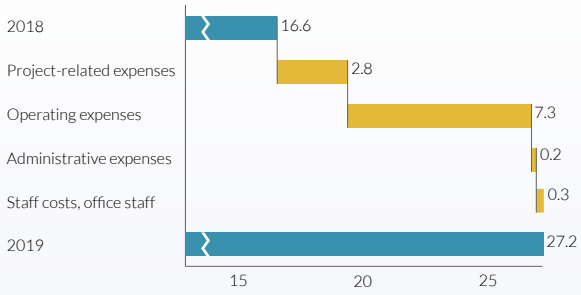
Tax on profit (loss)
Tax on profit was an income of EUR 4.5m. Taxation is described further in note 5.1.

Non-controlling interests
Flex Wind ApS owns 50% of Hangout A/S. A non-controlling interest of EUR 6k represents 50% of the income for the year in Hangout A/S.

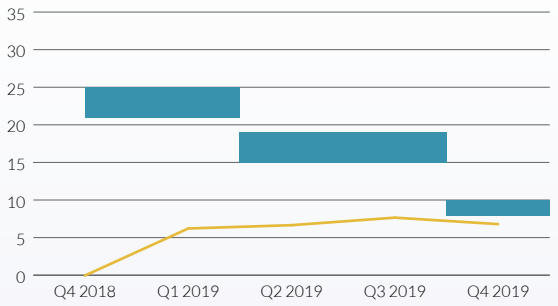
Revenue & EBITDA
EUR million



Expenses
EUR million



Accumulated EBITDA & expected range
EUR million



BALANCE SHEET
31 DECEMBER

ASSETS

EUR '000	Note	2019	2018
Non-current assets			
Vessels, including property and fixtures & equipment	3.1	194,939	153,324
Intangible assets	3.2	128	100
Deferred tax asset	5.2	519	-
Non-current assets		**195,586**	**153,424**
Current assets			
Inventories		293	35
Trade and other receivables	3.4	2,638	3,031
Cash and cash equivalents	4.2	2,008	10,842
Current assets		**4,939**	**13,908**
Total assets		**200,526**	**167,332**

EQUITY AND LIABILITIES

EUR '000	Note	2019	2018
EQUITY			
Share capital		13,098	11,093
Reserves		-569	188
Retained earnings		-17,856	-2,379
Total equity attributable to shareholders of ZITON A/S		**-5,328**	**8,902**
Non-controlling interests		61	-
Total equity		**-5,267**	**8,902**
LIABILITIES			
Non-current liabilities			
Subordinated loan	4.1-4.4	25,472	22,373
Bond loan, second lien	4.1-4.4	28,602	25,208
Bond loan, first lien	4.1-4.4	88,117	93,630
Lease obligations	4.1-4.4	40,832	159
Deferred tax liability	5.2	6,109	9,782
Provision for other liabilities	3.3	230	-
Total non-current liabilities		**189,362**	**151,152**
Current liabilities			
Bond loan, first lien	4.1-4.4	4,314	4,478
Lease obligations	4.1-4.4	2,546	14
Working capital facility	4.1-4.4	156	-
Trade and other payables	3.5	8,540	1,488
Provision for other liabilities	3.3	874	1,298
Total current liabilities		**16,430**	**7,278**
Total liabilities		**205,792**	**158,430**
Total equity and liabilities		**200,526**	**167,332**

REVIEW OF THE BALANCE SHEET 2019

Vessels, including fixtures & equipment
The total value of the vessels (incl. leased property and fixtures & equipment) amounted to EUR 194.9m at the end of 2019 compared to EUR 153.3m at the end of 2018. The increase was mainly due to the capitalisation according to IFRS 16 of the bareboat chartered vessel J/U WIND ENTERPRISE.

Net working capital
Changes in working capital were negative in the amount of EUR 1.5m in 2019, as changes in accounts payables were higher than changes in trade receivables.

Trade receivables
Trade receivables increased from EUR 1.2m in 2018 to EUR 1.6m in 2019.

Trade payables
Trade payables increased from EUR 0.8m in 2018 to EUR 2.7m in 2019 due to higher activity up until year-end.

Equity
Total equity was negative at EUR 5.3m at 31 December 2019 and was positive at EUR 8.9m at 31 December 2018. The decline was mainly due to losses incurred during 2019.

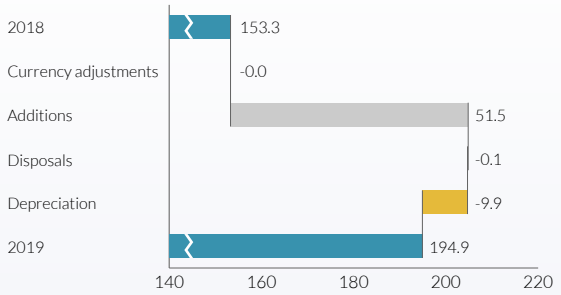
Based on specific assumptions, with regards to customer payments and expected utilisation levels, management has prepared a revised cash flow forecast for the next 12 months, which indicates that the consolidated entity will have sufficient cash assets to meet its debts as they fall due. The financial statements have been prepared on a going concern basis and no changes to recognition or measurement have been made.

Subordinated capital ratio
The subordinated capital ratio (as defined in "Alternative Performance Measures") was 33.8% at 31 December 2019 which was unchanged from 31 December 2018. The subordinated capital ratio was required to be at 32.5% or higher, at the end of 2019.

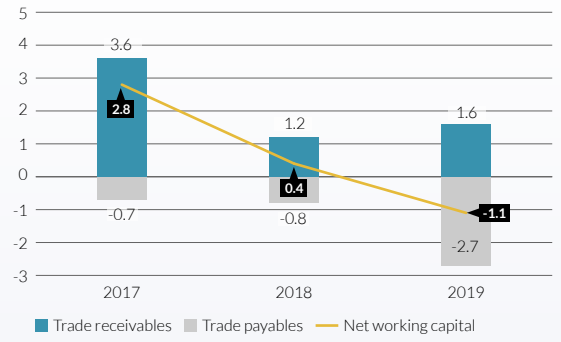
Net Interest Bearing Debt (NIBD)
NIBD includes bond debt (adjusted for capitalised expenses), the amount drawn on the working capital facility, and finance lease liabilities less cash and cash equivalents.

Change in NIBD
NIBD amounted to EUR 91.9m at the end of 2019 compared to EUR 89.3m at the end of 2018.

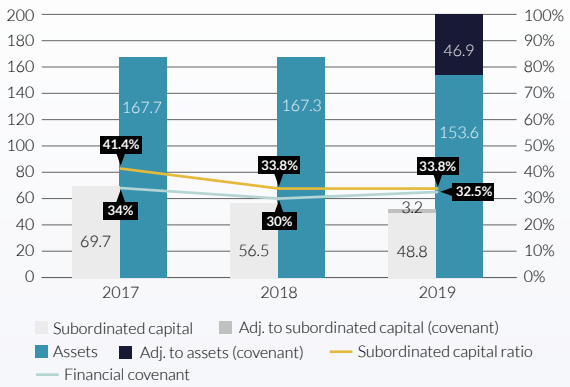
Vessels, including property and fixtures & equipment
EUR million



Net working capital
EUR million



Subordinated capital ratio
EUR million · per cent



CASH FLOW STATEMENT
1 JANUARY - 31 DECEMBER

EUR '000	Note	2019	2018
Income before tax		**-20,025**	**4,799**
OPERATING ACTIVITIES			
Adjustments for non-cash items			
Reversal of financial expenses, net	4.4	16,999	17,625
Depreciation and writedowns for the period	3.1	9,870	7,925
Other adjustments		-1,663	-1,743
Working capital adjustments			
Changes in inventories		-258	3
Change in trade receivables		394	2,314
Change in trade payables		7,052	87
Net cash flows from operating activities		**12,369**	**31,010**
FINANCIAL PAYMENTS			
Financial receipts		-	-
Financial payments		-9,260	-12,594
Income tax expenses			
Income tax expenses		-	-
Net cash flows before investing activities		**3,109**	**18,416**
INVESTING ACTIVITIES			
Purchase of vessels, including property and fixtures & equipment (excl. interest)	3.1	-3,544	-589
Purchase of non-controlling interests		67	-23,646
Net cash used in investing activities		**-3,477**	**-24,235**
FINANCING ACTIVITIES			
Repayment of debt to bank and bondholders	4.4	-6,245	-108,407
Draw on working capital facility	4.1-4.4	156	-
Capital increase in parent		2,005	-
Proceeds from bank and bond loans		-	122,340
Lease payments	4.1-4.4	-4,381	-
Net cash used/received in financing activities		**-8,465**	**13,933**
Net change in cash and cash equivalents		**-8,833**	**8,114**
Cash and cash equivalents at beginning of period	4.2	10,842	2,753
Exchange gains/losses on cash and cash equivalents		-1	-25
Cash and cash equivalents at end of period	4.2	**2,008**	**10,842**

REVIEW OF CASH FLOWS FOR 2019

Operating activities
Cash flows from operating activities were an inflow of EUR 12.4m for 2019 compared to EUR 31.0m in 2018. The main reason for the decline was the lower EBITDA. A prepayment for the WoDS blade campaign from SGRE of approximately EUR 6.5m had a strong influence on the Q4 2019 net cash flow from operating activities.

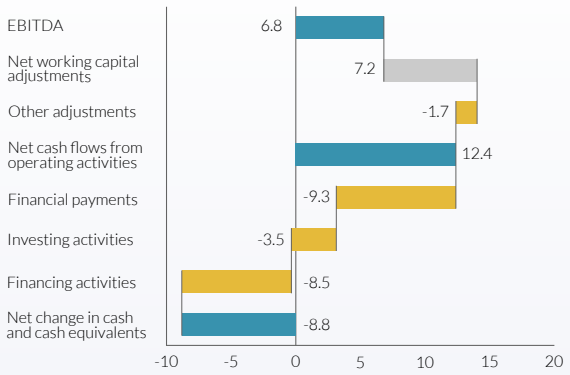
Investing activities
In 2019, investing activities amounted to EUR 3.5m compared to EUR 24.2m in 2018. The large difference was mainly related to the purchase of the minority interests in Jack-Up InvestCo 3 Plc (EUR 23.6m) in 2018. The main investment in 2019 was the extension of the crane boom on J/U WIND ENTERPRISE.

Financing activities
Financing activities amounted to a cash outflow of EUR 8.5m in 2019 compared to EUR 13.9m in 2018. The cash outflow for 2019 was related to instalments on the first lien bond loan and instalments on the bareboat chartered vessel J/U WIND ENTERPRISE.

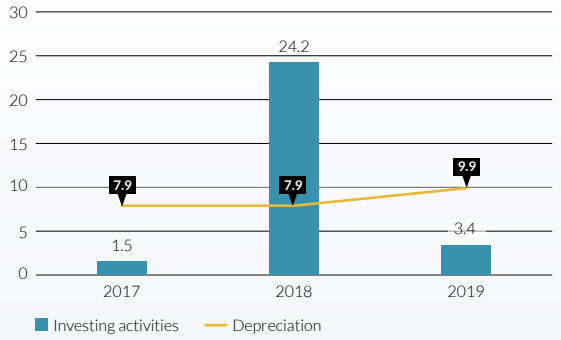
Available liquidity
Available liquidity including drawings available on the working capital facility amounted to EUR 8.5m at the end of 2019. EUR 1.7m of this amount has been placed in a restricted account as security for currency hedging related to the WoDS blade campaign. The total amount was EUR 7.8m lower than at the end of 2018, strongly influenced by a lower activity level, which was partly offset by a prepayment for the WoDS blade campaign from SGRE of approximately EUR 6.5m in Q4 2019.

