



ZITON

Can do. Will do.

Årsrapport 2018
ZITON A/S, Bygholm Søpark 21E, 8700 Horsens
CVR nr. 24 62 04 17
Regnskabsperiode 1. januar 2018 til 31.
december 2018

Det bekræftes, at nærværende årsrapport er
en fuldstændig og tro kopi af den på
generalforsamlingen godkendte årsrapport
24. april 2019

Dirigent, Jens Michael Haurum

ANNUAL REPORT 2018



COMPANY DETAILS

COMPANY

ZITON A/S
Bygholm Søpark 21E
8700 Horsens
Denmark

WEBSITE

www.ziton.eu

PRODUCTION

OTW A/S



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ZITON AT A GLANCE

ZITON is the market-leading service provider within offshore wind operations & maintenance. ZITON has carried out more than 800 service interventions at 47 wind farms across 7 countries.

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

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

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

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

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

ZITON owns and operates three jack-ups:

- J/U WIND SERVER is the first jack-up vessel purpose built to provide offshore wind operations & maintenance services
- J/U WIND PIONEER is a converted jack-up vessel adapted to the offshore wind industry
- J/U WIND has the longest proven track-record in the industry in terms of major component replacements

ZITON has about 75 employees offshore, and about 30 onshore at the head office in Horsens, Denmark and subsidiaries in Germany, UK and China.

FOUR MAIN PHASES OF AN OFFSHORE WIND FARM

Orange shading indicates services provided by ZITON.

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

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

- GENERATOR
- GEARBOX
- MAIN SHAFT
- MAIN BEARING
- FULL ROTOR
- TRANSFORMER
- BLADE



HIGHLIGHTS OF THE YEAR

ZITON CEO Thorsten Jalk comments on the performance of 2018 and the outlook for the coming year.

Q&A

Q: How is the market for offshore wind operations & maintenance services developing?

A: During the last couple of years, we've heard a lot of talk and rumours in the industry about wear and tear on blades,

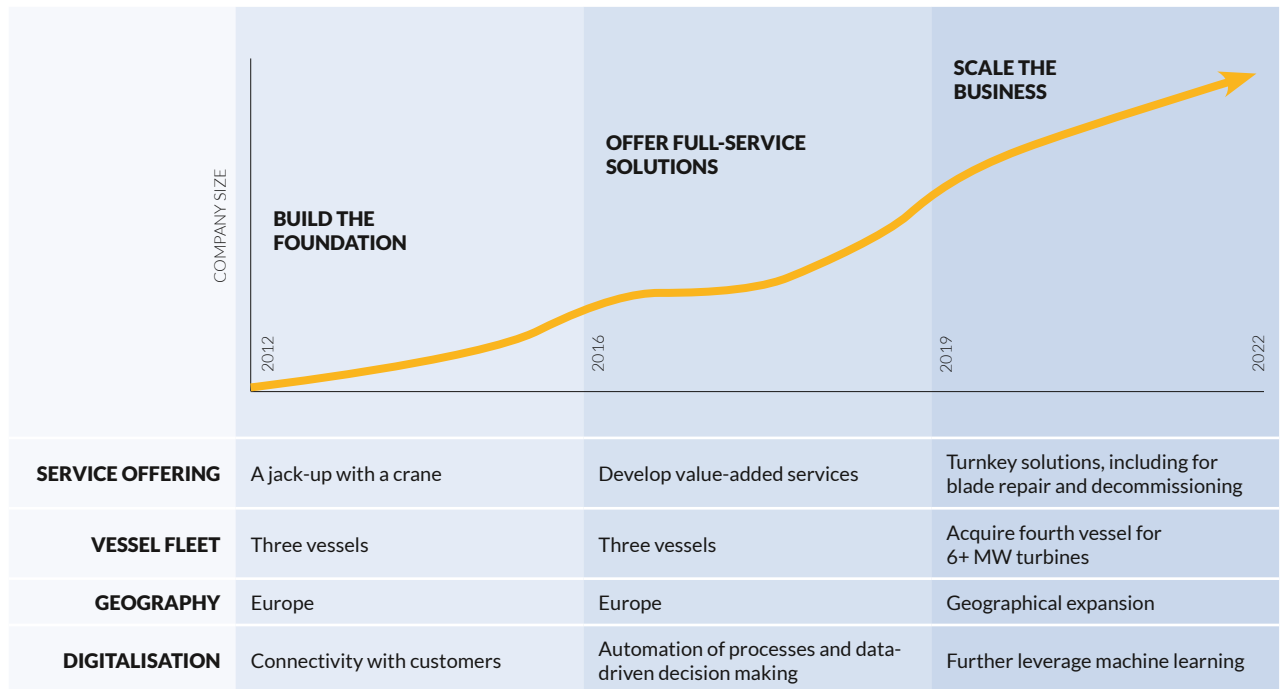
especially about erosion issues on the leading edge of the blades. It is obvious that the offshore environment of rain, hail and salt water is very tough on the blades as they reach tip speeds in excess of 300 km/h.

2018 was a breakthrough year for us with Siemens Gamesa Renewable Energy deciding to upgrade 88 blades at the Anholt wind farm. A total of 141 blades were replaced in 2018, compared to 158 replacements of other major components. In other words, blades nearly doubled our addressable market.

It seems likely that blade repair will continue to be a large market for many years to come. We continue to allocate many resources to developing solutions that fit the requirements of our customers.

We have been selected as preferred supplier for a blade campaign at West of Duddon Sands to repair 108 turbines for an expected duration of 12 months. We will provide a full turnkey solution including jack-up, lifting equipment, lift planning, technicians and onshore blade repair facilities.

THREE PERIODS WITH DIFFERENT STRATEGIC FOCUS





Thorsten Jalk, CEO, ZITON.

Q: What steps have you taken to implement your strategy?

A: The West of Duddon Sands blade campaign is the culmination of ZITON's strategic direction launched two years ago to provide value-added services and establish ZITON Contractors. It shows that customers appreciate that we take more responsibility in the value chain. With turnkey solutions we also take on more risk. However, we are clearly the market leader, backed by experience from more than 800 interventions. Consequently, we believe we are best positioned in the value chain to manage risks of a turnkey solution.

A key element of our strategy remains to continue to grow together with our customers as turbines become larger. As turbines become larger and larger, we will need larger vessels to service them.

One of the discussions we had during our strategy process was how large a vessel we would need and by when. You don't want to be too early, nor too late when defining the vessel size to match the market requirements.

We are in the process of expanding geographically and are opening offices in Beijing (China), Hamburg (Germany) and London (UK).

Furthermore, we will continue to transform our business through digitalisation. We elaborate on our digital transformation elsewhere in this report.

Q: How do you see the outlook for 2019?

A: From my perspective the market is in a very interesting phase, right now. The wear and tear on blades, and the increasing urgency to repair or exchange the blades has almost doubled the market size

of major component replacements. We see a very strong market for the coming years, and we are keen to take our share.

We're beginning 2019 with satisfactory contract coverage. If the blade campaign at West of Duddon Sands is signed and initiated shortly after expiry of the J/U WIND SERVER time charter, it will ensure good utilisation of J/U WIND SERVER in 2019 and into 2020. We have framework agreements securing satisfactory utilisation of J/U WIND and J/U WIND PIONEER during the year.

J/U WIND SERVER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 79.5 m

Width, overall: 32.3 m

Hull depth: 7.4 m

Pre-loading capacity, active: 3,000 t/leg

Elevating speed: 1.0 m/minute

Transit speed: approx. 9 knots

Accommodation: 24 single cabins for charterer and 15 single cabins for crew



CARGO CAPACITY

Payload: 1,760 t

Main deck area: Approx. 1,200 m²

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr BOS 14000

Main crane boom length: 87 m

Main crane max. lifting capacity: 400 t at 20 m radius at 96 m height above deck

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)

Endurance: 30 days

Jacking operations - wave height: Up to 2.6 m

Jacking operations - wind: Up to 15 m/s

Jacking operations - tidal current: Up to 3 kn.

Jacking operations - max. depth: Up to 45 m

J/U WIND PIONEER

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

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



CARGO CAPACITY

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

MAIN CRANE AND LIFTING CAPACITY

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

OPERATING CONDITIONS

Service: Unrestricted (as per DNV rules)
Endurance: 30 days
Jacking operations - wave height: Up to 1.35 m
Jacking operations - wind: Up to 15 m/s
Jacking operations - tidal current: Up to 2.5 kn.
Jacking operations - max. depth: Up to 34 m



J/U WIND

TECHNICAL SPECIFICATIONS

GENERAL INFORMATION

Length, overall: 55.1 m

Width, overall: 18.1 m

Hull depth: 4.0 m

Pre-loading capacity, active: 600 t/leg

Elevating speed: 0.7 m/minute

Transit speed: 6 knots

Accommodation: 20 single cabins for charterer and 11 single cabins for crew



CARGO CAPACITY

Payload: 220 t

Main deck area: Approx. 430 m²

MAIN CRANE AND LIFTING CAPACITY

Main crane: Liebherr LTR 11200

Main crane boom length: 28-110 m (telescopic)

Main crane max. lifting capacity: 40 tons at 20 m radius at 100 m height above deck

OPERATING CONDITIONS

Service: Weather restricted, site specific

Endurance: 30 days

Jacking operations - wave height: Up to 0.75 m

Jacking operations - wind: Up to 10 m/s

Jacking operations - tidal current: Up to 1 kn.

Jacking operations - max. depth: Up to 35 m



MANAGEMENT AND BOARD

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

RESPONSIBILITIES OF THE BOARD

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

In 2018, the Board of Directors held a total of five board meetings. The Board of Directors has established an audit committee consisting of the entire Board of Directors. The Audit Committee held two meetings in 2018. The annual cycle of board meetings, illustrated below, ensures that the Board regularly reviews all topics relating to strategic development, risk management, operational and financial performance and compliance.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

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

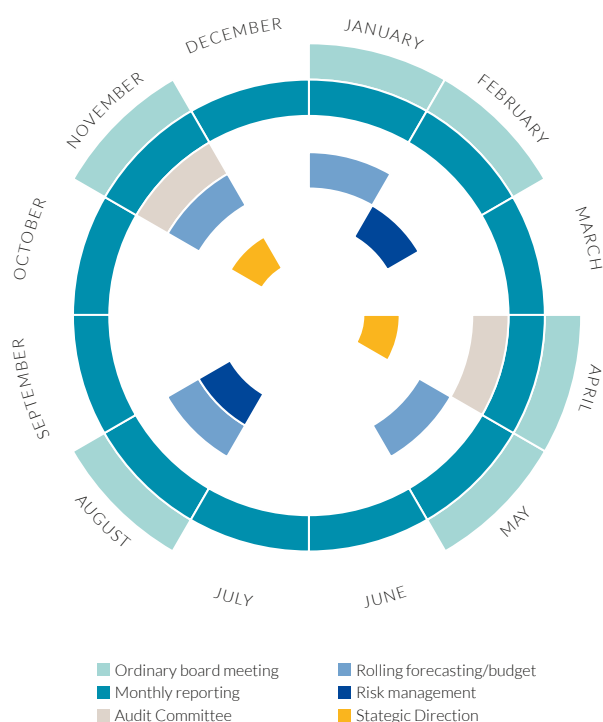
DIVERSITY IN MANAGEMENT

This section covers the statutory requirements for reporting on gender composition of management in accordance with section 99 b of the Financial Statements Act.

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

ZITON recognises the value of diversity, including gender-related diversity. The Board of Directors has set targets for the representation of the underrepresented gender on the Board of Directors and has drawn up a policy for increasing the representation of the underrepresented gender at other management levels. The target is for an increase from 0% (0 out of 6) to 33% (2 out of 6). The measurement period runs from the annual general meeting held in April 2017 to the annual general meeting to be held in April 2020. The efforts to identify and nominate a suitable candidate of the underrepresented gender for the Board of Directors for the annual general meeting in April 2018 were unsuccessful. Consequently, no progress has been achieved towards this target.

It is our ambition at ZITON to increase diversity at all management levels by providing equal opportunities for men and women. ZITON sets targets for gender diversity at all management levels and seeks to have both genders represented as candidates in all recruitment processes. ZITON has had relatively little success in increasing the proportion of women at management levels. We believe this is due to the general employment patterns in the offshore wind and shipping industries, where men are generally overrepresented.



	2016	2017	2018
Diversity at Officer level (Officers of underrepresented gender to total officers)	0 of 48	0 of 52	0 of 53
Diversity at management level (Managers of underrepresented gender to total managers)	0 of 5	0 of 5	0 of 5

EXECUTIVE MANAGEMENT TEAM



THORSTEN JALK
Chief Executive Officer
Appointed CEO in 2011
Born 1967

Mr Jalk has 20 years of experience from the offshore wind industry and held numerous high-level positions prior to being appointed CEO of ZITON A/S.
Previous engagements: Mr Jalk has experience from being an owner and senior consultant with WayPoint Consult ApS in Denmark. During the period from 2000 to 2011, Mr Jalk worked for A2SEA A/S where he held the following positions: head

of Service Solutions, director of Marine Operations and logistics manager. Mr Jalk served in the Danish armed forces from 1987 to 2000.
Educational background: Master of Transport and Maritime Management (MTMM) from the University of Southern Denmark, 2010. In addition, Mr Jalk has completed the Executive Management Programme at INSEAD, 2016.



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

Previous engagements: Mr Haurum was CFO with Borg Automotive A/S and head of group finance and investor relations with BioMar Group A/S and has also held various positions in the financial services industry.
Educational background: Mr Haurum holds an HD Graduate Diploma in Business

Administration (Accounting) from Aarhus University, an HD Graduate Diploma in Business Administration (International Management) from Copenhagen Business School and a Master of Business Administration from Henley Business School in the UK.



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

Mr. Mühlebach joined ZITON in June 2012 as Chief Financial Officer and was appointed Chief Legal Officer in April 2015.
Previous engagements: Prior to joining ZITON, Mr Mühlebach held positions as CFO and business developer with NordEstate A/S.

Educational background: Mr Mühlebach graduated in 2007 with a Master of Science in Business Administration and Commercial Law and a Bachelor of Science in Economics and Corporate Law from the Aarhus School of Business (Aarhus University).



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

Previous engagements: Prior to joining ZITON, Mr Jensen held positions as a key account manager with A2SEA A/S, sales and marketing manager with Statoil Gazelle A/S, commercial sales manager at Siemens

Wind Power A/S and as regional manager with Energi Danmark A/S.
Educational background: MA in Business, Language and Culture (cand. negot) from Odense University.



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

Previous engagements: Prior to joining ZITON, Mr Albér worked as an operations manager with Fred. Olsen Windcarrier. He worked for ZITON from 2008 to 2011 as Master Mariner (2009-2011) and HSEQ manager (2008-2009). Before joining ZITON, Mr Albér held positions

as SQE manager (2008) and marine superintendent (2006-2008) with the Clipper Group.
Educational background: Mr Albér is a Master Mariner and holds a degree in navigation from Marstal Navigationskole.

BOARD OF DIRECTORS



VAGN LEHD MØLLER

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

Current engagements: Mr Møller is Chairman of the Board of Directors of ZITON A/S. He is also a member of the boards of directors of Jack-Up InvestCo 3 Plc and Costamare Inc.

Previous engagements: Mr Møller has worked his entire career in different positions with A.P. Møller-Maersk. He has

also held numerous positions as chairman or member of the boards of directors of a number of A.P. Møller-Maersk affiliated companies.

Educational background: Studies within Management at CEDEP (European Center for Executive Development), INSEAD and the University of Western Ontario.



ESBEN BAY JØRGENSEN

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

Current engagements: Mr Jørgensen is a founder and partner of BWB Partners. He serves as a member of the boards of directors of Hydratech Industries A/S, Logos Design A/S, Nordic Petrol Systems A/S, SH Group A/S, System Frugt A/S and Qubiq Holding A/S.

Previous engagements: Prior to founding BWB Partners in 2005, Mr Jørgensen

worked with the consultancy firm AlixPartners. Before that, Mr Jørgensen spent some eight years with the Boston Consulting Group.

Educational background: Master of Science in Economics and Business Administration from Copenhagen Business School, McGill University, Montreal, and Università degli Studi di Siena, Italy.



LARS THORSGAARD JENSEN

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

Current engagements: Mr Jensen is a partner at BWB Partners. He serves as a member of the boards of directors of Heatex AB and SSG Group A/S.

Previous engagements: Mr Jensen has a background in investment banking. He previously worked for six years as a

director with Carnegie Investment Banking in Copenhagen and for two years with Morgan Stanley Investment Banking in London.

Educational background: Master of Science in Management & Economics (cand. oecon) from Aarhus University.



OVE C. ERIKSEN

Member of the board since January 2008
Born 1960
Appointed by Dansk Bjergring og Bugsering Holding ApS

Current engagements: Mr Eriksen serves as a director of Dansk Bjergring og Bugsering A/S.

Previous engagements: Founded Dansk Bjergring og Bugsering A/S in 1987. Founded DBB Jack-Up Services A/S in 2008.

Educational background: Electrician.



MORTEN MELIN

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

Current engagements: Mr Melin serves as Executive Vice President, Construction of Northland Power Inc.

Previous engagements: Mr Melin has held a number of positions with both wind turbine manufacturers and utilities. Most recently, he served as Vice President EPC & Construction Management with Ørsted and as a member of the board of A2SEA

A/S. Previously served as Vice President Project & Technology at MHI Vestas Offshore.

Educational background: BSc. Mechanical Engineering from Aarhus Teknikum. Advanced Corporate Finance Programme from London Business School and Executive Leadership Development from INSEAD



NIELS ØRSKOV CHRISTENSEN

Member of the board since December 2016
Born 1943
Appointed by OY Finans ApS

Current engagements: Mr Ørskov Christensen serves as a chairman of the board of directors of Ann Birgitte og Niels Ørskov Christensens Familiefond, Orskov Yard A/S and OY Finans ApS.

Previous engagements: Mr Ørskov Christensen has worked his entire career in the shipyard industry, both as a naval

architect and as a CEO. He is a former chairman of the Danish Shipyard Industry Association (Skibsværftsföreningen – now Danske Maritime), a position he held for several years while also serving on the board of representatives of Danish Ship Finance (Danmarks Skibskreditfond).

