Interim report Q2 2019

ZITON A/S
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Highlights of the report

Highlights of Q2 2019

- ZITON has made important strategic developments during the last few months:
  - Framework agreements were signed with Ørsted for a three-year Service Jack-up vessel framework agreement, and with Vattenfall for a one-year extension of the current framework agreement.
  - Furthermore, Siemens Gamesa Renewable Energy and ZITON signed a contract for upgrade of blades of 108 turbines at West of Duddon Sands ("WoDS"). The blade campaign shows ZITON's ambition to remain an important player in the market for blade campaigns, in addition to its traditional market for regular major component replacement
  - Importantly, ZITON bareboat chartered J/U MPI ENTERPRISE with an option to acquire the vessel. By adding the vessel to the fleet, ZITON is able to grow with the market and serve customers on the generation of turbines currently being installed with capacities of 7-10 MW.
- EBITDA was a EUR 0.2m profit in Q2 2019 compared to a profit of EUR 8.7m in Q2 2018. The main reason for the decline was a delay in the initiation of the WoDS project until July 2019. As J/U WIND SERVER was committed to the project from the beginning of May, it was not possible to find alternative occupation for the vessel. As a consequence of the delayed initiation, revenue was negatively affected by approx. 4 MEUR. Additionally, the boom on J/U MPI ENTERPRISE was extended for the vessel to reach 7-10 MW turbines at all current offshore wind farm sites. Extension of the boom was completed in August 2019. The costs incurred in the period until extension of the boom was completed amount to approx. 3 MEUR.
- Performance in Q2 2019 was heavily influenced by delayed initiation of the WoDS blade campaign and cost incurred in the period until the boom extension on J/U MPI ENTERPRISE was completed. The WoDS blade campaign was initiated in July 2019, and the boom extension completed in August 2019. These two occurrences, in total, negatively affected earnings by approx. 7 MEUR. As a result, we reduce our guidance for the full year 2019 to:
  - **Weighted average utilisation rate**. We expect a utilisation rate in the range of 60%-70%, compared to our previous guidance in the range of 75%-85%
  - **EBITDA**. We expect EBITDA to be in the range of EUR 15-19m, compared to our previous guidance of EUR 21-25m.
  - **Cash flow from operating activities** is defined as EBITDA less changes in working capital and other adjustments. We expect cash flow from operating activities to be in the range of EUR 13-17m, compared to our previous guidance of EUR 19-23m.
  - **CAPEX.** We expect CAPEX of up to EUR 4.0m, which is unchanged.

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 for regular major component replacement during the Q2 2019 was at the same level as in Q2 2018. The market for blade campaigns continues to develop positively, but this market is more erratic, and initiation of such larger projects is subject to uncertainty.

Vessel operations

The blade campaign at West of Duddon Sands was signed on 16 May 2019. However, initiation of the blade campaign was delayed to July 2019 as it took longer than expected to obtain all permits required. As J/U WIND SERVER was committed to the project from the beginning of May, it was not possible to find alternative occupation for the vessel. As a consequence of the delayed initiation, revenue was negatively affected by approx. 4 MEUR.

On 28 May 2019, Vroon and ZITON signed a bareboat agreement for J/U MPI ENTERPRISE. ZITON bareboat chartered the vessel with immediate effect until end of March 2021. ZITON holds an option to acquire the vessel. It is a strategic priority of ZITON to grow with the market and serve customers on the current generation of turbines currently being installed with capacities of 7-10 MW. By adding J/U MPI ENTERPRISE to its fleet, ZITON is be able to service all wind turbine models, at all wind farms with varying environments of soil conditions, sea levels, ports and under various operating conditions. The vessel will be used to service existing customers, as well as turn-key solutions for major component replacements and blade campaigns. During marketing of the vessel to customers, it became clear that it was necessary to extend the boom on the vessel to reach 7-10 MW turbines at all current offshore wind farm sites. Extension of the boom was completed in August 2019, and subsequently J/U MPI ENTERPRISE successfully completed its first major component replacement with the extended boom. The cost incurred in the period until extension of the boom was completed amount to approx. 3 MEUR.

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

Contract developments

On 1 May 2019, Ørsted and ZITON signed a three-year Service Jack-up vessel framework agreement, for ZITON to 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. The blade campaign was initiated in July 2019. The duration of the blade campaign is expected to be 12 months, for which ZITON is using J/U WIND SERVER. ZITON provides 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 market for blade campaigns and its traditional market for regular major component replacement.