EUR '000	2017	2018	2019
Cash and cash equivalents	2.8	10.8	2.0
Cash on retention account	-1.2	-1.2	0.0
Liquidity	**1.6**	**9.6**	**2.0**
Utilised working capital facility	0.0	0.0	-0.2
Available draw on working capital facility	6.7	6.7	6.6
Available liquidity	**8.3**	**16.3**	**8.4**

Cash flows
EUR million

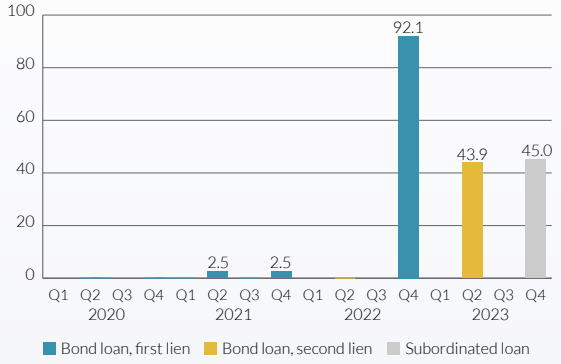


Investing activities vs. depreciation
EUR million



Debt repayments next four years
After amendment of bond terms completed in April 2020, as described in the Capital Structure section.

EUR million



STATEMENT OF CHANGES IN EQUITY

2019 EUR '000	Attributable to shareholders of ZITON A/S							Non-controlling interests	Total equity
	Share capital	Reserve for warrants	Translation reserves	Cash flow hedges	Total reserves	Retained earnings	Total		
Balance at 31 December 2018	**11,093**	**143**	**46**	**-**	**189**	**-2,380**	**8,902**	**-**	**8,902**
Total comprehensive income for the year, after tax	-	-	-57	-701	-758	-15,543	-16,301	-6	-16,307
Capital increase in subsidiaries	-	-	-	-	-	67	67	67	134
Capital increase in parent	2,005	-	-	-	-	-	2,005	-	2,005
Balance at 31 December 2019	**13,098**	**143**	**-11**	**-701**	**-569**	**-17,856**	**-5,328**	**61**	**-5,267**

Share capital
In 2019, the share capital was increased by 15,000,000 B shares of DKK 1 each (EUR 2,005k) by means of capital contribution in cash. At the end of 2019, the share capital consisted of 97,782,192 shares of DKK 1 each (EUR 13,098k). The shares are divided into two classes: 15,118,416 A shares of DKK 1 each and 82,663,782 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.

ACCOUNTING POLICIES

Reserves on equity consist of the following:
Reserve for warrants consists of warrants to management, selected employees and a subordinated loan provider.
The translation reserve comprises foreign exchange differences arising on translation of financial statements of entities that have a functional currency other than DKK and translation from the functional currency to the presentation currency.

2018 EUR '000	Attributable to shareholders of ZITON A/S							Non-controlling interests	Total equity
	Share capital	Reserve for warrants	Translation reserves	Cash flow hedges	Total reserves	Retained earnings	Total		
Balance at 31 December 2017	**11,093**	**143**	**46**	**-**	**189**	**3,517**	**14,799**	**19,044**	**33,843**
Total comprehensive income for the year, after tax	-	-	-	-	-	-3,701	-3,701	2,418	-1,283
Loss from purchase of non-controlling interests	-	-	-	-	-	-2,196	-2,196	-21,462	-23,658
Balance at 31 December 2018	**11,093**	**143**	**46**	**-**	**189**	**-2,380**	**8,902**	**-**	**8,902**

Share capital
At the end of 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093k). The shares were divided into two classes: 15,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carried one vote, while B shares did not carry voting rights, but carried preferential rights of dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

General information
ZITON A/S is a public limited company incorporated in Horsens, Denmark.

ZITON A/S is controlled by Jack-Up Holding A/S, which holds 75.4% of the share capital in ZITON A/S. Dansk Bjergning & Bugsering Holding ApS and OY Finans ApS hold 18.2% and 6.3% of the share capital respectively. The remaining shares, equivalent to 0.1% of the share capital, are held by management. The ultimate parent of the Group is Jack-Up Holding A/S's holding company, Anpartsselskabet af 1. december 2011.

ZITON A/S is consolidated in the financial statements of Jack-Up Holding A/S (registered office: Fredensborg, Denmark), which is the smallest consolidated financial statement, and Anpartsselskabet af 1. december 2011 (registered office: Fredensborg, Denmark), which is the largest consolidated financiel statement.

The consolidated financial statements of ZITON A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of reporting class D companies.

The consolidated financial statements are presented in EUR thousands (EUR ´000).

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and balances required to be measured at fair value. Other than as set out in the section "Relevant new accounting standards", the principal accounting policies adopted are consistent with the consolidated financial statements for the year ended 31 December 2018.

Significant accounting policies adopted in the preparation of these consolidated financial statements are disclosed in relevant notes. If no relevant note exists, the accounting policies are listed in this note. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of ZITON A/S and its subsidiaries.

Furthermore, significant accounting judgments, estimates and assumptions used in these consolidated financial statements are disclosed in relevant notes. If no relevant note exists, the significant accounting judgments, estimates and assumptions are listed in this note.

ACCOUNTING POLICIES
Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved when the company:
- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee, and;
- has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:
- the size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements, and;
- any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

The consolidated financial statements of ZITON A/S Group consist of the wholly-owned subsidiaries Jack-Up InvestCo 2 A/S, ZITON Contractors A/S, Jack-Up InvestCo 3 Plc, ZITON Ltd, ZITON GmbH, ZITON Offshore Wind Power Technology (Beijing) Limited, and the 50% owned company Hangout A/S, which management has evaluated can be 100% consolidated according to IFRS 10.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of ZITON A/S and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currencies
Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Although the functional currency for ZITON A/S is DKK, the consolidated financial statements are presented in EUR because the main financing is in EUR.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement under financial income/expenses. All other foreign exchange gains and losses are presented in the income statement on a net basis under revenue or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies
The results and financial position of foreign operations (none of which have the currency of a hyperinflationary economy) that have a functional currency other than the presentational currency are translated into the presentational currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income.

Foreign currency translation
On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss as part of the gain or loss on sale.

Inventories
Inventories primarily comprise bunker onboard vessels. Inventories are measured at the lower of cost according to the FIFO method and net realisable value.

Leasing
As explained in the section "Relevant new accounting standards" elsewhere in this note, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in note 3.1 (Vessels and equipment) and the impact of the change below in the section "Relevant new accounting standards".

Until 31 December 2018, leases of property, plant and equipment, where the Group, as lessee, had the substantial part of all the risks and rewards of ownership, were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased item or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Group would obtain ownership at the end of the lease term.

Income statement
Project-related expenses
Project-related expenses consist of expenses in relation to projects and primarily involve expenses to subcontractors, tugboat, seabed analyses and special equipment used for operations. Like revenue, project-related expenses are recognised upon delivery of the service.

Operating expenses
Operation of vessels comprises expenses other than project-related expenses incurred to generate the revenue for the year. Vessel operating costs are divided into fixed and variable expenses. As vessels are obligated by law to have a minimum crew, staff expenses for employees are considered a fixed expense. Fixed expenses include insurance, maintenance expenses, staff costs, etc. Variable expenses include bunker, lubricants and other expenses to move the vessel. Like revenue, operating costs are recognised upon delivery of the service.

Administrative expenses
Administrative expenses comprise cost of rent, travel, external expenses and other office expenses, etc. Administrative expenses are also recognised upon delivery of the service.

Cash flows
The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated according to the indirect method as the income before tax adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets.

Cash flows from financing activities comprise changes in the share capital and related costs as well as the raising of loans, repayment of bank and bond debt, instalments on leases, acquisition and disposal of subordinated debt and payment of dividends to shareholders and changes on the working capital facility.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of the Group's consolidated financial reporting requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

The consolidated financial statements are a result of processing large numbers of transactions and aggregating those transactions into classes according to their nature or function. The transactions are presented in classes of similar items in the consolidated financial statements. If a line item is not individually material, it is aggregated with other items of a similar nature in the consolidated financial statements or in the notes.

Accounting estimates identified are those that have a significant risk of resulting in a material adjustment to the measurement of assets and liabilities in the following reporting period. Management bases its estimates on historical experience and various other assumptions that are held to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. If necessary, changes are recognised in the period in which the estimate is revised. Management considers the key accounting estimates to be reasonable and appropriate based on currently available information. The actual amounts may differ from the amounts estimated as more detailed information becomes available.

In addition, management makes judgments and estimates in the process of applying the entity's accounting policies, for example regarding recognition and measurement of deferred income tax assets or the classification of transactions.

Please refer to the specific notes for further information on the key accounting estimates and judgments as well as assumptions applied.

There are substantial disclosure requirements throughout IFRS. Management provides specific disclosures required by IFRS unless the information is not applicable or is considered immaterial to the economic decision-making of the users of these financial statements.

Judgments
In the process of applying ZITON A/S's accounting policies, management has made the following judgment, which has the most significant effect on the amounts recognised in the financial statements.

Full consolidation of Hangout A/S:
According to IFRS, the consolidation principle is an overall evaluation of the
- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect the amount of the investor´s return.

Based on management's evaluation of the above, Hangout A/S was fully consolidated in the balance sheet from 5 March 2019.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that involve a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in relevant notes listed below.

The accounting estimates and assumptions which management deems to be significant to the preparation of the consolidated financial statements are:
- Impairment of vessels (note 3.1)
- Leases (note 3.1 and 6.1)
- Trade receivables (note 3.4)
- Deferred tax (note 5.2)
- Provisions (note 3.3)
- Contingent liabilities (note 6.1)

Going concern
During 2019, the ZITON Group expanded to the UK, Germany and China, leased a new vessel and undertook a major project in the UK which was negatively affected by poor planning, execution and weather conditions. Further, due to increasing competition in the market and under the current capital structure, both liquidity and the operating activity were negatively affected, causing equity to be negative at year-end.

Management has prepared revised cash flow forecast scenarios and is currently evaluating strategic options to ensure that the consolidated group retains sufficient liquidity to meet its debt obligations and the subordinated capital ratio during 2020. As part of this process, ZITON has engaged Pareto Securities as financial adviser to explore options to strengthen the company's liquidity and capital structure, including raising new equity and/or subordinated capital as well as amending the terms of the corporate bond loans.

Based on the above, events or conditions may arise that could cause material uncertainty as to the entity's ability to continue as a going concern. The entity may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

As a result of the current events and conditions, management has made a plan to deal with these events and conditions.

Management considers the entity's ability to continue as a going concern to be met and the consolidated financial statement have therefore been prepared on a going concern basis and no changes to recognition or measurement have been made.

RELEVANT NEW ACCOUNTING STANDARDS

Management has assessed the impact of new or amended and revised accounting standards and interpretations (IFRSs) issued by the IASB and IFRSs as adopted by the European Union.

Change in accounting policy - IFRS 16

Effective from 1 January 2019, ZITON Group has implemented IFRS 16 using the modified retrospective method and comparative figures have not been restated. Compared to previously, the ZITON Group now recognises both finance and operating leases in the balance sheet as lease assets and lease liabilities with minor exceptions. Exceptions are low value leases and leases with lease periods under 12 months.

The Group has identified all leases and lease components. The estimated lease terms are five years for office rent and two to three years for cars. The estimated lease terms for vessels are two years. The latter is equivalent to the lease liability period. The lifetime of a lease is estimated on the current expectations for usage and activity levels for the Group. The Group uses the indicated interest rate in the lease contracts on office rents, vessels and cars where a rate is indicated.

The Group recognised as per 1 January 2019 a lease asset of EUR 231k and a lease liability of EUR 231k. There is no effect on equity.
The lease assets primarily consist of office rent in Denmark, Germany and China. The leases contracts in Germany and China were included in 2019. Further, lease assets consist of cars. Leased cars and office rent have been categorised as fixtures and equipment respectively, which are depreciated on a straight line basis over two to five years.

The interest rate used for office rent is an estimated 3% for domestic rentals and 5% for foreign rentals according to the rate indicated in the lease contracts, and car leases at 5% according to the contracts on finance leases.

The interest rate used on the bareboat chartered vessel is estimated at 6.9% in accordance with our bond loans.