Educational Background: Naval architect.

CORPORATE STRUCTURE

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

LEGAL STRUCTURE

ZITON Group consists of the parent company ZITON A/S and six subsidiaries, including Jack-Up InvestCo 2 A/S and ZITON Contractors A/S in Denmark, and Jack-Up InvestCo 3 Plc. in Malta. Recently, ZITON expanded geographically, establishing the subsidiaries ZITON GmbH in Germany, ZITON Ltd. in the UK and Ziton Offshore Wind Science & Technology (Beijing) Limited in China. All subsidiaries are wholly owned.

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

JACK-UP HOLDING A/S - BWB PARTNERS

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

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

The investor base at BWB Partners includes Danish and international institutional investors and dedicated private-equity

investors (fund-of-funds). BWB Partners II consists of Danish pension funds (15.1%), foreign financial investors (83.7%) and other foreign investors (1.2%).

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

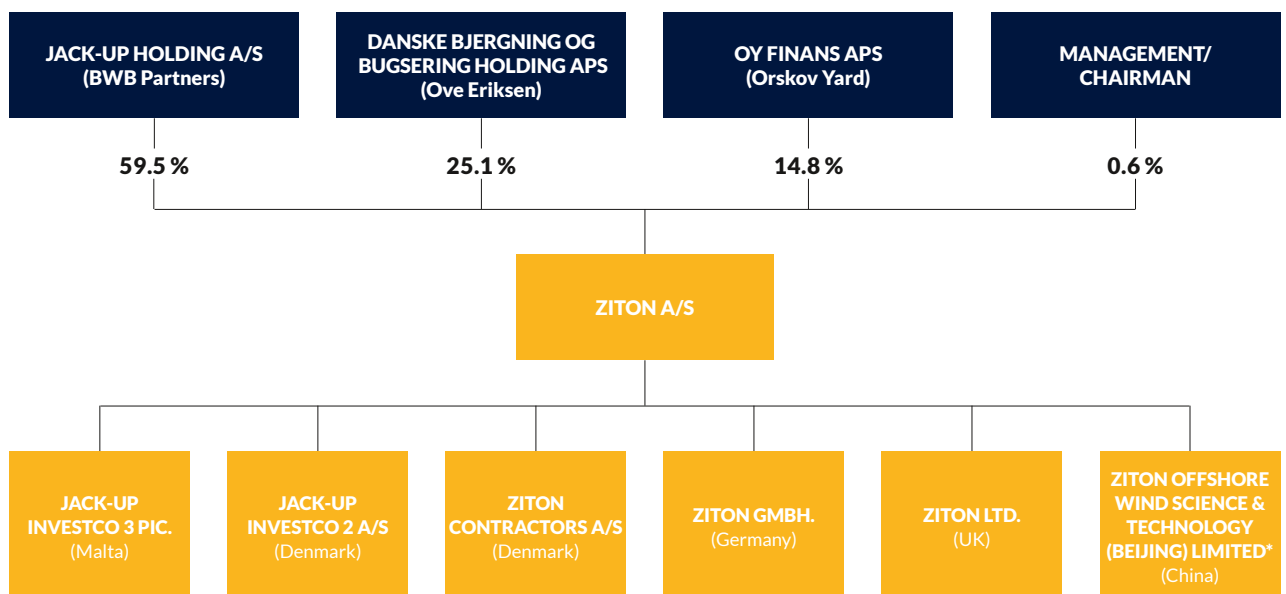
BWB Partners is a member of the DVCA trade association and follows DVCA guidelines on corporate governance and recommendations on responsible ownership. Consequently, ZITON is also subject to the DVCA's corporate governance guidelines. For further information, please visit the DVCA website at www.dvca.dk.

DANSK BJERGNING OG BUGSERING HOLDING APS

In addition to its shareholding in ZITON A/S, the company owns Dansk Bjergring og Bugsering A/S, an ROV operations company.

OY FINANS APS

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



* Company under foundation

47

wind farms

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

7

countries

PROVIDING OFFSHORE
SERVICES ALL OVER EUROPE

800

turbines serviced

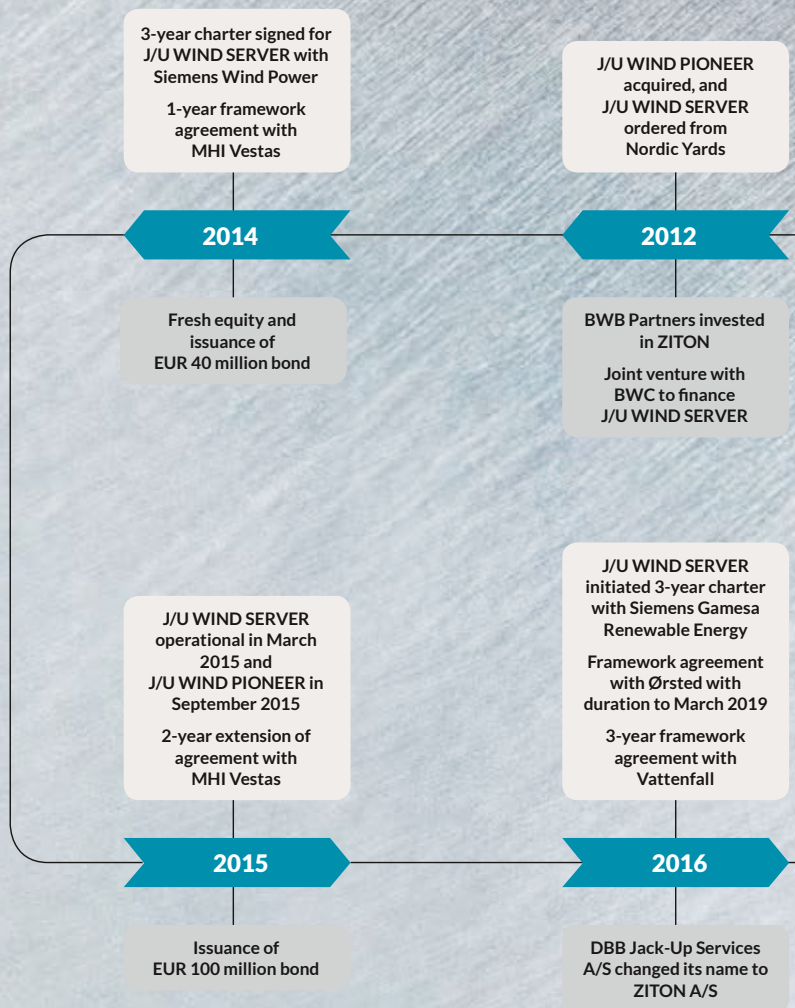
TURBINES, BLADES,
GEAR BOXES, GENERATORS
TRANSFORMERS, SHAFTS,
BEARINGS

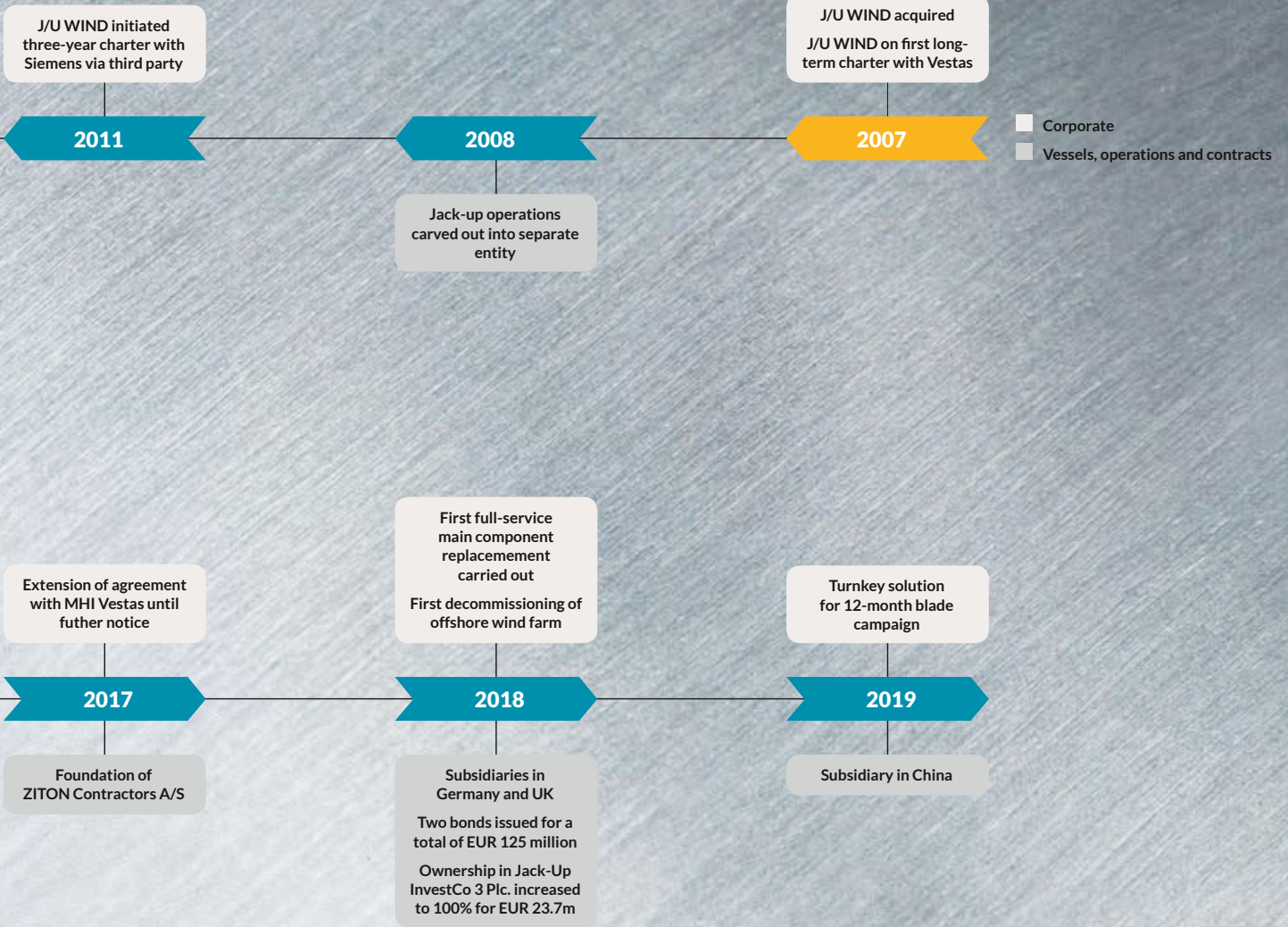
HISTORY OF THE COMPANY

ZITON has its roots in the offshore wind industry dating back to 2007 when the vessel J/U WIND was acquired. ZITON has some of the most experienced employees in the world within offshore wind.

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

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





MARKET DEVELOPMENT OF OFFSHORE WIND

The market for offshore wind services has developed strongly in 2018 with repair and upgrade of blades expanding the market.

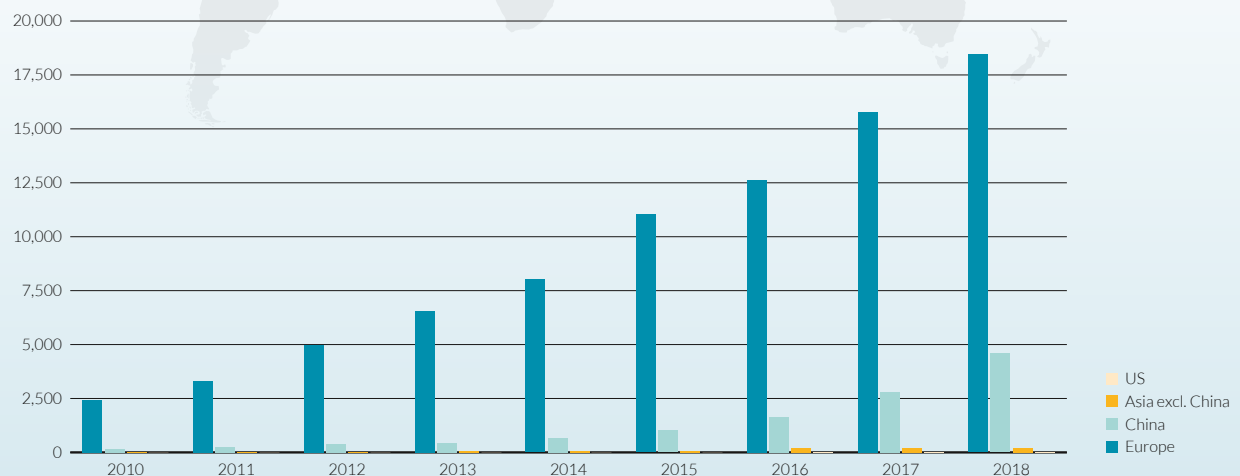
GLOBALISATION OF OFFSHORE WIND

The world's first offshore wind farm, Vindeby, had a total capacity of 4.95 MW and was inaugurated off the coast of Denmark in 1991. It was to stay in operation for more than ten years until the first large wind farm (more than 100 MW capacity), Horns Rev 1 (total capacity 160 MW), was established in Denmark in 2002. Since then, offshore wind has steadily expanded because wind speeds are higher and more consistent at sea than on land. At the end of 2018, there were 4,425 turbines installed at 85 wind farms in Europe, mainly in the Irish Sea, the English Channel, the Baltic Sea and the North Sea.

For many years, offshore wind remained mainly a European phenomenon accounting for more than nine out of ten offshore wind turbines installed. In recent years, globalisation of offshore wind has increased, and in 2018 China accounted for 20 per cent of the 23 MW global capacity, according to Global Wind Energy Council. In both China and the USA many of the big cities with large populations are located in coastal areas. Building offshore wind farms in these areas can help address their energy needs from nearby sources. Over the next decade, offshore wind is expected to accelerate in countries like China, the USA, Taiwan, South Korea and Japan.



Offshore wind
Global installed capacity (MW)



Source: Global Wind Energy Council, Annual Market update 2018

OFFSHORE WIND IN EUROPE

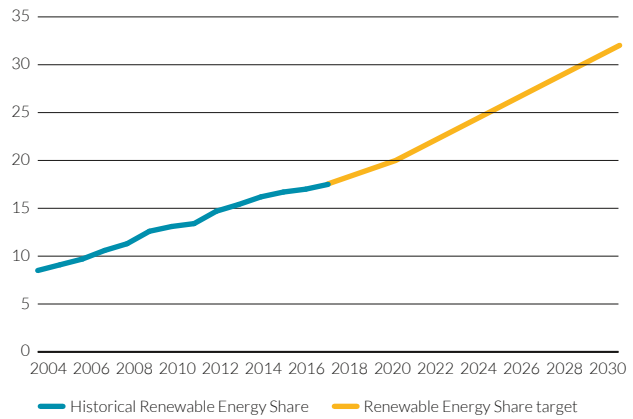
Growth in offshore wind capacity in Europe is driven primarily by EU-level targets to reduce greenhouse gas emissions. The EU Renewable Energy Directive stipulates that renewable energy should account for 20 per cent of the EU's total energy consumption by 2020 and for 32 per cent by 2030; this compares to 9 per cent in 2005. Offshore wind energy plays an important role in meeting these targets and is expected to account for approximately 11 per cent of total EU renewable energy by 2020, according to European Environment Agency. The UK government has recently completed a sector deal with the UK offshore wind industry with the ambition that offshore wind will power more than 30% of British electricity by 2030. The growth is supported by lower subsidies that, according to the government, have fallen by over 50% in the past two years. Due to their increased scale, the new targets are expected to make offshore wind projects cheaper to build than fossil fuels plants by 2020. The sector deal provides a target capacity of 30 GW by 2030, up from 8.2 GW today, an increase equivalent to today's global market.

The number of offshore wind turbines is expected to continue to grow by 10% per annum over the next five years. In 2023, the installed base will number more than 7,000 turbines - a 59 per cent increase over 2018. Growth will continue to be spurred by the UK and German markets.

The UK remains the dominant nation within the European offshore wind industry. At the end of 2018, the UK accounted for 1,925 turbines, or 44 per cent of the total installed base. Germany is the second-largest player with 1,349 turbines (31 per cent). Other notable countries are Denmark, the Netherlands and Belgium, which combined have 1,060 installed turbines (24 per cent).

EU Renewable Energy targets

EU-28 Renewable Energy share of energy consumption (per cent)



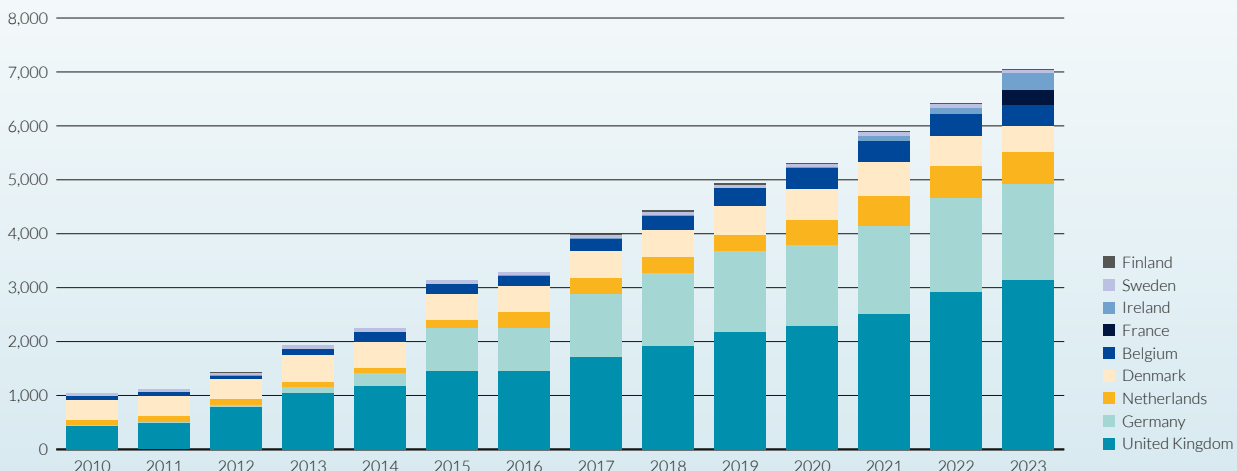
Source: Eurostat and EU Renewable Energy Directive, December 2018

A few companies control a significant share of the installed capacity of wind farms in Europe. Ørsted maintains the position as the largest offshore wind farm operator (WFO), operating 30 per cent of Europe's installed base at the end of 2018. Other major European WFOs include E.On, Vattenfall and Innogy, operating 12, 11 and 7 per cent respectively of the installed turbine base. The remaining capacity is relatively fragmented among several operators.