On 19 July 2019, Vattenfall Wind Power AB and ZITON signed a one-year extension of the current framework agreement. As a result, the framework agreement will expire in November 2020, and ZITON will remain the main partner for major component replacements at Vattenfall's offshore wind farms.

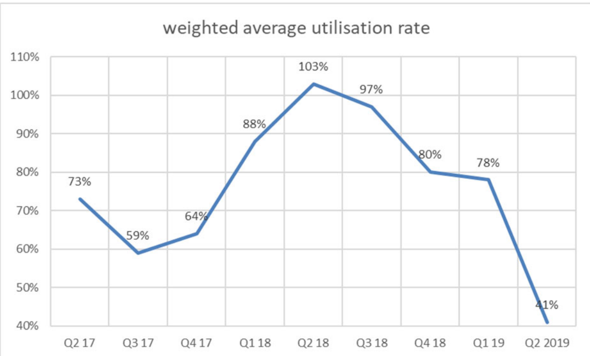
In addition, maintains a framework agreement with MHI Vestas Offshore Wind entered into in December 2014. This agreement has been extended until one of the parties cancels the agreement.

Competitive environment

ZITON operates in a satisfactory competitive environment. Fred. Olsen Windcarrier entered 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, but from time to time use their vessel for O&M services.

Utilisation rates

The weighted average utilisation rate for Q2 2019 was at 41%.



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 185k/day (until June 2019 it was 135k/day). Each vessel has a different weighting depending on its specifications.

Outlook for 2019

Performance in Q2 2019 was heavily influenced by delayed initiation of the WoDS blade campaign and cost incurred in the period until the boom extension on J/U MPI ENTERPRISE was completed. The WoDS blade campaign was initiated in July 2019, and the boom extension completed in August 2019. These two occurrences, in total, negatively affected earnings by approx. 7 MEUR. As a result, we reduce our guidance for the full year 2019 to:

- **Weighted average utilisation rate**. We expect a utilisation rate in the range of 60%-70%, compared to our previous guidance in the range of 75%-85%.
- **EBITDA**. We expect EBITDA to be in the range of EUR 15-19m, compared to our previous guidance of EUR 21-25m.
- **Cash flow from operating activities** is defined as EBITDA less changes in working capital and other adjustments. We expect cash flow from operating activities to be in the range of EUR 13-17m, compared to our previous guidance of EUR 19-23m.
- **CAPEX.** We expect CAPEX of up to EUR 4.0m, which is unchanged.

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	Q2-19	Q2-18	Change	YTD 19	YTD 18	Change
Revenue	**5.561**	**12.967**	**-7.406**	**15.254**	**24.055**	**-8.801**
Other operating income	-	-	0	488	-	488
OPEX and project-related expenses	-3.924	-2.971	-953	-6.341	-5.662	-680
SG&A	-1.479	-1.301	-179	-2.681	-2.365	-317
EBITDA	**158**	**8.695**	**-8.537**	**6.719**	**16.028**	**-9.309**
Depreciation	-2.381	-1.954	-427	-4.503	-3.896	-606
EBIT	**-2.223**	**6.741**	**-8.964**	**2.216**	**12.132**	**-9.916**
Financials, net	-4.034	-3.295	-738	-7.591	-6.571	-1.019
Income before tax	**-6.256**	**3.446**	**-9.703**	**-5.374**	**5.561**	**-10.935**
Key ratios						
EBITDA margin	2,8%	67,1%	-64,2%	44,0%	66,6%	-22,6%

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

Review of the income statement for Q2 2019

The consolidated profit and loss for the ZITON Group show a Revenue for Q2 2019 of EUR 5.6m compared to EUR 12.9m in Q2 2018, a decrease of 57%. The main reason for the decrease in revenue was the delayed initiation of the WoDS blade campaign, as well as a comparable quarter in 2018 that was very strong.

