



Interim report Q1 2019



ZITON A/S
CVR 24620417
Bygholm Søpark 21e
DK - 8700 Horsens

Highlights of the report

Highlights of Q1 2019

- On 1 May 2019, Ørsted and ZITON signed a three-year Service Jack-up vessel framework agreement. ZITON will become the primary partner for major component replacements at nine of Ørsted's offshore wind farms. This contract replaces ZITON's former framework agreement with Ørsted that expired in March 2019.
- On 16 May 2019, Siemens Gamesa Renewable Energy and ZITON signed a contract for upgrade of blades of 108 turbines at West of Duddon Sands ("WoDS"). ZITON will initiate the blade campaign in the near future. The duration of the blade campaign is expected to be 12 months.
- The activity level during the Q1 2019 was slightly lower than Q1 2018, that benefitted from orders carried over from 2017. Further, adverse weather negatively affected the activity level in Q1 2019.
- EBITDA was a EUR 6.6m profit in Q1 2019 compared to a profit of EUR 7.3m in Q1 2018. The main reason for the decrease was the slightly lower activity level compared to Q1 2018.
- We maintain our expectations for our key performance indicators in 2019:
 - **Weighted average utilisation rate.** We expect a utilisation rate in the range of 75%-85%.
 - **EBITDA.** We expect EBITDA to be in the range of EUR 21-25m.
 - **Cash flow from operating activities** is defined as EBITDA less changes in working capital. We expect cash flows from operating activities of EUR 19-23m.
 - **CAPEX.** We expect CAPEX of up to EUR 4.0m.

Information in this report

The information provided in this interim report is submitted in accordance with the Bond Agreements on FRN ZITON A/S EUR 100,000,000 callable bonds 2018/2021 (ISIN NO 0010832488) and FRN second secured EUR 25,000,000 callable PIK bonds 2018/2022 (ISIN NO 0010832512).

As required under the Bond Agreements, the consolidated financial statements of ZITON A/S are prepared in accordance with IFRS with Euro as the reporting currency.

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

Disclaimer

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

Management Review

Market activity

The activity level during the Q1 2019 was slightly lower than Q1 2018, that benefitted from orders carried over from 2017. Further, adverse weather negatively affected the activity level in Q1 2019. Overall, we continue to see a positive market development with solid market activity even though the first quarter traditionally is low season for the offshore O&M industry due to harsh weather conditions.

Contract developments

On 1 May 2019, Ørsted and ZITON signed a three-year Service Jack-up vessel framework agreement. ZITON will become the primary partner for major component replacements at nine of Ørsted's offshore wind farms. This contract replaces ZITON's former framework agreement with Ørsted that expired in March 2019.

On 16 May 2019, Siemens Gamesa Renewable Energy and ZITON signed a contract for upgrade of blades of 108 turbines at West of Duddon Sands ("WoDS"). ZITON announced in its interim report Q4 2018 that it was preferred supplier for a blade campaign. ZITON will initiate the blade campaign in the near future. The duration of the blade campaign is expected to be 12 months, for which ZITON is planning to use J/U WIND SERVER. ZITON will provide a full turnkey solution including, among other things, jack-up, lifting equipment, lift planning, technicians and blade repair including repair facilities. The blade campaign is the culmination of ZITON's strategic direction launched two years ago to provide value-added services and establishing ZITON Contractors A/S. Furthermore, the blade campaign shows ZITON's ambition to remain an important player in both the developing market for blade repair and its traditional market for major component replacement.

ZITON's other contracts within offshore wind O&M include:

- A framework agreement with Vattenfall that expires in November 2019.

