



Interim report Q2 2020

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



Highlights of the report

Highlights of Q2 2020

- Market activity during Q2 2020 was somewhat influenced by the coronavirus. The main impact has been felt by postponement of major component replacements from Q2 to later this year and a few even into next year.
 - At the beginning of 2nd half 2020, we see good signs that customers are adapting to operating in the coronavirus environment, and ZITON's project pipeline is becoming stronger, even though visibility into the timing of project continues to be clouded.
 - The WoDS blade campaign is expected to be completed during Q4 2020. ZITON is currently in contract negotiations on a project to repair and upgrade blades on another windfarm. This project is expected to be initiated shortly after conclusion of the WoDS blade campaign.
 - EBITDA amounted to a profit of EUR 6.2m in Q2 2020 compared to a profit of EUR 0.2m in Q2 2019. The reason for the increase is the increase in revenue, resulting from much better performance at the WoDS blade campaign, and contribution by J/U WIND ENTERPRISE. This was partly offset by J/U WIND and J/U WIND PIONEER as a result of lower utilisation as a consequence of the coronavirus.
 - Available liquidity including available drawings on our working capital facility amounted to EUR 16.6m at the end of Q2 2020. This was EUR 14.4m higher than at the end of Q1 2020, as a result of restructuring of corporate loans and a new working capital facility provided in April 2020.
- Compared to the guidance reported in the interim report for Q1 2020, we reduce our KPI guidance for the 2020 to:
 - **Weighted average utilisation rate.** We expect a utilisation rate in the range of 50%-60%, compared to our previous guidance in the range of 60%-70%.
 - **EBITDA.** We expect EBITDA to be in the range of EUR 15-18m, compared to our previous guidance 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 7-10m, compared to our previous guidance of EUR 10-14m.
 - **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 2018/2022 (ISIN NO 0010832488) and FRN second secured EUR 25,000,000 callable PIK bonds 2018/2023 (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 and coronavirus

The second quarter traditionally marks beginning of the high season for the offshore wind operations & maintenance industry. At this time of the year the weather conditions are favourable for safe operations at sea. However, market activity during Q2 2020 was somewhat influenced by the coronavirus. The main impact has been felt by postponement of major component replacements from Q2 to later this year and a few even into next year. Consequently, activity level for regular major component replacement in Q2 2020 was lower compared to the same quarter the year before.

When the various governments across Europe responded to the coronavirus by creating lockdowns it had an immediate effect on ZITON and its customers' ability to carry out operations and to procure components. ZITON and its customers took precautions to avoid spreading of the coronavirus, by implementing procedures for continuous testing of crew and technicians, limit physical contact, keep distance, wash/sanitise hands, cleaning etc. Furthermore, ZITON has implemented secure crew changes incl. crew changes in chartered airplanes and avoiding contact between different crews, limiting unnecessary access to vessels, no access in case of symptoms etc.

This reduced the visibility of ZITON's project pipeline and timing of projects were frequently changed around, which was further exacerbated by longer delivery time on components. This has caused less efficient operations and consequently lower vessel utilisation. At the beginning of 2nd half 2020, we see good signs that customers are adapting to the new operating environment, and ZITON's project pipeline is becoming stronger, even though visibility into the timing of project continues to be clouded.

Vessel operations

J/U WIND SERVER is operating at the blade campaign at WoDS. ZITON provides a full turnkey solution including, among other things, jack-up, lifting equipment, lift planning, technicians and blade repair including repair facilities.

During the first two months of 2020, challenges remained for the WoDS blade campaign primarily as consequence of damage to a blade lifting system and unusual adverse weather, even for the season. Weather conditions improved during March 2020, and the WoDS blade campaign has performed according to expectations during Q2 2020.

During the quarter, J/U WIND, J/U WIND PIONEER and J/U WIND ENTERPRISE operated under framework agreements with Ørsted, Vattenfall and MHI Vestas Offshore Wind as well as other tenders attained. Activity in the quarter was lower than anticipated mainly due to the impact of coronavirus.