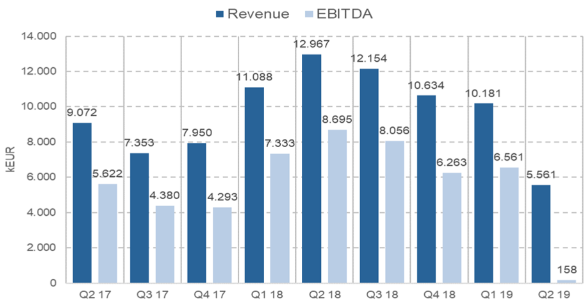
Vessel OPEX and project related costs increased to EUR 3.9m for Q2 2019 from EUR 3.0m in Q2 2018. The main reason for the increase in costs was related to operating and maintaining the bareboat chartered vessel J/U MPI ENTERPRISE.

SG&A expenses amounted to EUR 1.5m in Q2 2019 to EUR 1.3m in Q2 2018.

EBITDA amounted to EUR 0.2m in Q2 2019 compared to EUR 8.7m in Q2 2018. The main reason for the decrease in EBITDA was lower level of activity, and higher vessel OPEX for J/U MPI ENTERPRISE.

Depreciation charges of EUR 2.4m in Q2 2019 compared to EUR 2.0m in Q2 2018. 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, as well as depreciation related to J/U MPI ENTERPRISE.

EBIT amounted to EUR -2.2m in Q2 2019 compared to EUR 6.7m in Q2 2018. The main reason for the decrease in EBIT was the lower level of activity and costs related to J/U MPI ENTERPRISE.



Financials, net was an expense of EUR 4.0m in Q2 2019 compared to an expense of EUR 3.3m in Q2 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. Further, interests on leased offices and bareboat chartered vessel contributed to the increased interest rate compared to Q2 2018.

Income before tax was a EUR 6.2m loss in Q2 2019 compared to a EUR 3.4m profit in Q2 2018. The main reason for the decrease was the lower level of activity, costs related to J/U MPI ENTERPRISE and higher interest charges.

Review of income statement 1st half 2019

The fully consolidated results for ZITON shows net revenue for 1H 2019 of EUR 15.3m compared to EUR 24,.1m in 1H 2018, a decline of 37%. The main reason for the decrease in revenue was the delayed initiation of the WoDS blade campaign, as well as a comparable 1H 2018 that was very strong.

Vessel OPEX and project related costs increased to EUR 6.3m in 1H 2019 from EUR 5.7m in 1H 2018. The main reason for the increase in costs was related to operating and maintaining the bareboat chartered vessel J/U MPI ENTERPRISE.

SG&A expenses amounted to EUR 2.7m in 1H 2019 compared to EUR 2.4m 1H 2018. The main reason for the increase in costs is related to establishing subsidiaries in the UK, Germany and China.

EBITDA was a EUR 6.7m profit in 1H 2019 compared to a profit of EUR 16.0m in 1H 2018. The main reason for the decrease in EBITDA was lower level of activity, and higher vessel OPEX for J/U MPI ENTERPRISE.

Depreciation charges of EUR 4.5m in 1H 2019 compared to EUR 3.9m in 1H 2018. 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, as well as depreciation related to J/U MPI ENTERPRISE.

EBIT was a EUR 2.2m profit in 1H 2019 compared to EUR 12.1m in 1H 2018. The main reason for the decrease in EBIT was the lower level of activity and costs related to J/U MPI ENTERPRISE.

Financials, net was an expense of EUR 7.6m in 1H 2019 compared to an expense of EUR 6.6m in 1H 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. Further, interests on leased offices and bareboat chartered vessel contributed to the increased interest rate compared to 1H 2018.

Income before tax was a EUR 5.4m loss in 1H 2019 compared to a EUR 5.6m profit in 1H 2018. The main reason for the decrease was the lower level of activity, costs related to J/U MPI ENTERPRISE and higher interest charges.