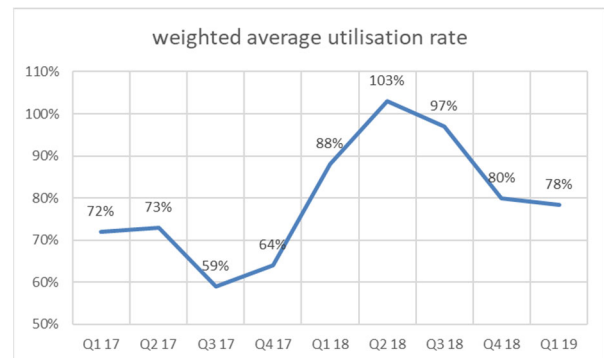
- A framework agreement with MHI Vestas Offshore Wind entered into in December 2014. This agreement has been extended until one of the parties cancels the agreement.

Competitive environment

ZITON operates in a satisfactory competitive environment. Recently Fred. Olsen Windcarrier announced that they intend to enter the market for O&M services for major component replacement with L/B Jill. All other jack-up companies have the installation of new wind farms as their primary business.

Utilisation rates

The weighted average utilisation rate for Q1 2019 was at 78%.



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

Vessel status

J/U WIND SERVER ended the three-year charter with Siemens Gamesa on 14 March 2019. The charter was extended until 15 April 2019 on reduced day rate. J/U WIND SERVER is being prepared for the blade campaign at WoDS.

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

Updated financial calendar

ZITON will publish its interim report Q3 2019 on 5 November 2019, the earlier communicated date was 19 November 2019.

Outlook for 2019

We maintain the guidance set out in the Q4 2018 report, with the following guidance for our key performance indicators in 2019:

- **Weighted average utilisation rate.** We expect a utilisation rate in the range of 75%-85%.
- **EBITDA.** We expect EBITDA to be in the range of EUR 21-25m.
- **Cash flow from operating activities** is defined as EBITDA less changes in working capital. We expect cash flows from operating activities of EUR 19-23m.
- **CAPEX.** We expect CAPEX of up to EUR 4.0m.

Risks and uncertainties

ZITON A/S is exposed to various risks that may be of significance to the company's future operations, results and financial position. For a description of ZITON A/S risks, please refer to the Risk Management section on pages 42-43 and note 4.1 "Risk management" on pages 80-81 of the 2018 annual report.

New accounting regulations 2019

With effect of 1st January 2019 ZITON has implemented IFRS 16 - Leases. The total effect of implementing IFRS 16 on the Income Statement is immaterial and mainly relates to rented offices. The effect is included in the Outlook for 2019. We refer to note 7 for accounting policies and the effect of implementing IFRS 16.

Financial Review

REVIEW OF THE INCOME STATEMENT

EUR '000	Q1-19	Q1-18	Change
Revenue	9.693	11.088	-1.395
Other operating income	488	0	488
OPEX and project-related expenses	-2.417	-2.691	274
SG&A	-1.199	-1.064	-135
EBITDA	6.564	7.333	-769
Depreciation	-2.126	-1.942	-183
EBIT	4.438	5.391	-952
Financials, net	-3.572	-3.276	-296
Income before tax	866	2.114	-1.248
Key ratios			
EBITDA margin	67,7%	66,1%	1,6%

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

Review of the income statement for Q1 2019

The consolidated results for ZITON show Revenue for Q1 2019 of EUR 9.7m compared to EUR 11.0m in Q1 2018, a decrease of 13%. The main reason for the decrease in revenue was the lower activity. In addition, ZITON recognised other operating income of EUR 0.5m related to income from loss-of-hire from J/U WIND.

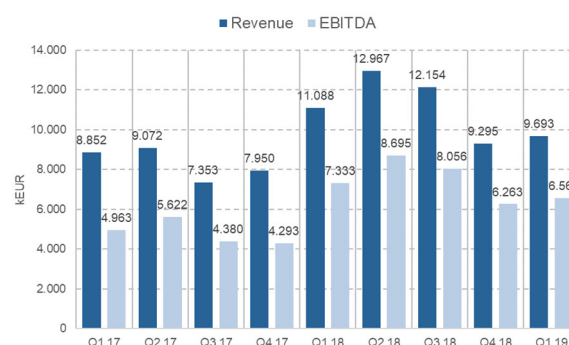
Vessel OPEX and project related costs decreased to EUR 2.4m for Q1 2019 from EUR 2.7m in Q1 2018. The main reason for the decrease in costs was the lower level of activity.