Contract developments

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

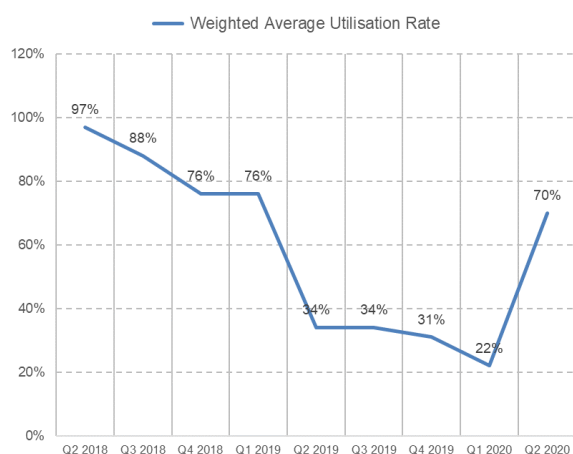
- On 1 May 2019, Ørsted and ZITON signed a framework agreement covering nine of Ørsted's offshore wind farms. The contract expires in March 2022.
- On 16 May 2019, SGRE and ZITON signed a contract to upgrade blades on 108 turbines at WoDS. The blade campaign was initiated in July 2019, using J/U WIND SERVER. ZITON provides a full turnkey. 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. The blade campaign is expected to be completed during Q4 2020. ZITON and SGRE are currently in contract negotiations on a project to repair and upgrade blades on another

windfarm. This project is expected to be initiated shortly after conclusion of the WoDS blade campaign.

- On 19 July 2019, Vattenfall Wind Power AB and ZITON signed a one-year extension of the framework agreement then in force. Thus, ZITON will remain the main partner for major component replacements at Vattenfall's offshore wind farms. The framework agreement will expire in November 2020. Vattenfall has issued a tender that is expected to be completed before expiry of the current framework agreement.
- On 18 December 2019, MHI Vestas Offshore Wind and ZITON signed a three-years framework agreement. The framework agreement is an extension and amendment of the two companies' former framework agreement. The framework agreement further expands the scope to include sites where MHI Vestas' 8.0-10 MW V164 turbine model is installed.

Utilisation rates

The weighted average utilisation rate for Q2 2020 was at 70%.



Note: Weighted average utilisation rate is calculated as vessel revenue and other operating income deducting project-related expenses during the quarter divided by full utilisation at standard rates of EUR 185k/day (EUR 135k/day until the end of June 2019). Each vessel has a different weighting depending on its specifications.

Competitive environment

ZITON operates in a satisfactory competitive environment. In Q2 2019 Fred. Olsen Windcarrier entered the market for O&M services for major component replacement with L/B Jill, and in June 2019 Swire Blue Ocean entered into a 19 months maintenance and service agreement with SGRE. However, these two and all other jack-up companies have the installation of new wind farms as their primary business, but from time to time use their vessels for O&M services.

Liquidity and capital structure

The operational challenges experienced during the first two months of 2020, resulted in financial performance below expectations and significant drain on liquidity. Consequently, a summons for written resolution was issued on 23 March 2020, resulting in bond holders' approval of the proposal on 6 April 2020.

In April 2020, following approval of the written resolution, 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.

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. ZITON has, since then, utilised both options, for which bondholders were compensated by an additional 1 percentage point.

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 of the annual report 2019.

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.

Outlook for 2020

Compared to the guidance reported in the interim report for Q1 2020, we reduce our KPI guidance for the 2020 to:

- **Weighted average utilisation rate.** We expect a utilisation rate in the range of 50%-60%, compared to our previous guidance in the range of 60%-70%.
- **EBITDA.** We expect EBITDA to be in the range of EUR 15-18m, compared to our previous guidance 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 7-10m, compared to our previous guidance of EUR 10-14m.
- **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 51-53 and note 4.1 "Risk management" on pages 96-99 of the 2019 annual report.