REVIEW OF THE BALANCE SHEET AT THE END OF Q2 2019

EUR´000	Q2-19	Q2-18	Change	Q2-19	Q4 18	Change
Assets						
Vessel, including fixtures & equipment	198.150	150.800	47.351	198.150	153.324	44.826
Other non-current assets	97	6.147	-6.050	97	100	-3
Non-current assets	**198.247**	**156.947**	**41.300**	**198.247**	**153.424**	**44.823**
Trade and other receivables	4.746	9.787	-5.042	4.746	3.066	1.680
Cash and cash equivalents	7.247	5.773	1.475	7.247	10.842	-3.595
Current assets	**11.993**	**15.560**	**-3.567**	**11.993**	**13.908**	**-1.915**
Total assets	**210.240**	**172.507**	**37.733**	**210.240**	**167.332**	**42.908**
Equity and Liabilities						
Equity	**5.137**	**37.592**	**-32.456**	**5.137**	**8.902**	**-3.765**
Subordinated loan	23.820	37.663	-13.843	23.820	22.373	1.447
Bond loans, second lien	26.847	-	26.847	26.847	25.208	1.639
Bond loans, first lien	95.817	98.108	-2.291	95.817	98.108	-2.291
Lease obligations	44.622	173	44.449	44.622	173	44.449
Other liabilities	13.996	-1.030	15.026	13.996	12.568	1.428
Total liabilities	**205.103**	**134.915**	**70.189**	**205.103**	**158.430**	**46.673**
Total equity and liabilites	**210.240**	**172.507**	**37.733**	**210.240**	**167.332**	**42.908**
Key ratios						
Subordinated capital ratio	32,8%	41,2%	-8,4%	32,8%	33,8%	-0,9%
NIBD (adjusted for capitalised financing costs)	96.563	83.513	13.050	96.563	89.494	7.069
Loan to Vessel ratio (NIBD/Vessel book value)	56,7%	55,4%	1,3%	56,7%	58,4%	-1,7%

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 Q2 2019

The total value of the vessels (incl. fixtures & equipment and leased offices) amounted to EUR 198.2m at the end of Q2 2019. This compares to EUR 150.8m at the end of Q2 2018. The increase in mainly due to the bareboat chartered vessel J/U MPI ENTERPRISE.

Other non-current assets amounted to EUR 0.1m at the end of Q2 2019 compared to EUR 6.1m in Q2 2018, and EUR 0.1m at the end of Q4 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 4.8m at the end of Q2 2019 compared to EUR 9.8m at the end of Q2 2018, and EUR 3.1m at the end of Q4 2018. The decrease in receivables from Q2 2018 is due to the lower level of activity in Q2 2019 compared to Q2 2018. The increase compared to Q4 2018 is a result of a low level of receivables at the end of 2019 originating from early payment of receivables by a single customer.

Total equity amounted to EUR 5.1m at the end of Q2 2019 from EUR 37.6m at the end of Q2 2018 and EUR 8.9m at the end of Q4 2018. The reduction in equity is a result of the 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 in Q4 2018. The decline compared to Q4 2018 is mainly a consequence of losses incurred during 1H 2019.

The subordinated capital ratio (defined as total equity plus subordinated capital and the 2nd lien bond loan divided by total assets) at end of Q2 2019 was 32.8%. The reduction from 41.2% at the end of Q2 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 decreased by 0.9% point from 33.8%, mainly as a consequence of losses incurred during 1H 2019. The subordinated capital ratio is required at 30.0% or higher, at the end of Q2 2019.

Senior Net Interest-Bearing Debt (NIBD) amounted to EUR 96.6m at the end of Q2 2019. This was higher than EUR 83.5m end of Q2 2018. Hence, the senior Loan to Vessel value stood at 56.7% at the end of the period.

REVIEW OF STATEMENT OF CASH FLOWS FOR Q2 2019

CASH FLOWS *EUR´000*	Q2-19	Q2-18	Change	YTD 19	YTD 18	Change
EBITDA	**158**	**8.695**	**-8.537**	**6.719**	**16.028**	**-9.309**
Working capital adjustments	6.029	-2.888	8.918	708	-5.360	6.067
Other adjustments	-1.752	181	-1.933	-2.578	-442	-2.136
Net cash flows from operating activities	**4.435**	**5.988**	**-1.553**	**4.849**	**10.227**	**-5.378**
Financial payments, net	-128	-1.976	1.848	-1.978	-4.010	2.033
Net cash before investing activities	**4.307**	**4.012**	**295**	**2.871**	**6.217**	**-3.346**
Investing activities	-590	-303	-286	-1.071	-337	-734
Net cash flows after investing activities	**3.718**	**3.709**	**8**	**1.800**	**5.880**	**-4.080**
Financing activities	-2.970	-3.001	31	-5.398	-3.001	-2.397
Net cash flows after financing activities	**747**	**709**	**39**	**-3.598**	**2.879**	**-6.477**
Available liquidity						
Cash and cash equivalents	**7.247**	**5.773**	**1.475**			
Cash on retention account	2.973	0	2.973			
Liquidity	**4.275**	**5.773**	**-1.498**			
Available draw on working capital facility	6.931	6.711	221			
Available liquidity	**11.206**	**12.483**	**-1.277**			

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 4.4m in Q2 2019 driven by working capital adjustments EUR 6.0m and offset against other adjustments EUR -1.7m.