SG&A expenses amounted to EUR 1.2m in Q1 2019 to EUR 1.1m in Q1 2018.

EBITDA amounted to EUR 6.6m in Q1 2019 compared to EUR 7.3m in Q1 2018. The main reason for the decrease in EBITDA was lower level of activity.

Depreciation charges of EUR 2.1m in Q1 2019 compared to EUR 1.9m in Q1 2018. The main reason for the increase in depreciation, is depreciation on the exercised call option on Jack-Up InvestCo 3 Plc. that was moved to vessels from Financial assets in Q4 2018.

EBIT amounted to EUR 4.4m in Q1 2019 compared to EUR 5.4m in Q1 2018. The main reason for the decrease in EBIT was the lower level of activity.



Financials, net was an expense of EUR 3.6m in Q1 2019 compared to an expense of EUR 3.2m in Q1 2018. The increase is due to changes in the capital structure in October 2018, when non-controlling interests in Jack-Up InvestCo 3 Plc. was acquired by increased debt, leading to higher interest charges.

Income before tax amounted to EUR 0.9m in Q1 2019 compared to EUR 2.1m in Q1 2018.

REVIEW OF THE BALANCE SHEET AT THE END OF Q1 2019

EUR '000	Q1-19	Q1-18	Change	Q1-19	Q4 18	Change
Assets						
Vessel, including fixtures & equipment	152.689	152.543	146	152.689	153.324	-635
Other non-current assets	101	6.507	-6.406	101	100	1
Non-current assets	152.791	159.051	-6.260	152.791	153.424	-633
Trade and other receivables	8.057	6.841	1.216	8.057	3.066	4.991
Cash and cash equivalents	6.556	4.921	1.635	6.556	10.842	-4.286
Current assets	14.613	11.762	2.851	14.613	13.908	705
Total assets	167.404	170.813	-3.409	167.404	167.332	72
Equity and Liabilities						
Equity	10.158	35.457	-25.299	10.158	8.902	1.256
Subordinated loan	23.083	36.595	-13.512	23.083	22.373	710
Bond loans, second lien	26.015	-	26.015	26.015	25.208	807
Bond loans, first lien	95.637	91.027	4.611	95.637	98.108	-2.471
Lease obligations	1.064	156	909	1.064	173	891
Working capital facility	56	-	-	56	-	-
Other liabilities	11.390	7.578	3.811	11.390	12.568	-1.178
Total liabilities	157.246	135.356	21.889	157.246	158.430	-1.184
Total equity and liabilities	167.404	170.813	-3.409	167.404	167.332	72
Key ratios						
Subordinated capital ratio	35,4%	42,2%	-6,8%	35,4%	33,8%	1,6%
NIBD (adjusted for capitalised financing costs)	91.006	87.196	3.810	91.006	88.374	2.632
Loan to Vessel ratio (NIBD/Vessel book value)	59,6%	57,2%	2,4%	59,6%	57,6%	2,0%

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

Review of the balance sheet, end of Q1 2019

The total value of the vessels (incl. fixtures & equipment and leased offices) amounted to EUR 152.7m at the end of Q1 2019. This compares to EUR 152.5m at the end of Q1 2018. Other non-current assets amounted to EUR 0.1m at the end of Q1 2019 compared to EUR 6.5m in Q1 2018. The reduction was due to ZITON exercising a call option to acquire the outstanding non-controlling interests in Jack-Up InvestCo 3 Plc.

Trade and other receivables amounted to EUR 8.1m at the end of Q1 2019 compared to EUR 6.8m at the end of Q1 2018, and EUR 3.1m at the end of Q4 2018. The main reason for the increase is longer payment terms for "other operating income" i.e. loss-of-hire insurance. In addition, the Q4 2018 receivables were at a low level as a result of early payment of receivables by a single customer.

