



ZITON A/S
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Interim report Q4 2018

Highlights of the report

Highlights of Q4 2018

- EBITDA for 2018 EBITDA amounted to EUR 30.3m compared to the guidance of EUR 27-28m. The strong performance was achieved through solid execution of a strong pipeline of projects throughout the year.
- EBITDA was a EUR 6.3m profit in Q4 2018 compared to a profit of EUR 4.3m in Q4 2017.
- ZITON has been selected as preferred supplier in a blade campaign to repair more than 100 turbines. The duration of the blade campaign is expected to be 12 months, and ZITON will be providing a full turnkey solution. 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 repairs and its traditional market for major component replacement.
- Guidance for the full year 2019:
 - **Weighted average utilisation rate.** We expect a utilisation rate in the range of 75%-85%, compared to 92% in 2018.
 - **EBITDA.** We expect EBITDA in the range of EUR 21-25m, compared to EBITDA of EUR 30.3m in 2018.
 - **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, compared to EUR 31.0m in 2018.
 - **CAPEX.** We expect CAPEX of up to EUR 4.0m, compared to EUR 0.6m in 2018.

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

Overall, we continue to see a positive market development with solid market activity. The fourth quarter traditionally marks the beginning of the low season for the offshore wind operations & maintenance industry. At this time of the year, weather conditions are not always ideal for safe operations at sea. As a result, market activity slowed somewhat during the quarter. We maintained a satisfactory market share in Q4 2018.

Contract developments

We are currently experiencing a good level of activity in contract tendering. ZITON has been selected as preferred supplier in a blade campaign to repair more than 100 turbines. The duration of the blade campaign is expected to be 12 months, and ZITON will be providing 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. The final contract is scheduled to be signed in March/April 2019, and the project is expected to be initiated within one month after signing.

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

- Framework agreement with Ørsted expires in March 2019. Ørsted has initiated a tender process for a new framework agreement.
- A three-year charter with Siemens Gamesa Renewable Energy ("SGRE") for J/U WIND SERVER; commenced on 14 March 2016. SGRE is currently running a tender process and, as a result, the charter is expected to be extended by a few weeks.
- A framework agreement with Vattenfall that expires in November 2019.

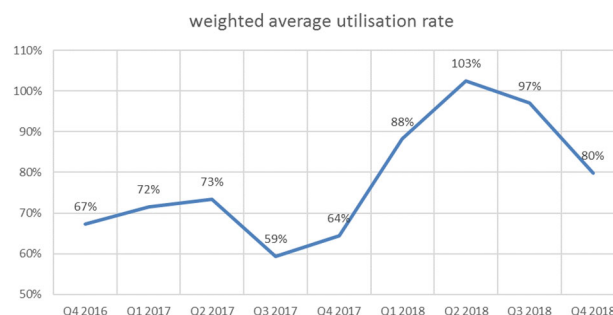
- In addition, we entered into a framework agreement with MHI Vestas Offshore Wind in December 2014. This agreement has been extended until one of the parties cancels the agreement.

Competitive environment

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

Utilisation rates

The weighted average utilisation rate for Q4 2018 was at 80%.



Note: the 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 remains on charter with Siemens Gamesa Renewable Energy, having commenced a three-year charter on 14 March 2016.

J/U WIND PIONEER and J/U WIND mainly operate on the framework agreements with Ørsted, Vattenfall and MHI Vestas Offshore Wind. During Q4 2018, one of the legs in the jacking system of J/U WIND was damaged, leaving the vessel unable to operate. Consequently, ZITON made use of its loss-of-hire insurance from the middle November 2018 until the beginning of 2019.

Guidance follow-up for 2018

We provided initial guidance to the bondholders at the release of our Q4 2017 interim report published on 27 February 2018.

Our performance in the first half of 2018 was better than expected, and as a result we upgraded the full-year guidance in August 2018 when releasing our Q2 2018 interim report.

The strong performance continued into Q3 2018, and consequently we upgraded the guidance further in November 2018 when releasing our Q3 2018 interim report.

Performance in the final quarter of the year also exceeded expectations. As a result, actual performance in 2018 also exceeded the upgraded guidance provided after Q3 2018.