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

Expected growth in the number of turbines installed in Europe

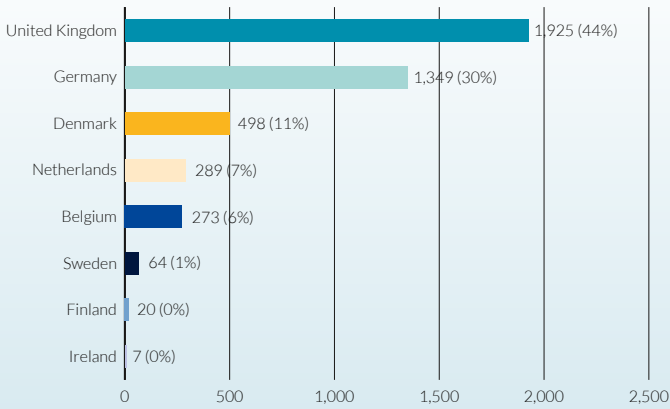
Turbines grid connected, end of period



Source: ZITON data

Country distribution

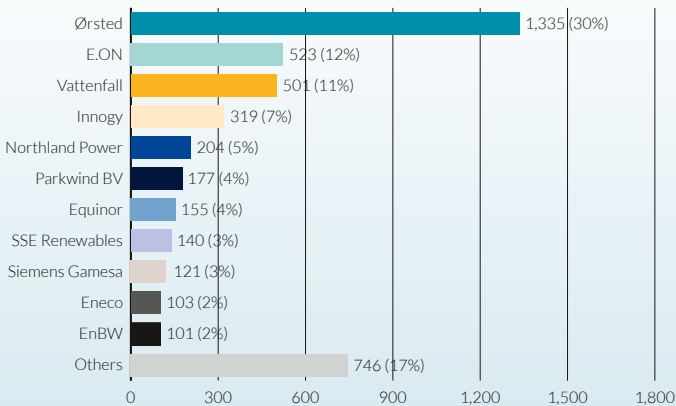
Turbines installed in Europe, end 2018



Source: ZITON data

Wind farm operator distribution

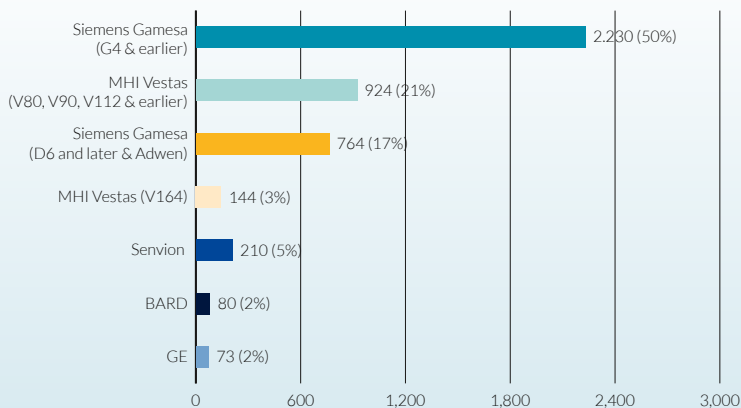
Turbines installed in Europe, end 2018



Source: ZITON data

Turbine model distribution

Turbines installed in Europe, end 2018



Source: ZITON data

At the end of 2018, Siemens Gamesa had delivered 67 per cent of the installed turbine base in Europe, with MHI having delivered 24 per cent. Siemens Gamesa had installed a total of 764 turbines of their new and larger generation of D6 & D7 direct drive and Adwen models at 16 wind farms, while MHI Vestas had installed their new, large V164 model across 5 wind farms for a total of 144 turbines. Siemens Gamesa had an installed base of 2,230 turbines of their previous smaller turbine models, while MHI Vestas had 924.

At the end of 2018, Senvion and General Electric had market shares of 5% and 2%, respectively.

The new turbine models (D6, D7 and Adwen from Siemens Gamesa and V164 from MHI Vestas) made up 20% of the installed base at the end of 2018. Over the next three years or so, these two models are expected to make up the majority of turbines installed offshore. The drive towards larger turbines comes from the fact that the size of the swept area determines the amount of electricity a turbine can generate. As the swept area increases with the square of the rotor length, the swept area and electricity generation will quadruple with a doubling of the blade length. A larger swept area combined with high and consistent wind speeds makes it economically viable for wind farm developers to continue installing larger turbines, even if the costs of larger turbines also go up. Eventually, larger turbines of 10-12 MW are expected to become the industry standard.

ZITON'S ADRESSABLE MARKET

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

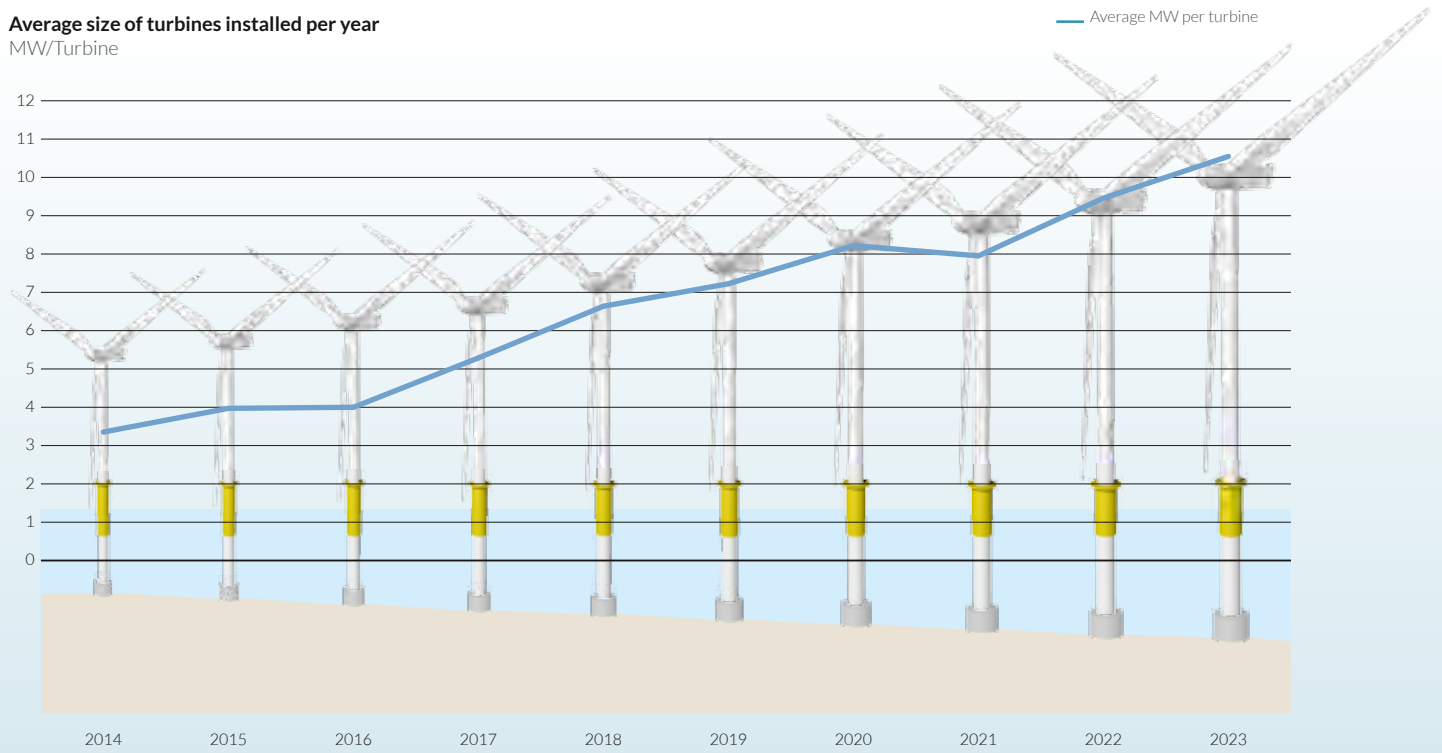
The first of the two major drivers of demand for O&M services is the number of installed turbines. As previously mentioned, the number of installed offshore turbines in Europe has grown at a compound annual growth rate of 20% from 2010 to 2018 and is expected to grow by 10% annually for the next five years. The 4,425 turbines installed in Europe at the end of 2018 will require servicing during the turbines' lifespan of about 20-25 years.

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

As illustrated by the chart opposite, the offshore wind industry in Europe is still relatively young, with more than half of the installed base being less than five years old and thus still within the respective OEM's warranty period, which is typically five years. Once maintenance responsibility is handed over to an owner and operator, predictive maintenance is often intensified due to the direct financial interest of the owner/operator.

Average size of turbines installed per year

MW/Turbine



Source: ZITON data

Age of turbines installed

Age **Up to 5 years old**

Number of turbines **2,361**

Percentage of total number of turbines

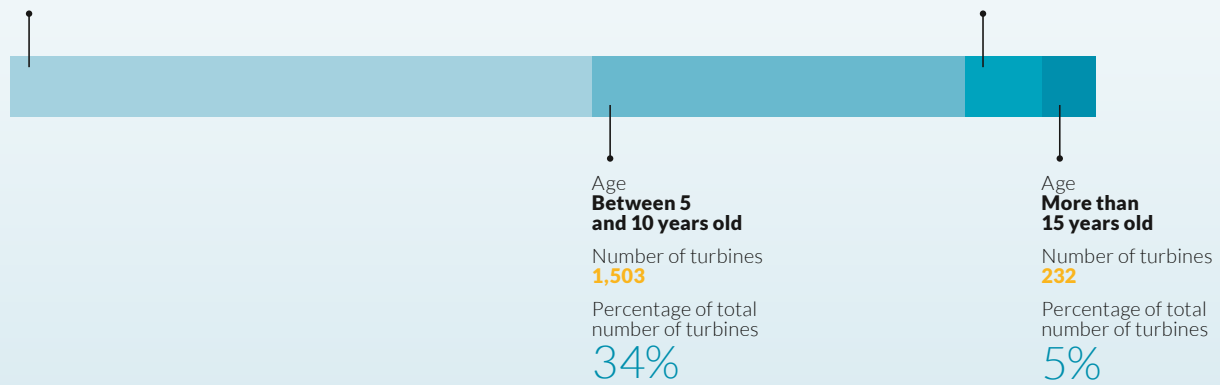
53%

Age **Between 10 and 15 years old**

Number of turbines **329**

Percentage of total number of turbines

7%



Source: ZITON data

Source: ZITON data

During the next two years, around 1,000 turbines will pass five years of age, which is thus expected to lead to increased turbine maintenance. Furthermore, ZITON's proprietary data shows that failure rates increase considerably between year 5 and year 10 due to wear-and-tear.

CUSTOMER CONTRACTS

ZITON applies different types of contracts with its customers: Time charter (T/C), framework agreements or turnkey contracts.

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

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

ZITON enters into turnkey contracts in market segments where it has a competitive edge. In general, this is in segments where maritime knowledge, availability of a jack-up vessel with a crane combined with strong knowledge of the offshore wind industry is essential. These market segments include decommissioning of met masts, foundations, turbines and blade campaigns. As for lump sum agreements, costs related to fuel, port calls and delays due to adverse weather, etc. are borne by ZITON, as are the risks related to the subpar performance of any sub-supplier. The responsibility of a turnkey project requires strong project management skills in order to avoid cost overruns.

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

Framework agreement with Ørsted

ZITON has a framework agreement with Ørsted covering the period from August 2016 until March 2019. Ørsted has initiated a tender process for a new framework agreement. Ørsted is Europe's largest operator of offshore wind farms. The agreement is not vessel specific. Remuneration to ZITON takes place on a lump sum basis, with the price varying with the type and site of the intervention.

Framework agreement with Vattenfall

ZITON has a three-year framework agreement with Vattenfall covering the period from November 2016 to November 2019. Vattenfall is Europe's second-largest operator of offshore wind farms. The agreement is not vessel specific. Remuneration to ZITON takes place on a fixed price basis, with the price varying with the type and site of the intervention, and ZITON's response time to Vattenfall's request. According to the contract, Vattenfall is required to perform a minimum number of major component replacements annually.

Framework agreement with MHI Vestas Offshore Wind

ZITON has a framework agreement with MHI Vestas Offshore Wind (MHI Vestas) entered into in December 2014. This agreement has been extended until one of the parties cancels the agreement. The agreement grants ZITON the right of first refusal on all service interventions on the majority of MHI Vestas' offshore turbines. The agreement is not vessel specific. Remuneration to ZITON takes place on a fixed price basis, with the price varying with the type and site of the intervention.

Turnkey contract for blade campaign with Siemens Gamesa Renewable Energy

ZITON has been selected as preferred supplier for a blade campaign contract with Siemens Gamesa Renewable Energy (SGRE). The blade campaign covers exchange, repair and upgrade of the blades of 108 turbines at the West of Duddon Sands wind farm in the UK. ZITON will provide a full turnkey solution including jack-up, lifting equipment, lift planning, technicians and blade repair including repair facilities.



Vattenfall is very satisfied with the decommissioning work performed by ZITON at Utgrunden. ZITON has proven how a very demanding project can be executed with highest HSE awareness in combination with the use of both new technology and proven methodologies.

Magnus Jansson, Project Manager, Vattenfall







OFFSHORE WIND FARMS IN EUROPE

ZITON'S SERVICE OFFERING

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

FULL-SERVICE SOLUTION

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

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

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

deliver cost-efficient project documentation and to collaborate with our customers on such operations.

TURNKEY SOLUTIONS

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

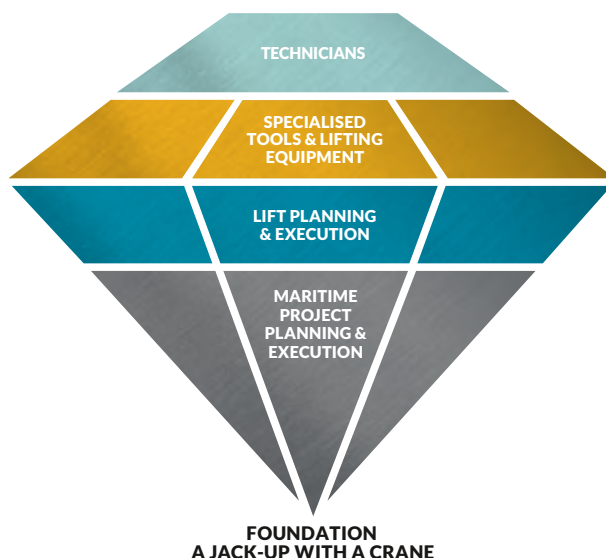
In a turnkey solution, ZITON takes full responsibility for the solution and assumes all risk. ZITON has the experience to handle risks better than anyone, including when it comes to weather risk, project management, coordination with sub-suppliers, etc. This has its obvious advantages from the customer's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

TYPICAL O&M SETUP

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

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

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





> A typical O&M setup is illustrated on the next page



O&M SETUP FOR OFFSHORE WIND FARMS

ONSHORE OFFICES AND OPERATIONS

Onshore hub for daily operations.

SUBSTATION

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

CREW TRANSFER VESSEL (CTV)

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



MET MAST

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

SERVICE OPERATION VESSEL (SOV)

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

DEDICATED O&M JACK-UP FOR MAJOR COMPONENT REPLACEMENT

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

DIGITAL TRANSFORMATION

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

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

It is our leadership philosophy that innovation does not necessarily occur through a top-down approach, but one that is rooted in individual initiative by all employees of ZITON. Likewise, digital

transformation initiatives are often driven by the curiosity of our people and their enthusiasm for continual improvement.

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

OPERATIONS

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

AUTOMATION OF PROCESSES

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

CONNECTIVITY

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

DATA-DRIVEN DECISION MAKING

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



J/U WIND PIONEER
in gearbox exchange



CORPORATE SOCIAL RESPONSIBILITY

ZITON maintains various policies in relation to corporate social responsibility.

ZITON maintains policies for corporate social responsibility ("CSR"). This section covers the statutory requirements for CSR reporting according to section 99a of the Danish Financial Statements Act within the areas of social and employee conditions, climate impact, environmental impact, human rights and measures to combat bribery and corruption.

SOCIAL AND EMPLOYEE CONDITIONS

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

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

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

Group management diligently monitors that the established procedures for operations, projects and work on all vessels are followed to the letter and carefully reviews the monthly HSEQ report. The monthly HSEQ report includes reporting on the following categories of incidents:

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

Despite our high level of safety standards, incidents do occur within the three different categories. Our objective is to avoid LTIs altogether, and fortunately, the LTIs that have occurred have been of low severity.

	2016	2017	2018
Near Miss Reports (Number of incidents)	9	11	10
Medical Treatment Cases (Number of incidents)	1	3	2
Lost-Time Injuries (LTIs) (Number of incidents)	1	1	1
Lost-Time Injury Frequency (LTIF) (Number of incidents / exposure hours * 1,000,000)	3.5	3.4	3.1

Retaining experienced officers is considered important to maintaining a culture of high HSEQ standards on board our vessels. ZITON has successfully maintained a high officer retention rate during the past three years, mainly by facilitating generally good working conditions. ZITON applies the BIMCO Shipping KPI system to monitor and follow-up on the retention rate.

	2016	2017	2018
Officer Retention Rate (Officers end of period - officers resigned / officers end of period)	99.0%	98.5%	99.1%

To support safety at sea, ZITON employs a zero-tolerance policy for drugs and alcohol. This policy is undebatable and never open to question. The policy applies not only to ZITON staff, but also to customers, subcontractors and suppliers. Unannounced examinations are standard procedure and are conducted by an independent, external agency with expertise in drug and alcohol-testing programmes. In 2017, positive tests, meaning above 0% drug or alcohol, were at a worryingly high level of 4.9%. The positive tests resulted in the immediate dismissals of the persons tested positive, and we stressed of our zero-tolerance policy. In 2018, no positive tests were performed, therefore it is concluded that the measures have been effective.