Total equity amounted to EUR 10.2m at the end of Q1 2019 from EUR 35.5m at the end of Q1 2018. The reduction in equity is mainly a result of acquisition of non-controlling interests in Jack-Up InvestCo 3 Plc., which eliminated the minority

interests in the consolidated equity. Furthermore, one-off costs related to a revised capital structure had a negative impact on equity.

The subordinated capital ratio (defined as total equity plus subordinated capital and the 2nd lien bond loan divided by total assets) at end of Q1 2019 was 35.4%. The reduction from 42.2% at the end of Q1 2018 was due to the revised capital structure in October 2018 which reduced both equity and subordinated loans but was partly offset by a new second lien bond loan. Compared to the end of Q4 2018, the subordinated capital ratio improved by 1.6% point from 33.8%.

The subordinated capital ratio has a safe margin relative to the company's only financial maintenance covenant, which required a subordinated capital ratio of 30.0% or higher, at the end of Q1 2019.

Senior Net Interest-Bearing Debt (NIBD) amounted to EUR 91.0m at the end of Q1 2019. This was higher than EUR 87.2m end of Q1 2018. Hence, the senior Loan to Vessel value stood at 59.6% at the end of the period.

REVIEW OF STATEMENT OF CASH FLOWS FOR Q1 2019

EUR '000	Q1-19	Q1-18	Change
EBITDA	6.564	7.333	-769
Working capital adjustments	-5.322	-2.471	-2.851
Other adjustments	-839	-622	-216
Net cash flows from operating activities	403	4.240	-3.837
Financial payments, net	-1.845	-2.035	190
Net cash before investing activities	-1.442	2.205	-3.647
Investing activities	-481	-34	-448
Net cash flows after investing activities	-1.923	2.171	-4.094
Financing activities	-2.363	-	-2.363
Net cash flows after financing activities	-4.286	2.171	-6.458
Available liquidity			
Cash and cash equivalents	6.556	4.921	1.635
Cash on retention account	12	0	12
Liquidity	6.544	4.921	1.623
Available draw on working capital facility	6.913	6.720	193
Available liquidity	13.457	11.641	1.816

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

Review of the cash flow statement

Cash flows from operating activities were an inflow of EUR 0.4m in Q1 2019 driven by EBITDA of EUR 6.5m offset by working capital adjustments and other adjustments. Working capital adjustments were negative EUR 5.3m during the quarter, mainly as consequence of the early payment of receivables by a single customer at the end of 2018.

Financial payments amounted to EUR 1.8m in Q1 2019 compared to EUR 2.0m in Q1 2018. The reduction is a consequence of the changed capital structure in October 2018, resulting in lower interest on the first lien bond loan.

Investing activities amounted to EUR 0.5m in Q1 2019.

Financing activities amounted to cash outflow of EUR 2.4m in Q1 2019 compared to EUR 0.0m in Q1 2018. Financing activities mainly related to semi-annual amortisation on the first lien bond loan.

Available liquidity including undrawn working capital facility amounted to EUR 13.5m at the end of Q1 2019. This was EUR 1.8m higher than at the end of Q1 2018.

Consolidated financial statements for ZITON A/S

INCOME STATEMENT

<i>EUR '000</i>	Note	Q1-19	Q1-18
Revenue	2	9.693	11.088
Other operating income		488	-
Project-related expenses		-232	-828
Operational expenses		-2.186	-1.863
Gross profit		7.763	8.397
Administrative expenses		-349	-312
Staff costs, office staff		-850	-752
EBITDA		6.564	7.333
Depreciation & amortisation		-2.126	-1.942
EBIT		4.438	5.391
Financial income		18	-
Financial expenses		-3.590	-3.276
Income before tax		866	2.114
Tax on profit (loss)		239	-515
Income for the year		1.104	1.599
<i>Attributable to:</i>			
Owners of ZITON A/S		1.105	759
Non-controlling interest - Profit/loss		-1	840
Income for the year		1.104	1.599