Illustration of IFRS 16 effects	IFRS 16	Financial leases (IAS 17)		
EUR '000	Cars and offices	New vessel	Cars	Total effect
Profit and loss				
Operating expenses	-	3,775	-	3,775
Gross profit	-	3,775	-	3,775
Administrative expenses	301	-	78	379
Staff costs, office staff	-	-	-	-
EBITDA	**301**	**3,775**	**78**	**4,154**
Depreciation and amortisation	-271	-1,185	-12	-1,456
EBIT	**30**	**2,590**	**144**	**2,698**
Financial income	-	-	-	-
Financial expenses	-30	-1,987	-102	-2,017
Income before tax	-	**604**	**42**	**682**
Tax on profit (loss)	-	-133	-9	-133
Income for the year	-	**471**	**33**	**549**

Balance sheet

EUR '000	2019
Operating leases as of 31 December 2018 (IAS 17)	53
Lease liabilities as of 31 December 2018 (IAS 17) - short and long term	173
NPV adjustments to opening balance	5
Subtotal	**231**
Movements in 2019:	
Additions (IAS 17 and IFRS 16)	49,629
Disposals (IAS 17 and IFRS 16)	-74
Lease payments (interests and instalments)	-6,408
Lease liabilities as of December 2019 (IFRS 16) - short and long term	**43,378**
Lease liabilities	
Current	40,832
Non-current	2,546
Total lease liabilities	**43,378**

Other new regulations
In 2019, the IASB issued a number of minor interpretations, amendments and improvements to existing standards:
· Interpretation IFRIC 23 Uncertainty over Income Tax Treatments;
· Prepayment Features with Negative Compensation – Amendments to IFRS;
· Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28, and;
· Annual Improvements to IFRS Standards 2015 – 2017 Cycle.

It is assessed that application of other new interpretations effective on 1 January 2019 has not had a material impact on the consolidated financial statements for 2019. Furthermore, management does not anticipate any significant impact on future periods from the adoption of these new interpretations.

New standards and interpretations not yet adopted
The IASB has issued a number of new or amended standards and interpretations that are not mandatory for the consolidated financial statements for 2019. ZITON A/S expects to adopt the standards and interpretations when they become mandatory:
· Changes to IFRS 3, Business combinations;
· Changes to IAS 1 and IAS 8, relate to definition of materiality;
· Changes to IAS 12, Income taxes, and;
· Changes to IAS 1, Presentation of Financial Statements (change not approved by EU).

None of these amended standards or interpretations are expected to have a significant impact on recognition and measurement, but may lead to further disclosures in the notes.

2.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

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 vessels, ZITON Contractors A/S and Hangout A/S's revenue and expenses. As all four vessels, ZITON Contractors A/S and Hangout A/S 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 fixed-priced revenue is based on the country in which the wind farm is located. For time charter contracts, the geographical distribution is based on the position of the vessel, during the contract.

Geographical distribution of revenue

EUR '000		2019	2018
United Kingdom		23,009	8,962
Denmark		5,706	29,993
Germany		2,099	1,675
Sweden		1,195	3,974
Belgium		1,325	409
Netherlands		238	490
Total	**I/S**	**33,572**	**45,504**

Sales to the four largest customers made up 47%, 16%, 16% and 15% respectively, of total revenue in 2019 (2018: 52%, 14% and 12% for the three largest customers).

Ongoing contracts - Contract balance

	2019		2018	
EUR '000	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Accrued contract-related expenses on contracts with customers	-	-342	-	-
Provision for ongoing contract	-	488	-	-
Net cash received in advance of performance	-	4,642	-	-
Total	**-**	**4,788**	**-**	**-**

Contract assets and contract liabilities are included in "trade and other receivables" and "trade and other payables" respectively on the face of the statement of financial position. They arise from the Group's accumulated experience in development of turnkey contracts.

When measuring the revenue stream from the contract an estimated amount from expected penalties should be included in the contract revenue. At the end of December 2019, transaction prices included a provision for downtime on wind turbines of EUR 488k, which amount has been offset in revenue.

2.1 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Transaction price allocated to the remaining performance obligations
The transaction price allocated to the remaining performance obligations (not satisfied or partially satisfied) as at 31 December 2019, was as follows:

EUR '000	2019	Expected year of execution 2020
WoDS blade campaign	8,646	21,430

As the Group has not adopted the practical expedients permitted by IFRS 15, all contracts which have an original expected duration period of one year or less are included in the table above. The estimate of the transaction price does not include any amounts of variable consideration which are constrained.

ACCOUNTING POLICIES

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are reduced for estimates for trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each engagement.

For vessels on fixed-price contracts, the type of service provided is analysed as either a lease, service or construction contract.

Revenue from contracts with customers
Revenue from vessel services is recognised when the performance obligations identified in contracts have been satisfied. The transaction price of each contract is measured considering contract payments and reductions for trade allowances, rebates, penalties and amounts collected on behalf of third parties. The transaction price is allocated to each performance obligation.

Where contracts are identified as services or contracts with customers, revenue is recognised at the point in time when all performance obligations have been delivered according to the contract.

The transaction prices deemed in the identified contracts are primarily based on fixed price agreements and fixed milestone payments. The variable elements in the transaction prices may include penalties based on compliance with *"downtime on wind turbines"* and *"liquidated damages"* in accordance with contractually agreed deadlines.

Leases
Where contracts are identified as a lease (time charter), revenue recognition is based on a straight-line basis over the term of the lease period.

The amount of revenue stated in the above table for both the current financial year and the comparable financial year include the agreed time charter rates earned during the lease. The lease and service components are recognised as revenue under the same pattern of transfer to customers. A seperate disclosure of the lease components and the service income components has not been provided as it is impracticable to establish such a disclosure.

2.2 OPERATING EXPENSES

Total operating expenses

EUR '000	2019	2018
Other operating expenses	8,521	4,514
Vessel staff costs	7,950	4.672
Total staff costs	**16,471**	**9,186**

The increase in operating expenses from 2018 to 2019 arose from operating the bareboat chartered vessel J/U WIND ENTERPRISE.

2.3 STAFF COSTS

Total staff costs in the Group

EUR '000		2019	2018
Staff costs, office staff			
Wages and salaries		3,232	2,950
Pensions – defined contribution plans		249	207
Other social security costs		56	17
Total staff costs, office staff	**I/S**	**3,537**	**3,173**
Staff costs, vessel staff - the amount is included in "Operating expenses"			
Wages and salaries		7,617	4,323
Pensions – defined contribution plans		265	263
Other social security costs		68	86
Total staff costs, vessel staff		**7,950**	**4,672**
Total staff costs		**11,487**	**7,845**

Average number of employees

	2019	2018
Office staff, Danish nationality	28	29
Office staff, other nationalities	3	-
Vessel staff, Danish nationality	58	57
Vessel staff, other nationalities	28	18
Total employees	**117**	**104**

3.1 VESSELS AND EQUIPMENT

2019 EUR '000		Property	Fixtures & equipment	Vessels	Total
Cost at 1 January		-	1,353	190,351	190,704
Exchange rate adjustments		-	-	66	66
Additions		-	983	301	1,284
Additions to leased assets (right-of-use assets)		-	146	48,803	48,949
Transition to IFRS 16 leased assets (right-of-use assets)		1,181	109	-	1,290
Disposals of leased assets		-	-74	-	-74
Cost at 31 December		**1,181**	**2,517**	**239,521**	**243,219**
Depreciation at 1 January		-	-367	-38,012	-38,380
Exchange rate adjustments		-	-	-	-
Depreciation	I/S	-	-365	-1,559	-1,924
Depreciation of leased assets (right-of-use assets)	I/S	-	-	-7,741	-7,741
Transition to IFRS 16 leased assets (right-of-use assets)	I/S	-242	-29	-	-271
Disposals of leased assets		-	35	-	35
Depreciation at 31 December		**-242**	**-726**	**-47,312**	**-48,280**
Impairment losses at 1 January		-	-	-	-
Impairment losses at 31 December		-	-	-	-
Carrying amount at 31 December	**B/S**	**939**	**1,791**	**192,209**	**194,939**

The balance sheet shows the following amounts related to leases:

EUR '000	2019	1 January 2019
Right-of-use assets		
Vessels	46,883	-
Office rents	939	1,181
Cars	80	109
Total right-of-use assets	**47,902**	**1,290**

In the previous year, the Group only recognised lease assets and lease liabilities related to leases that were classified as "finance leases" under IAS 17 Leases. The assets were presented in fixtures & equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 1.1, section "Relevant new accounting standards".

3.1 VESSELS AND EQUIPMENT (CONTINUED)

The statement of profit or loss shows the following amounts related to leases:

EUR '000	2019	1 January 2019
Depreciation charge of right-of-use assets		
Vessels	1,185	-
Office rents	242	-
Cars	29	-
Total depreciation charge of right-of-use assets	**1,456**	-
Interest expenses (included in finance costs)		
Vessels	1,987	-
Office rents	23	-
Cars	7	-
Total interest expenses	**2,017**	**-**

On 28 May 2019, ZITON entered into a bareboat charter of J/U WIND ENTERPRISE until 31 March 2021. As part of the agreement, ZITON has been given an option to acquire the vessel. If the call option is not exercised by 20 December 2020, ZITON will be liable to pay a breakaway fee.

2018 EUR '000		Fixtures & equipment	Vessels	Total
Cost at 1 January		775	184,295	185,070
Exchange rate adjustments		-2	-301	-303
Additions		582	6,499	7,082
Disposals		-	-142	-142
Cost at 31 December		**1,353**	**190,351**	**191,704**
Depreciation at 1 January		-195	-30,359	-30,554
Exchange rate adjustments		1	60	61
Depreciation	I/S	-176	-7,725	-7,901
Disposals		-	12	12
Depreciation at 31 December		**-368**	**-38,012**	**-38,380**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**985**	**152,339**	**153,324**

Assessment of impairment on vessels
Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2019, ZITON realised a loss for the year, and the weighted average utilisation of the vessels fell short of expectations. These are indicators of impairment, and as a result, ZITON performed an impairment test. An impairment loss is recognised in the amount by which an asset's carrying amount exceeds its recoverable amount – measured using the higher of the fair value less cost to sell and value in use.

The value in use is calculated as the present value of total expected cash flows during the rest of the vessels' economic lives. This includes any concluded framework agreements and signed charters as well as estimated utilisation and average day rates for the "open charter periods".
- The estimated utilisation is based on the projected future installation of offshore turbines, the average rate at which a turbine needs assistance from a jack-up vessel in the turbine's lifetime, ZITON´s expected market share, and jack-up vessel requirements for blade campaigns.
- Average day rates are based on estimated future market prices and/or contracts.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

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

Management's assessment of indication of impairment of vessels is based on the cash-generating unit (CGU) in which all vessels, ZITON Contractors A/S and Hangout A/S 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, a determined WACC of 8.3% before tax, and a growth rate in the terminal period of 0%.

The value in use was estimated to be higher than the carrying amount of EUR 194,939k.

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 loss.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – IMPAIRMENT OF VESSELS

Significant accounting estimates include i.e. estimates of useful lives, residual values and impairment of tangible assets.

Useful lives of the vessels
The remaining useful lives of the vessels are assessed annually by the COO. At the current depreciation rate, the vessels are fully depreciated over 20 to 25 years.

Residual values
The residual values of the vessels are estimated at zero as it is expected that scrapping of the vessels will include expenses equivalent to the value of steel.