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

Working offshore is a demanding occupation with uneven working hours (four weeks on duty, four weeks off). Further, it may be difficult to maintain a healthy lifestyle with a proper diet and exercise on board a vessel. ZITON maintains a policy of offering good working conditions for its crews, which include a healthy and balanced diet and access to a well-equipped fitness centre. In 2017, a couple of employees were on long-term leave due to health issues, resulting in their decision to stop working offshore. Consequently, the absenteeism ratio declined in 2018.

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

CLIMATE IMPACT

ZITON maintains a DNV-GL-certified Ship Energy Efficiency Management Plan (“SEEMP”) that optimises fuel consumption, hull and machinery with a view to keeping energy consumption as low as possible. CO₂ emissions are monitored in accordance with the BIMCO Shipping KPI system. CO₂ emissions from our vessels increased to 7,792 tonnes in 2018 from 7,391 tonnes in





J/U WIND PIONEER
decommissioning at
Utgrunden, Sweden"



2017, mainly due to increased activity. The volume of CO₂ emissions in 2018 was equivalent to the greenhouse gas emissions avoided by a wind turbine running for about 1.7 years, according to the US Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

Emissions per intervention, meaning the number of component replacements, blade exchanges, turbines decommissioned, declined significantly due to the combination of more interventions performed and improved energy efficiency.

	2016	2017	2018
CO ₂ emissions (Tonnes CO ₂)	5,897	7,391	7,792
Emissions per intervention (Tonnes CO ₂ per intervention)	91	95	44

ENVIRONMENTAL IMPACT

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

Accidental fuel oil and hydraulic oil spills is an important environmental issue. ZITON uses biodegradable hydraulic oil so as not to harm the environment in case of accidental spills. ZITON had zero accidents in 2016 and 2017. In 2018, we had two incidents of accidental spills relating to wear and tear on hoses carrying hydraulic oil to thrusters. The hoses were designed to have a duration of five years, but wear and tear occurred sooner than expected. As a consequence, we replaced all hoses to the thrusters on the vessel, and decided that future replacement will be carried out every three to four years. As a result of these measures, we target zero oil spills going forward.

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

Our policy for garbage management aims to minimise the production of waste on board our vessels and at our office premises. Our garbage management policy is part of Annex V of the MARPOL 73/78 convention and IMO Resolution MEPC20(62). The policy stresses, among other things, that the volume of packaging brought on board our vessels must be kept at an

absolute minimum, and where packaging is imperative, we prefer two-way-packaging or recyclable material. All crew members must be fully familiar with the content of the ZITON garbage management policy. Crew members are required to sign a statement confirming that they have familiarised themselves with and fully understand the garbage management policy. ZITON has had zero garbage disposal violations during the past three years.

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

RESPECT FOR HUMAN RIGHTS

Within the area of Human Rights and Labour, ZITON maintains a policy of not employing people under the age of 18 on board the company's vessels. The aim is to avoid people under the age of 18 performing hazardous work when working for ZITON. We have been certified to the Maritime Labour Convention by the Danish Maritime Authority. We enforce this policy for all work carried out on board our vessels by our own employees and by those of our suppliers or sub-contractors. The policy was successfully applied in 2018, as no direct employees or employees of suppliers or sub-contractors under the age of 18 worked on our vessels during the year.

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

ANTI-BRIBERY AND ANTI-CORRUPTION

ZITON maintains an anti-bribery and anti-corruption policy. The aim is to conduct our business in a lawful and ethical manner with integrity towards our stakeholders. We enforce this policy mainly by our management promoting our values across our organisation. In addition, we require receipts for all costs consumed and all costs must be approved by a superior to the person consuming the costs. To the best of our knowledge, the policy was successfully applied in 2018, as we have not identified any indications of bribery or corruption.

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



Can do.
Will do.

VISION AND MISSION

OUR VISION

Offshore renewables are the preferred future source of energy.

OUR MISSION

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

29

YEARS AT SEA

Steffen Skov Nilsson,
Chief engineer
J/U WIND PIONEER

"Always keeping the engines running."

STRATEGIC DIRECTION

The strategic direction for ZITON contains the four key elements described below in conjunction with recent strategic achievements

VALUE-ADDED SERVICES

ZITON offers value-added services within the categories of maritime project planning & execution, lift planning & execution, specialised tools & lifting equipment and technicians in addition to a jack-up with an experienced crew. In a turnkey solution, ZITON takes full responsibility for the solution and assumes all risk. ZITON has the experience to handle risks better than anyone, including when it comes to weather risk, project management, coordination with sub-suppliers, etc. This has its obvious advantages from the customer's point of view, as it means less risk and only one contracting partner.

From ZITON's perspective, the benefit is equally attractive as it further differentiates ZITON's service offering from that of the competition.

ZITON has steadily expanded its service offering from being a vessel supplier to become a provider of turnkey solutions.

SERVICE LARGER TURBINES

Turbines are becoming larger and larger thanks to technology innovation. The current generation of turbines typically have capacities of 7.0–10.0 MW, which is twice the power generation capability of the 3.6-4.0 MW turbines erected just three years ago.

ZITON's current fleet is designed for the former generation. These turbines will still need service during their lifetime of around 20 years. However, adding a larger vessel to the fleet is part of a strategic priority to grow with the market and serve our customers in the future.

GEOGRAPHICAL EXPANSION

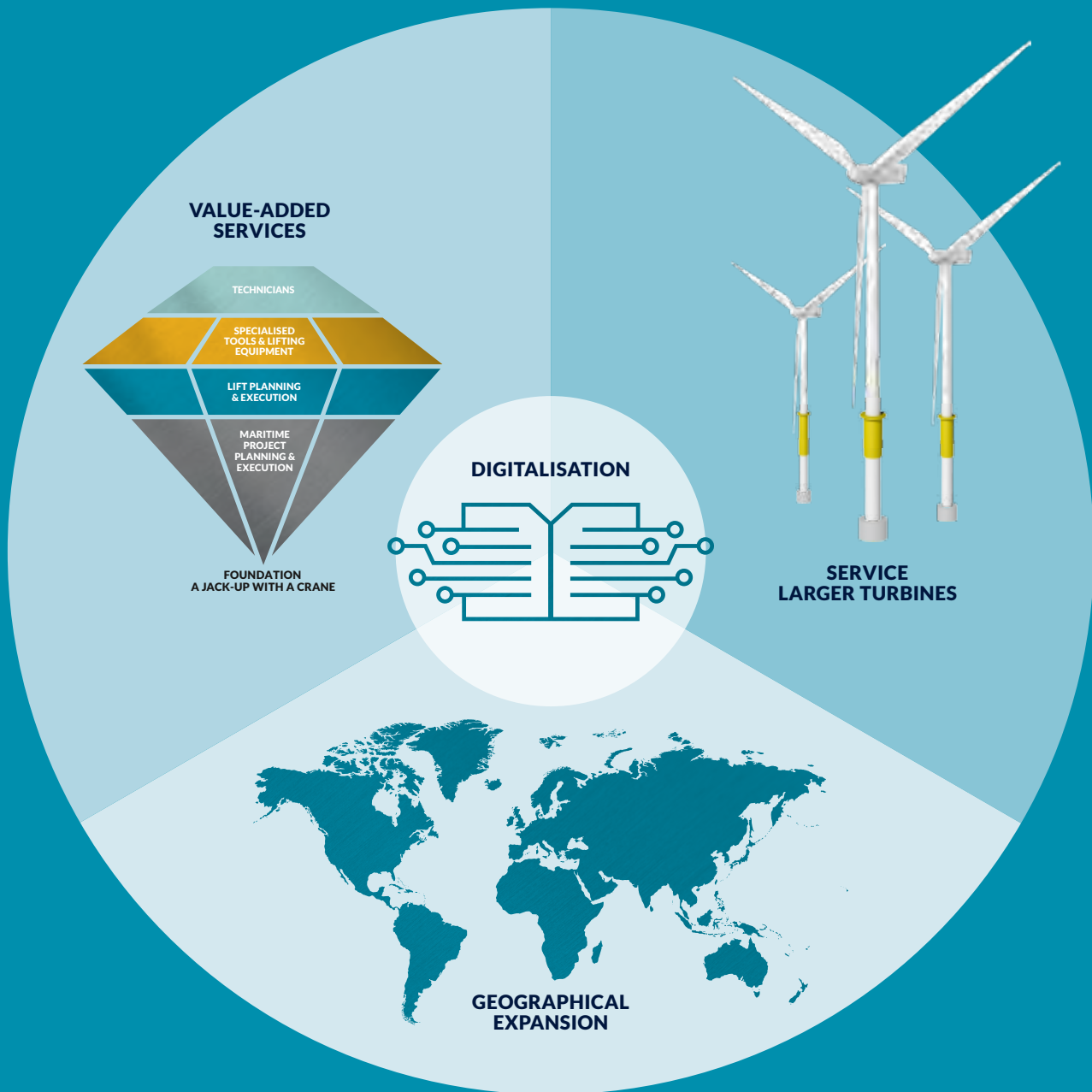
ZITON and many of our people have been part of the offshore wind industry since its infancy. Offshore wind has evolved in northern Europe since the year 2000, but only in the last couple of years has it begun to gain traction across the globe. ZITON has gained significant offshore wind experience over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

In particular, it would seem that political support for offshore wind is creating business opportunities in Asia. As a first step, we are currently opening an office in Beijing, China.

DIGITALISATION

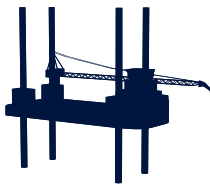
ZITON continually invests in the digitalisation of the business to improve operations and customer interaction. Achieving operational efficiency in major component replacement in the offshore wind industry is very much subject to weather conditions and also depends on the many touchpoints and the coordination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

ZITON has recently employed machine learning and advanced analytics to predict future market demand, and Robotic Process Automation for automation of manual processes and integration of diverse systems.



BUSINESS MODEL

In recent years, ZITON's business model has evolved to include full-service and turnkey solutions, building on the foundation of owning and operating jack-up vessels. To own jack-up vessels involves a high initial investment and high operating costs with only a minor variable cost component. Accordingly, most costs are fixed, and ZITON's key drivers of cash flow generation are day rates and the fleet utilisation rate.



KEY RESOURCES

Building or acquiring jack-up vessels requires high initial investments and design requirement know-how.

Project management capabilities are essential for planning and successfully executing projects. ZITON employs a customer portal to deliver cost-efficient project documentation and to collaborate with customers on projects.

VALUE TO CUSTOMERS

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

Blade repair provides important value for customers, as wear and tear of blades reduces the output of the turbines and consequently the profitability of wind farms.

CUSTOMER SEGMENTS

There are two customer segments in the offshore wind industry; turbine manufacturers and wind farm operators.

Turbine manufacturers include Siemens Gamesa Renewable Energy, MHI Vestas Offshore Wind, Servion, GE Renewable Energy, among others.

Wind farm operators are primarily utilities like Ørsted, E.ON, Vattenfall, Equinor, Innogy, SSE, EnBW. Once an offshore wind farm has been installed, turbine manufacturers normally provide operations & maintenance services under their warranty programmes, which typically extend for five years. It is customary for wind farm operators to assume full O&M responsibility when the warranty period ends.

COST STRUCTURE

Owning a fleet of jack-up vessels requires high initial investments that must be recouped over the life-time of the vessel.

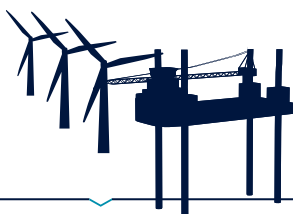
Operating a maritime organisation that serves offshore wind farms implies a predominantly fixed-cost structure with relatively limited variable costs. For example, staff, insurance, catering and other costs are fixed regardless of the level of activity.

Providing turnkey solutions involves ZITON taking full responsibility for the solution and assuming all risk, including for the collaboration with sub-contractors. If the cost of a project exceeds budget, ZITON may not only be liable for its own costs, but also for those of its sub-contractors.



REVENUE STREAMS

To the extent possible, ZITON endeavours to secure longer-term contracts with customers, to ensure predictability of revenue. Longer-term contracts may be in the form of time charter contracts or right-of-first refusal framework agreements. It may also be in the form of turnkey solutions that may provide comparable predictability on revenue.



THE DIFFERENCES BETWEEN DEDICATED O&M SUPPLIER AND INSTALLATION JACK-UPS

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

Technical capability of the vessel

Our fleet of dedicated O&M jack-ups provides us with the flexibility and versatility to operate at many different locations. However, our vessels do not require a large deck space and crane lifting capacity, such as installation jack-ups generally do. Moreover, being lighter and smaller, O&M jack-ups consume less bunker fuel than their installation counterparts and smaller crews are required to operate them. This means significantly higher OPEX and CAPEX for installation jack-ups than for dedicated O&M jack-ups and, accordingly, a need to charge higher charter rates. Thus, owners of installation jack-ups are less inclined to use their jack-ups for O&M purposes.

Experience of the crew

Crews with 10 years of experience are rarely seen in this young industry, but that is what we can provide at ZITON. Our crews have experience from working with a variety of wind turbine models, sites, ports and under various operating conditions. Everyone in our crews knows exactly the sequence and details of operations including the imperative of 'safety first' in all operations. The experience of our crews enables us to execute major component replacement with unrivalled efficiency.

Organisation

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

RISK MANAGEMENT

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

RISK MANAGEMENT PROCESS

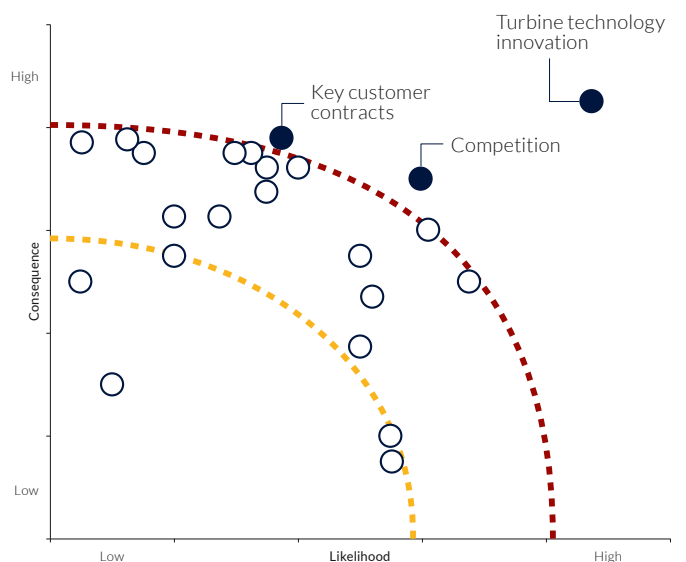
The risk assessment process is anchored in the Executive Management team, which regularly reviews the process of risk identification, analysis, evaluation and considers which steps should be taken, as illustrated below. At regular board meetings, the Board of Directors and the Executive Management assess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

Depending on their origin, risk factors are categorised as strategic, operational, financial or compliance risk. Financial risks, including risks related to credit, liquidity, interest rates and markets, are addressed in note 4.1 to the consolidated financial statements. Risk factors are not only perceived as risks, but also

as opportunities to continue developing the strategy. Strategic responses to risk factors may in some cases lead to an improved market position.

RISK HEAT MAP

To help visualise risks and opportunities, a heat map is prepared with the net risk presented after possible mitigation. Risks beyond the dotted red line are assessed to be the most significant risks to which the Company is exposed.



EVALUATION OF MAIN CHANGES TO RISK

The Board of Directors and the Executive Management have reviewed the risk assessment and compared it to last year's annual report. In the Board's assessment, two risk factors have been reduced and are no longer considered significant in terms of the combined risk of consequence and likelihood.

The risk of reduced "political support for offshore wind" is believed to be lower because I) subsidies for offshore wind farms have become less important, as offshore wind farms have become more commercially viable and rely less on subsidies than they did a few years ago; II) the total number of offshore wind turbines installed in northern Europe at the end of 2018 was 4,425. They will require service for the next many years, thus driving continued demand for jack-up vessels.

The risk of "liquidity and refinancing risk" was significantly reduced as ZITON revised its capital structure in October 2018,

extending the maturity of its senior bond loan by three years (maturing on 3 October 2021)

Furthermore, the potential impact of Brexit was reviewed. In 2018, Ziton generated about 20% of its revenue from the UK, as can be seen from note 2.1 to the consolidated financial statements. Accordingly, the UK market is of substantial importance, but management believes that Brexit is highly unlikely to result in trade barriers that will prevent ZITON from operating in the UK. However, there may be short-term disruptions to trade and, as a precaution, ZITON has established ZITON Ltd. in order to be able to continue doing business in the UK. Further, ZITON has established a business continuity plan concerning how to ensure free movement in and out of UK territory of people and vessels, in the unlikely event that trade barriers are established.

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

RISK FACTORS	POSSIBLE CAUSES	POTENTIAL CONSEQUENCES	ENSUING MITIGATION
Turbine technology innovation	<ul style="list-style-type: none"> Technology innovation enabling the industry to build larger turbines with heights that exceed the lifting heights of the Company's current fleet Turbine technology innovation making it possible to carry out major component replacement or blade repair offshore without the need for a jack-up Development of more reliable turbine technology with fewer defects 	<ul style="list-style-type: none"> Uncertainty about future market demand for the Company's current fleet 	<ul style="list-style-type: none"> Invest in/acquire vessels capable of meeting technology trends of increasingly larger turbines. The bond issue contains the opportunity to expand the fleet with certain restrictions
Competition	<ul style="list-style-type: none"> ZITON is currently the only company to offer dedicated O&M services for major component replacements at offshore wind farms Companies with jack-ups used for new wind farm installations may offer O&M services if there is inadequate demand for installation of new wind farms, or if turbines become too large for them to install New industry players may invest in jack-ups to offer major component replacement 	<ul style="list-style-type: none"> Excess capacity of jack-up vessels could lead to low utilisation rates and price competition 	<ul style="list-style-type: none"> Seek to increase differentiation from competition and create value to customers that peers are unable to match Build barriers to entry that will make ZITON's dedicated O&M services more difficult to compete with
Key customer contracts	<ul style="list-style-type: none"> ZITON relies on being able to fulfil contracts with its key customers to secure future revenue. Inability to meet requirements of contracts with key customers will have material consequences for the company's cash flows. In the medium-term, the company relies on the prolongation of existing contracts or on winning new contracts 	<ul style="list-style-type: none"> Contracts with Siemens Gamesa Renewable Energy, Ørsted, Vattenfall and MHI Vestas collectively account for most of 2018 revenue 	<ul style="list-style-type: none"> ZITON believes that the best means of retaining customers is to provide value to customers by offering turnkey solutions, by being a dedicated O&M supplier with a diverse fleet, experienced crew and by having an organisation geared to provide efficient O&M services.