STATEMENT OF COMPREHENSIVE INCOME

<i>EUR '000</i>	Note	Q1-19	Q1-18
Income for the year		1.104	1.599
<i>Items that will be reclassified subsequently to the income statement when specific conditions are met:</i>			
Exchange adjustments of foreign entities, net of tax		17	16
Total comprehensive income for the year, after tax		1.122	1.615
<i>Attributable to:</i>			
Owners of ZITON A/S		1.123	775
Non-controlling interests		-1	840
Total comprehensive income for the year, after tax		1.122	1.615

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

BALANCE SHEET
EUR '000

		Q1-19	Q1-18	Q4-18
Assets				
Non-current assets				
Vessel, including fixtures & equipment	3	152.689	152.543	153.324
Intangible assets		101	101	100
Financial assets		0	6.050	-
Deferred tax assets		-	357	-
Non-current assets		152.791	159.051	153.424
Current assets				
Inventories		47	33	35
Trade and other receivables		8.010	6.808	3.031
Cash and cash equivalents		6.556	4.921	10.842
Current assets		14.613	11.762	13.908
Total assets		167.404	170.813	167.332
Equity and Liabilities				
Equity				
Share capital		11.093	11.093	11.093
Reserves		206	204	189
Retained earnings		-1.208	4.276	-2.380
Total equity attributable to owners of ZITON A/S		10.091	15.573	8.902
Non-controlling interest		66	19.884	-
Total equity		10.157	35.457	8.902
Liabilities				
Non-current liabilities				
Subordinated loan		23.083	36.595	22.373
Bond loans, second lien		26.015	-	25.208
Bond loans, first lien		91.324	85.591	93.630
Lease obligations		914	101	159
Deferred income tax liabilities		9.562	4.567	9.782
Total non-current liabilities		150.899	126.854	151.152
Current liabilities				
Bond loans, first lien		4.313	5.436	4.478
Lease obligations		150	55	14
Working capital facility		56	-	-
Trade and other payables		1.157	2.221	1.488
Provision for other liabilities		672	791	1.298
Total current liabilities		6.348	8.502	7.278
Total liabilities		157.247	135.356	158.430
Total equity and liabilities		167.404	170.813	167.332

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

STATEMENT OF CASH FLOWS

EUR '000

	Note	Q1-19	Q1-18
Income before tax		866	2.114
Operating activities			
<i>Adjustments for non-cash items</i>			
Reversal financial expenses, net		3.574	3.262
Depreciation and writedowns of the period		2.126	1.942
Other adjustments		-841	-607
<i>Working capital adjustments</i>			
Change in trade receivables		-4.979	-2.461
Change in inventories		-12	5
Change in trade payables		-331	-15
<i>Income tax expense</i>			
Income tax expense		-	-
Net cash flows from operating activities		403	4.240
<i>Financial payments</i>			
Financial receipts		-	-
Financial payments		-1.845	-2.035
Net cash flows before investing activities		-1.442	2.206
Investing activities			
Purchase of vessel, fixtures & equipment	7	-415	-34
Other cash flows from investing activities		-66	-
Net cash used in investing activities		-481	-34
Financing activities			
Proceeds from bank and bond loans		-2.501	-
- Lease payments	7	-56	-
Draw on working capital facility		194	-
Net cash used/received in financing activities		-2.363	-
Net (decrease)/increase in cash and cash equivalents		-4.286	2.172
Cash and cash equivalents at beginning of period		10.842	2.750
Exchange gains /losses on cash and cash equivalents		-	-
Cash and cash equivalents at end of period*		6.556	4.922

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity YTD 19

EUR '000	Share capital	Attributable to owners of ZITON A/S					Non-controlling interests	Total equity
		Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total		
Balance at 31 December 2018	11.093	143	46	189	-2.379	8.902	-	8.902
Total comprehensive income, after tax	-	-	17	17	1.105	1.123	-1	1.122
Capital increase in subsidiaries	-	-	-	-	66	66	67	133
Balance at YTD	11.093	143	63	206	-1.208	10.091	66	10.157

Share capital

In 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 15,118,416 A shares of DKK 1 each and 67,663,782 B shares of DKK 1 each. Each A share carries one vote, while B shares do not carry voting rights, but carry preferential rights of dividend.