Financial Review

REVIEW OF THE INCOME STATEMENT

EUR '000	Q2 2020	Q2 2019	Change	YTD 2020	YTD 2019	Change
Revenue	14,955	5,561	9,394	22,302	15,254	7,048
Other operating income	-	-	-	-	488	-488
OPEX and project-related expenses	-7,342	-3,924	-3,418	-14,870	-6,342	-8,528
SG&A	-1,463	-1,479	16	-2,855	-2,681	-173
EBITDA	6,151	158	5,993	4,577	6,719	-2,141
Depreciation	-2,687	-2,381	-305	-5,372	-4,503	-869
EBIT	3,464	-2,224	5,687	-795	2,215	-3,010
Financials, net	-5,123	-4,034	-1,090	-9,626	-7,591	-2,035
Income before tax	-1,660	-6,257	4,598	-10,421	-5,376	-5,045
Key ratios						
EBITDA margin	41.1%	2.8%	38.3%	20.5%	44.0%	-23.5%

Review of the income statement for Q2 2020

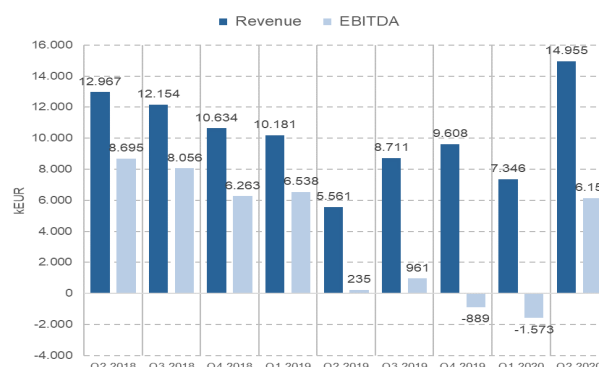
The consolidated income statement for the ZITON Group shows revenue for Q2 2020 of EUR 15.0m compared to a revenue of EUR 5.6m in Q2 2019. Revenue from J/U WIND SERVER was strong following favourable weather and strong performance at the WoDS blade campaign. This is markedly better than the same quarter 2019, when revenue from J/U WIND SERVER was very low due to delayed initiation of the WoDS blade campaign. Revenue from J/U WIND, J/U WIND PIONEER and J/U WIND ENTERPRISE was negatively affected by the coronavirus that led to postponement of major component replacements from Q2 to later this year and a few even into next year.

Vessel OPEX and project related costs increased to EUR 7.3m for Q2 2020 from EUR 3.9m in Q2 2019. The main reason for the increase in costs was project-related expenses for providing a turnkey solution for the WoDS blade campaign, and OPEX for J/U WIND ENTERPRISE that was bareboat chartered towards the end of Q2 2019, thus OPEX were not accrued for the full quarter.

SG&A expenses amounted to EUR 1.5m in Q2 2020 which is equivalent to EUR 1.5m in Q2 2019.

EBITDA amounted to a profit of EUR 6.2m in Q2 2020 compared to a profit of EUR 0.2m in Q2 2019. The reason for the increase is the increase in

revenue, resulting from much better performance at the WoDS blade campaign, and contribution by J/U WIND ENTERPRISE. This was partly offset by J/U WIND and J/U WIND PIONEER as a result of lower utilisation as a consequence of the coronavirus.



Depreciation charges were EUR 2.7m in Q2 2020 compared to EUR 2.4m in Q2 2019. The increase in depreciation is related to capitalisation and depreciation of J/U WIND ENTERPRISE.

Financials, net was an expense of EUR 5.1m in Q2 2020 compared to an expense of EUR 4.0m in Q2 2019. The increased financial costs were mainly as consequence of capitalisation and interest expensing of J/U WIND ENTERPRISE and the increase in interests on the corporate loans that were restructured in April 2020.

Review of income statement 1st half 2020

The consolidated income statement for the ZITON Group shows revenue for 1H 2020 of EUR 22.3m compared to a revenue of EUR 15.3m in 1H 2019. Revenue from J/U WIND SERVER was lower than anticipated for 1H 2020, due to challenges at the WoDS blade campaign mainly as consequence of damage to a blade lifting system and unusual adverse weather during Q1 2020, this was partly offset by good performance during Q2 2020. Revenue from J/U WIND, J/U WIND PIONEER and J/U WIND ENTERPRISE in 1H 2020 was lower than anticipated mainly due to adverse weather in Q1 2020 and the negative affect from the coronavirus.