Investing activities amounted to EUR 0.6m in Q2 2019 compared to EUR 0.3m in Q2 2018. Investing activities amounted to EUR 1.1m in 1H 2019 compared to EUR 0.3m in 1H 2018.

Financing activities amounted to cash outflow of EUR 3.0m in Q2 2019 compared to EUR 3.0m in Q2 2018. Financing activities amounted to cash outflow of EUR 5.4m in 1H 2019 compared to EUR 3.0m in 1H 2018.

Available liquidity including undrawn working capital facility amounted to EUR 11.2m at the end of Q2 2019. This was EUR 1.3m lower than at the end of Q2 2018. During Q2 2019 a prepayment of EUR 2.6m was made on the bareboat charter for J/U MPI ENTERPRISE.

Consolidated financial statements for ZITON A/S

INCOME STATEMENT

EUR´000	Note	Q2-19	Q2-18	YTD 19	YTD 18
Revenue	2	**5.561**	**12.967**	**15.254**	**24.055**
Other operating income		-	-	488	-
Project-related expenses		-268	-577	-500	-1.405
Operational expenses		-3.656	-2.394	-5.842	-4.257
Gross profit		**1.637**	**9.996**	**9.400**	**18.393**
Administrative expenses		-574	-510	-926	-822
Staff costs, office staff		-905	-791	-1.755	-1.543
EBITDA		**158**	**8.695**	**6.719**	**16.028**
Depreciation & amortisation		-2.381	-1.954	-4.503	-3.896
EBIT		**-2.223**	**6.741**	**2.216**	**12.132**
Financial income		-	-	-	-
Financial expenses		-4.034	-3.295	-7.591	-6.571
Income before tax		**-6.256**	**3.446**	**-5.374**	**5.561**
Tax on profit (loss)		522	-1.300	761	-1.815
Income for the year		**-5.735**	**2.147**	**-4.614**	**3.746**
Attributable to:					
Owners of ZITON A/S		-5.730	1.293	-4.609	2.052
Non-controllong interest - Profit/loss		-5	854	-5	1.694
Income for the year		**-5.735**	**2.147**	**-4.614**	**3.746**

STATEMENT OF COMPREHENSIVE INCOME

EUR´000	Note	Q2-19	Q2-18	YTD 19	YTD 18
Income for the year		**-5.735**	**2.147**	**-4.614**	**3.746**
Items that will be reclassified subsequently to the income statement when specific conditions are met:					
Exchange adjustments of foreign entities, net of tax		-10	-12	57	4
Cash flow hedges, deferred gains/(losses) incured during period		659	-	659	-
Total comprehensive income for the year, after tax		**-5.085**	**2.135**	**-3.898**	**3.750**
Attributable to:					
Owners of ZITON A/S		-5.081	1.281	-3.893	2.056
Non-controlling interests		-4	854	-5	1.694
Total comprehensive income for the year, after tax		**-5.085**	**2.134**	**-3.898**	**3.750**