	Guidance February 2018	Revised guidance August 2018	Revised guidance November 2018	Actual 2018
Weighted average utilisation rate	75-85%	80-90%	85-90%	92%
EBITDA	EUR 21-25m	EUR 25-28m	EUR 27-28m	EUR 30.3m
Cash flows from operating activities	EUR 11-15m	EUR 15-18m	EUR 12-15m	EUR 18.4m
Capex	Up to EUR 4m	Up to EUR 4m	Up to EUR 4m	EUR 0.6m

Outlook for 2019

The following sets out our guidance for our key performance indicators in 2019:

- **Weighted average utilisation rate.** We expect a utilisation rate in the range of 75%-85%. The 2018 weighted average utilisation rate was 92%. The main reason for the expected lower utilisation rate reflects our very strong performance in 2018
- **EBITDA.** We expect EBITDA to be in the range of EUR 21-25m. This is somewhat less than our realised 2018 EBITDA of EUR 30.3m. The reduced guidance reflects expected lower revenue following the strong 2018 performance.
- **Cash flow from operating activities** is defined as EBITDA less changes in working capital (in 2018 we also deducted financial payments in our definition). We expect cash flows from operating activities of EUR 19-23m, down from EUR 31.0m in 2018. The main reason for the projected decline is the expected lower EBITDA.
- **CAPEX.** We expect CAPEX of up to EUR 4.0m, compared to EUR 0.6m in 2018.

The 2019 guidance reflects the more uncertain contract situation including expiry of the time charter with SGRE in March 2019, which is partly counterbalanced by the solid market development and good activity level within contract tendering including that ZITON has been selected as preferred supplier for the blade campaign mentioned earlier.

Risks and uncertainties

ZITON A/S is exposed to various risks that may be of significance to the company's future operations, results and financial position. For a description of ZITON A/S risks, please refer to the Risk Management section on pages 38-39 and note 4.1 "Risk management" on pages 74-75 of the 2017 annual report.

Financial Review

REVIEW OF THE INCOME STATEMENT

EUR '000	Q4 18	Q4 17	Change	YTD 18	YTD 17	Change
Revenue	9 295	7 950	1 345	45 504	33 227	12 277
Other operating income	1 340	0	1 340	1 340	0	1 340
OPEX and project-related expenses	-3 132	-2 711	-421	-11 764	-9 477	-2 287
SG&A	-1 240	-945	-295	-4 732	-4 493	-239
EBITDA	6 263	4 294	1 969	30 348	19 257	11 091
Depreciation	-2 057	-1 996	-61	-7 925	-7 930	5
EBIT	4 206	2 298	1 908	22 423	11 327	11 096
Financials, net	-7 806	-3 306	-4 500	-17 624	-13 168	-4 456
Income before tax	-3 600	-1 008	-2 592	4 799	-1 841	6 640
Key ratios						
EBITDA margin	67.4%	54.0%	13.4%	66.7%	58.0%	8.7%

Review of the income statement for Q4 2018

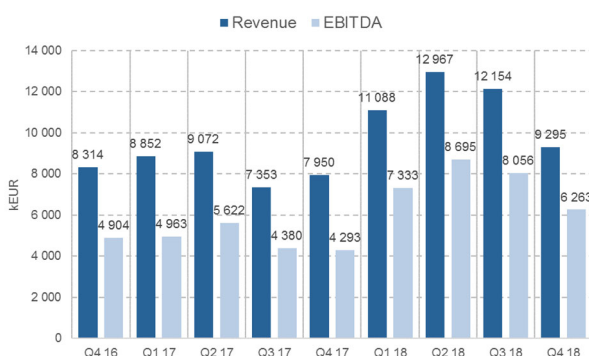
The consolidated results for ZITON show net revenue for Q4 2018 of EUR 9.2m compared to EUR 7.9m in Q4 2017, driven by a slightly higher level of activity. In addition, ZITON recorded other operating income of EUR 1.3m related to income from loss-of-hire insurance for J/U WIND.

Vessel OPEX and project-related costs increased to EUR 3.1m in Q4 2018 from EUR 2.7m in Q4 2017. The main reason for the cost increase was the higher level of activity during the quarter.

SG&A expenses amounted to EUR 1.2m in Q4 2018 from EUR 0.9m in Q4 2017.

EBITDA was a EUR 6.3m profit in Q4 2018 compared to a profit of EUR 4.3m in Q4 2017. The increase in EBITDA was due to income from loss-of-hire insurance and the higher level of activity.

The illustration below shows the development in EBITDA since Q4 2016.



Depreciation charges of EUR 2.1m in Q4 2018 were unchanged from Q4 2017.

EBIT was a EUR 4.2m profit in Q4 2018 compared to a profit of EUR 2.3m in Q4 2017. The increase in EBIT was mainly due to income from loss-of-hire insurance and the higher level of activity.