Vessel OPEX and project related costs increased to EUR 14.9m in 1H 2020 from EUR 6.3m in 1H 2019. The main reason for the increase in costs was project-related expenses for providing a turnkey solution for the WoDS blade campaign, and OPEX for J/U WIND ENTERPRISE.

SG&A expenses amounted to EUR 2.9m in 1H 2020 compared to EUR 2.7m 1H 2019. The main reason for the increase in costs is related to establishing subsidiaries in the UK, Germany and China.

EBITDA was a EUR 4.8m profit in 1H 2020 compared to a profit of EUR 6.7m in 1H 2019. The decline in EBITDA is due to lower revenue for J/U WIND SERVER as a consequence of challenges at the WoDS blade campaign during Q1 2020, and lower utilisation of J/U WIND and J/U WIND PIONEER, which was partly offset by contribution from J/U WIND ENTERPRISE that was bareboat chartered towards the end of Q2 2019.

Depreciation charges of EUR 5.4m in 1H 2020 compared to EUR 4.5m in 1H 2019. The increase in depreciation is related to capitalisation and depreciation of J/U WIND ENTERPRISE.

Financials, net was an expense of EUR 9.6m in 1H 2020 compared to an expense of EUR 7.6m in 1H 2019. The increased financial costs were mainly as consequence of capitalisation and interest expensing of J/U WIND ENTERPRISE and the increase in interests on the corporate loans that were restructured from April 2020.

REVIEW OF THE BALANCE SHEET AT THE END OF Q2 2020

EUR '000	Q2 2020	Q2 2019	Change	Q2 2020	Q4 2019	Change
Assets						
Vessel, including fixtures & equipment	190,297	198,150	-7,853	190,297	194,939	-4,642
Other non-current assets	632	97	535	632	647	-15
Non-current assets	190,928	198,247	-7,318	190,928	195,586	-4,658
Trade and other receivables	3,775	4,746	-970	3,775	2,931	844
Cash and cash equivalents	3,437	7,248	-3,811	3,437	2,008	1,429
Current assets	7,212	11,994	-4,781	7,212	4,939	2,273
Total assets	198,141	210,240	-12,099	198,141	200,525	-2,384
Equity and Liabilities						
Equity	-13,722	5,137	-18,860	-13,722	-5,266	-8,457
Subordinated loan	27,431	23,820	3,611	27,431	25,472	1,959
Bond loans, second lien	30,301	26,847	3,454	30,301	28,602	1,700
Bond loans, first lien	95,016	95,817	-801	95,016	92,431	2,585
Lease obligations	42,241	44,623	-2,382	42,241	43,378	-1,137
Other liabilities	16,874	13,995	2,879	16,874	15,909	965
Total liabilities	211,863	205,103	6,761	211,863	205,792	6,072
Total equity and liabilities	198,141	210,240	-12,099	198,141	200,526	-2,385
Key ratios						
Subordinated capital ratio	32.7%	32.8%	-0.1%	32.7%	33.8%	-1.1%

Review of the balance sheet, end of Q2 2020

The total value of Non-current assets, that mainly consist of vessels, amounted to EUR 190.3m at the end of Q2 2020. This compares to EUR 198.2m at the end of Q2 2019. The decrease was mainly due to depreciations.

Trade and other receivables amounted to EUR 3.8m at the end of Q2 2020 compared to EUR 4.7m at the end of Q2 2019.

Total equity was negative at EUR 13.7m at the end of Q2 2020, a change from a positive amount of EUR 5.1m at the end of Q2 2019. The decline compared to Q2 2019 was mainly a consequence of losses incurred in the period, which is partly offset by a capital injection of EUR 2.0m by BWB Partners.