ALTERNATIVE PERFORMANCE MEASURES

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

APMS	DEFINITION	RECONCILIATION
Weighted average utilisation rate	Weighted average utilisation rate is defined as revenue plus other operating income during the period divided by full utilisation at standard rates. The combined standard rate for the three vessels is EUR 135k per day. Each vessel has a different weighting depending on its specifications	Revenue – non-vessel-related revenue + Other operating income (during the period) / EUR 135k * days (in the period) * 100
EBITDA	EBITDA is short for Earnings Before Interest, Tax, Depreciation and Amortisation	Income before tax + Financial payments, net + Depreciation and amortisation
EBITDA margin	EBITDA divided by Revenue	Income before tax + Financials, net + depreciation and amortisation / Revenue * 100
Cash flows from operating activities	Cash flows from operating activities is defined as EBITDA less working capital adjustments and other adjustments	Income before tax + Reversal of financial expenses, net + depreciation and amortisation + other adjustments + working capital adjustments
Subordinated capital	Subordinated capital consists of equity, subordinated 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 ratio	Subordinated capital ratio is subordinated capital as a percentage of total assets	Equity + subordinated loan + second lien bond loan / Total assets * 100
Net Interest-Bearing Debt (adjusted for capitalised financing costs)	Net Interest-Bearing Debt (“NIBD”) is senior debt with the highest priority level. It ranks ahead of subordinated debt if the company goes into liquidation	Bond loan, first lien (current and non-current) + lease obligations (current and non-current) – capitalised financing costs – Cash and cash equivalents
Loan to Vessels ratio	The Loan to Vessels ratio expresses NIBD (adjusted for capitalised financing costs) compared to the book value of the company’s vessels	Bond loan, first lien (current and non-current) + lease obligations (current and non-current) – capitalised financing costs – Cash and cash equivalents / Vessels * 100
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
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

ZITON presents its consolidated financial statements in accordance with generally accepted accounting practices (IFRS).

Accordingly, key figures and ratios have been prepared in accordance with CFA Society Denmark's online version of "Recommendations & Ratios". In addition, ZITON presents APMs according to the Directives of European Securities and Markets Authority ("ESMA"). Management uses APMs in its decision-making and

for evaluating the performance of the company. Furthermore, APMs provide useful information that supplements the financial statements. APMs are not defined under IFRS and may not be directly comparable with APMs for other companies. Details of disclosures required by ESMA on definition, reconciliation, explanation of use, comparisons and coherence of each APM are provided below.

EXPLANATION OF USE	COMPARISON	COHERENCE
The weighted average utilisation rate at standard day rates expresses our ability to effectively utilise and capture the value of our fleet of vessels. This performance measure is a key driver of profitability	Prior-year comparative figures are presented in the "How we measure performance" section	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 2018. Further, J/U WIND PIONEER and J/U WIND SERVER were included in 2015 as they became operationally available
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 "How we measure performance" section	The criteria used to calculate EBITDA are unchanged from last year
EBITDA margin is a good measure of operating efficiency	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate EBITDA margin are unchanged from last year
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 "How we measure performance" section	The definition of cash flows from operating activities has been changed from last year when we also deducted financial payments in our definition of cash flows from operating activities
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 "Key figures" section	Compared to prior years, a second lien bond loan was issued in 2018 and currently forms part of the subordinated capital. There are no other changes to the criteria used to calculate the subordinated capital
The subordinated capital ratio is the only maintenance covenant defined in the company's loan agreements for the first lien and second lien bond loans	Prior-year comparative figures are presented in the "Key figures" section	Compared to prior years, a second lien bond loan was issued in 2018 and currently forms part of the subordinated capital. There are no other changes to the criteria used to calculate subordinated capital ratio
NIBD (adjusted for capitalised financing costs) is a measure of the senior debt less cash and cash equivalents	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate NIBD (adjusted for capitalised financing costs) is unchanged from previous years
The Loan to Vessels ratio is considered a quick way for investors to assess the security of the company's vessels relative to the loans provided	Prior-year comparative figures are presented in the "Key figures" section	The criteria used to calculate the Loan to Vessels ratio is unchanged from previous years
Liquidity is a good measure of the liquidity available to the company and its ability to pay interest and instalments and to withstand variations in future operating cash flows	Prior-year comparative figures are presented in the "Review of cash flows for 2018" section of the consolidated financial statements	The criteria used to calculate liquidity are unchanged from previous years
Available liquidity is a good measure of the liquidity available to the company incl. drawing rights on the working capital facility for paying interest and instalments and withstanding variations in future operating cash flows	Prior-year comparative figures are presented in the "Review of cash flows for 2018" section of the consolidated financial statements	The criteria used to calculate available liquidity are unchanged from previous years

HOW WE MEASURE PERFORMANCE

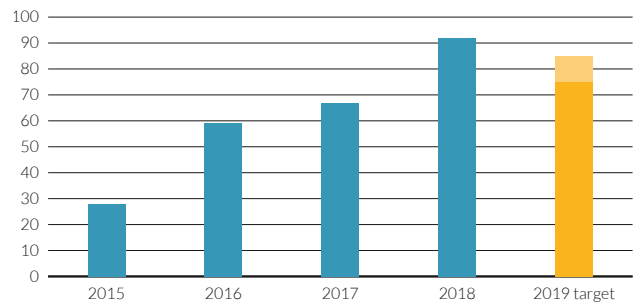
The Board of Directors and Executive Management monitor a number of key performance indicators (“KPIs”) to evaluate the performance of our strategy over time.

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

WEIGHTED AVERAGE UTILISATION RATE

ZITON expanded its fleet of vessels during 2015 from one to three vessels, and a strategic priority has been to improve utilisation. Supported by the three-year time charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy (“SGRE”) from March 2016, utilisation has since steadily improved. In 2018, vessel utilisation reached 92% in 2018, reflecting strong utilisation of the entire fleet. A relatively more uncertain contract situation is projected for 2019, in part due to the expiry of the time charter with SGRE in March 2019. However, this concern is partly counterbalanced by solid market developments and a good level of activity within contract tendering, with ZITON being selected as a preferred supplier for a large blade campaign.

Weighted average utilisation rate
Per cent



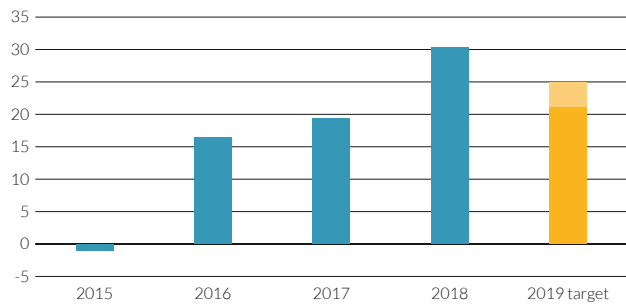
EBITDA

EBITDA has improved steadily, mainly as a consequence of the improved vessel utilisation. ZITON's business model is characterised by high initial investments in jack-ups, combined with minor variable costs and high operating costs. Consequently, as vessel utilisation and revenue has increased, a notable improvement in EBITDA has been achieved. The projection for 2019 reflects the lower vessel utilisation rate expected.

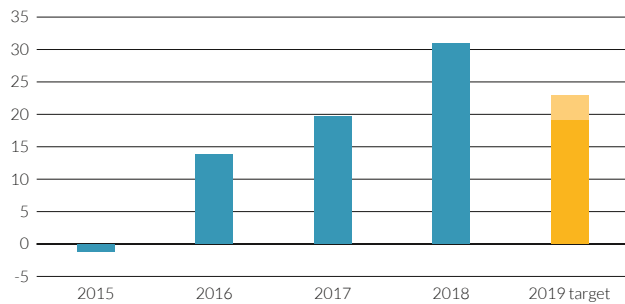
CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities are defined as EBITDA less working capital and other adjustments. Consequently, cash flows from operating activities is a good indication of the company's cash flow generation power. Cash flows from operating activities have increased in line with the improvements in EBITDA, reflecting the company's ability to manage working capital in the business. The projection for 2019 reflects the lower vessel utilisation rate expected and the resulting lower EBITDA.

EBITDA
EUR million



Cash flows from operating activities
EUR million



2018 PERFORMANCE REVIEW

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

BETTER THAN EXPECTED

- J/U WIND SERVER completed a blade campaign from February to September 2018, replacing 88 sets of blades at Anholt wind farm, Denmark.
- J/U WIND PIONEER decommissioned the Utgrunden Offshore Windfarm, Sweden as a turnkey project for Vattenfall.
- J/U WIND completed decommissioning of two met masts as a turnkey project at a UK wind farm, and worked as an accommodation platform for cable repair.
- J/U WIND SERVER was fully operational and on-hire during the entire year.

AS EXPECTED

- We maintained good customer relationships during the year and benefitted from key contracts with four of the leading players in the offshore wind industry.
- J/U WIND and J/U WIND PIONEER met expectations of operational availability.

WORSE THAN EXPECTED

- Market demand was somewhat lower than expected during the third quarter of 2018, as turbines had fewer breakdowns than projected. We were able to cover for this by a decommissioning project and operate as an accommodation platform during the quarter.

	GUIDANCE FEBRUARY 2018	REVISED GUIDANCE AUGUST 2018	REVISED GUIDANCE NOVEMBER 2018	ACTUAL 2018
WEIGHTED AVERAGE UTILISATION RATE	75-85%	85-90%	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

J/U WIND at low tide
in the Irish Sea



OUTLOOK FOR 2019

The 2019 guidance reflects the more uncertain contract situation considering the expiry of the time charter with SGRE in March 2019, which is partly offset by solid market developments and the good level of activity in contract tendering with ZITON being selected as a preferred supplier for a large blade campaign. 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 is the 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.



CAPITAL STRUCTURE

ZITON revised its capital structure in October 2018 with a substantial extension of its debt maturity profile.

On 3 October 2018, ZITON issued a three-year EUR 100 million first lien bond loan and a three-and-a-half year EUR 25 million second lien bond loan. The bonds were listed on the Oslo Stock Exchange on 28 November 2018, under ISIN NO 0010832488 and NO 0010832512 respectively. The key terms of the bond are set out in note 4.2 to the financial statements.

Proceeds from the bond issues were used to refinance the outstanding bond, acquire shares in the subsidiary Jack-Up InvestCo 3 Plc., repay part of the subordinated debt and to pay transaction costs. The use of proceeds is illustrated below.

USE OF PROCEEDS

(EUR '000)

Repayment of existing bond incl. redemption costs	91,688
Purchase of BWC's shares in Jack-Up InvestCo 3 Plc.	23,658
Partial repayment of subordinated loan	17,000
Transaction costs	2,500
General corporate purposes	-9,845
Total	125,000

The outstanding bond FRN ZITON A/S Senior Secured Callable Bond Issue 2016/2019 (ISIN NO 0010751332) was repaid on 5 November 2018. Repayment of the existing bond amounted to EUR 91.7m including a premium of 3.02% for early redemption of the bond.

Jack-Up InvestCo 3 Plc. was established in 2013 as a joint venture between ZITON A/S and Blue Water Capital S.A. ZITON A/S acquired the 50% ownership interest held by Blue Water Capital S.A. on 11 October 2018 at a price of EUR 23.7m.

ZITON made a partial repayment of the subordinated loan amounting to EUR 17.0m on 11 October 2018.

The proceeds from the bond issues were also used to pay transaction costs of EUR 2.5m.

Further, ZITON used EUR 9.8m of the cash proceeds from the refinancing to further reduce debt.

The illustration below shows the capital structure of the ZITON Group at the end of 2018. The three vessels make up 91.6% of the assets.

The bond loan agreements define subordinated capital as equity, plus subordinated loans plus second lien bond loan. The subordinated capital ratio is subordinated capital as a percentage of total assets. The subordinated capital ratio was at 33.8% at the end of 2018.

ASSETS

Vessels

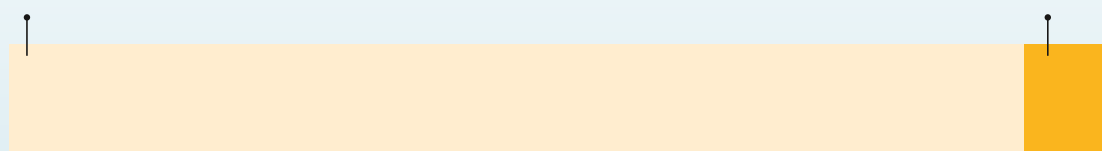
EUR 153.3m

91.6%

Other assets

EUR 14m

8.4%



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

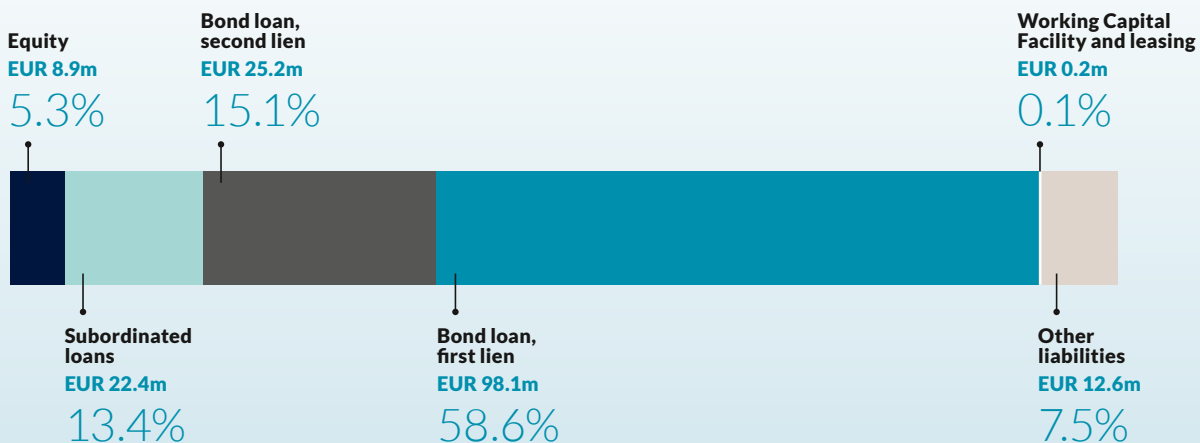
The subordinated loan matures on 3 October 2022 and was provided by a Danish pension fund. There are no instalments on the subordinated loan, and interest accrues until maturity with the exception of 2.0% interest payable in cash.

The second lien bond matures on 3 April 2022. There are no instalments on the second lien bond loan and interest accrues until maturity. Interest is a floating coupon of 3M EURIBOR + 11.85%.

The first lien bond matures on 3 October 2021 and bears a floating coupon of 3M EURIBOR + 6.90% with quarterly interest payments. The bond has fixed amortisation of EUR 2.5m on 3 April 2019, 3 October 2019, 3 April 2020 and 3 October 2020. In addition, this bond loan has a cash sweep of excess liquidity. The cash sweep is measured semi-annually at the end of June and the end of December, with the first measurement due at the end of December 2019. Liquidity in excess of EUR 7.5m is to be repaid to bondholders at the subsequent interest payment date at a 2.0% premium.

The working capital facility is renewed annually. The working capital facility and the bond loans make up a joint security package with security in all three vessels. The main items of the security package are set out in note 6.1 to the financial statements.

LIABILITIES





KEY FIGURES

EUR '000	IFRS 2014	IFRS 2015	IFRS 2016	IFRS 2017	IFRS 2018
Income statement					
Revenue	10,433	9,138	29,042	33,227	45,504
EBITDA	4,635	-966	16,411	19,257	30,348
Net financial expenses	-793	-14,221	-13,186	-13,168	-17,624
Income before tax	1,929	-21,154	-4,550	-1,841	4,799
Income after tax	573	-16,524	5,804	-2,984	-1,283
Balance sheet items					
Non-current assets	164,966	173,108	167,370	161,011	153,424
Current assets	6,320	2,756	6,398	6,720	13,908
Total assets	171,286	175,864	173,768	167,731	167,332
Equity	49,460	42,580	36,824	33,843	8,902
Equity and subordinated capital	88,229	71,892	69,197	69,403	56,483
Current liabilities	11,442	5,983	10,975	8,703	7,278
Cash flows					
Net cash flows from operating activities*	-867	-1,085	13,790	19,566	31,010
Net cash flows before investment activities*	-5,427	-15,071	4,049	10,401	18,416
Net cash used in investing activities	-29,535	-11,061	-2,378	-1,474	-24,235
Net cash used/received in financing activities	33,415	25,029	-2,500	-5,500	13,933
Net change in cash and cash equivalents	-1,547	-1,103	-829	3,427	8,114
Financial ratios and other key figures					
EBITDA margin	44.4%	-10.6%	56.5%	58.0%	66.7%
Subordinated capital ratio	51.5%	40.9%	39.8%	41.4%	33.8%
NIBD (adjusted for capitalised financing costs)	68,928	99,888	98,209	89,412	89,321
Loan to vessel ratio	42.0%	60.0%	61.0%	57.9%	58.3%
Total number of operating vessels (average)	1	2	3	3	3

* ZITON has changed the presentation of net cash flows from operating activities excluding financial payments as part of cash flows from operating activities primarily because financial payments relate to finance activities.