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

BALANCE SHEET *EUR´000*		**Q2-19**	**Q2-18**	**Q4-18**
Assets				
Non-current assets				
Vessel, including fixtures & equipment	3	198.150	150.800	153.324
Intangible assets		97	97	100
Financial assets		0	6.050	-
Deferred tax assets		-	-	-
Non-current assets		**198.247**	**156.947**	**153.424**
Current assets				
Inventories		225	41	35
Trade and other receivables		4.521	9.747	3.031
Cash and cash equivalents		7.247	5.773	10.842
Current assets		**11.993**	**15.560**	**13.908**
Total assets		**210.240**	**172.507**	**167.332**
Equity and Liabilities				
Equity				
Share capital		11.093	11.093	11.093
Reserves		905	193	189
Retained earnings		-6.923	5.569	-2.380
Total equity attributable to owners of ZITON A/S		**5.075**	**16.855**	**8.902**
Non-controlling interest		62	20.737	-
Total equity		**5.137**	**37.592**	**8.902**
Liabilities				
Non-current liabilities				
Subordinated loan		23.820	37.663	22.373
Bond loans, second lien		26.847	-	25.208
Bond loans, first lien		91.504	82.770	93.630
Lease obligations		42.387	92	159
Deferred income tax liabilities		9.178	5.627	9.782
Total non-current liabilities		**193.736**	**126.151**	**151.152**
Current liabilites				
Bond loans, first lien		4.313	5.436	4.478
Lease obligations		2.236	55	14
Working capital facility		-	140	-
Trade and other payables		3.875	2.152	1.488
Provision for other liabilities		943	980	1.298
Total current liabilites		**11.367**	**8.763**	**7.278**
Total liabilities		**205.103**	**134.915**	**158.430**
Total equity and liabilites		**210.240**	**172.507**	**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	Q2-19	Q2-18	YTD 19	YTD 18
Income before tax		**-6.256**	**3.446**	**-5.374**	**5.561**
Operating activities					
Adjustments for non-cash items					
Reversal financial expenses, net		4.033	3.296	7.591	6.571
Depreciation and writedowns of the period		2.381	1.954	4.503	3.896
Other adjustments		-1.752	181	-2.578	-442
Working capital adjustments					
Change in trade receivables		3.488	-3.128	-1.491	-5.589
Change in inventories		-178	-8	-190	-3
Change in trade payables		2.718	248	2.388	232
Income tax expense					
Income tax expense		-	-	-	-
Net cash flows from operating activities		**4.435**	**5.988**	**4.849**	**10.227**
Financial payments					
Financial receipts		-	-	-	-
Financial payments		-128	-1.976	-1.978	-4.010
Net cash flows before investing activities		**4.307**	**4.013**	**2.872**	**6.217**
Investing activities					
Purchase of vessel, fixtures & equipment	7	-590	-303	-1.005	-337
Other cash flows from investing activites		-	-	-66	-
Net cash used in investing activities		**-590**	**-303**	**-1.071**	**-337**
Financing activities					
Proceeds from bank and bond loans		-	-3.001	-2.501	-3.001
- Lease payments	7	-2.970		-3.037	
Draw on working capital facility		-	-	140	-
Net cash used/received in financing activities		**-2.970**	**-3.001**	**-5.398**	**-3.001**
Net (decrease)/increase in cash and cash equivalents		**747**	**709**	**-3.597**	**2.879**
Cash and cash equivalents at beginning of period		6.500	4.924	10.844	2.753
Exchange gains/losses on cash and cash equivalents		-	-		-
Cash and cash equivalents at end of period*		**7.247**	**5.633**	**7.247**	**5.633**

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

STATEMENT OF CHANGES IN EQUITY

YTD 19		Attributable to owners of ZITON A/S							
EUR´000	**Share capital**	*Reserve for warrants*	*Translation reserves*	*Cash flow hedges*	**Total reserves**	**Retained earnings**	**Total**	Non-controlling interests	**Total equity**
Balance at 31 December 2018	**11.093**	*143*	*46*	-	**189**	**-2.380**	**8.901**	**-**	**8.901**
Total comprehensive income, after tax	-	-	57	659	716	-4.609	-3.893	-4	-3.897
Capital increase in subsidiaries						66	66	67	133
Balance at YTD	**11.093**	*143*	*103*	*659*	**905**	**-6.923**	**5.075**	**63**	**5.137**

Share capital

In 2019, 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		Attributable to owners of ZITON A/S						
EUR´000	**Share capital**	*Reserve for warrants*	*Translation reserves*	**Total reserves**	**Retained earnings**	**Total**	Non-controlling interest	**Total equity**
Balance at 31 December 2017	**11.093**	*143*	*46*	**189**	**3.517**	**14.798**	**19.044**	**33.842**
Total comprehensive income, after tax	-		*4*	4	2.052	2.056	1.694	3.750
Balance at YTD	**11.093**	*143*	*50*	**193**	**5.569**	**16.855**	**20.738**	**37.593**