The subordinated capital ratio (as defined in "Alternative Performance Measures", please refer

to pages 54-55 of the 2019 annual report) at the end of Q2 2020 was 32.7%. This is a decline of 0.1% compared to 32.8% at the end of Q2 2019, as losses incurred in the period could only partly be offset by a capital injection of EUR 2.0m by BWB Partners, as well as accrual of interest on the subordinated loan and second lien loan. In April 2020, covenants for subordinated capital ratio were waived until 31 December 2020.

REVIEW OF STATEMENT OF CASH FLOWS FOR Q2 2020

EUR '000	Q2 2020	Q2 2019	Change	YTD 2020	YTD 2019	Change
EBITDA	6.151	158	5.993	4.577	6.719	-2.141
Working capital adjustments	1.180	6.028	-4.848	1.404	707	697
Other adjustments	-1.378	-1.752	375	-2.654	-2.578	-76
Net cash flows from operating activities	5.953	4.433	1.520	3.327	4.847	-1.520
Financial payments, net	-771	-128	-643	-1.620	-1.978	358
Net cash before investing activities	5.182	4.305	877	1.707	2.869	-1.162
Investing activities	-93	-590	497	-320	-1.071	750
Net cash flows after investing activities	5.089	3.715	1.374	1.387	1.798	-411
Financing activities	-401	-2.970	2.569	-1.047	-5.399	4.352
Net cash flows after financing activities	4.688	745	3.943	340	-3.600	3.940

Available liquidity	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Cash and cash equivalents	3.437	4.244	2.009	2.282	7.248
Cash on retention account	-	3.188	-	2	2.973
Liquidity	3.437	1.056	2.009	2.280	4.275
Available draw on working capital facility	13.166	1.179	6.525	2.099	6.656
Available liquidity	16.603	2.235	8.534	4.378	10.931

Review of the cash flow statement

Cash flows from operating activities were an inflow of EUR 6.0m in Q2 2020 compared to EUR 4.4m in Q2 2019. 1H 2020 cash flow from operating activities were an inflow of EUR 3.3m compared to an inflow of EUR 4.8m in 1H 2019.

Financial payments, net amounted to negative EUR 0.8m in Q2 2020 compared to negative EUR 0.1m in Q2 2019. 1H 2020 financial payments were EUR 1.6m compared to EUR 2.0m.

Investing activities amounted to EUR 0.1m in Q2 2020 compared to EUR 0.6m in Q2 2019. 1H 2020 investing activities amounted to EUR 0.3m compared to EUR 1.1m.

Financing activities amounted to a cash outflow of EUR 0.4m in Q2 2020, which primarily consist of lease payments on the bareboat leased vessel J/U WIND ENTERPRISE. This compared to an outflow of EUR 3.0m in Q2 2019, which primarily consisted of amortisation on the 1st lien bond and prepayment of bareboat leases for J/U WIND ENTERPRISE. 1H 2020 financing activities amounted to a cash outflow of EUR 1.0m compared to an outflow in H1 2019 of EUR 5.4m.

The development was primarily due to instalment on the bond loan in 2019 and prepayment of bareboat leases for J/U WIND ENTERPRISE.

Available liquidity including available drawings on our working capital facility amounted to EUR 16.6m at the end of Q2 2020, of which EUR 0.9m is placed in a restricted account as security for currency hedging related to the WoDS blade campaign. This was EUR 14.4m higher than at the end of Q1 2020, as a result of restructuring of corporate loans and a new working capital facility provided in April 2020.

Consolidated financial statements for ZITON A/S

INCOME STATEMENT

EUR '000	Note	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Revenue	2	14.955	5.561	22.302	15.254
Other operating income		-	-	-	488
Project-related expenses		-2.417	-268	-5.205	-500
Operational expenses		-4.925	-3.656	-9.665	-5.842
Gross profit		7.614	1.637	7.432	9.400
Administrative expenses		-374	-574	-776	-926
Staff costs, office staff		-1.089	-905	-2.078	-1.755
EBITDA		6.151	158	4.577	6.719
Depreciation & amortisation		-2.687	-2.381	-5.372	-4.503
EBIT		3.464	-2.223	-795	2.216
Financial income		207	-	379	-
Financial expenses		-5.331	-4.034	-10.005	-7.591
Income before tax		-1.660	-6.256	-10.421	-5.375
Tax on profit (loss)		-423	522	1.260	761
Income for the year		-2.083	-5.735	-9.161	-4.614
<i>Attributable to:</i>					
Owners of ZITON A/S		-2.083	-5.730	-9.154	-4.609
Non-controlling interest - Profit/loss		0	-5	-6	-5
Income for the year		-2.083	-5.735	-9.161	-4.614

STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Income for the year		-2.083	-5.735	-9.161	-4.614
<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		22	-10	-210	57
Cash flow hedges, realised gains/(losses) incurred during period		9	-	-93	-
Cash flow hedges, deferred gains/(losses) incurred during period		924	659	1.007	659
Total comprehensive income for the year, after tax		-1.128	-5.745	-8.456	-4.557
<i>Attributable to:</i>					
Owners of ZITON A/S		-1.129	-5.740	-8.450	-4.552
Non-controlling interest - Profit/loss		0	-5	-6	-5
Total comprehensive income for the year, after tax		-1.128	-5.745	-8.456	-4.557

BALANCE SHEET**EUR '000**

		Q2 2020	Q2 2019	Q4 2019
Assets				
Non-current assets				
Vessel, including fixtures & equipment	3	190.297	198.150	194.939
Intangible assets		115	97	128
Financial assets		0	0	0
Deferred tax asset		517	-	519
Non-current assets		190.928	198.247	195.586
Current assets				
Inventories		145	225	293
Trade and other receivables		3.630	4.521	2.638
Cash and cash equivalents		3.437	7.247	2.008
Current assets		7.212	11.993	4.939
Total assets		198.141	210.240	200.526
Equity and Liabilities				
Equity				
Share capital		13.098	11.093	13.098
Reserves		136	905	-569
Retained earnings		-27.011	-6.923	-17.856
Total equity attributable to owners of ZITON A/S		-13.777	5.075	-5.327
Non-controlling interest		55	62	61
Total equity		-13.722	5.137	-5.266
Liabilities				
Non-current liabilities				
Subordinated loan		27.431	23.820	25.472
Bond loans, second lien		30.301	26.847	28.602
Bond loans, first lien		92.937	91.504	88.117
Lease obligations		40.007	42.387	40.832
Deferred income tax liabilities		4.877	9.178	6.109
Provision for other liabilities		230	-	230
Total non-current liabilities		195.783	193.736	189.362
Current liabilities				
Bond loans, first lien		2.079	4.313	4.314
Lease obligations		2.234	2.236	2.546
Working capital facility		196	-	156
Trade and other payables		10.789	3.875	8.540
Provision for other liabilities		782	943	874
Total current liabilities		16.081	11.367	16.430
Total liabilities		211.863	205.103	205.792
Total equity and liabilities		198.141	210.240	200.526

STATEMENT OF CASH FLOWS
EUR '000

Note	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Income before tax	-1.660	-6.256	-10.421	-5.376
Operating activities				
<i>Adjustments for non-cash items</i>				
Reversal financial expenses, net	5.123	4.033	9.626	7.591
Depreciation and writedowns of the period	2.687	2.381	5.372	4.503
Other adjustments	-1.378	-1.752	-2.654	-2.578
<i>Working capital adjustments</i>				
Change in inventories	84	-178	148	-190
Change in trade receivables	463	3.488	-592	-1.491
Change in trade payables	634	2.718	1.848	2.388
<i>Income tax expense</i>				
Income tax expense	-	-	-	-
Net cash flows from operating activities	5.953	4.435	3.327	4.849
<i>Financial payments</i>				
Financial receipts	-	-	-	-
Financial payments	-771	-128	-1.620	-1.978
Net cash flows before investing activities	5.182	4.307	1.707	2.871
Investing activities				
Purchase of vessel, fixtures & equipment	-93	-590	-320	-1.005
Other cash flows from investing activities	-	-	-	-66
Net cash used in investing activities	-93	-590	-320	-1.071
Financing activities				
Repayment of debt to bank and bond holders	-	-	-	-2.501
Bond loan	-	-	-	-
Draw on working capital facility	196	-	196	140
Lease payments	-596	-2.970	-1.243	-3.037
Net cash used/received in financing activities	-401	-2.970	-1.047	-5.399
Net (decrease)/increase in cash and cash equivalents	4.688	747	340	-3.598
Cash and cash equivalents at beginning of period	-1.251	6.500	3.097	10.845
Exchange gains/losses on cash and cash equivalents	-	-	-	-
Net cash and cash equivalents at end of period	3.437	7.247	3.437	7.247