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

The ratios below are not defined in "Recommendations & Ratios" and are defined as follows:

$$\text{Subordinated capital ratio} = \frac{\text{Total equity} + \text{Subordinated loans} + 2. \text{ lien bond loan}}{\text{Total assets}}$$

NIBD (adjusted for capitalised financing costs)

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

$$\text{Loan to vessel ratio} = \frac{\text{NIBD (adjusted for capitalised financing costs)}}{\text{Vessel book value}}$$

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The Executive Management and the Board of Directors have today considered and adopted the annual report of ZITON A/S for the financial year 1 January to 31 December 2018.

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


In our opinion, the consolidated financial statements and the financial statements of the parent company give a true and fair view of the financial position at 31 December 2018 of the Group and the parent company and of the results of the Group's and the parent company's operations and the Group's consolidated cash flows for the financial year 2018.

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

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


Horsens, 24 April 2019

EXECUTIVE MANAGEMENT



Thorsten Henrik Jalk

BOARD OF DIRECTORS



Vagn Lehd Møller
Chairman

Ove Carsten Eriksen

Niels Ørskov Christensen

Lars Thorsgaard Jensen

Esben Bay Larsen

Morten Melin

INDEPENDENT AUDITOR'S REPORT

OPINION

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of ZITON A/S for the financial year 1 January - 31 December 2018, which comprise income statement and statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, notes including accounting policies, for both the Group and the Parent Company. The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and the Parent Company financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group and of the results of the Group operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with the International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Further in our opinion the Parent Company Financial Statements give a true and fair view of the financial position of the Parent Company at 31 December 2018 and of the results of the Parent Company's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

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

BASIS FOR OPINION

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

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

We were first appointed auditors of ZITON A/S for the financial year 2008. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 11 years including the financial year 2018.

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for the financial year 2018. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Impairment test of jack-up vessels.

The value of the Group and the Parent Company tangible assets, of which the majority relates to jack-up vessels, is supported by value in use calculations, which are based on future cash flow forecasts.

We focused on this area because the impairment assessments of these assets are dependent on complex and subjective judgements by Management. The most critical assumptions are Management's review on expected revenue and WACC. Expected revenue has been forecast on expected utilisation rates and time charter rates.

Management's assessment is based on the cash-generating unit (CGU) for all three jack-up vessels.

The key assumptions related to jack-up vessels are described in note 3.1.

Our audit measure

We considered the overall impairment assessments prepared by the Management and tested the relevant internal controls in place to check that the Group's assets are valued appropriately according to the requirements in International Financial Reporting Standards.

We considered the assumptions and estimates used to determine the value in use of these assets. This includes those relating to time charter rates, expected utilisation rates and daily running costs. We tested these assumptions by reference to third-party documentation where available, such as signed charter contracts and signed framework agreements with customers.

We also assessed the Management's underlying key assumptions including review of future short- and long-term charter rates and utilisation rates. We used valuation specialists to assess the discount rates (WACC) used by Management.

We assessed the appropriateness of Management's presentation of these matters in the financial statements.

STATEMENT ON MANAGEMENT'S REVIEW

Management is responsible for Management's Review.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.


- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Consolidated Financial Statements and the Parent Company Financial Statements, including the disclosures, and whether the Consolidated Financial Statements and the Parent Company Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also submit a statement, to those charged with governance, that we have met relevant ethical requirements in relation to independence, and inform of all relations and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Based on the matters communicated to the Management, we determine which matters were the most significant in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hobro, 24 April 2019
BDO Statsautoriseret Revisionsaktieselskab
CVR-no. 20222670


Michael Graversen
State Authorised Public Accountant
MNE no.: mne34099


Claus Muhlig
State Authorised Public Accountant
MNE no.: mne26711

FINANCIAL REVIEW AND STATEMENTS

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READING GUIDE:

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

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

INCOME STATEMENT

EUR '000	Note	2018	2017
Revenue	2.1	45,504	33,227
Other operating income		1,340	-
Project-related expenses		-2,578	-1,281
Operating expenses		-9,186	-8,196
Gross profit		35,080	23,750
Administrative expenses		-1,559	-1,712
Staff costs, office staff	2.2	-3,173	-2,781
EBITDA		30,348	19,257
Depreciation and amortisation	3.1	-7,925	-7,930
EBIT		22,423	11,327
Financial income	4.3	1	-
Financial expenses	4.3	-17,625	-13,168
Income before tax		4,799	-1,841
Tax on profit (loss)	5.1	-6,082	-1,143
Income for the year		-1,283	-2,984
Attributable to:			
Shareholders of ZITON A/S		-3,701	-6,321
Non-controlling interests		2,418	3,337
Income for the year		-1,283	-2,984

STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	2018	2017
Income for the year		-1,283	-2,984
Items that will subsequently be reclassified to the income statement when specific conditions are met:			
Reserve for equity-settled warrants		-	-
Exchange adjustments of foreign entities, net of tax		-	1
Total comprehensive income for the year, after tax		-1,283	-2,983
Attributable to:			
Shareholders of ZITON A/S		-3,701	-6,320
Non-controlling interests		2,418	3,337
Total comprehensive income for the year, after tax		-1,283	-2,983

REVIEW OF THE INCOME STATEMENT FOR 2018

Revenue

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 a strong pipeline of projects.

Other operating income

Other operating income comprise of the insurance EUR 1.3m from loss of hire from the vessel J/U WIND.

Expenses

Total expenses in ZITON increased to EUR 16.6m in 2018 from EUR 14.0m in 2017.

Project-related expenses

Project-related expenses increased to EUR 2.6m in 2018 from EUR 1.3m in 2017. The main reason for the increase in costs was the high level of activity, as well as expenses related to decommissioning projects.

Operating expenses

Operating expenses increased to EUR 9.2m in 2018 from EUR 8.2m in 2017. The main reason for the increase in costs was the high level of activity, as well as expenses related to decommissioning projects.

Administrative expenses

Administrative expenses amounted to EUR 1.6m in 2018 compared to EUR 1.7m in 2017.

Staff costs, office staff

Salaries for office staff increased to EUR 3.2m in 2018 from EUR 2.8m in 2017. The main reason for the increase of EUR 0.4m was an increase in office staff as a consequence of the higher level of activity.

EBITDA

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

The initial guidance for 2018 EBITDA was in the range of EUR 21-25m, as reported in the Q4 2017 interim report in February 2018. As revenue in both Q2 and Q3 2018 was better than expected we raised our guidance to a range of EUR 27-28m in November 2018 when releasing our Q3 2018 interim report. EBITDA of EUR 30.3m for 2018 exceeded the upwardly adjusted guidance.

Depreciation and amortisation

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

Net financials

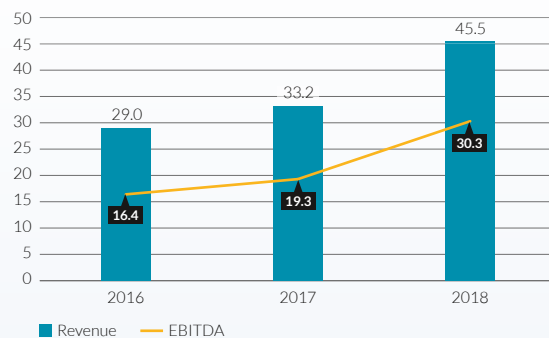
Financials, net was an expense of EUR 17.6m in 2018 compared to an expense of EUR 13.2m in 2017. The main reason for the increase was one-off costs related to a revised capital structure and costs to repay an outstanding bond at a 3.02% call premium, double interest until repayment and expensing of capitalised issuance costs of the repaid bond. These additional financial costs amounted to EUR 4.2m. Financial income and expenses are described further in note 4.4.

Tax on profit (loss)

Tax on profit was an expense of EUR 6.0m. Taxation is described further in note 5.1.

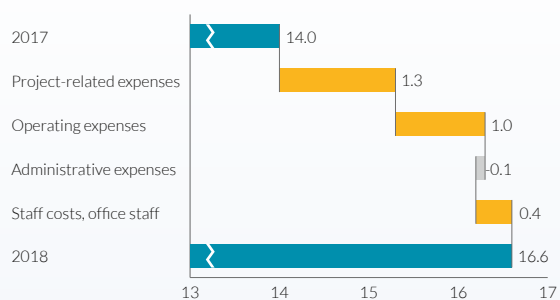
Revenue & EBITDA

EUR million



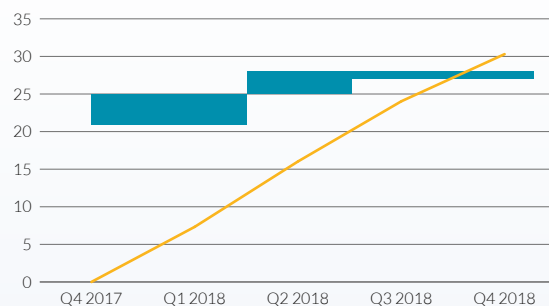
Expenses

EUR million



Accumulated EBITDA & expected range

EUR million



Non-controlling interests

Non-controlling interests are described in "Statement of changes in equity".

BALANCE SHEET

31 DECEMBER

ASSETS

EUR '000	Note	2018	2017
Non-current assets			
Vessels, including fixtures & equipment	3.1	153,324	154,517
Intangible assets	3.2	100	105
Financial assets	3.3	-	6,055
Deferred tax assets	5.2	-	334
Non-current assets		153,424	161,011
Current assets			
Inventories		35	39
Trade and other receivables	3.5	3,031	3,928
Cash and cash equivalents	4.1-4.4	10,842	2,753
Current assets		13,908	6,720
Total assets		167,332	167,731

EQUITY AND LIABILITIES

EUR '000	Note	2018	2017
EQUITY			
Share capital		11,093	11,093
Reserves		189	189
Retained earnings		-2,380	3,517
Total equity attributable to shareholders of ZITON A/S		8,902	14,799
Non-controlling interests		-	19,044
Total equity		8,902	33,843
LIABILITIES			
Non-current liabilities			
Subordinated loan	4.1-4.4	22,373	35,560
Bond loan, second lien	4.1-4.4	25,208	-
Bond loan, first lien	4.1-4.4	93,630	85,486
Lease obligations	4.1-4.4	159	110
Deferred income tax liabilities	5.2	9,782	4,029
Total non-current liabilities		151,152	125,185
Current liabilities			
Bond loan, first lien	4.1-4.4	4,478	5,437
Lease obligations	4.1-4.4	14	55
Trade and other payables	3.6	1,488	2,008
Provision for other liabilities	3.4	1,298	1,203
Total current liabilities		7,278	8,703
Total liabilities		158,430	133,888
Total equity and liabilities		167,332	167,731

REVIEW OF THE BALANCE SHEET 2018

Vessels, including fixtures & equipment

The total value of the vessels amounted to EUR 153.3m, which was largely unchanged from 2017 primarily due to the transfer of the call option on Jackup-InvestCo 3 Plc. from Financial assets to Vessels offset by annual depreciation charges.

Net working capital

Changes in working capital were negative in the amount of EUR 2.5m in 2018, as changes in accounts receivable were higher than changes in trade payables.

Trade receivables

Trade receivables decreased from EUR 3.6m in 2017 to EUR 1.2m. The decrease was mainly a consequence of the early payment of receivables by a single customer.

Trade payables

Trade payables decreased from EUR 0.7m in 2017 to EUR 0.8m, which was largely unchanged from 2017.

Equity

Total equity declined to EUR 8.9m at the end of 2018 from EUR 33.8m at end 2017. Movements on change in equity are described in "Statement of changes in equity".

Subordinated capital ratio

The subordinated capital ratio (defined as total equity plus subordinated capital and the 2nd lien bond loan divided by total assets) at the end of 2018 was 33.8%. The reduction from 41.4% at the end of 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 safe 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.

Net Interest Bearing Debt (NIBD)

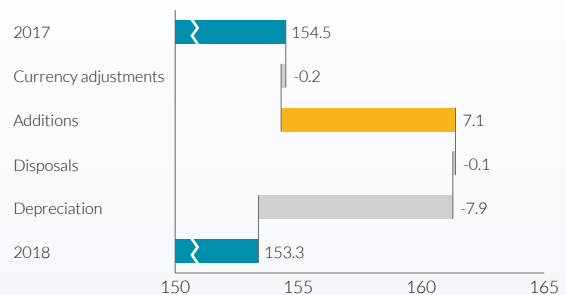
NIBD includes bond debt (adjusted for capitalised expenses), the amount drawn on the working capital facility and finance lease liabilities less cash and cash equivalents.

Change in NIBD

NIBD decreased from EUR 89.4m in 2017 to 89.3m in 2018. The decrease was driven by positive EBITDA of EUR 30.3m and working capital adjustments, which was offset by finance costs and purchase of non-controlling interests.

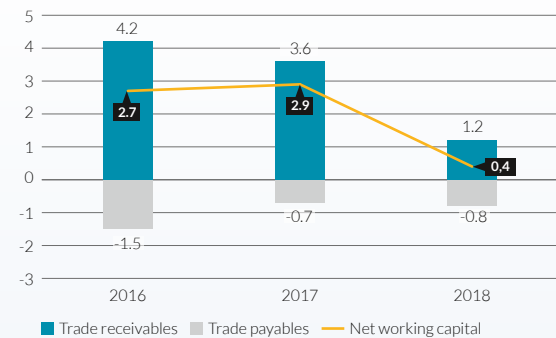
Vessels, including fixtures & equipment

EUR million



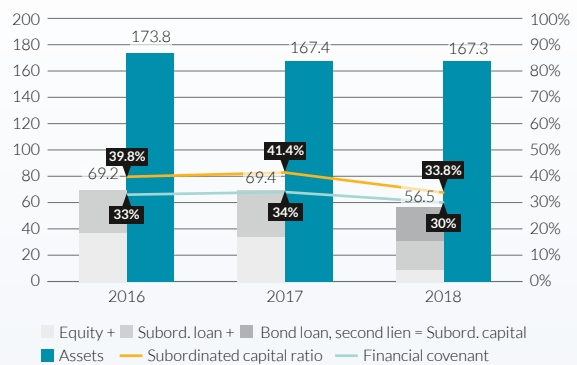
Net working capital

EUR million



Subordinated capital ratio

EUR million · Percent



CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

EUR '000	Note	2018	2017
Income before tax		4,799	-1,841
OPERATING ACTIVITIES			
Adjustments for non-cash items			
Reversal of financial expenses, net	4.3	17,625	13,156
Depreciation and writedowns for the period	3.1	7,925	7,930
Other adjustments		-1,743	457
Working capital adjustments			
Changes in inventories		3	-38
Change in trade receivables		2,314	639
Change in trade payables		87	-737
Income tax expense			
Income tax expense		-	-
Net cash flows from operating activities		31,010	19,566
FINANCIAL PAYMENTS			
Financial receipts		-	-
Financial payments		-12,594	-9,165
Net cash flows before investing activities		18,416	10,401
INVESTING ACTIVITIES			
Purchase of vessel, including fixtures & equipment (excl. interest)	3.1	-589	-1,474
Purchase of non-controlling interests ¹⁾		-23,646	-
Net cash used in investing activities		-24,235	-1,474
FINANCING ACTIVITIES			
Proceeds from bank and bond loans	4.4	-108,407	-5,500
Repayment of debt to bank and bondholders	4.4	122,340	-
Net cash used/received in financing activities		13,933	-5,500
Net change in cash and cash equivalents	4.4	8,114	3,427
Cash and cash equivalents at beginning of period	4.4	2,753	-670
Exchange gains/losses on cash and cash equivalents		-25	-4
Cash and cash equivalents at end of period²⁾	4.4	10,842	2,753

1) See Statement of changes in equity.

2) Cash and cash equivalents in the cash flow statement include drawings on working capital facility.

REVIEW OF CASH FLOWS FOR 2018

Operating activities

Cash flows from operating activities were an inflow of EUR 31.0m in 2018 as a result of the positive EBITDA.

Investing activities

Investment activities in 2018 consisted of the purchase of the non-controlling interests in Jack-Up InvestCo 3 Plc (EUR 23.6 m). CAPEX investments for the year were EUR 0.6 m.

Financing activities

In October 2018, ZITON A/S refinanced its bond and subordinated loan by repaying the existing bond loan and making a down payment of EUR 17.0m on the subordinated loan. The new financing of ZITON resulted in a re-negotiated subordinated loan, a first lien bond and a second lien bond.

EUR 6.0 m was repaid to bondholders during 2018. In 2019, EUR 5.0m will be repaid to bondholders, excluding any cash sweep.

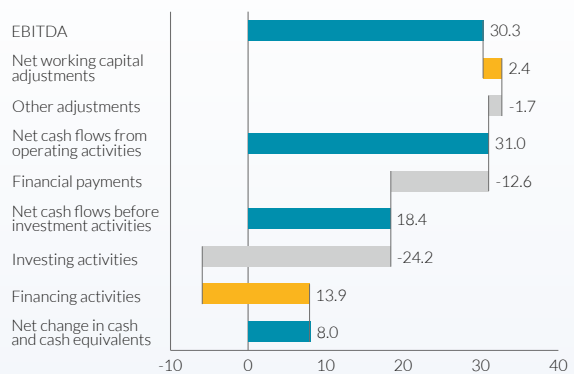
Available liquidity

Available liquidity including drawings available on the working capital facility amounted to EUR 16.3m at the end of 2018. This was EUR 8.0m higher than at the end of 2017, mainly due to positive operating cash flows during the period.