Share capital

In 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares 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*	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18
Revenue	**5.561**	**9.693**	**9.295**	**12.154**	**12.967**
Other operating income	-	488	1.340	-	-
Project-related expenses	-268	-232	-557	-616	-577
Operational expenses	-3.656	-2.186	-2.575	-2.354	-2.394
Gross profit	**1.637**	**7.763**	**7.504**	**9.184**	**9.996**
Administrative expenses	-574	-350	-375	-362	-510
Staff costs, office staff	-905	-850	-865	-766	-791
EBITDA	**158**	**6.563**	**6.264**	**8.056**	**8.695**
Depreciation	-2.381	-2.126	-2.057	-1.973	-1.954
EBIT	**-2.223**	**4.437**	**4.207**	**6.083**	**6.741**
Financial income	-	-	0	1	-
Financial expenses	-4.014	-3.572	-7.806	-3.247	-3.295
Income before tax	**-6.237**	**865**	**-3.599**	**2.837**	**3.446**

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 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*	Q2-19	Q2-18	YTD 19	YTD 18
United Kingdom	2.279	4.249	8.766	5.687
Denmark	2.021	7.580	4.184	16.329
Germany	392	316	1.003	516
Holland	238	-	238	701
Belgium	214	235	214	235
Sweden	417	587	849	587
Total	**5.561**	**12.967**	**15.254**	**24.055**

Sales to the largest customers (accounting for more than 10% of total revenue) make up 42%, 22% and 19% respectively, of total revenue for the 1H 2019 (1H 2018: Sales to the largest customers made up 50% and 22%, respectively).

Note 3 - Vessels and equipment

Q2-19 *EUR´000*	Fixtures & equipment	Leased offices	Vessels	Total
Cost at 1 January	1.354	-	190.357	191.711
Exchange rate adjustments	1	-	53	54
Additions on leased assets, incl. opening adjustment (IFRS ´	73	1.167	46.638	47.878
Additions	587	-	781	1.368
Disposals	-74	-	-	-74
Cost YTD	**1.941**	**1.167**	**237.829**	**240.937**
Depreciation at 1 January	-368	-	-38.012	-38.380
Exchange rate adjustments	-	-	-9	-9
Depreciations on leased assets	-8	-86	-233	-327
Depreciation	-116	-	-3.983	-4.098
Disposals	35	-	-	35
Depreciation YTD	**-457**	**-86**	**-42.237**	**-42.780**
Impairment losses at 1 January	-		-	-
Impairment losses YTD	-		-	-
Carrying amount YTD	**1.483**	**1.081**	**195.593**	**198.157**
- of which capitalised interests			16.629	16.629

Q2-18 *EUR´000*	Fixtures & equipment	Vessels	Total
Cost at 1 January	776	184.296	185.072
Exchange rate adjustments	-1	-81	-82
Additions	134	203	337
Disposals	-	-101	-101
Cost YTD	**908**	**184.317**	**185.225**
Depreciation at 1 January	-195	-30.360	-30.555
Exchange rate adjustments		16	16
Depreciation	-70	-3.817	-3.887
Disposals	-	-	-
Depreciation YTD	**-265**	**-34.161**	**-34.426**
Impairment losses at 1 January	-	-	-
Impairment losses YTD	-	-	-
Carrying amount YTD	**644**	**150.156**	**150.800**
- of which capitalised interests		17.388	17.388

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 195,593k

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 estimated lease terms for vessels are 2 years. 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.

The interest rate used on bareboat chartered vessel is estimated at 6,9% in accordance to our bond loans.

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*
Subtotal	***231***
- disposals during first half of 2019	*-13*
- additions during first half of 2019	*47.822*
- interests and lease payments during first half of 2019	*-3.417*
Lease obligation as of Q2 June 2019 (IFRS 16) - short and long term	**44.623**

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 185k per day. Each vessel has a different weighting depending on its specifications	Revenue – non-vessel-related revenue + Other operating income (during the period) / EUR 185k * 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 MPI ENTERPRISE was included in Q2 2019 when the vessel was bareboat chartered.
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

APMs	Definition	Reconciliation	Explanation of use	Comparison	Coherence
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.
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. It is defined in §13.15 (c) (v) that "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." Accordingly, only future bareboat payments for MPI ENTETRPRISE are capitalised, as defined in IFRS 16, in the calculation of total assets in the subordinated capital ratio	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.

APMs	Definition	Reconciliation	Explanation of use	Comparison	Coherence
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.
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
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

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

The interim report for the first half 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 30 June 2019, and of the results of the ZITON's operations and cash flow for the first half 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, 27 August 2019

Executive Management

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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 Q3 2019 – 5 November 2019

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