Impairment
Revenue for "open charter periods" is estimated based on projected future installation of offshore turbines, the average rate at 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 agreements or historical prices. The value applied in the calculation is sensitive to fluctuations in expected day rates and vessel utilisation. However, an increase of the WACC of 2 percentage points to 10.3% or a reduction of either 20% in utilisation or day rates will not lead to a value in use lower than the current carrying amount of the vessels. The estimated weighted average utilisation used in the forecast period of the impairment test varies from 68% to 89%, which compares to realised figures of 86% and 42% in 2018 and 2019 respectively

ACCOUNTING POLICIES

The Group's accounting policy for vessels, office rent and fixtures & equipment is stated at historical costs less depreciation. Historical costs include expenditures directly attributable to the acquisition of the items. This includes capitalised staff costs and interests.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The basis of depreciation is allocated on a straight-line basis over the estimated useful lives of the assets as follows:

Vessels:	between 20 and 30 years
Installed equipment on vessels:	between 3 and 12 years
Machinery and tools:	between 3 and 10 years
Cars and office rent:	between 2 and 5 years

Docking costs of the vessels are capitalised and depreciated over the period until the next docking, typically 5 years.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

Leases

The Group leases vessels, offices and vehicles. Rental contracts are typically made for fixed periods of two to five years, but may have extension options. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the implied interest rate of the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by ZITON A/S, and;
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

3.2 INTANGIBLE ASSETS

2019 EUR '000		Software	Total
Cost at 1 January		120	120
Exchange rate adjustments		-	-
Additions		52	52
Disposals		-	-
Cost at 31 December		**172**	**172**
Depreciation at 1 January		-20	-20
Exchange rate adjustments		-	-
Amortisation	I/S	-24	-24
Disposals		-	-
Depreciation at 31 December		**-44**	**-44**
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	**B/S**	**128**	**128**

2018 EUR '000		Software	Total
Cost at 1 January		108	108
Exchange rate adjustments		-	-
Additions		12	12
Disposals		-	-
Cost at 31 December		**120**	**120**
Depreciation at 1 January		-3	-3
Exchange rate adjustments		-	-
Amortisation	I/S	-17	-17
Disposals		-	-
Depreciation at 31 December		**-20**	**-20**
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	**B/S**	**100**	**100**

3.2 INTANGIBLE ASSETS (CONTINUED)

ACCOUNTING POLICIES

The Group's accounting policy for intangible assets is stated at historical cost less amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The basis of amortisation is allocated on a straight-line basis over the estimated useful lives of the assets as follows:

Software:	between 3 and 7 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.3 PROVISIONS

Provisions for employee benefits

EUR '000		2019	2018
Provisions at 1 January		**1,298**	**1,203**
Change in employee bonus provision		-	425
Paid employee bonus		-466	-375
Change in provision for employee earned leave days		42	-33
Change in holiday provisions for employees		205	23
Warranty provision		25	55
Provisions at 31 December		**1,104**	**1,298**
Recognised in the balance sheet as follows:			
Non-current	B/S	230	-
Current	B/S	874	1,298
Total provisions		**1,104**	**1,298**

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The determination of provisions is based on management's best estimate of future events and is therefore subject to significant uncertainty. The employee bonus programme is based on realised EBITDA and revenue figures.

ACCOUNTING POLICIES

Provisions are recognised when, as a consequence of an event that has occurred before or on the reporting date, the Group has a legal or constructive obligation, and it is likely that economic benefits will flow from the company to meet the obligation. Employee benefits include provisions for employee bonus, earned leave days and holiday provisions.

Employee bonus

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders. The Group recognises a provision when contractually obliged or where there is a past practice that has created a constructive obligation.

Earned leave days

Vessel staff earn overtime (earned leave days) during the year. A liability and an expense for earned leave days has been recognised at the amounts expected to be paid when the liabilities are settled. The Group recognises a provision when contractually obliged or where there is a past practice that has created a constructive obligation.

Holiday provision

Liabilities for holiday provisions are expected to be settled within 12 months after the end of the period in which the employees render the related service and are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

In 2019, an amount equivalent to the retained holiday scheme was classified as non-current. The classification of the holiday scheme was made due to changes in the Danish Holiday Act.

Post-employment obligations

The Group operates only post-employment schemes which are defined as contribution pension plans. For defined contribution plans, the Group pays contributions to publicly and/or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee expense (pension - defined contribution plans) when they are due.

3.4 TRADE AND OTHER RECEIVABLES

EUR '000		2019	2018
Trade receivables		1,599	1,240
Other receivables		472	1,397
Intercompany receivables		389	323
Prepayments		178	71
Total trade and other receivables	**B/S**	**2,638**	**3,031**
Recognised in the balance sheet as follows:			
Non-current		-	-
Current		2,638	3,031
Total		**2,638**	**3,031**

The carrying amount of receivables is in all material respects equal to the fair value.

No trade receivables were overdue at 31 December 2019. (2018: Trade receivables of a total of EUR 8k were overdue by less than 30 days at 31 December 2018. All payments were received in January 2019).

SIGNIFICANT ESTIMATES AND ASSUMPTIONS - TRADE AND OTHER RECEIVABLES

Provisions for bad debts are determined on the basis of customers' ability to pay, considering historical information about payment patterns, doubtful debts, customer concentrations, customer creditworthiness and collateral received as well as prevailing economic conditions. Estimates made are updated if the debtor's ability to pay changes.

Management estimated that there was no need for provisions on receivables at 31 December 2019 (2018: No provision on receivables).

In 2019, ZITON entered into a legal dispute with the Danish tax authorities regarding a VAT claim, and as a result, ZITON paid the claim. However, despite paying the claim from the Danish tax authorities and based on the consulting with the company's legal advisers it is management's assessment that the claim will be repaid in full, and hence the payment has been recognised under other receivables.

ACCOUNTING POLICIES

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for expected credit losses. The Group applies the simplifed approach to measuring expected credit losses which uses lifetime expected credit losses for all trade receivables at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar credit risk characteristics, i.e. geographical region and customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit before other items. Subsequent recovery of amounts previously written off are credited against the same line item.

Other receivables and prepayments

Other receivables comprise deposits and a VAT payment in an ongoing legal dispute with the Danish tax authorities.

Prepaid expenses comprise expenses paid related to subsequent financial years such as rent, insurance premiums, subscription fees, and interest and fees.

Other receivables and prepaid expenses are measured at the lower of amortised cost and net realisable value.

3.5 TRADE AND OTHER PAYABLES

EUR '000		2019	2018
Trade payables		2,722	799
Financial instruments		701	-
Contract liabilities		146	-
Advance payments		4,642	-
Other liabilities		328	689
Total trade and other payables	**B/S**	**8,540**	**1,488**

ACCOUNTING POLICIES

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Financial instruments are cash flow hedges (see note 4.1).

Contract liabilities comprises the accrued contract-related expenses on contracts with customers and provision for ongoing contracts, which is a net liability.

Advance payments are payments received from customers in advance of services performed.

Other liabilities represent accruals for primarily interest and VAT.

Trade payables and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair values and subsequently measured at amortised cost using the effective interest method.

4.1 RISK MANAGEMENT

The Group's risk management is described in the section "Risk management" elsewhere in this annual report. The financial risks are elaborated on below.

Credit risk
Credit risk arises from cash and cash equivalents and trade receivables but is considered to be modest for the Group.

Cash and cash equivalents are only placed with Systemically Important Financial Institutions ("SIFI banks").

The Group has not suffered any losses from any single major debtor in the last couple of years. The Group's customers are primarily large international utilities and wind turbine manufacturers with a strong financial position.

Liquidity risk (as of 31 December 2019, before amendment of bond terms completed in April 2020)
Liquidity risk includes the risk of the Group becoming short of liquidity and unable to refinance its maturing credit lines as and when needed. ZITON completed a revised financial structure in October 2018, obtaining a capital structure with a subordinated loan maturing in October 2022, a first lien bond issue maturing in October 2021 and a second lien bond issue maturing in April 2022.

The terms to maturity of financial assets and liabilities are disclosed by category and class distributed on maturity periods. All interest payments and repayments of financial assets and liabilities are based on contractual agreements.

	Maturities				
EUR '000	In 2020	Between 2021 to 2022	2023 and onwards	Total	Book value
Loans and receivables					
Cash	2,008	-	-	**2,008**	2,008
Trade receivables	1,599	-	-	**1,599**	1,599
Other receivables	472	-	-	**472**	472
Financial liabilities					
Subordinated loan	-	25,716	-	**25,716**	25,472
Bond loan, second lien	-	28,969	-	**28,969**	28,602
Bond loan, first lien	4,314	89,443	-	**93,757**	92,431
Lease liabilities	2,546	40,832		**43,378**	43,378
Trade and other payables	2,722	-	-	**2,722**	2,722
Working capital facility	156	-	-	**156**	156

Response:
The company currently has a loan to book value of vessels ratio of 69% and plans to reduce that percentage before the current bond issue comes due for refinancing (first lien bond loan matures October 2021 and second lien bond loan matures in April 2022).

Covenants
The bond loan agreement includes financial covenants that, if breached, involve a default on credit facilities. The minimum required subordinated capital ratio at 31 December 2019 was 32.5%.

Market risk
Bunker price risk
The Group is exposed to fluctuating bunker prices. Bunker expenses in 2019 amounted to EUR 2,161k (2018: EUR 357k).

If bunker prices increase by 50%, the Group's expenses are assessed to increase by EUR 1,080k.

Response:
Given the modest impact on cash flows, the Group accepts that bunker expenses will vary and are unpredictable. The Group has chosen not to hedge bunker prices.

4.1 RISK MANAGEMENT (CONTINUED)

Interest rate risk
Most of the Group's financing, including the bond issues of EUR 93.7m and EUR 28.9m, and the subordinated loan of EUR 25.7m outstanding at 31 December 2019, carries a floating rate of interest. Consequently, an increase in the general level of interest rates, as denoted by 3M EURIBOR for the bond issues and 3M CIBOR for the subordinated loan, will have an adverse effect on the Group's interest expenses.

An increase of 1 percentage point in interest rates would increase interest expenses by approximately EUR 1.25m. If EURIBOR or CIBOR rates declines, it would not benefit the Group to any major extent as there is a floor of 0% on ZITON A/S´s bond issue and subordinated loan.

Response:
Given the modest impact on cash flows, the Group accepts that interest rates will vary. The Group has chosen not to swap floating rate debt into fixed rate debt.

Foreign exchange risk
Foreign exchange risk is an important financial risk for ZITON and can have a significant impact on the income statement, statement of comprehensive income, balance sheet and cash flow statement.

The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on earnings and cash flows, and thereby contribute to the predictability of the financial results.

The majority of ZITON's sales are in DKK, EUR and GBP. Most of ZITON's loans are in EUR. The foreign exchange risk is most significant in GBP, while the EUR exchange rate risk is regarded as low because of Denmark's fixed exchange rate policy towards EUR.

ZITON hedges existing assets and liabilities in key currencies as well as future expected cash flows up to a maximum of 24 months forward. Hedge accounting is applied to match the impact of the hedged item and the hedging instrument in the consolidated income statement.

During 2019, the hedging horizon for GBP varied between 0 and 9 months. Currency hedging is based on expectations of future exchange rates and mainly uses foreign exchange forwards and foreign exchange options matching the due dates of the hedged items. Expected cash flows are continually assessed using historical inflows, budgets and monthly sales forecasts. Hedge effectiveness is assessed on a regular basis. There is no expected ineffectiveness at 31 December 2019, primarily because hedging instruments match currencies of hedged cash flows.

The financial contracts existing at year-end cover the expected future cash flow for the following number of months:

	2019	2018
GBP	9 months	-

Key currencies

Exchange rate EUR per 100	2019	2018
GBP		
Average	1.14	1.13
Year-end	1.17	1.11
Year-end change	5.9%	-1.7%

4.1 RISK MANAGEMENT (CONTINUED)

Foreign exchange sensitivity analysis
A 5% immediate increase/decrease in GBP versus EUR and DKK would impact ZITON's operating profit as outlined in the table below:

EUR '000	Estimated 2020
GBP, increase	-
GBP, decrease	-

At year-end, a 5% immediate increase/decrease in GBP versus EUR and DKK would affect other comprehensive income and the income statement as outlined in the table below:

EUR '000	5% increase in all other currencies against DKK and EUR	5% decrease
2019		
Other comprehensive income	-980	980
Income statement	-	-
Total	**-980**	**980**
2018		
Other comprehensive income	-	-
Income statement	-	-
Total	**-**	**-**

The foreign exchange sensitivity analysis comprises effects from the Group's cash, trade receivables and trade payables, current loans, current and non-current financial investments, foreign exchange forwards and foreign exchange options at year-end. Anticipated currency transactions, investments and non-current assets are not included.

ACCOUNTING POLICIES

ZITON uses financial instruments to reduce the impact of foreign exchange on financial results.

Use of derivative financial instruments
The derivative financial instruments are used to manage the exposure to market risk. None of the derivatives are held for trading purposes.

ZITON uses forward exchange contracts to hedge forecast transactions, assets and liabilities. The overall policy is to hedge the majority of total currency exposure.

Currently, net investments in foreign subsidiaries are not hedged.

Initial recognition and measurement
On initiation of the contract, ZITON designates each derivative financial contract that qualifies for hedge accounting as one of:
- hedges of the fair value of a recognised asset or liability (fair value hedge), or;
- hedges of the fair value of a forecast financial transaction (cash flow hedge).

All contracts are initially recognised at fair value and subsequently remeasured at fair value at the end of the reporting period.

Fair value hedges
Value adjustments of fair value hedges are recognised in the income statement along with any value adjustments of the hedged asset or liability that are attributable to the hedged risk.