Financials, net was an expense of EUR 7.8m in Q4 2018 compared to an expense of EUR 3.3m in Q4 2017. The main reason for the increase was one-off costs related to a revised capital structure consisting of costs to repay an outstanding bond at a 3.02% call premium, double interest until repayment and expensing of capitalised issue costs of the repaid bond. These additional financial costs amounted to EUR 4.2m.

ZITON recorded a loss before tax of EUR 3.6m in Q4 2018 compared to a EUR 1.0m loss in Q4 2017.

Review of the income statement full year 2018

The consolidated results for ZITON show net revenue for the full year 2018 of EUR 45.5m compared to EUR 33.2m YTD 2017, an increase of 37%. The main reason for the increase in revenue was the solid execution of the strong pipeline of projects.

Vessel OPEX and project related costs increased to EUR 11.8m for the full year 2018 from EUR 9.5m in 2017. The main reason for the increase in

costs was the high level of activity, as well as expenses related to decommissioning projects.

SG&A expenses amounted to EUR 4.7m in 2018 an increase of 5% compared to EUR 4.5m in 2017.

EBITDA was a EUR 30.3m profit in 2018 compared to a profit of EUR 19.3m in 2017, an improvement of 58%. The main reason for the increase in EBITDA was the improved level of activity.

Depreciation charges of EUR 7.9m in 2018 were unchanged compared to 2017.

EBIT was a EUR 22.4m profit in 2018 compared to a profit of EUR 11.3m in 2017. The main reason for the increase in EBIT was the improved level of activity.

Financials, net was an expense of EUR 17.6m in 2018 compared to an expense of EUR 13.2m in 2017. The main reason for the increase was one-off costs related to a revised capital structure consisting of costs to repay an outstanding bond at a 3.02% call premium, double interest until repayment and expensing of capitalised issue costs of the repaid bond. These additional financial costs amounted to EUR 4.2m.

Income before tax was a EUR 4.8m profit in 2018 compared to a EUR 1.8m loss in 2017.

REVIEW OF THE BALANCE SHEET AT THE END OF Q4 2018

<i>EUR '000</i>	Q4 18	Q4 17	Change
Assets			
Vessel, including fixtures & equipment	153 324	154 517	-1 193
Other non-current assets	100	6 494	-6 394
Non-current assets	153 424	161 011	-7 587
Trade and other receivables	3 066	3 967	-901
Cash and cash equivalents	10 842	2 753	8 089
Current assets	13 908	6 720	7 188
Total assets	167 332	167 731	-399
Equity and Liabilities			
Equity	8 902	33 842	-24 940
Subordinated loans	22 373	35 560	-13 187
Bond loans, second lien	25 208	-	25 208
Bond loans, first lien	98 108	90 923	7 185
Bank loans and lease liabilities	173	165	8
Other liabilities	12 568	7 241	5 327
Total liabilities	158 429	133 889	24 541
Total equity and liabilities	167 332	167 731	-399
Key ratios			
Subordinated capital ratio	33.8%	41.4%	-7.6%
NIBD (adjusted for capitalised financing costs)	89 494	89 412	82
Loan to Vessel ratio (NIBD/Vessel book value)	58.4%	57.9%	0.5%

Review of the balance sheet, end of Q4 2018

The total value of the vessels amounted to EUR 153.3m at the end of Q4 2018. This compares to EUR 154.5m at the end of Q4 2017. Other non-current assets amounted to EUR 0.1m at the end of Q4 2018 compared to EUR 6.4m in Q4 2017. 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 3.0m at the end of Q4 2018 compared to EUR 3.9m at the end of Q4 2017. The decrease was mainly a consequence of the early payment of receivables by a single customer.

Total equity decreased to EUR 9.0m at the end of Q4 2018 from EUR 33.8m at the end of Q4 2017. The reduction in equity was mainly a result of the purchase of the outstanding 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 second lien bond loan divided by total assets) at end of Q4 2018 was 33.8%. The reduction from 41.4% at the end of Q4 2017 was due to the revised capital structure which reduced both equity and subordinated loans, but was partly offset by a new second lien bond loan.

The subordinated capital ratio has a good margin relative to the company's only financial covenant, which required a subordinated capital ratio of 30.0% or higher, at the end of Q4 2018.

Senior Net Interest-Bearing Debt (NIBD) amounted to EUR 89.4m at the end of Q4 2018. This was in line with the level at the end of Q4 2017. Hence, the senior Loan to Vessel value stood at 58.4% at the end of the period.