EUR million	2016	2017	2018
Cash and cash equivalents	1.9	2.8	10.8
Cash on retention account	-1.1	-1.2	-1.2
Liquidity	0.8	1.6	9.6
Utilised working capital facility	-2.6	0.0	0.0
Available draw on working capital facility	6.7	6.7	6.7
Available liquidity	4.9	8.3	16.3

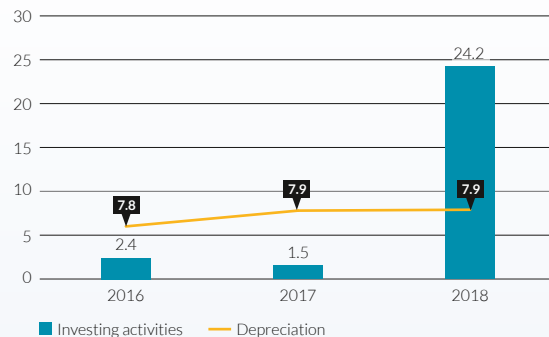
Cash flows

EUR million



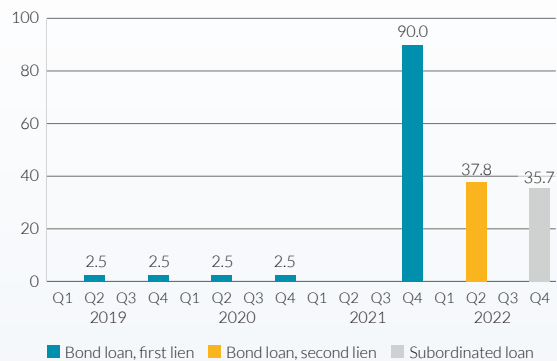
Investing activities vs. depreciation

EUR million



Debt repayment next four years

EUR million



STATEMENT OF CHANGES IN EQUITY

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

As of October 2018 ZITON A/S purchased the remaining non-controlling interests owned by BWC S.A. (50%) in the Malta-based company Jack-Up InvestCo 3 Plc. Non-controlling interest of EUR 2.4 m represents 50% of the income for the year 1 January 2018 - 3 October 2018. The effect of eliminating the remaining non-controlling interests and the premium loss recognised to the equity is set out here:

Purchase of non-controlling interests in Jackup-InvestCo 3 Plc.	-23,658
- Non-controlling interests' equity as of 3 October 2018	19,044
- Non-controlling interests' share of income for the year end 3 October 2018	2,418
Loss from purchase of non-controlling interests	-2,196

Share capital

At the end of 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares 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.

ACCOUNTING POLICIES

Reserves on equity consist of the following:

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

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

2017 EUR '000	Attributable to shareholders of ZITON A/S						Non- controlling interests	Total equity
	Share capital	Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total		
Balance at 31 December 2016	11,093	143	45	188	9,838	21,119	15,705	36,824
Reserve for equity settled warrants	-	-	-	-	-	-	-	-
Total comprehensive income for the year, after tax	-	-	1	1	-6,321	-6,320	3,339	-2,981
Balance at 31 December 2017	11,093	143	46	189	3,517	14,799	19,044	33,843

Share capital

At the end of 2017, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

GENERAL INFORMATION

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

ZITON A/S is controlled by Jack-Up Holding A/S, which holds 59.5% of the share capital in ZITON A/S. Dansk Bjergrning & Bugsering Holding ApS and OY Finans ApS hold 25.1% and 14.8% of the share capital respectively. The remaining shares, equivalent to 0.6% of the share capital, are held by management. The ultimate parent of the Group is Jack-Up Holding A/S's holding company, Anpartsselskabet af 1. december 2011 ApS.

ZITON A/S is consolidated in the financial statements of Jack-Up Holding A/S (registered office: Fredensborg, Denmark) and 1. december 2011 ApS (registered office: Fredensborg, Denmark).

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

The accounting policies are unchanged from last year.

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

The financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value at the end of each reporting period, as explained in the accounting policies for note 3.3.

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

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

ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee, and;
- has the ability to use its power to affect its returns.

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

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are

sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements, and;
- any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

The consolidated financial statements of ZITON A/S Group consist of the 100% owned subsidiaries Jack-Up InvestCo 2 A/S, ZITON Contractors A/S, Jack-Up InvestCo 3 Plc. and ZITON Ltd.

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

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

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

Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Although the functional currency for ZITON A/S is DKK, the consolidated financial statements are presented in euro.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are

generally recognised in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

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

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

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and;
- all resulting exchange differences are recognised in other comprehensive income.

Foreign currency translation

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

Inventories

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

Leasing

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 3.1 Vessels and equipment). Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term lease obligations. Each lease payment is allocated between the liability and financial expenses. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating

leases (note 6.1 Commitments and contingencies). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Income statement

Project-related expenses

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

Operating expenses

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

Administrative expenses

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

Cash flows

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

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

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

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

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Estimates and assumptions

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

The accounting estimates and assumptions which management deems to be significant to the preparation of the consolidated financial statements are:

- Impairment of vessels (note 3.1)
- Valuation of financial assets (note 3.3)
- Leases (note 3.1 and 6.1)
- Trade receivable (note 3.5)
- Deferred tax (note 5.2)
- Provisions (note 3.4)
- Contingent liabilities (note 6.1)

RELEVANT NEW ACCOUNTING STANDARDS

ZITON A/S has adopted the following amended standards and interpretations effective from 1 January 2018.

IFRS 9 - Financial instruments. The number of categories of financial assets has been reduced to three: amortised cost category, fair value through other comprehensive income category and fair value through the income statement category. Simplified rules regarding hedge accounting are introduced, and impairment of receivables are based on expected loss.

Based on historical data of recognised losses on accounts receivable, a limited number of and well-known clients ZITON A/S has not recognised any provision for doubtful accounts (please refer to note 3.5, Trade and other receivables).

IFRS 15 - Revenue from Contracts with Customers was published in May 2014 and established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

We have applied the five-step model framework on our current revenue streams and have not identified any significant effect on recognition and measurement. The standard is implemented using the modified retrospective method. ZITON has made use of the relief option of not restating comparative figures and have only applied IFRS 15 to contracts that were not completed at 1 January 2018.

Contracts are identified as lease contracts, service agreements or de-construction contracts. Lease agreements, which are either time charter or bareboat charters, are recognised on a straight line during the lease period in accordance to IAS 17. Service or de-construction contracts are typically turnkey and fixed price contracts in accordance with IFRS 15. Where contracts are identified as service or de-construction contracts, revenue is recognised at a point in time when all performance obligations have been delivered. At 31 December 2018 all contracts and performance obligations had been completed.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The IASB has issued a number of new or amended standards and interpretations that are not mandatory for the consolidated financial statements for 2018. ZITON A/S expects to adopt the standards and interpretations as they become mandatory. None of these amended standards or interpretations are expected to have a significant impact on recognition and measurement, but may lead to further disclosures in the notes.

IFRS 16 - Leases. For the lessee, the distinction between finance and operating leases will be eliminated. In the future, operating leases including rental agreements on i.e. office and inventory must be recognised in the balance sheet with an asset and a corresponding lease commitment. The standard takes effect in 2019 and is not expected to have a significant effect on the consolidated financial statements. It is estimated that assets and liabilities will increase by EUR 1m during the first quarter of 2019 based on current operational lease and rental contracts. The effect on the income statement 2019 will be an estimated reduction in operating expenses of EUR 0.7m, which will be offset by additional depreciation of EUR 0.4m and lease interest expenses of EUR 0.3m.

Further, in 2019 minor amendments on changes to the interpretation of uncertain tax positions (IFRIC 23), and two minor amendments on the interpretation of Financial instruments (IFRS 9) and long term investments in associated companies and joint ventures (IAS 28). The new amendments are not expected to have any significant effect on the consolidated financial statement.

2.1 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 vessel and ZITON Contractors A/S revenue and expenses. As all three vessels including ZITON Contractors A/S operate on similar assignments, management reviews the results of the Group as a whole to assess performance. Thus, there is only one operating segment.

Revenue

The Group operates in northern Europe. The geographical distribution of fixed-priced revenue is based on the country in which the wind farm is located. For time charter contracts, the geographical distribution is based on the position of the vessel, during the contract.

Geographical distribution of revenue

EUR '000	2018	2017
Denmark	29,993	14,029
United Kingdom	8,962	17,804
Sweden	3,974	-
Germany	1,675	257
Holland	490	955
Belgium	409	182
Total	I/S 45,504	33,227

Sales to the three largest customers made up 53%, 14% and 12%, respectively, of total revenue in 2018 (2017: 72% and 10%, respectively).

ACCOUNTING POLICIES

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

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

For vessels on fixed-price contracts, the type of service provided is analysed as either a lease, service or construction contract. Where contracts are identified as service or construction contracts, revenue is recognised at a point in time when all performance obligations have been delivered. Where contracts are identified as a lease (Time Charter) the revenue recognition is based on a straight-line basis over the term of the lease period.

2.2 STAFF COSTS

Total staff costs in the Group

EUR '000		2018	2017
Staff costs, office staff			
Wages and salaries		2,950	2,566
Pensions – defined contribution plans		207	201
Other social security costs		17	14
Total office staff	I/S	3,173	2,781
Vessel staff - the amount is included in "Operating expenses"			
Wages and salaries		4,323	3,648
Pensions – defined contribution plans		263	252
Other social security costs		86	44
Total vessel staff		4,672	3,944
Total staff costs		7,845	6,726

Average number of employees

		2018	2017
Office staff		29	23
Vessel staff, Danish nationalities		57	55
Vessel staff, other EU nationalities		18	18
Total employees		104	96

3.1 VESSELS AND EQUIPMENT

2018 EUR '000		Fixtures & equipment	Vessels	Total
Cost at 1 January		775	184,295	185,070
Exchange rate adjustments		-2	-301	-303
Additions		582	6,499	7,082
Disposals		-	-142	-142
Cost at 31 December		1,353	190,351	191,704
Depreciation at 1 January		-195	-30,359	-30,554
Exchange rate adjustments		1	60	61
Depreciation	I/S	-176	-7,725	-7,901
Disposals		-	12	12
Depreciation at 31 December		-368	-38,012	-38,380
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	B/S	985	152,339	153,324
- of which capitalised interest, at an average interest rate of 11.7% (Capitalised in 2018: EUR 0k).			16,629	16,629

At 31 December 2018, EUR 185k of the carrying amount of fixtures & equipment was car finance leases.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

2017 EUR '000		Fixtures & equipment	Vessels	Total
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 at 31 December		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	I/S	-121	-7,798	-7,919
Disposals		111	9	120
Depreciation at 31 December		-195	-30,359	-30,554
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	B/S	580	153,936	154,516
- of which capitalised interests, at an average interest rate of 11.7%. (Capitalised in 2017: EUR 0k).			17,362	17,362

At 31 December 2017, EUR 195k of the carrying amount of fixtures & equipment was car finance leases.

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 fair value less cost to sell and value in use. An impairment loss is recognised if the higher of 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 and by using estimated utilisation and average day rates for the "open charter periods".

- The estimated utilisation is based on projected future installation of offshore turbines, the average rate at which a turbine needs assistance from a jack-up vessel in the turbine's lifetime and ZITON's expected market share.
- Average day rates are based on estimated future market prices and/or contracts.

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

Management's assessment of indication of impairment on vessels is based on the cash-generating unit (CGU) in which all vessels are included.

An impairment test is carried out based on value in use when impairment issues exist. 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 and 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 year exceeds the carrying amount, and that, accordingly, there is no impairment.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

▶ SIGNIFICANT ESTIMATES AND ASSUMPTIONS - IMPAIRMENT OF VESSELS

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

Useful lives of the vessels

The useful lives of the vessel are assessed annually by the COO. At the current depreciation rate, the vessel are fully depreciated over 15 to 22 years.

Residual values

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

Impairment

Revenue for "open charter periods" is estimated based on projected future installation of offshore turbines, the average rate at which a turbine needs assistance from a jack-up vessel in the turbine's lifetime and ZITON's expected market share. Average day rates are based on either already signed framework agreement or historical prices. The value in use calculation is sensitive to fluctuations in expected day rates and vessel utilisation. However, an increase of the WACC of 2 percentage points to 9.8% or a reduction of either 9.6% in utilisation or day rates will not lead to a value in use lower than the current carrying amount of the vessels.

▶ SIGNIFICANT ESTIMATES AND ASSUMPTIONS - LEASES

Management's assessment of whether leases on assets should be classified as finance or operating leases is based on an overall evaluation of each lease. In finance leases, a non-current asset and a payable are recognised. In classification as operating leases, the regular lease payments are generally recognised in the income statement. As of 2019, all leases are classified as finance leases.

▶ ACCOUNTING POLICIES

The Group's accounting policy for vessels and fixtures and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. This includes capitalised staff costs and interest.

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

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

Vessels:	between 20 and 30 years
Installed equipment on vessels:	between 3 and 12 years
Machinery & tools:	between 3 and 10 years

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

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

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

3.2 INTANGIBLE ASSETS

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

2017 EUR '000		Software	Total
Cost at 1 January		-	-
Exchange rate adjustments		-	-
Additions		108	108
Disposals		-	-
Transferred during the year		-	-
Cost at 31 December		108	108
Depreciation at 1 January		-	-
Exchange rate adjustments		-	-
Amortisation	I/S	-4	-4
Disposals		-	-
Depreciation at 31 December		-4	-4
Impairment losses at 1 January		-	-
Impairment losses at 31 December		-	-
Carrying amount at 31 December	B/S	104	104

3.2 INTANGIBLE ASSETS (CONTINUED)

1 ACCOUNTING POLICIES

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

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

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

Software: between 3 and 7 years

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

3.3 FINANCIAL ASSETS

When Jack-Up InvestCo 3 Plc. was established ZITON A/S received a call option to purchase the remaining non-controlling interests. In 2015, a prepayment of EUR 6,057k on the call option was made to the non-controlling interest as part of the Group's revised capital structure. ZITON A/S recognised the prepayment as a call option to acquire all remaining shares in Jack-Up InvestCo 3 Plc. from the co-investor (the non-controlling interests).

During October 2018 and as part of refinancing, ZITON A/S executed its rights to acquire all remaining shares in Jack-Up InvestCo 3 Plc. The call option has been transferred to tangible assets as part of the vessel J/U WIND SERVER.

2018 EUR '000	Assets at fair value through P/L	Total
Fair value at 1 January	6,055	6,055
- Transferred to tangible assets	-6,055	-6,055
Fair value at 31 December	B/S	-

2017 EUR '000	Assets at fair value through P/L	Total
Fair value at 1 January	6,055	6,055
Fair value at 31 December	B/S	6,055

1 ACCOUNTING POLICIES

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

On initial recognition, the group measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets are measured at fair value and changes in the fair value are recognised as gains or losses through the profit and loss as either other income or other expenses.

3.4 PROVISIONS

Provisions for employee benefits

EUR '000		2018	2017
Provisions at 1 January		1,203	859
Change in employee bonus provision		425	176
Paid employee bonus		-375	-147
Change in provision for employee earned leave days		-33	215
Change in holiday provisions for employees		23	100
Warranty provision		55	-
Provisions at 31 December		1,298	1,203
Recognised in the balance sheet as follows:			
Current	B/S	1,298	1,203
Total trade and other receivables		1,298	1,203

1 SIGNIFICANT ESTIMATES AND ASSUMPTIONS

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

1 ACCOUNTING POLICIES

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

Employee bonus

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

Earned leave days

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

Holiday provision

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

Post-employment obligations

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

3.5 TRADE AND OTHER RECEIVABLES

EUR '000		2018	2017
Trade receivables		1,240	3,554
Provision for impairment		-	-
Other receivables		1,397	37
Intercompany receivables		323	140
Prepayments		71	197
Total trade and other receivables	B/S	3,031	3,928
Recognised in the balance sheet as follows:			
Current	B/S	3,031	3,928
Total		3,031	3,928

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

Trade receivables of total EUR 8k were overdue by less than 30 days at 31 December 2018. All payments were received during January 2019 (2017: Trade receivables of a total of EUR 40k were overdue by less than 60 days at 31 December 2017. All payments were received in January 2018).

2 SIGNIFICANT ESTIMATES AND ASSUMPTIONS - TRADE RECEIVABLE

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

Management estimated that there were no need for provisions on receivables at 31 December 2018 (2017: No provision on receivables)

2 ACCOUNTING POLICIES

Trade receivables

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

Other receivables and prepayments

Other receivables comprise deposits and other receivables.

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

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

3.6 TRADE AND OTHER PAYABLES

EUR '000		2018	2017
Trade payables		799	712
Other liabilities		689	1,296
Total trade and other payables	B/S	1,488	2,008

ACCOUNTING POLICIES

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid.

The amounts are unsecured and are usually paid within 30 days of recognition. Other liabilities represent accruals for primarily for interest and VAT.

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

4.1 RISK MANAGEMENT

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

Credit risk

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

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

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

Liquidity risk

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

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

EUR '000	Maturities			Total	Book value
	in 2019	Between 2020 to 2022	2023 and onwards		
Loans and receivables					
Cash	10,842	-	-	10,842	10,842
Trade receivables	1,240	-	-	1,240	1,240
Other receivables	1,397	-	-	1,397	1,397
Financial liabilities					
Subordinated loan	-	35,528	-	35,528	22,373
Bond loan, second lien		37,840		37,840	25,208
Bond loan, first lien	4,478	87,109	-	91,587	97,944
Trade and other payables	799	-	-	799	799
Working capital facility, incl. lease liability	178	-	-	178	178

Response:

The company currently has a loan to book value of vessels ratio of 58% and plans to reduce that percentage before the current bond issue comes due for refinancing (first lien bond loan matures October 2021 and second lien bond loan matures in April 2022).

Covenants

The bond loan agreement includes financial covenants that, if broken, involve default on credit facilities. The minimum required subordinated capital ratio at 31 December 2018 was 30%.

Market risk

Bunker price risk

The Group is exposed to fluctuating bunker prices. Bunker expenses in 2018 amounted to EUR 357k (2017: EUR 392k).

If bunker prices increase by 50%, the Group's expenses are assessed to increase by less than EUR 1,000k.

Response:

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

4.1 RISK MANAGEMENT (CONTINUED)

Interest rate risk

Most of the Group's financing, including the bonds issues with EUR 100m, EUR 25.2m and subordinated loan of EUR 22.4m outstanding at 31 December 2018, carries a floating rate of interest. Consequently, an increase in the general level of interest rates, as denoted by 3M EURIBOR for the bond issues and 3M CIBOR for the subordinated loan, will have an adverse effect on the Group's interest expenses.

An increase of 1 percentage point in interest rates would increase interest expenses by approx. EUR 1,5m. If EURIBOR or CIBOR rates fell below 0%, it would not benefit the Group to any major extent as there is a floor of 0% on ZITON A/S's bond issue and subordinated loan.

Response:

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

4.2 LOANS

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

At 31 December 2018, the Group had an undrawn working facility with the bank of EUR 6,696k (2017: EUR 6,716k).