4.1 RISK MANAGEMENT (CONTINUED)

Cash flow hedges
Value adjustments of the effective part of cash flow hedges are recognised directly in other comprehensive income. The cumulative value adjustment of these contracts is transferred from other comprehensive income to the income statement when the hedged transaction is recognised in the income statement.

Discontinuance of cash flow hedging
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under financial income or financial expenses.

Fair value determination
The fair value of derivative financial instruments is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, the fair value is based on the most recently observed market price at the end of the reporting period. If a financial instrument is quoted in a market that is not active, ZITON bases its valuation on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments assumed to be motivated by normal business considerations.

If an active market does not exist, the fair value of standard and simple financial instruments, such as foreign exchange forward contracts, interest rate swaps, currency swaps and unlisted bonds, is measured according to generally accepted valuation techniques. Market-based parameters are used to measure the fair value.

Hedging activities

	2019			2018		
EUR '000	Contract amount at year-end	Positive fair value at year-end	Negative fair value at year-end	Contract amount at year-end	Positive fair value at year-end	Negative fair value at year-end
FX forward contracts, cash flow hedges (GBP)	16,800	-	701	-	-	-
Total hedging activities	**16,800**	**-**	**701**	**-**	**-**	**-**
Recognised in the income statement	-	-	-	-	-	-
Recognised in other comprehensive income	-	-	701	-	-	-
Presented in the balance sheet as						
Financial instruments (current assets/liabilities)	-	-	701	-	-	-
Cash at bank	-	-	-	-	-	-

The above financial contracts regarding cash flow hedging are expected to impact the income statement within the periods shown below. The split is based on an estimate of when the cash flow hedges are expected to be reclassified from other comprehensive income to the income statement.

EUR '000	Positive fair value at year-end	Negative fair value at year-end
Expected timing of income statement impact		
0–12 months	-	701
More than 12 months	-	-

4.2 WORKING CAPITAL FACILITY

EUR '000		2019	2018
Cash and cash equivalents	B/S	2,008	10,850
Working capital facility		-156	-
Total		**1,852**	**10,842**

At 31 December 2019, the Group had an undrawn working capital facility with the bank of EUR 6,538k (2018: EUR 6,696k).

4.3 LOANS

2019 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan	B/S	Floating rate	-	25,472	25,472
Bond loan, second lien	B/S	Floating rate	-	28,602	28,602
Bond loan, first lien	B/S	Floating rate	4,314	88,117	92,431
Lease liabilities	B/S	Floating rate	2,546	40,832	43,378
Working capital facility	B/S	Floating rate	156	-	156
Total loans			**7,016**	**183,023**	**190,039**

Fair value:
First lien bond
At 31 December 2019, the latest trading price quoted for the first lien bond on the stock exchanges was 102.2. The fair value (hierarchy level 1) of the bond is equivalent to EUR 97,090k, compared to the carrying amount of 95,000k (adjusted for capitalised fees of EUR 1,325k and prepayments of EUR 1,244k).

Second lien bond
At 31 December 2019, there had been no trading of the second lien bond on the stock exchange. The exchange rate is set at 100. The fair value (hierarchy level 1) of the bond is EUR 28,978k, equivalent to the carrying amount of 28,602k (adjusted for capitalised fees of EUR 376k and accumulated interests).

The fair value of the subordinated loan is equivalent to the carrying amounts (adjusted for capitalised fees on subordinated loan of EUR 244k).

The total fair value of the bond loans and subordinated loans at 31 December 2019 was EUR 146,505k (adjusted for capitalised fees of EUR 1,945k).

Financial covenants:
BOND: FRN ZITON A/S 2018/2021 - ISIN NO0010832488 & FRN ZITON A/S 18/22 - ISIN NO 0010832512
Subordinated capital ratio: The issuer shall at all times maintain a subordinated capital ratio of at least 30% in the first 12 months from the issue date and increase it by 2.5 percentage points each subsequent year. At 31 December 2019, the minimum ratio is 32.5%. The key terms of the bond are listed under accounting policies.

4.3 LOANS (CONTINUED)

2018 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan	B/S	Floating rate	-	22,373	22,373
Bond loan, second lien	B/S	Floating rate	-	25,208	25,208
Bond loan, first lien	B/S	Floating rate	4,314	93,630	97,944
Lease liabilities	B/S	Floating rate	14	159	173
Working capital facility	B/S	Floating rate	164	-	164
Total loans			**4,492**	**141,370**	**145,862**

Fair value:
First lien bond
At 31 December 2018, the latest trading price quoted for the first lien bond on the stock exchanges was 101.5. The fair value (hierarchy level 1) of the bond was equivalent to EUR 101,500k, compared to the carrying amount of 100,000k (adjusted for capitalised fees of EUR 2,055k).

Second lien bond
At 31 December 2018, there had been no trading in the second lien bond on the stock exchange. The exchange rate was set at 100. The fair value (hierarchy level 1) of the bond was equivalent to EUR 25,208k, equivalent to the carrying amount of 25,208k (adjusted for capitalised fees of EUR 524k).

The fair value of the remaining loans was equivalent to the carrying amounts (adjusted for capitalised fees on subordinated loan of EUR 333k). The total fair value of the loans at 31 December 2018 was EUR 145,525k (adjusted for capitalised fees of EUR 2,912k).

Financial covenants:
BOND: FRN ZITON A/S 2018/2021 - ISIN NO0010832488 & FRN ZITON A/S 18/22 - ISIN NO 0010832512
Subordinated capital ratio: The issuer shall at all times maintain a subordinated capital ratio of at least 30% during the first 12 months from the issue date. The covenant of subordinated capital ratio increases by 2.5 percentage points each subsequent year. At 31 December 2018, the minimum ratio was 30%. The key terms of the bond are listed under accounting policies below.

ACCOUNTING POLICIES

Loans are initially recognised at fair value, net of transaction costs incurred. Loans are subsequently measured at amortised cost.

Loans are derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or has expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

4.3 LOANS (CONTINUED)

Key terms for bond loans after amendment of bond terms completed in April 2020, as described in the Capital Structure section

	EUR 100m first lien	EUR 25m second lien
Tap issue	Additional EUR 25m	None
Listing/ISIN	Oslo Børs - ISIN NO0010832488	Oslo Børs - ISIN NO 0010832512
Coupon	3m EURIBOR + 7.9% (0% floor)	3m EURIBOR + 12.85% PIK (0% floor)
Security	A joint security package is established with all creditors. First lien bond ranks after First and Second Super Senior Obligations. Security package includes mortgages in J/U WIND, J/U WIND PIONEER, J/U WIND SERVER, vessel insurances, shares of ZITON A/S and subsidiaries, retention account etc.	Same security package with priority after first lien bond
Maturity	3 October 2022	3 April 2023
Amortisation	· Fixed amortisation: EUR 2.5m semi-annually (amortisation for 2020 has been waived. Next amortisation payments fall due on 3 April 2021 and 3 October 2021) · Mandatory cash sweep: Semi annual cash sweep of all cash in excess of EUR 7,500,000 @ 102% of par	No amortisation
Call structure	104.0% from 6 April 2020 - 31 December 2020 103.0% from 1 January 2021 - 31 December 2021 102.0% from 1 January 2022 - 1 July 2022 101.5% from 2 July 2022 - 2 October 2022	104.0% from 6 April 2020 - 31 December 2020 103.0% from 1 January 2021 - 31 December 2021 102.0% from 1 January 2022 - 1 July 2022 101.5% from 2 July 2022 - 2 October 2023
Maintainance covenant	Subordinated Capital Ratio >32.5% at the end of December 2019, increasing by 2.5 p.p. annually (the test shall not apply in 2020 until the earlier of the 2020 Capital Issue and 31 December 2020) Minimum EBITDA (12 months rolling) of EUR 9m and EUR 12m, respectively at the end of Q3 and Q4 2020, respectively ZITON shall within 2020 complete a capital issue of EUR 10 million in Subordinated Capital	Subordinated Capital Ratio >32.5% at the end of December 2019, increasing by 2.5 p.p. annually (the test shall not apply in 2020 until the earlier of the 2020 Capital Issue and 31 December 2020) Minimum EBITDA (12 months rolling) of EUR 11m and EUR 14m, respectively at the end of Q3 and Q4 2020, respectively ZITON shall within 2020 complete a capital issue of EUR 10 million in Subordinated Capital
Incurrence covenant	Net Interest Bearing Debt to EBITDA is not greater than: · 5.00 from the First Issue Date until 31 December 2018; · 4.50 from 1 January 2019 until 31 December 2019; · 4.00 from 1 January 2020 until the Final Redemption Date; The Subordinated Capital Ratio shall exceed 32.5% (end of December 2019), increasing by 2.5 p.p. annually	Net Interest Bearing Debt to EBITDA is not greater than: · 5.00 from the First Issue Date until 31 December 2018; · 4.50 from 1 January 2019 until 31 December 2019; · 4.00 from 1 January 2020 until the Final Redemption Date; The Subordinated Capital Ratio shall exceed 32.5% (end of December 2019), increasing by 2.5 p.p. annually
Dividends	Not permitted prior to an IPO and Equity Claw Back	Not permitted prior to an IPO and Equity Claw Back

4.4 NET FINANCIAL EXPENSES

EUR '000		2019	2018
Financial income:			
Foreign exchange gains on financing activities		-	-
Other		43	1
Total financial income	**I/S**	**43**	**1**
Subordinated loan		3,374	4,015
Bank loans		249	148
Transaction costs		1,036	1,319
Bond loan, second lien		3,394	733
Bond loan, first lien		6,665	11,017
Finance lease liabilities		2,027	7
Foreign exchange loss on financing activities		218	279
Other interest expenses		79	106
Total financial expenses	**I/S**	**17,042**	**17,625**
Net financial expenses		**16,999**	**17,624**

ACCOUNTING POLICIES

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Any difference between the proceeds of loans (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans using the effective interest method.

Other borrowing costs are expensed in the period in which they are incurred.

4.5 RECONCILIATION OF FINANCING LIABILITIES

			Non-cash changes			
EUR '000	2018	Cash flow	Other non-cash movements	Non-cash interests	Foreign exchange movements	2019
Subordinated loan	22,373	-	-	3,099	-	25,472
Bond loan, second lien	25,208	-	-	3,394	-	28,602
Bond loan, first lien	93,630	-6,245	729	-	3	88,117
Bond loan - current liability	4,478	-	-164	-	-	4,314
Lease liabilities	159	-4,381	45,054	-	-	40,832
Lease liabilities - current liability	14	-	2,532	-	-	2,546
Working capital facility	-	156	-	-	-	156
Total financing liabilities	**145,862**	**-10,470**	**48,151**	**6,493**	**3**	**190,039**

5.1 INCOME TAX EXPENSE

Income tax expenses

EUR '000		2019	2018
Current tax			
Current tax on income for the year		-5	-
Adjustments in respect of prior years - current tax		-	-
Total current tax		**-5**	**-**
Deferred tax (note 5.2)			
Deferred tax on the income (profit/loss) for the year		4,481	-5,970
Adjustments in respect of prior years - deferred tax		-	-112
Total deferred tax		**4,481**	**-6,082**
Income tax expenses	**I/S**	**4,476**	**-6,082**

The tax on the Group's profit differs from the theoretical amount that would arise using the Danish tax rate to profits of the consolidated entities as follows:

Reconciliation of tax rate

EUR '000	2019	2018
Profit/loss before tax	**-20,025**	**4,799**
Danish tax rate 22%	**4,406**	**-1,056**
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate	-99	-838
Notional interest on equity (Malta)	929	1,077
Deferred income tax from permanent establishment	-172	-
Thin capitalisation and non-deductible interests	-2,583	-2,740
Other adjustments	1,995	-2,414
Income tax expenses for the year	**4,476**	**-5,971**

ZITON recognised a loss of EUR 20.0m for 2019 and taxable income was a loss of EUR 20.4m, resulting in a tax income of EUR 4.5m. The use of notional interest on equity financing in Malta and a reassessment of the tax on the vessel in Malta from executing the call option recognised as part of the vessel in Jack-Up InvestCo 3 Plc had the positive effect of changing the tax rate from 35% to 5%. On the other hand, the tax is negatively affected by deviations from foreign tax rates, thin capitalisation and non-deductible interests in Denmark and the net financial loss from the permanent establishment of ZITON in the UK.