STATEMENT OF CHANGES IN EQUITY

YTD 2020

EUR '000	Share capital	Attributable to owners of ZITON A/S					Non-controlling interests	Total equity
		Reserve for warrants	Translation reserves	Cash flow hedges	Total reserves	Retained earnings		
Balance at 31 December 2019	13.098	143	-11	-701	-569	-17.857	61	-5.267
Total comprehensive income, after tax	-	-	-210	915	704	-9.154	-6	-8.456
Balance at YTD	13.098	143	-221	214	136	-27.011	55	-13.722

Share capital

At the end of Q2 2020, 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.

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 2019

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

Share capital

At the end of Q2 2019, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,089k). 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.

Note 1 – Total Comprehensive Income by Quarter

Income statement by quarter

EUR '000	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Revenue	14.955	7.346	9.608	8.711	5.561
Other operating income	-	-	-	-	-
Project-related expenses	-2.417	-2.788	-2.957	-1.965	-233
Operational expenses	-4.925	-4.740	-5.904	-4.725	-3.656
Gross profit	7.614	-182	746	2.021	1.672
Administrative expenses	-374	-402	-526	-365	-571
Staff costs, office staff	-1.089	-989	-1.110	-694	-866
EBITDA	6.151	-1.573	-889	961	235
Depreciation	-2.687	-2.686	-2.700	-2.668	-2.392
EBIT	3.464	-4.259	-3.589	-1.707	-2.158
Financial income	207	172	35	8	20
Financial expenses	-5.331	-4.674	-4.815	-4.638	-4.033
Income before tax	-1.660	-8.761	-8.370	-6.337	-6.171

Note 2 – Revenue from 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 jack-up vessel, ZITON Contractors A/S and Hangout A/S revenue and expenses. As all jack-up vessels including 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 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 2020	Q2 2019	YTD 2020	YTD 2019
United Kingdom	11.954	2.279	15.658	8.766
Denmark	2.279	2.021	4.479	4.184
Germany	-	392	1.224	1.003
Netherlands	-	238	-	238
Belgium	722	214	794	214
Sweden	-	417	218	849
	-	-	-	-
Total	14.955	5.561	22.373	15.254

Sales to the three largest customers, accounting for more than 10% of revenue, made up 56%, 23% and 15% of total revenue in 1H 2020 (1H 2019: 42%, 22% and 19% respectively).

Note 3 - Vessels and equipment

Q2 2020 EUR '000	Property	Fixtures & equipment	Vessels	Total
Cost at 1 January 2020	1.181	2.517	239.521	242.038
Exchange rate adjustments	-	2	358	360
Additions	-	51	288	339
Disposals	-	-	-	-
Additions to leased assets (Right-of-use assets)	-	59	44	103
Disposals of leased assets (Right-of-use assets)	-	-55	-	-55
Cost YTD	1.181	2.575	240.210	243.966
Depreciation at 1 January 2020	-242	-726	-47.312	-48.280
Exchange rate adjustments	-	-1	-69	-70
Depreciation	-	-170	-4.038	-4.332
Disposals	-	-	-	-
Depreciation on leased assets (Right-of-use assets)	-125	-67	-964	-1.398
Disposals of leased assets (Right-of-use assets)	-	45	-	45
Depreciation YTD	-367	-919	-52.383	-53.669
Impairment losses at 1 January 2020	-	-	-	-
Impairment losses YTD	-	-	-	-
Carrying amount YTD	814	1.656	187.827	190.297