REVIEW OF STATEMENT OF CASH FLOWS FOR Q4 2018

<i>EUR '000</i>	Q4 18	Q4 17	Change	YTD 18	YTD 17	Change
EBITDA	6 263	4 294	1 969	30 348	19 257	11 091
Working capital adjustments	5 281	-268	5 549	2 149	-136	2 285
Other adjustments	-3 206	-122	-3 084	-1 415	445	-1 860
Net cash flows from operating activities	8 338	3 904	4 434	31 082	19 566	11 516
Financial payments, net	-4 688	-2 763	-1 925	-12 594	-9 165	-3 429
Net cash flows before investment activities	3 650	1 115	2 535	18 416	10 401	8 015
Investing activities	-23 767	-195	-23 572	-24 235	-1 474	-22 761
Net cash flows after investing activities	-20 117	920	-21 037	-5 819	8 927	-14 746
Financing activities	16 934	-3 000	19 934	13 933	-5 500	19 433
Net cash flows after financing activities	-3 183	-2 080	-1 103	8 114	3 427	4 687
Available liquidity						
Cash and cash equivalents	10 842	2 753	8 089			
Cash on retention account	1 262	1 170	91			
Liquidity	9 580	1 583	7 998			
Available draw on working capital facility	6 709	6 686	22			
Available liquidity	16 289	8 269	8 020			

Review of the cash flow statement

Cash flows from operating activities were an inflow of EUR 8.3m in Q4 2018 driven by EBITDA of EUR 6.3m and positive working capital adjustments of EUR 5.2m that were partly offset by other adjustments. Working capital adjustments were positive at EUR 5.2m during the quarter, mainly as trade receivables were reduced. The working capital reduction was mainly due to the early payment of receivables by a single customer.

Financial payments, net amounted to EUR -4.7m in Q4 2018 compared to EUR -2.8m in Q4 2017. The main reason for the increase was one-off costs related to a revised capital structure.

Investing activities amounted to EUR 23.8m in Q4 2018 compared to EUR 0.2m in Q4 2017. The increase was due to the purchase of the non-controlling interests in Jack-Up InvestCo 3 Plc.

Available liquidity including drawings available on the working capital facility amounted to EUR 16.3m at the end of Q4 2018. This was EUR 8.0m

higher than at the end of Q4 2017, mainly due to positive operating cash flows during the period.

Consolidated financial statements for ZITON A/S

INCOME STATEMENT

<i>EUR '000</i>	Note	Q4 18	Q4 17	YTD 18	YTD 17
Revenue	2	9 295	7 950	45 504	33 227
Other operating income		1 340	-	1 340	-
Project-related expenses		-557	-353	-2 578	-1 281
Operating expenses		-2 575	-2 358	-9 186	-8 196
Gross profit		7 503	5 239	35 080	23 750
Administrative expenses		-375	-164	-1 559	-1 712
Staff costs, office staff		-865	-781	-3 173	-2 781
EBITDA		6 263	4 294	30 348	19 257
Depreciation and amortisation		-2 057	-1 996	-7 925	-7 930
EBIT		4 206	2 298	22 423	11 327
Financial income		-	-	1	-
Financial expenses		-7 806	-3 306	-17 625	-13 168
Income before tax		-3 600	-1 008	4 799	-1 841
Tax on profit (loss)		-3 086	406	-6 082	-1 143
Income for the year		-6 686	-602	-1 283	-2 984
<i>Attributable to:</i>					
Owners of ZITON A/S		-6 686	-1 771	-3 701	-6 321
Non-controlling interests		-	1 169	2 418	3 337
Income for the year		-6 686	-602	-1 283	-2 984

STATEMENT OF COMPREHENSIVE INCOME

<i>EUR '000</i>	Note	Q4 18	Q4 17	YTD 18	YTD 17
Income for the year		-6 686	-602	-1 283	-2 984
<i>Items that will subsequently be reclassified to the income statement when specific conditions are met:</i>					
Purchase of non controlling interests		23 658			
Exchange adjustments of foreign entities, net of tax			-64	-2 196	2 984
Total comprehensive income for the year, after tax		16 972	-666	-2 196	-
<i>Attributable to:</i>					
Owners of ZITON A/S		-5 999	-1 835	-3 701	-6 320
Non-controlling interests		-19 044	1 169	2 418	3 337
Total comprehensive income for the year, after tax		-25 043	-666	-1 283	-2 983