ZITON recognised an income of EUR 4.7m for 2018, but the taxable income was a profit of EUR 27.1m, resulting in a tax expense of EUR 5.9m. The difference between the reported income of EUR 4.7m and the taxable income of EUR 27.1m was due to the effect of the Malta tax rate of 35%, non-deductible interests in Denmark and deferred taxation on the vessel in Malta from executing the call option and recognising this as part of the vessel in Jack-Up InvestCo 3 Plc. On the other hand, the use of notional interest on equity financing in Malta partly offset the higher income tax percentage in Malta.

ACCOUNTING POLICIES

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unutilised tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

5.2 DEFERRED TAX

EUR '000	2019	2018
Deferred tax 1 January	-9,782	-3,695
Currency translation	-	-5
Change in deferred tax - recognised in the income statement	4,481	-5,970
Adjustments in respect of prior years - deferred tax	-289	-112
Total deferred tax, net at 31 December	**-5,590**	**-9,782**
Deferred tax gross:		
Deferred tax asset	5,534	5,183
Deferred tax liability	-11,124	-14,965
Total deferred tax, net at 31 December	**-5,590**	**-9,782**

Specification of deferred tax

EUR '000	2019	2018
Vessels and equipment	-11,124	-14,965
Tax-loss carry forwards	5,534	5,183
Total deferred tax, net at 31 December	**-5,590**	**-9,782**

Deferred tax in balance sheet

EUR '000		2019	2018
Deferred tax asset	B/S	519	-
Deferred tax liability	B/S	-6,109	-9,782
Total deferred tax, net at 31 December		**-5,590**	**-9,782**

In 2019, total deferred tax consists of a liability from Jack-Up InvestCo 3 Plc. of EUR 4,949k, deferred tax liability of EUR 1,157k concerning Danish joint taxation and a deferred tax asset of EUR 516k from the permanent establishment in England, for a total of EUR 5,590k.

In 2018, total deferred tax consisted of a liability from Jack-Up InvestCo 3 Plc. of EUR 5,207k and a deferred tax liability of EUR 4,575k concerning Danish joint taxation, for a total of EUR 9,782k.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Deferred tax is recognised based on the assumption that ZITON A/S continues under the corporate tax regime, and on expectations of future activity. Deferred tax assets related to tax losses carried forward are recognised, when management assesses that these can be offset against positive taxable income in the foreseeable future. The assessment is made at the reporting date taking into account the impact from limitation in interest deductibility and restrictions in utilisation of tax losses in local tax legislation. The assessment of future taxable income is based on financial budgets approved by management and management's expectations on the operational development, mainly in terms of organic growth and operating margin in the following five years. Planned adjustments to capital structure in each country are also taken into consideration.

5.2 DEFERRED TAX (CONTINUED)

ACCOUNTING POLICIES

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

ZITON A/S is jointly taxed with the subsidiaries Jack-Up InvestCo 2 A/S, ZITON Contractors A/S and Hangout A/S, and the parent company Jack-Up Holding A/S and the ultimate parent company Anpartsselskabet af 1. december 2011. Anpartsselskabet af 1. december 2011 is the administration company for the jointly taxed companies. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income.

6.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)
Operating leases relate to leases of cars.

Recognised in the income statement in respect of rentals including commitments

EUR '000	2019	2018
Recognised in the income statement in respect of rentals	-	173
Lease commitments:		
0 - 1 year	-	53
1 - 5 years	-	-
After 5 years	-	-
Total lease commitments	**-**	**53**

ACCOUNTING POLICIES

Agreements to charter vessels and to lease other tangible assets where all substantial risks and rewards of ownership have been transferred to the Group are recognised in the balance sheet (note 3.1 - Vessels and equipment).

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short term and low-value leases, see note 1.1 and note 3.1 for further information. The assets and liabilities obtained by the Group have been recognised as property and cars at fair value and are depreciated over the shorter of their useful life and the lease term.

Contingencies

Security
In October 2018, the company issued a bond for an amount of EUR 100,000k and obtained a working capital facility consisting of an overdraft facility and performance guarantees. The overdraft facility is limited to DKK 50,000k (EUR 6,694k). The bondholders and the provider of the working capital facility have entered into an intercreditor agreement sharing the following security:

- the Group's three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) with a total carrying amount of EUR 145,326k (2018: EUR 152,339k) have been pledged for a total amount of EUR 195,003k (2018: EUR 195,003k), and;
- the Group's entitlements under insurances related to its three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) other than third-party liability insurances.

During 2019 ZITON deposited an amount of EUR 1.7m on their bank account for pledge of security in the cash flow hedges against the GBP on the WoDS project.

Guarantees
As part of the working capital facility, the Group's bank has provided two guarantees on the WoDS contract with Siemens Gamesa Renewable Energy A/S.

The first guarantee amounts to GBP 2,962k of the contract sum in respect of the work performance of the contract and will expire 24 months after completion or no later than on 31 January 2023.

The second guarantee amounts to GBP 5,500k of the contract sum in respect of the work performance of the contract and will expire no later than on 29 January 2021. The guarantee is reduced progressively in connection with the progress of the performance of the work on the remaining WTGs.

Both guarantees are on-demand , performance guarantees and serves to guarantee the full and punctual performance of ZITON A/S's obligations and payments of any sums that ZITON A/S is liable to pay under or in connection with the charter contract.

6.1 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Unrecognised contingent liabilities
There are pending disputes with individual suppliers. Management believes that the outcome of these will not have a material impact on the Group's financial position.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Information on contingent assets and liabilities and when recognition should be made as an asset and a liability, respectively, is based on assessments of the expected outcome of each claim. The assessments are made on the basis of legal assessments of the signed agreements, which in substantial claims also include assessments obtained from external advisers, including lawyers.

In 2019, ZITON entered into an legal dispute with the Danish tax authorities regarding a VAT claim, and as a result, ZITON paid the claim. However, dispite paying the claim from the Danish tax authorities and based on the consulting with the company's legal advisers it is management's assessment that the claim will be repaid in full, and hence the payment has been recognised under other receivables (note 3.4).

ACCOUNTING POLICIES

Contingent assets are recognised when it is practically certain that the claim will have a positive outcome for the Group. A contingent liability is recognised if it is likely that the claim will have a negative outcome and when it is possible to estimate the amount. If this is not the case, the matter is an unrecognised contingent liability.

6.2 SHARE-BASED PAYMENTS

The Group established two warrant programmes in 2012; one for management and selected employees and one for a subordinated loan provider. The value of the warrants granted in 2012 has been reduced due to the capital increase by conversion of debt to equity in 2014 and a cash payment in 2015. In line with the warrant agreement from 2012, the Board of Directors has approved an adjustment of the number of warrants to management and selected employees in 2016.

Management and selected employees (granted in 2012): The warrants may be exercised in whole or in part during a 10-year period from the date of the holder's subscription for warrants. Each warrant entitles the holder to subscribe for one share of DKK 1 nominal value at a price of DKK 23.98 plus 7% p.a. as from the date of subscription for the warrants until the date of the holder's payment of the subscription amount. If changes are made to the company's capital structure involving a reduction or increase in the value of the warrants, the company's Board of Directors must adjust the subscription price and/or the number of warrants, as applicable, to ensure that the value of the warrants remains unaffected by the change.

Subordinated loan provider (granted in 2012): The warrants may be exercised, in whole or in part, prior to the final repayment date in 2022. Each warrant shall provide the warrant holder with a right, but not an obligation, to subscribe for one share with a nominal value of DKK 1 in the company for an amount of DKK 23.98 (the "Subscription Price"). If changes to the capital structure of the company are implemented, causing the value of the warrants to increase or decline, an adjustment of the Subscription Price will, depending on the circumstances, be made so that the value of the warrants remains unaffected by the changes.

Management and selected employees (granted in 2016): The Board of Directors approved an adjustment of the number of warrants to management and selected employees by 138,645 additional warrants in 2016. The warrants carry a fair value of EUR 0, as the value has already been recognised in previous years. Furthermore, the Board of Directors decided to grant 20,849 additional warrants to management based on the 2012 warrant programme. The warrants carry a fair value of EUR 7k.

	Staff expenses		Interests	
2019 Warrants – amount and value in EUR	Management	Employees	Subordinated loan provider	Total
Outstanding warrants at 1 January 2019	327,329	51,078	99,500	477,907
Outstanding warrants at 31 December 2019	**327,329**	**51,078**	**99,500**	**477,907**
Number of exercisable options at 31 December 2019				**477,907**
Fair value at the time of grant (EUR ´000)	**68**	**10**	**64**	**142**

No warrants were granted, exercised or cancelled in 2019. The fair value of the warrants is fully recognised, hence there was no effect in the income statement or equity during 2019.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

ACCOUNTING POLICIES

The Group has established a share-based equity-settled incentive programme. The fair value of the employee services received in exchange for the grant of warrants is calculated using the value of the warrants. The fair value of a share-based payment on the grant date is recognised as a staff expense or interest over the period in which the stock options vest. In measuring the fair value, the calculation is based on "Ligningsrådets formel" (tax approved valuation calculation) and is calculated at EUR 143k, based on a discount rate of 2%. The value of equity-settled programmes is recognised in shareholders' equity.

	Staff expenses		Interests	
2018 Warrants – amount and value in EUR	Management	Employees	Subordinated loan provider	Total
Outstanding warrants at 1 January 2018	327,329	51,078	99,500	477,907
Outstanding warrants at 31 December 2018	**327,329**	**51,078**	**99,500**	**477,907**
Number of exercisable options at 31 December 2018				**477,907**
Fair value at the time of grant (EUR ´000)	**68**	**10**	**64**	**142**

No warrants were granted, exercised or cancelled in 2018. The fair value of the warrants was fully recognised, hence there was no effect in the income statement or equity during 2018.

6.3 FEES TO AUDITORS

The Group's fees to auditors appointed at the Annual General Meeting, are listed below:

Fees to auditors appointed by the Annual General Meeting

EUR '000	2019	2018
BDO Statsautoriseret revisionsaktieselskab		
Statutory audit	31	38
Assurance engagements	-	2
Tax advisory	20	15
Other services	1	1
Total	**52**	**56**

6.4 RELATED PARTY TRANSACTIONS

The Group's transactions with related parties consist of remuneration to members of the Executive Management and the Board of Directors and trading with related parties.

Remuneration

	Executive Management		Board of Directors	
EUR '000	2019	2018	2019	2018
Wages and salaries	440	385	54	54
Pensions – defined contributions plans	-	-	-	-
Other social security costs	-	-	-	-
Total	**440**	**385**	**54**	**54**

See note 6.2 for a description of the share-based payment.

Trading and accounts with related parties

EUR '000	2019	2018
Balance sheet items:		
Intercompany balances		
Effect of joint taxation with Jack-Up Holding A/S and Anpartsselskabet af 1. december 2011	389	323
Profit and loss		
Transactions with Dansk Bjergning & Bugsering A/S	845	1,353

No other material transactions took place during the year with members of the Board of Directors, the Executive Management, major shareholders or other related parties.

ACCOUNTING POLICIES

ZITON A/S is controlled by Jack-Up Holding A/S, which holds 75.4% of the share capital in ZITON A/S. Dansk Bjergning & Bugsering Holding ApS and OY Finans ApS hold 18.2% and 6.3% of the share capital respectively. The ultimate controlling party of the Group is Jack-Up Holding A/S's holding company Anpartsselskabet af 1. december 2011.

The above-mentioned companies are considered related parties, including their subsidiaries and associates, members of the Board of Directors and Executive Management of these entities together with their immediate families.

Furthermore, ZITON's subsidiaries, as well as members of the Board of Directors and the Executive Management of ZITON A/S together with their immediate families, including companies in which the above persons have control or joint control, are considered related parties.

All agreements related to these transactions are based on market prices (arm's length).

6.5 SUBSEQUENT EVENTS

The Board of Directors has reviewed the potential impact of the virus that is causing the COVID-19 disease. The potential impact on ZITON is the risk that vessel crews are quarantined and not allowed or able to operate the vessels because someone from the crew has been infected, or delays caused by other parties in the value chain beyond the control of ZITON. ZITON has taken a number of precautions to avoid quarantine of vessel crews, which are based on the recommendations from the Danish Health Authorities and continuously informing all ZITON employees and subcontractors of any changes in the recommendations. Hence, ZITON has not been significantly affected by the virus.