Reserves

Equity reserves consist of the following:

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

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

YTD 18

EUR '000	Share capital	Attributable to owners of ZITON A/S					Non-controlling interest	Total equity
		Reserve for warrants	Translation reserves	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, after tax	-	-	15	15	759	774	840	1.614
Balance at YTD	11.093	143	61	204	4.276	15.573	19.884	35.457

Share capital

In 2017, 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 carry preferential rights of dividend.

Note 1 – Total Comprehensive Income by Quarter

Income statement by quarter EUR '000	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Revenue	9.693	9.295	12.154	12.967	11.088
Other operating income	488	1.340	-	-	-
Project-related expenses	-232	-557	-616	-577	-828
Operational expenses	-2.186	-2.575	-2.354	-2.394	-1.863
Gross profit	7.763	7.503	9.184	9.997	8.397
Administrative expenses	-349	-375	-362	-510	-312
Staff costs, office staff	-850	-865	-766	-791	-752
EBITDA	6.564	6.263	8.056	8.696	7.333
Depreciation	-2.126	-2.057	-1.973	-1.954	-1.942
EBIT	4.438	4.207	6.084	6.742	5.391
Financial income	-	0	1	-	-
Financial expenses	-3.572	-7.806	-3.247	-3.295	-3.276
Income before tax	866	-3.600	2.837	3.447	2.114

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

Note 2 - Segment reporting

The internal reporting framework used for reporting on revenue and expenses to the Executive Management Team and the Board of Directors has been set up to reflect and report on jack-up vessel and ZITON Contractor A/S revenue and expenses. As all three jack-up vessels including ZITON Contractor 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 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	Q1-19	Q1-18	YTD 19	YTD 18
Denmark	2.118	8.750	2.118	8.750
United Kingdom	6.484	1.436	6.484	1.436
Germany	659	201	659	201
Holland	-	701	-	701
Sweden	432	-	432	-
Total	9.693	11.088	9.693	11.088

Sales to the two largest customers (accounting for more than 10% of total revenue) make up 58% and 19% respectively, of total revenue for the Q1 2019 (Q1 2018: Sales to the largest customers were to three customers accounting for 54%, 27% and 11%, respectively).

Note 3 - Vessels and equipment

Q1-19				
EUR '000	Fixtures & equipment	Leased office	Vessels	Total
Cost at 1 January	1 353	-	190 351	191 704
Exchange rate adjustments	1	-	37	38
Additions on leased assets, incl. opening adjustment (IFRS 16)	58	902	-	960
Additions	218	-	291	510
Disposals	-74	-	-	-74
Cost YTD	1 557	902	190 679	193 138
Depreciation at 1 January	-368	-	-38 012	-38 381
Exchange rate adjustments	-	-	-9	-9
Depreciations on leased assets	-4	-52	-	-56
Depreciation	-56	-	-1 994	-2 050
Disposals	35	-	12	47
Depreciation YTD	-393	-52	-40 003	-40 448
Impairment losses at 1 January	-	-	-	-
Impairment losses YTD	-	-	-	-
Carrying amount YTD	1 163	850	150 676	152 689
- of which capitalised interests			16 629	16 629

Q1-18				
EUR '000	Fixtures & equipment	Leased office	Vessels	Total
Cost at 1 January	776	-	184 296	185 071
Exchange rate adjustments	-1	-	-86	-87
Additions	34	-	0	34
Disposals	-	-	-	-
Cost YTD	808	-	184 210	185 018
Depreciation at 1 January	-195	-	-30 360	-30 554
Exchange rate adjustments	-	-	17	17
Depreciation	-34	-	-1 904	-1 937
Disposals	-	-	-	-
Depreciation YTD	-228	-	-32 246	-32 475
Impairment losses at 1 January	-	-	-	-
Impairment losses YTD	-	-	-	-
Carrying amount YTD	580	-	151 963	152 543
- of which capitalised interests			17 361	17 361

Note: IFRS 16 has been implemented using the modified retrospective approach, hence comparative figures have not been adjusted

Impairment of vessels

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

The value in use is calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives. This includes any concluded framework agreements and signed charters 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 and ZITON's expected market share.
- Average day rates are based on estimated future market prices and/or contracts.