Q2 2019 EUR '000	Property	Fixtures & equipment	Vessels	Total
Cost at 1 January 2020	-	1.354	190.357	191.711
Exchange rate adjustments	-	1	53	54
Additions	-	587	781	1.368
Disposals	-	-	-	-
Additions to leased assets (Right-of-use assets)	1.167	73	46.638	46.711
Disposals of leased assets (Right-of-use assets)	-	-74	-	-74
Cost YTD	1.167	1.941	237.829	240.937
Depreciation at 1 January 2020	-	-368	-38.012	-38.380
Exchange rate adjustments	-	-	-9	-9
Depreciation	-	-116	-3.983	-4.099
Disposals	-	-	-	-
Depreciation on leased assets (Right-of-use assets)	-86	-8	-233	-327
Disposals of leased assets (Right-of-use assets)	-	35	-	35
Depreciation YTD	-86	-458	-42.238	-42.781
Impairment losses at 1 January 2019	-	-	-	-
Impairment losses YTD	-	-	-	-
Carrying amount YTD	1.081	1.483	195.591	198.156

Obligations related to right of use assets

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

Assessment of Impairment of vessels

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. One such events include the COVID-19 disease, that cause the coronavirus. When the various governments across Europe responded to the corona virus by creating lockdowns it had an immediate effect on ZITON and its customers' ability to carry out operations and to procure components. ZITON and its customers took precautions to avoid spreading of the corona virus, by implementing procedures for continuous testing of crew and technicians, limit physical contact, keep distance,

wash/sanitise hands, cleaning etc. Furthermore, ZITON has implemented secure crew changes incl. crew changes in private jets and avoiding contact between different crews, limiting unnecessary access to vessels, no access in case of symptoms etc.

This reduced the visibility of ZITON's project pipeline and timing of projects were frequently changed around, which was further exacerbated by longer delivery time on components. This has caused less efficient operations and consequently lower vessel utilisation. At the beginning of 2nd half 2020, we see good signs that customers are adapting to the new operating environment, and ZITON's project pipeline is becoming stronger, even though visibility into the timing of project continues to be clouded.

Coronavirus is an indicator of impairment, and as a result, ZITON performed an impairment test. An impairment loss is recognised at 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. 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 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.

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 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 190,297k.

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.

Note 4 - Commitments and contingencies

Since the end of 2019, no significant changes have occurred to contingent assets and liabilities other than those referred to in the annual report for 2019.

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 2019 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 publication of this interim report which materially affect the results for the period or the financial position.

Note 7 – Basis of reporting

Accounting policies

Basis of consolidation

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

The accounting policies adopted in the preparation of the interim report are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not applied early adoption of any other standard, interpretation or amendment that has been issued but is not yet effective.

Significant estimates and assumptions

Going Concern

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

Management has prepared revised cash flow forecast scenarios and is currently evaluating strategic options to ensure 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 by 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. It is management's assessment that the contemplated process to ensure sufficient liquidity will be successfully completed, consequently the Financial statements have been prepared on a going concern basis.

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

Risks

For a description of the risks ZITON A/S is exposed to, please refer to the Risk Management section on pages 51-53 and note 4.1 "Risk management" on pages 96-99 of the 2019 annual report.

Note 8 – Alternative Performance Measures

Alternative Performance Measures ("APMs") are non-IFRS financial measures used as supplements to financial statements. The APMs used in this quarterly report are unchanged compared to the annual report 2019. Please refer to pages 54-55 of the 2019 annual report.

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 2020. The interim report has not been audited or reviewed by the company's independent auditors.

The interim report for the first half of 2020 has been prepared in accordance with International Financial Reporting Standards and IAS 34 as adopted by the 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 2020, and of the results of the ZITON's operations and cash flow for the first half 2020.

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 2020

Executive Management

Thorsten Jalk
CEO

Board of Directors

Vagn Lehd Møller
Chairman

Ove Carsten Eriksen

Esben Bay Jørgensen

Lars Thorsgaard Jensen

Henrik Kleis

Morten Melin

Financial calendar 2020

Interim report Q3 2020 – 19 November 2020

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