No further significant events have occurred between the reporting period and the publication of the annual report that have not been included and adequately disclosed in the annual report and that materially affect the income statement, balance sheet and disclosure requirements.

The financial statements were approved by the Board of Directors and have been submitted for adoption at the Annual General Meeting to be held on 23 April 2020.

6.6 LEGAL ENTITIES

Name and place of domicile	Ownership (%)
Parent company	
ZITON A/S, Horsens, Denmark	-
Subsidiaries	
ZITON Contractors A/S, Horsens, Denmark	100%
Jack-Up InvestCo 2 A/S, Horsens, Denmark	100%
Jack-Up InvestCo 3 Plc, Qormi, Malta	100%
ZITON Ltd, London, United Kingdom*	100%
ZITON GmbH, Hamburg, Germany **	100%
ZITON Offshore Wind Power Technology (Beijing) Limited, Beijing, China**	100%
Hangout A/S, Horsens, Denmark	50%

* The subsidiary ZITON Ltd, company number 11689541, has taken advantage of the exemption from audit available under s479A of the Companies Act 2006. In order for the subsidiary company to be entitled to this exemption, the parent company must guarantee all outstanding liabilities that the subsidiary is subject at the year-end under s479C and ZITON A/S has guaranteed all outstanding liabilities that ZITON Ltd was subject to as at 31 December 2019.

** Due to the limited size and complexity of the companies, the local financial statements of the foreign companies have not been audited in compliance with local legislation.

ZITON crew member on J/U WIND.

PARENT COMPANY FINANCIAL STATEMENTS
TABLE OF CONTENTS

PARENT COMPANY FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT
1 JANUARY - 31 DECEMBER

		PARENT COMPANY	
EUR '000	Note	2019	2018
Revenue		**33,413**	**45,011**
Other operating income		488	1,340
Project-related expenses		-8,720	-3,962
Operating expenses		-21,198	-23,989
Gross profit		**3,983**	**18,400**
Administrative expenses		-2,284	-1,452
Staff costs	2.1	-8,875	-6,611
EBITDA		**-7,177**	**10,337**
Depreciation and amortisation	3.3	-3,084	-1,628
EBIT		**-10,261**	**8,708**
Income from equity investments		1,600	2,996
Financial income	2.2	6,383	8,565
Financial expenses	2.2	-18,061	-19,880
Income before tax		**-20,339**	**389**
Tax on profit (loss)	2.3	2,701	-1,611
Income for the year		**-17,638**	**-1,222**

BALANCE SHEET AT 31 DECEMBER – ASSETS

		PARENT COMPANY	
EUR '000	Note	2019	2018
Intangible assets	3.1	128	100
Intangible assets		**128**	**100**
Vessels	3.2	67,307	21,009
Fixtures & equipment	3.2	878	772
Tangible assets		**68,185**	**21,781**
Investments in subsidiaries	3.3	53,351	51,587
Deferred tax asset	3.4	2,808	318
Long-term receivables, subsidiaries		83,594	78,358
Financial assets		**139,753**	**130,263**
Inventories		293	35
Trade receivables		3,287	1,050
Intercompany receivables, subsidiaries		982	1,441
Other receivables		386	1,396
Prepayments		177	69
Cash and cash equivalents		1,874	10,518
Current assets		**7,000**	**14,509**
Total assets		**215,065**	**166,653**

BALANCE SHEET AT 31 DECEMBER – EQUITY AND LIABILITIES

		PARENT COMPANY	
EUR '000	Note	2019	2018
EQUITY			
Share capital		13,098	11,093
Reserves		7,529	6,630
Retained earnings		-23,423	-4,185
Total equity		**-2,797**	**13,538**
LIABILITIES			
Subordinated loans	4.1	25,472	22,373
Bond loan, second lien	4.1	28,602	25,208
Bond loan, first lien		88,117	93,630
Lease obligation	4.1	40,102	159
Provision for other liabilities		230	-
Total non-current liabilities		**182,523**	**141,370**
Other provisions		1,050	1,230
Bond loan, first lien	4.1	4,314	4,314
Lease obligation		2,280	14
Working capital facility		181	-
Trade payables		9,028	679
Intercompany payables, subsidiaries		18,053	4,988
Other liabilities		432	520
Total current liabilites		**35,339**	**11,745**
Total liabilities		**217,862**	**153,115**
Total equity and liabilites		**215,065**	**166,653**

STATEMENT OF CHANGES IN EQUITY

	PARENT COMPANY							
2019 EUR '000	Share capital	Reserve for warrants	Translation reserves	Cash flow hedges	Reserve for equity value	Total reserves	Retained earnings	Total equity
Balance at 31 December 2018	**11,093**	**142**	17	**-**	**6,470**	**6,630**	**-4,185**	**13,538**
Exchange rate adjustments	-	-	-	-	-	-	-	-
Total income for the year, after tax	-	-	-	-	1,600	1,600	-19,238	-17,638
Financial instruments	-	-	-	-701	-	-701	-	-701
Capital increase	2,005	-	-	-	-	-	-	2,005
Balance at 31 December 2019	**13,098**	**142**	**17**	**-701**	**8,070**	**7,529**	**-23,423**	**-2,797**

Share capital

In 2019, the share capital was increased by 15,000,000 B shares of DKK 1 each (EUR 2,011k) by means of a cash payment. At the end of 2019, the share capital consisted of 97,782,192 shares of DKK 1 each (EUR 13,104K). The shares are divided into two classes: 15,118,416 A shares of DKK 1 each and 82,663,782 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.

Specification of movements in the share capital

EUR´000	2019	2018	2017	2016	2015
Share capital	13,098	11,093	11,093	11,093	7,763

NOTES TO THE FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

ACCOUNTING POLICIES
The financial statements of ZITON A/S have been prepared in accordance with the provisions for class D enterprises of the Danish Financial Statements Act.

As the accounting policies of ZITON A/S differ from those of the Group, which follow IFRS, with respect to only a few items, only policies that differ from those of the Group are detailed below. Reference is made to the accounting policies of the ZITON Group for the other items. ZITON A/S has not preimplemented IFRS 16.

In 2019, the ZITON Group account implemented IFRS 16, which meant operating expenses and administrative expenses comprising inventory rent, office rent and operating leases on cars in ZITON A/S were classified as depreciation and financial expenses. The difference from the Group accounts are shown in the below tables:

Profit and loss EUR '000	2019
Decrease in operating expenses and administrative expenses	-224
Increase in depreciation and financial expenses	224

Balance effect EUR '000	1 January 2019	31 December 2019
Increase in assets	878	677
Decrease in liabilities	-878	-677

Income statement and balance sheet
Earnings from equity investments
Earnings from investments in subsidiaries and joint ventures. In the parent company income statement, the proportional share of earnings is recognised under the item "Income from equity investment".

Investments in subsidiaries
Investments in Jack-Up InvestCo 2 A/S, ZITON Contractors A/S, Jack-Up InvestCo 3 Plc, Hangout A/S, Ziton Ltd, Ziton GmbH and ZITON Offshore Wind Power Technology (Beijing) Limited are recognised and measured according to the equity method.

The proportional ownership share of the companies' net asset value is recognised in the balance sheet under the items "Investments in subsidiaries".

The total net revaluation of investments in subsidiaries is transferred through the distribution of profit to "Reserve for equity value" under equity. The reserve is reduced by dividend payments to the parent company and is adjusted for other changes in equity in subsidiaries.

Subsidiaries with negative net asset value are recognised at EUR 0m, and a provision to cover the negative balance is recognised.

In October 2018, ZITON A/S acquired the outstanding shares in Jack-Up InvestCo 3 Plc. Consequently, the premium purchase price (EUR 2.1m) from the purchase of the non-controlling interests and the call option (EUR 6.0m) to purchase the noncontrolling interests (previously recognised as a financial asset) have been recognised as the cost price related to the vessel in Jack-Up InvestCo 3 Plc.

Depreciation of the vessel 25 years

Other accounting policies
With reference to the provisions of the Danish Financial Statements Act, the parent company has refrained from preparing a cash flow statement. For this information, see the consolidated financial statements of the ZITON Group.

2.1 STAFF COSTS

Total staff costs		PARENT COMPANY	
EUR '000		2019	2018
Staff costs			
Wages and salaries		8,298	6,056
Pensions - defined contributions plans		470	445
Other social security costs		107	110
Total staff costs	**I/S**	**8,875**	**6,611**
of which remuneration to:			
Management *		440	385
Board of Directors		54	54
Average number of employees			
Total employees		**85**	**80**

* Executive Management registered with the Danish Business Authority (Erhvervsstyrelsen)

2.2 NET FINANCIAL EXPENSES

		PARENT COMPANY	
EUR '000		2019	2018
Financial income			
Financial income, related parties		6,340	8,564
Other financial income		43	1
Total financial income	**I/S**	**6,383**	**8,565**
Financial expenses			
Financial expenses, related parties		1,055	2,254
Other financial expenses		17,006	17,626
Total financial expenses	**I/S**	**18,061**	**19,880**
Net financial expenses		**11,678**	**11,315**

2.3 INCOME TAX EXPENSES

		PARENT COMPANY	
EUR '000		2019	2018
Current tax			
Current tax on income for the year		-	-
Adjustments in respect of prior years - current tax		-	-
Total current tax		-	-
Deferred tax (note 3.4)			
Deferred tax on the income (profit/loss) for the year		2,701	-1,611
Adjustments in respect of prior years - deferred tax		-	-
Total deferred tax		**2,701**	**-1,611**
Income tax expenses	**I/S**	**2,701**	**-1,611**

3.1 INTANGIBLE ASSETS

2019 EUR '000		PARENT COMPANY Software	Total
Cost at 1 January		120	120
Exchange rate adjustments		-	-
Additions		52	52
Disposals		-	-
Cost at 31 December		**172**	**172**
Depreciation at 1 January		-20	-20
Exchange rate adjustments		-	-
Depreciation		-24	-24
Disposals		-	-
Depreciation at 31 December		**-44**	**-44**
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	**B/S**	**128**	**128**

3.2 VESSELS AND EQUIPMENT

2019 EUR '000		PARENT COMPANY Fixtures & equipment	Vessels	Total
Cost at 1 January		1,104	37,124	38,228
Exchange rate adjustments		-	-14	-14
Additions		295	301	596
Additions on leased assets		146	48,777	48,923
Disposals		-74	-	-74
Cost at 31 December		**1,471**	**86,188**	**87,659**
				-
Depreciation at 1 January		-331	-16,115	-16,446
Correction to opening balance		-	-	-
Exchange rate adjustments		-	-5	-5
Depreciation		-297	-1,345	-1,642
Depreciation on leased assets		35	-1,416	-1,381
Disposals			-	-
Depreciation at 31 December		**-593**	**-18,881**	**-19,475**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**878**	**67,307**	**68,185**
- of which interior and design		-	2,569	2,569
- of which finance leases		199	46,883	47,082

3.3 FINANCIAL ASSETS

		PARENT COMPANY							
2019 EUR '000		Equity investment in ZITON Offshore Wind Power Technology (Beijing) Limited	Equity investment in Ziton Ltd	Equity investment in Ziton GmbH	Equity investment in Hangout A/S	Equity investment in Jack-Up InvestCo 3	Equity investment in Jack-Up InvestCo 2	Equity investment ZITON Contractors A/S	Total
Cost at 1 January		-	-	-	-	43,637	1,473	67	45,177
Exchange rate adjustments		-	-	-	-	-	-	-	-
Additions		99	0	25	67	-	-	-	191
Cost at 31 December		**99**	**0**	**25**	**67**	**43,637**	**1,473**	**67**	**45,368**
Adjustments at 1 January		-	-	-	-	7,790	-1,313	-86	6,391
Exchange rate adjustments		1	-5	-	-	-	-	-4	-8
Depreciation of vessel from PPA		-	-	-	-	-330	-	-	-330
Profit during the year		5	13	5	-6	1,430	58	425	1,930
Adjustments at 31 December		**6**	**8**	**5**	**-6**	**8,890**	**-1,255**	**335**	**7,983**
Total		**105**	**8**	**30**	**61**	**52,527**	**218**	**402**	**53,351**
Transfer to other liabilities		-	-	-	-	-	-	-	-
Carrying amount at 31 December	**B/S**	**105**	**8**	**30**	**61**	**52,527**	**218**	**402**	**53,351**