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 on vessels is based on the cash-generating unit (CGU) in which all jack-up vessels including Contractors 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 7.8% and a growth rate in the terminal period of 0%.

The value in use was estimated to be materially higher than the carrying amount of EUR 150,676k

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

Note 4 - Commitments and contingencies

Since the end of 2018, no significant changes have occurred to contingent assets and liabilities other than those referred to in the 2018 annual report.

Note 5 - Related party transactions

No significant changes have occurred to related parties or types and scale of transactions with these parties other than what was disclosed in the 2018 annual report.

Note 6 - Subsequent events

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

Note 7 – Basis of reporting

Accounting policies

Basis of consolidation

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

The accounting policies adopted in the preparation of the interim report are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not applied early adoption of any other standard, interpretation or amendment that has been issued but is not yet effective.

Change in accounting policy - IFRS 16

ZITON group has with effect of 1 January 2019 implemented IFRS 16 with the modified retrospective method with no adjustments to comparative figures. Compared to earlier the ZITON group now recognises both financial and operational to the balance sheets as a lease asset and lease obligation 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 5 years for office rent and 2-3 years for cars. The latter is equivalent to the lease obligation period. The life time 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 and cars where a rate is indicated.

The group recognised as per 1 January a lease asset of EUR 231k and a lease liability of EUR 231k. The effect on the equity is EUR 0.

The lease assets primarily consist of office rent in Denmark, UK and China. The leases contracts on UK and China has been entered in 2019. Further, lease assets consist of cars. Leased cars and office rent have been categorised as Fixture and Equipment and is depreciated on a straight line over 2-5 years.

The interest rate used on office rent is estimated at 3% for domestic rentals and 5% for foreign rentals in accordance to the indicated rate in the lease contracts and car leases at 5% in accordance to the contracts on financial leased cars.

Operational leases as of 31 December 2018 (IAS 17)	53
Financial lease obligation as of 31 December 2018 (IAS 17) - short and long term	173
- NPV adjustments to opening operational leases	5
- disposals during Q1 2019	-13
Subtotal	231
- additions during Q1 2019	902
- interests and lease payments during Q1 2019	-56
Lease obligation as of Q1 January 2019 (IFRS 16) - short and long term	1.064

Risks

We have identified no specific risks affecting the outlook for the remainder of the 2019 financial year. For a description of the risks ZITON A/S is exposed to, please refer to the Risk Management section on pages 42-43 and note 4.1 "Risk management" on pages 80-81 of the 2018 annual report.

Note 8 – Alternative Performance Measures

Alternative Performance Measures (“APMs”) are non-IFRS financial measures used as supplements to financial statements. The main changes compared to the APMs presented in the annual report 2018 is the effect of using the modified retrospective approach for implementation of IFRS 16 from 1st January 2019.