BALANCE SHEET
EUR '000

		2018	2017
Assets			
Non-current assets			
Vessels, including fixtures & equipment	3	153 324	154 517
Intangible assets		100	105
Financial assets		-	6 055
Deferred tax assets		-	334
Non-current assets		153 424	161 011
Current assets			
Inventories		35	39
Trade and other receivables		3 031	3 928
Cash and cash equivalents		10 842	2 753
Current assets		13 908	6 720
Total assets		167 332	167 731
Equity and Liabilities			
Equity			
Share capital		11 093	11 093
Reserves		189	189
Retained earnings		-2 380	3 516
Total equity attributable to owners of ZITON A/S		8 902	14 798
Non-controlling interests		-	19 044
Total equity		8 902	33 842
Liabilities			
Non-current liabilities			
Subordinated loans		22 373	35 560
Bond loans, second lien		25 208	-
Bond loans, first lien		93 630	85 487
Lease obligation		159	110
Deferred income tax liabilities		9 782	4 029
Total non-current liabilities		151 151	125 186
Current liabilities			
Bond loans, first lien		4 478	5 436
Lease obligation		14	55
Trade and other payables		1 488	2 008
Provision for other liabilities		1 298	1 204
Total current liabilities		7 278	8 703
Total liabilities		158 429	133 889
Total equity and liabilities		167 332	167 731

STATEMENT OF CASH FLOWS

EUR '000

Note	Q4 18	Q4 17	YTD 18	YTD 17
Income before tax	-3 600	-1 008	4 799	-1 841
<i>Operating activities</i>				
<i>Adjustments for non-cash items</i>				
Reversal financial expenses, net	7 803	3 293	17 552	13 156
Depreciation and writedowns for the period	2 057	1 996	7 925	7 930
Other adjustments	-3 206	-122	-1 415	457
<i>Working capital adjustments</i>				
Change in trade receivables	5 540	-556	2 057	639
Change in inventories	23	-38	3	-38
Change in trade payables	-279	313	89	-737
Net cash flows from operating activities	8 338	3 878	31 010	19 566
<i>Financial payments</i>				
Financial receipts	-	-	-	-
Financial payments	-4 688	-2 763	-12 594	-9 165
<i>Income tax expense</i>				
Income tax expense	-	-	-	-
Net cash flows before investing activities	3 650	1 115	18 416	10 401
<i>Investing activities</i>				
Purchase of vessel, including fixtures & equipment (excl. interest)	-121	-195	-589	-1 474
Other cash flows from investing activities	-23 646	-	-23 646	-
Net cash used in investing activities	-23 767	-195	-24 235	-1 474
<i>Financing activities</i>				
Proceeds from issuance of ordinary shares	-	-	-	-
Proceeds from bank and bond loans	-105 406	-3 000	-108 407	-5 500
Change of subordinated loans	-	-	-	-
Repayment of debt to bank and bond holders	122 340	-	122 340	-
Net cash used/received in financing activities	16 934	-3 000	13 933	-5 500
Net (decrease)/increase in cash and cash equivalents	-3 183	-2 080	8 114	3 427
Cash and cash equivalents at beginning of period	14 025	4 834	2 753	-670
Exchange gains/losses on cash and cash equivalents	-	-	-25	-
Cash and cash equivalents at end of period*	10 842	2 754	10 842	2 757

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

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity YTD 18

<i>EUR '000</i>	Share capital	Attributable to owners of ZITON A/S					Non-controlling interests	Total equity
		<i>Reserve for warrants</i>	<i>Translation reserves</i>	Total reserves	Retained earnings	Total		
Balance at 31 December 2017	11 093	143	46	189	3 516	14 798	19 044	33 842
Total comprehensive income, after tax	-	-	-	-	-5 896	-5 896	-19 044	-24 940
Balance at YTD	11 093	143	46	189	-2 380	8 902	-	8 902

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 17

<i>EUR '000</i>	Share capital	Attributable to owners of ZITON A/S					Non-controlling interests	Total equity
		<i>Reserve for warrants</i>	<i>Translation reserves</i>	Total reserves	Retained earnings	Total		
Balance at 31 December 2016	11 093	143	45	188	9 838	21 119	15 707	36 826
Total comprehensive income, after tax	-	-	1	1	-6 322	-6 321	3 337	-2 984
Balance at YTD	11 093	143	46	189	3 516	14 798	19 044	33 842