Legal entities
ZITON Offshore Wind Power Technology (Beijing) Limited – registered office: Beijing, China (share of ownership 100%)
Ziton Ltd – registered office: London, United Kingdom (share of ownership 100%)
Ziton GmbH – registered office: Hamburg, Germany (share of ownership 100%)
Hangout A/S – registered office: Horsens, Denmark (share of ownership 50%)
Jack-Up InvestCo 3 Plc – registered office: Qormi, Malta (share of ownership 100% as of 3 October 2018)
Jack-Up InvestCo 2 A/S – registered office: Horsens, Denmark (share of ownership 100%)
ZITON Contractors A/S – registered office: Horsens, Denmark (share of ownership 100%)

3.4 DEFERRED TAX

		PARENT COMPANY	
EUR '000		2019	2018
Deferred tax 1 January		318	3,118
Currency translation		-	-
Change in deferred tax - recognised in the income statement		2,348	-1,611
Utilisation of tax loss in joint taxation		142	-1,189
Adjustments related to previous years		-	-
Adjustment to deferred tax asset		-	-
Total deferred tax, net at 31 December	**B/S**	**2,808**	**318**
Deferred tax gross			
Deferred tax asset		5,840	2,637
Deferred tax liability		-3,032	-2,319
Total deferred tax, net at 31 December	**B/S**	**2,808**	**318**

4.1 LOANS

		PARENT COMPANY			
		Current debt	Non-current debt		
2019 EUR '000		0-1 year	1-5 years	After 5 years	Total
Subordinated loan		-	25,472	-	25,472
Bond loan, second lien		-	28,602	-	28,602
Bond loan, first lien		4,314	88,117	-	92,431
Lease obligation		2,280	40,102	-	42,382
Total	**B/S**	**6,594**	**182,293**	**-**	**188,887**

		Current debt	Non-current debt		
2018 EUR '000		0-1 year	1-5 years	After 5 years	Total
Subordinated loan		-	22,373	-	22,373
Bond loan, second lien		-	25,208	-	25,208
Bond loan, first lien		4,314	93,630	-	97,944
Lease obligation		14	159	-	173
Total	**B/S**	**4,328**	**141,370**	**-**	**145,698**

4.2 PROPOSED DISTRIBUTION OF PROFIT

	PARENT COMPANY	
EUR '000	2019	2018
Reserve for equity value	1,600	2,995
Accumulated profit (loss)	-19,238	-4,217
Proposed distribution of profit	**-17,638**	**-1,222**

5.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)
See note 6.1 to the consolidated financial statements.

Contingencies
Lease obligations
ZITON A/S bareboat charters the vessels J/U WIND SERVER and J/U WIND PIONEER from Jack-Up InvestCo 3 Plc and Jack-Up InvestCo 2 A/S respectively. The bareboat leases are based on the Group's transfer pricing policy and are set up as operating leases.

Operating leases

EUR '000	2019	2018
Total future lease payments:		
Within 1 year	5,198	4,198
Between 1 and 5 years	5,198	4,198
After 5 years	-	-
In total	**10,396**	**8,396**

Security
A vessel with a total carrying amount of EUR 19,052k (2018: EUR 21,009k) has been pledged as security for bond and bank debt at a total carrying amount of EUR 40,002k (2018: EUR 40,002k).

ZITON A/S has pledged the shares in the wholly-owned Jack-Up InvestCo 3 Plc and the shares in the wholly-owned Jack-Up InvestCo 2 A/S. Furthermore, all intercompany receivables have been pledged as security for bond and bank debt.

Guarantees
See note 6.1 to the consolidated financial statements.

Unrecognised contingent liabilities
See note 6.1 to the consolidated financial statements.

5.2 SHARE-BASED PAYMENTS

See note 6.2 to the consolidated financial statements.

5.3 FEES TO AUDITORS

See note 6.3 to the consolidated financial statements.

5.4 RELATED PARTY TRANSACTIONS

See note 6.4 to the consolidated financial statements.

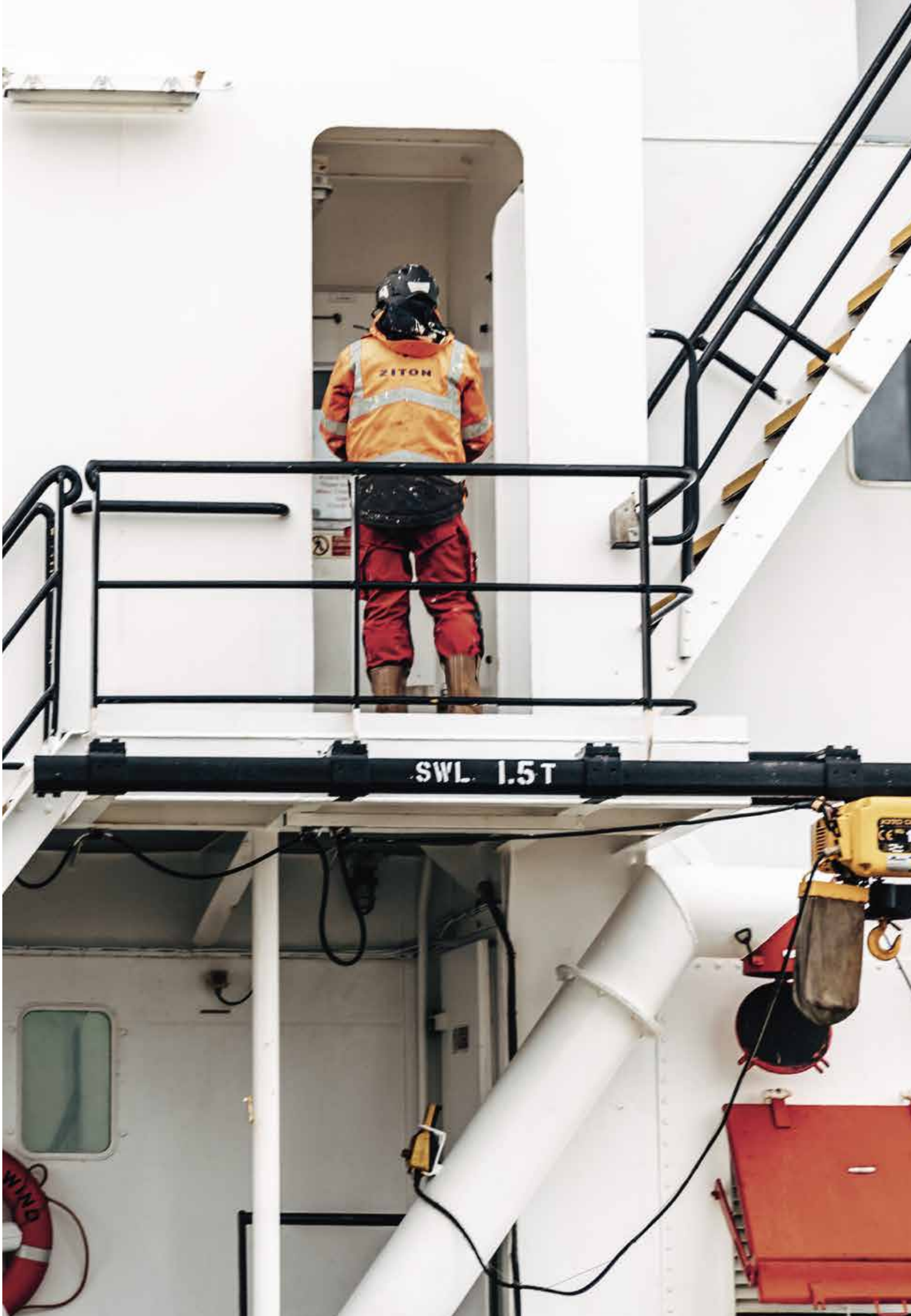
All agreements relating to transactions between ZITON A/S and subsidiaries are based on market prices (arm's length).

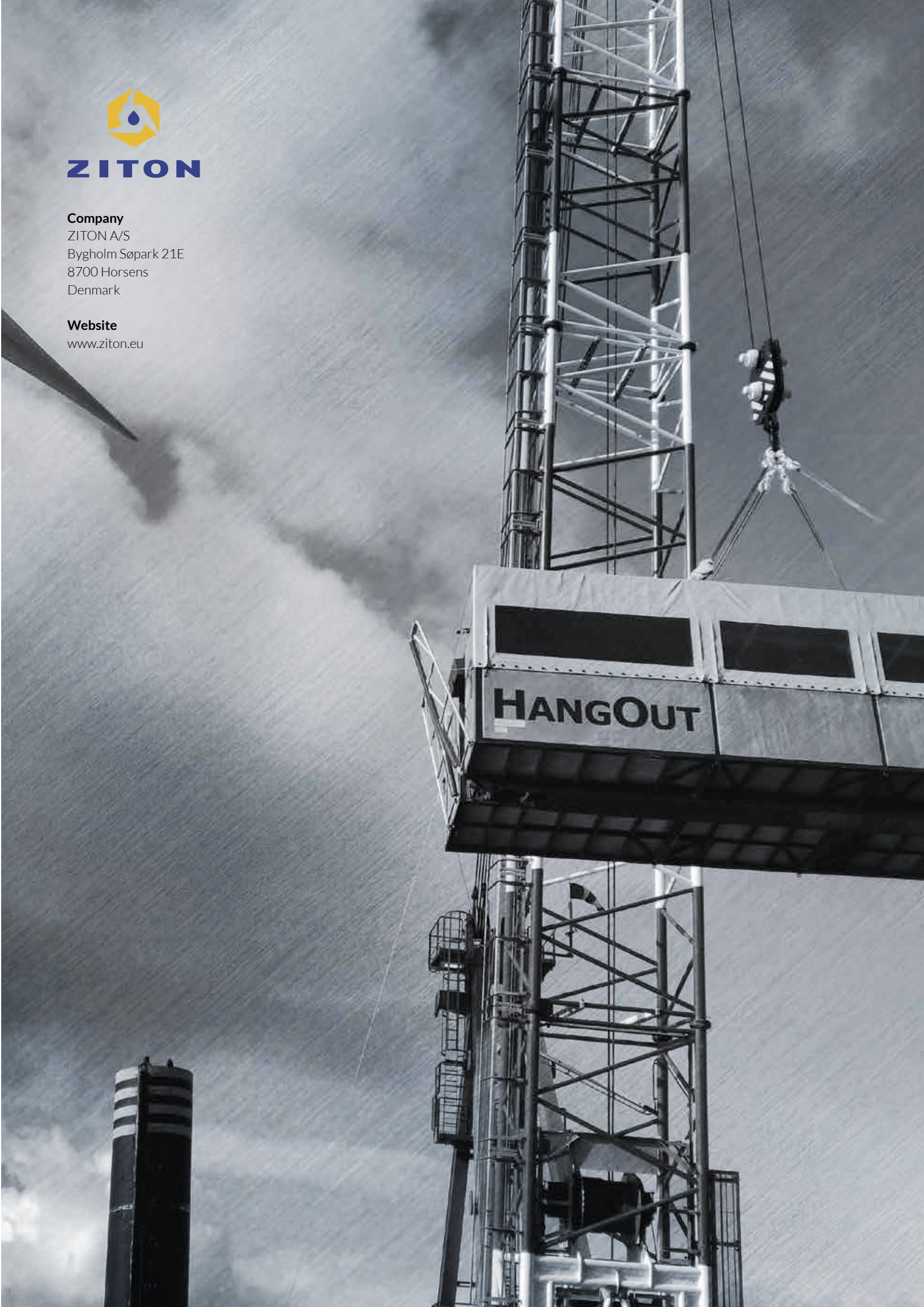
Ownership interests of more than 5% is listed on page 16 of the annual report.

5.5 SUBSEQUENT EVENTS

See note 6.5 to the consolidated financial statements.

ZITON crew members on J/U WIND.


ZITON
SWL 1.5T



ZITON

Company
ZITON A/S
Bygholm Søpark 21E
8700 Horsens
Denmark

Website
www.ziton.eu