APMs	Definition	Reconciliation	Explanation of use	Comparison	Coherence
Weighted average utilisation rate	Weighted average utilisation rate is defined as revenue plus other operating income during the period divided by full utilisation at standard rates. The combined standard rate for the three vessels is EUR 135k per day. Each vessel has a different weighting depending on its specifications	Revenue – non-vessel-related revenue + Other operating income (during the period) / EUR 135k * days (in the period) * 100	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 quarterly report	The criteria used to calculate the weighted average utilisation rate are unchanged from last year with the exception that “other operating income” is a new line of income in Q4 2018 and Q1 2019. Further, J/U WIND PIONEER and J/U WIND SERVER were included in 2015 as they became operationally available
EBITDA	EBITDA is short for Earnings Before Interest, Tax, Depreciation and Amortisation	Income before tax + Financial payments, net + Depreciation and amortisation	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 quarterly report	We use the modified retrospective approach for implementation of IFRS 16, hence in 2018 financial leases were included in administrative expenses. In 2019 they are included in depreciation and financial expenses, otherwise criteria used to calculate EBITDA are unchanged
EBITDA margin	EBITDA divided by Revenue	Income before tax + Financials, net + depreciation and amortisation / Revenue * 100	EBITDA margin is a good measure of operating efficiency	Prior-year comparative figures are presented in the quarterly report	The criteria used to calculate EBITDA margin are unchanged from last year, with the effect on EBITDA of IFRS 16 elaborated upon above.
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	Cash flows from operating activities is a good measure of the company’s cash generation power, and the ability to pay interest, service loans and carry out investments	Prior-year comparative figures are presented in the quarterly report	The definition of cash flows from operating activities has been changed from 2018 when we also deducted financial payments in our definition of cash flows from operating activities. Further, as a consequence of using the modified retrospective approach for implementation of IFRS 16, financial leases were included in administrative expenses in 2018. In 2019 they are partly included in financial expenses
Subordinated capital	Subordinated capital consists of equity, subordinated capital and a second lien bond. Subordinated capital ranks last if the company goes into liquidation	Equity + subordinated loan + a second lien bond loan	Subordinated capital can be considered the 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 quarterly report	Compared to prior years, a second lien bond loan was issued in Q4 2018 and forms part of the subordinated capital.

APMs	Definition	Reconciliation	Explanation of use	Comparison	Coherence
Subordinated capital ratio	Subordinated capital ratio is subordinated capital as a percentage of total assets	Equity + subordinated loan + second lien bond loan / Total assets * 100	The subordinated capital ratio is the only maintenance covenant defined in the company's loan agreements for the first lien and second lien bond loans	Prior-year comparative figures are presented in the quarterly report	Compared to prior years, a second lien bond loan was issued in Q4 2018 and forms part of the subordinated capital. Further, as a consequence of using the modified retrospective approach for implementation of IFRS 16, financial leases are now capitalised in the balance sheet increasing Total assets
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 (current and non-current) + lease obligations (current and non-current) – capitalised financing costs – Cash and cash equivalents	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 quarterly report	We use the modified retrospective approach for implementation of IFRS 16, hence financial leases are now capitalised and included in NIBD from 2019.
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	Bond loan, first lien (current and non-current) + lease obligations (current and non-current) – capitalised financing costs – Cash and cash equivalents / Vessels * 100	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 quarterly report	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.
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 – cash on retention account	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 quarterly report	The criteria used to calculate liquidity are unchanged from previous years
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 – cash on retention account – draw on working capital facility + available draw on facility	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 quarterly report	The criteria used to calculate available liquidity are unchanged from previous years

Management statement

The Board of Directors and Executive Management have considered and approved the interim report for ZITON A/S for the first quarter of 2019. The interim report has not been audited or reviewed by the company's independent auditors.

The interim report for the first quarter of 2019 has been prepared in accordance with International Financial Reporting Standards and IAS 34 as adopted by EU, and further disclosure requirements for issuers of bonds listed on the Oslo Stock Exchange.

In our opinion, the interim report gives a true and fair view of the ZITON's assets, liabilities, and financial position at 31 March 2019, and of the results of the ZITON's operations and cash flow for the first quarter of 2019.

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

Horsens, 16 May 2019

Executive Management

Thorsten Jalk
CEO

Board of Directors

Vagn Lehd Møller
Chairman

Ove Carsten Eriksen

Esben Bay Jørgensen

Lars Thorsgaard Jensen

Niels Ørskov Christensen

Morten Melin

Financial calendar 2019

Interim report Q2 2019 – 27 August 2019

Interim report Q3 2019 – 5 November 2019

For further information, please contact

Thorsten Jalk, CEO ZITON A/S

email: thj@ziton.eu

direct: +45 8744 4410

Jens Michael Haurum, CFO ZITON A/S

email: jmh@ziton.eu

direct: +45 8744 4430