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	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
Revenue	9 295	12 154	12 967	11 088	7 950
Other operating income	1 340	-	-	-	-
Project-related expenses	-557	-616	-577	-828	-353
Operating expenses	-2 575	-2 354	-2 394	-1 856	-2 358
Gross profit	7 503	9 184	9 996	8 404	5 239
Administrative expenses	-375	-362	-510	-314	-164
Staff costs, office staff	-865	-766	-791	-757	-781
EBITDA	6 263	8 056	8 695	7 333	4 294
Depreciation	-2 057	-1 973	-1 954	-1 942	-1 996
EBIT	4 206	6 083	6 741	5 391	2 298
Financial income	-	1	-	-	-
Financial expenses	-7 806	-3 247	-3 295	-3 276	-3 306
Income before tax	-3 600	2 837	3 446	2 115	-1 008

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.

Geographical distribution of revenue EUR '000	Q4 18	Q4 17	YTD 18	YTD 17
Denmark	6 819	431	28 017	14 029
United Kingdom	986	5 646	8 962	17 804
Germany	1 470	773	1 675	257
Holland	-	1 100	490	955
Belgium	-	-	409	182
Sweden	20	-	3 974	-
Finland	-	-	1 977	-
Total	9 296	7 950	45 505	33 227

Sales to the three largest customers (accounting for more than 10% of total revenue) make up 53%, 14% and 12% respectively, of total revenue for the full year 2018 (2017: Sales to the largest customers were to two customers accounting for 72% and 10%, respectively).

Note 3 - Vessels and equipment

YTD 18	Fixtures & equipment	Vessels	Total
<i>EUR '000</i>			
Cost at 1 January	772	184 295	185 067
Exchange rate adjustments	-2	-301	-303
Additions	583	6 499	7 082
Disposals	-	-142	-142
Cost YTD	1 353	190 351	191 704
Depreciation at 1 January	-193	-30 351	-30 544
Exchange rate adjustments	1	60	61
Depreciation	-176	-7 733	-7 909
Disposals	-	12	12
Depreciation YTD	-368	-38 012	-38 380
Impairment losses at 1 January	-	-	-
Impairment losses YTD	-	-	-
Carrying amount YTD	985	152 339	153 324
- of which capitalised interests		16 629	16 629
YTD 17	Fixtures & equipment	Vessels	Total
<i>EUR '000</i>			
Cost at 1 January	692	183 395	184 087
Transferred between asset categories	-254	254	-
Exchange rate adjustments	-1	-140	-141
Additions	539	901	1 440
Disposals	-201	-115	-316
Cost YTD	775	184 295	185 070
Depreciation at 1 January	-317	-22 457	-22 774
Transferred between asset categories	132	-132	-
Exchange rate adjustments	-	19	19
Depreciation	-121	-7 798	-7 919
Disposals	111	9	120
Depreciation YTD	-195	-30 359	-30 554
Impairment losses at 1 January	-	-	-
Impairment losses YTD	-	-	-
Carrying amount YTD	580	153 936	154 516
- of which capitalised interests		17 361	17 361

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 contracts 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 either on already signed framework agreements, historical prices or expectations of future price developments.

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 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 152,339k

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

Note 4 - Commitments and contingencies

Since the end of 2017, no significant changes have occurred to contingent assets and liabilities other than those referred to in the 2017 annual report. The performance guarantee of EUR 1,732k for a decommissioning project in United Kingdom has been cancelled as the project was successfully completed. The performance guarantee was issued to Siemens Gamesa Renewable Energy for the amount of EUR 1,000k end of the Q4 18 (end 2017: EUR 2,961k).

Note 5 - Related party transactions

No significant changes have occurred to related parties or types and scale of transactions with these parties other than what was disclosed in the 2017 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 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not applied early adoption of any other standard, interpretation or amendment that has been issued but is not yet effective.

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. As presented in our annual report for 2018, we have applied the five-step model framework on our current revenue streams and did not identify any significant effect on recognition and measurement. The Group adopted IFRS 15 using the modified retrospective method of adoption for contracts that were not completed at 31 December 2018. At 31 December 2018, all contracts and performance obligations were completed.

IFRS 9 Financial Instruments

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

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

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

Risks

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

Management statement

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

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

In our opinion, the interim report gives a true and fair view of the ZITON's assets, liabilities, and financial position at 31 December 2018, and of the results of the ZITON's operations and cash flow for 2018.

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, 28 February 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

Annual report 2018 - 24 April 2019
Interim report Q1 2019 - 16 May 2019
Interim report Q2 2019 - 27 August 2019
Interim report Q3 2019 - 19 November 2019

For further information, please contact

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