Fair value:

First lien bond

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

Second lien bond

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

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

Financial covenants:

BOND: FRN ZITON A/S 2018/2021 - ISIN NO0010832488 & FRN ZITON A/S 18/22 - ISIN NO 0010832512

Subordinated capital ratio: The Issuer shall at all times maintain a subordinated capital ratio of at least 30% during the first 12 months from the Issue Date. The covenant of subordinated capital ratio increases by 2.5p.p. each subsequent year. At 31 December 2018, the minimum ratio was 30%. The key terms of the bond are listed following the accounting policies below.

4.2 LOANS (CONTINUED)

2017 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan	B/S	Fixed rate	-	35,560	35,560
Bond	B/S	Floating rate	5,437	85,486	90,923
Lease liabilities	B/S	Floating rate	55	110	165
Working capital facility	B/S	Floating rate	-	-	-
Total loans			5,492	121,156	126,648

Fair value:

At 31 December 2017, the latest trading price quoted for the bond on the Oslo Stock Exchange was 101.5. The fair value (hierarchy level 1) of the bond is equivalent to EUR 92,000k, compared to the carrying amount of 97,500k (adjusted for capitalised fees of EUR 1,077k). The fair value of the remaining loans are equivalent to the carrying amounts. Hence, the total fair value of loans at 31 December 2017 was EUR 131,985k, excluding capitalised fees of EUR 1,077k.

Financial covenants:

BOND: FRN ZITON A/S 2015/2019 - ISIN NO0010751332

Subordinated capital ratio: The Issuer shall at all times maintain a subordinated capital ratio of at least 30% during the first 12 months from the Issue Date and increase it by 1% each subsequent year. At 31 December 2017, the minimum ratio was 34%. The key terms of the bond are listed following the accounting policies below.

ACCOUNTING POLICIES

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

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

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

4.2 LOANS (CONTINUED)

Key terms for bond loans

	100 MEUR first lien	25 MEUR second lien
Tap issue	Additional 25 MEUR	None
Listing/ISIN	Oslo Børs - ISIN NO0010832488	Oslo Børs - ISIN NO 0010832512
Coupon	3m EURIBOR + 6.9% (0% floor)	3m EURIBOR + 11.85% PIK (0% floor)
Security	First lien in J/U WIND SERVER, J/U WIND PIONEER and J/U WIND Pledge in insurances, shares of subsidiaries, retention account, etc.	Same security package with 2nd priority
Maturity	3 years (3 October 2021)	3.5 years (3 April 2022)
Amortisation	<ul style="list-style-type: none"> Fixed amortisation: EUR 2,500,000 semi-annually (3 April 2019, 3 October 2019, 3 April 2020 and 3 October 2020) Mandatory cash sweep: Semi annual cash sweep of all cash in excess of EUR 7,500,000 @ 102% of par. First measurement date 31 December 2019. 	No amortisation
Call structure	Make whole first 18 months 103.0% after 18-24 months 102.0% after 24-30 months 101.0% after 30-33 months 100.5% after 33-36 months	Make whole first 18 months 103.0% after 18-24 months 102.0% after 24-30 months 101.0% after 30-33 months 100.5% after 33-36 months
Maintainance covenant	Subordinated Capital Ratio >30.0% increasing by 2.5p.p. annually	Subordinated Capital Ratio >30.0% increasing by 2.5p.p. annually
Incurrence covenant	Net Interest Bearing Debt to EBITDA is not greater than: <ul style="list-style-type: none"> 5.00 from the First Issue Date until 31 December 2018; 4.50 from 1 January 2019 until 31 December 2019; 4.00 from 1 January 2020 until the Final Redemption Date; The Subordinated Capital Ratio exceeds 30.0% on a proforma basis, increasing 2.5p.p. annually	Net Interest Bearing Debt to EBITDA is not greater than: <ul style="list-style-type: none"> 5.00 from the First Issue Date until 31 December 2018; 4.50 from 1 January 2019 until 31 December 2019; 4.00 from 1 January 2020 until the Final Redemption Date; The Subordinated Capital Ratio exceeds 30.0% on a proforma basis, increasing 2.5p.p. annually
Dividends	Not permitted prior to an IPO and Equity Claw Back	Not permitted prior to an IPO and Equity Claw Back
Change of control call, ZITON A/S	104%	104%
Change of control put, Investors	101%	101%

4.3 NET FINANCIAL EXPENSES

EUR '000		2018	2017
Financial income:			
Other		1	-
Total financial income	I/S	1	-
Interest expense			
Subordinated loan		4,015	3,883
Bank loans		148	161
Transaction costs		1,319	590
Bond loan, second lien		733	-
Bond loan, first lien		11,018	8,227
Finance lease liabilities		7	7
Foreign exchange loss		279	114
Other interest expense		106	186
Total financial expenses	I/S	17,625	13,168
Net financial expenses		17,624	13,168

ACCOUNTING POLICIES

Borrowing costs

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

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

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

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

4.4 RECONCILIATION OF FINANCING LIABILITIES

EUR '000	2017	Cash flow	Non-cash changes			2018
			Other non-cash movements	Non-cash interest	Foreign exchange movements	
Subordinated loan	35,560	-17,333	-	4,238	-92	22,373
Bond loan, second lien	-	24,439	-	733	36	25,208
Bond loan, first lien	85,486	5,950	2,200	-	-6	93,630
Bond loan - current liability	5,437	-	-1,123	-	-	4,314
Subtotal	126,483	13,933	200	4,971	-62	145,525
Lease liabilities	110	49	-	-	-	159
Lease liabilities - current liability	55	-41	-	-	-	14
Cash	-2,753	-8,114	-	-	25	-10,842
Total financing liabilities	123,895	4,950	1,077	4,971	-36	134,856

At 31 December 2018, total cash at bank included EUR 1,261k in a retention account, in favour of bond amortisation and interest (2017: EUR 1,170k).

5.1 INCOME TAX EXPENSE

Income tax expense

EUR '000	2018	2017
Current tax:		
Current tax on income for the year	-	-
Adjustments in respect of prior years - current tax	-	-
Total current tax	-	-
Deferred tax (note 5.2):		
Deferred tax on the income (profit/loss) for the year	-5,970	-1,255
Adjustments in respect of prior years - deferred tax	-112	112
Total deferred tax	-6,082	-1,143
Income tax expense	I/S -6,082	-1,143

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

Reconciliation of tax rate

EUR '000	2018	2017
Profit/loss before tax	4,799	-1,841
Danish tax rate 22%	-1,056	405
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate	-838	-1,157
Notional interest on equity (Malta)	1,077	926
Non-deductible interest	-2,740	-1,387
Other adjustments	-2,414	-42
Income tax expense for the year	-5,970	-1,255

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

ZITON incurred a loss of EUR 1.8m for 2017, but the taxable income was a profit of EUR 5.7m, resulting in a tax expense of EUR 1.3m. The difference between the reported loss of EUR 1.8m and the taxable income of EUR 5.7m is due to the effect of the Malta tax rate of 35% and non-deductible interest in Denmark. On the other hand, the use of notional interest on equity financing in Malta partly offset the higher income tax percentage in Malta.

ACCOUNTING POLICIES

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unutilised tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

5.2 DEFERRED TAX

EUR '000	2018	2017
Deferred tax 1 January	-3,695	-2,441
Currency translation	-5	2
Change in deferred tax - recognised in the income statement	-5,970	-1,143
Adjustments to prior-years	-112	-113
Total deferred tax, net at 31 December	-9,782	-3,695
Deferred tax gross:		
Deferred tax asset	5,183	5,945
Deferred tax liabilities	-14,965	-9,640
Total deferred tax, net at 31 December	-9,782	-3,695

Specification of deferred tax

EUR '000	2018	2017
Vessel and equipment	-14,965	-9,640
Tax-loss carry forwards	5,183	5,945
Total deferred tax at 31 December	-9,782	-3,695

Deferred tax in balance sheet

EUR '000		2018	2017
Deferred tax assets	B/S	-	334
Deferred income tax liabilities	B/S	-9,782	-4,029
Total deferred tax at 31 December		-9,782	-3,695

In 2018, total deferred tax consists of a liability from Jack-Up InvestCo 3 Plc. of EUR 5,207k and a deferred tax liability of EUR 4,575k concerning Danish joint taxation, for a total of EUR 9,782k. In 2017, total deferred tax consisted of a liability from Jack-Up InvestCo 3 Plc. of EUR 4,029k and a deferred tax asset of EUR 334k concerning Danish joint taxation, for a total of EUR 3,695k.

5 SIGNIFICANT ESTIMATES AND ASSUMPTIONS

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

5.2 DEFERRED TAX (CONTINUED)

■ ACCOUNTING POLICIES

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

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

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

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

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

6.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)

Operating leases relate to leases of office and cars.

Recognised in the income statement in respect of rentals incl. commitments

EUR '000	2018	2017
Recognised in the income statement in respect of rentals	173	161
Lease commitments:		
0 - 1 year	53	103
1 - 5 years	-	127
After 5 years	-	-
Total lease commitments	53	230

■ SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Management's assessment of whether leases on vessels should be classified as finance or operating leases is based on an overall evaluation of each lease. In finance leases, a non-current asset and a payable are recognised. In classification as operating leases, the regular lease payments are generally recognised in the income statement.

■ ACCOUNTING POLICIES

Agreements to charter vessels and to lease other tangible assets where all substantial risks and rewards of ownership have been transferred to the Group (finance leases) are recognised in the balance sheet (Note 3.1 - Vessels and equipment). Other agreements to charter vessels and other leases are considered operating leases. Payments in connection with operating leases are recognised on a straight-line basis in the income statement over the terms of the leases.

As of 2019, ZITON will implement IFRS 16 which classifies all lease agreements or rentals as financial leases (1.1 Basis of reporting).

Contingencies

Security

In October 2018, the company issued two bonds of a total amount of EUR 125,000k and obtained a working capital facility consisting of an overdraft facility and performance guarantees. The overdraft facility is limited to DKK 50,000k (EUR 6,696k). The bondholders and the provider of the working capital facility and performance guarantees have entered into an intercreditor agreement sharing the following security:

- The Group's three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) with a total carrying amount of EUR 152,339k (2017: EUR 153,936k) have been pledged for a total amount of EUR 195,003k (2016: EUR 195,003k).
- The Group's deposit from time to time held in a retention account with Spar Nord.
- The Group's entitlements under insurances related to its three vessels (J/U WIND, J/U WIND PIONEER and J/U WIND SERVER) other than third-party liability insurances.
- The Group's rights and entitlements under the three-year charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy A/S.

Guarantees

As part of the working capital facility, the Group's bank has provided a performance guarantee in connection with the three-year charter of J/U WIND SERVER to Siemens Gamesa Renewable Energy A/S. The guarantee amounts to EUR 1,000k (2017: EUR 2,961k), with a quarterly adjustment during the lifetime of the charter. The guarantee is an on-demand guarantee and serves to guarantee the full and punctual performance of ZITON A/S's obligations and payment of any sums that ZITON A/S is liable to pay under or in connection with the charter contract. The executed guarantee has been delivered to charterers ninety days prior to the delivery date, and shall remain valid until ninety days after the expiry of this charter contract.

6.1 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Unrecognised contingent liabilities

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

▶ SIGNIFICANT ESTIMATES AND ASSUMPTIONS

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

▣ ACCOUNTING POLICIES

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

6.2 SHARE-BASED PAYMENTS

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

Management and selected employees (granted in 2012):

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

Subordinated loan provider (granted in 2012):

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

Management and selected employees (granted in 2016):

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

2018 Warrants – amount and value in EUR	Staff expenses		Interest	Total
	Management	Employees	Subordinated loan provider	
Outstanding warrants at 1 January 2018	327,329	51,078	99,500	477,907
Outstanding warrants at 31 December 2017	327,329	51,078	99,500	477,907
Number of exercisable options at 31 December 2018				477,907
Fair value at the time of grant (EUR '000)	68	10	64	142

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

6.2 SHARE-BASED PAYMENTS (CONTINUED)

■ ACCOUNTING POLICIES

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

2017 Warrants – amount and value in EUR	Staff expenses		Interest	Total
	Management	Employees	Subordinated loan provider	
Outstanding warrants at 1 January 2017	327,329	51,078	99,500	477,907
Outstanding warrants at 31 December 2017	327,329	51,078	99,500	477,907
Number of exercisable options at 31 December 2017				477,907
Fair value at the time of grant (EUR'000) at 31 December 2017	68	10	64	142

No warrants were granted, exercised or cancelled in 2017. The fair value of the warrants is fully recognised, hence there was no effect in the income statement or equity during 2017.

6.3 FEES TO AUDITORS

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

Fees to auditors appointed by the Annual General Meeting

EUR '000	2018	2017
BDO Statsautoriseret revisionsaktieselskab		
Statutory audit	38	35
Assurance engagements	2	2
Tax advisory	15	7
Other services	1	13
Total	56	57

6.4 RELATED PARTY TRANSACTIONS

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

Remuneration

EUR '000	Executive Management		Board of Directors	
	2018	2017	2018	2017
Wages and salaries	385	325	54	49
Pensions – defined contributions plans			-	-
Other social security costs	0	0	-	-
Total	386	326	54	49

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

Trading and accounts with related parties

EUR '000	2018	2017
Balance sheet items:		
Intercompany balances		
Effect of joint taxation with Jack-Up Holding A/S and Anpartsselskabet af 1. december 2011 ApS	323	140
Profit and loss		
Transactions with Dansk Bjergring and Bugsering A/S	1,353	604

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

ACCOUNTING POLICIES

ZITON A/S is controlled by Jack-Up Holding A/S, which holds 59.5% of the share capital in ZITON A/S. Dansk Bjergring & Bugsering Holding ApS (owner of Dansk Bjergring and Bugsering A/S) and OY Finans ApS hold 25.1% and 14.8% of the share capital respectively.

The ultimate controlling party of the Group is Jack-Up Holding A/S's holding company Anpartsselskabet af 1. december 2011 ApS.

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

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

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

6.5 SUBSEQUENT EVENTS

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

The financial statements were approved by the Board of Directors and at the Annual General Meeting to be authorised for issue on 24 April 2019.

6.6 LEGAL ENTITIES

Name and home	Ownership (%)
Parent company	
ZITON A/S, Horsens, Denmark	-
Subsidiaries	
ZITON Contractors A/S, Horsens, Denmark	100%
Jack-Up InvestCo 2 A/S, Horsens, Denmark	100%
Jack-Up InvestCo 3 Plc., Qormi, Malta	100%
ZITON Ltd., London, United Kingdom	100%
ZITON GmbH, Hamburg, Germany ¹⁾	100%
ZITON Ltd., Beijing, China ¹⁾	100%

1) Company under foundation

J/U WIND PIONEER
performing full rotor lift



PARENT COMPANY FINANCIAL STATEMENTS

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INCOME STATEMENT

1 JANUARY - 31 DECEMBER

EUR '000	Note	PARENT COMPANY	
		2018	2017
Revenue		45,011	33,202
Other operating income		1,340	-
Project-related expenses		-3,962	-1,445
Operating expenses		-23,989	-27,601
Gross profit		18,400	4,156
Administrative expenses		-1,452	-1,628
Staff costs	2.1	-6,611	-6,385
EBITDA		10,337	-3,857
Depreciation and amortisation	3.3	-1,628	-2,221
EBIT		8,709	-6,078
Income from equity investment		2,996	3,318
Financial income	2.2	8,565	11,251
Financial expenses	2.2	-19,880	-16,553
Income before tax		389	-8,062
Tax on profit (loss)	2.3	-1,611	1,742
Income for the year		-1,222	-6,320

BALANCE SHEET AT 31 DECEMBER

- ASSETS

EUR '000	Note	PARENT COMPANY	
		2018	2017
Intangible assets	3.1	100	105
Intangible assets		100	105
Vessel	3.2	21,009	22,357
Fixtures & equipment	3.2	772	439
Tangible assets		21,781	22,796
Investment in subsidiaries	3.3	51,587	19,039
Deferred tax asset	3.4	318	3,118
Financial assets	3.3	-	6,055
Long-term receivables, subsidiaries		78,358	139,731
Financial assets		130,263	167,943
Inventories		35	38
Trade receivables		1,050	3,554
Intercompany receivables, subsidiaries		1,441	384
Other receivables		1,396	36
Prepayments		69	196
Cash and cash equivalents		10,518	2,664
Current assets		14,509	6,872
Total assets		166,653	197,716

BALANCE SHEET AT 31 DECEMBER - EQUITY AND LIABILITIES

EUR '000	Note	PARENT COMPANY	
		2018	2017
EQUITY			
Share capital		11,093	11,093
Reserves		6,630	3,634
Retained earnings		-4,185	68
Total equity		13,538	14,795
LIABILITIES			
Subordinated loan	4.1	22,373	35,560
Bond loan, second lien	4.1	25,208	-
Bond loan, first lien		93,630	85,486
Lease obligation	4.1	159	110
Total non-current liabilities		141,370	121,156
Other provisions		1,230	1,189
Bond loan, first lien	4.1	4,314	5,437
Lease obligation		14	55
Trade payables		679	648
Intercompany payables, subsidiaries		4,988	52,374
Other liabilities		520	2,062
Total current liabilities		11,745	61,765
Total liabilities		153,115	182,921
Total equity and liabilities		166,653	197,716

STATEMENT OF CHANGES IN EQUITY

PARENT COMPANY							
2018 EUR '000	Share capital	Reserve for warrants	Translation reserves	Reserve for equity value	Total reserves	Retained earnings	Total equity
Balance at 31 December 2017	11,093	143	17	3,474	3,634	68	14,795
Exchange rate adjustments		-	-	-	-	-35	-35
Total Income for the year, after tax	-	-	-	2,996	2,996	-4,218	-1,222
Balance at 31 December 2018	11,093	143	17	6,470	6,630	-4,185	13,538

Share capital

At the end of 2018, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares 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.

Specification of movements in the share capital

EUR '000	2018	2017	2016	2015	2014
Share capital	11,093	11,093	11,093	11,093	7,763

NOTES TO THE FINANCIAL STATEMENTS

1.1 BASIS OF REPORTING

ACCOUNTING POLICIES

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

As the accounting policies of ZITON A/S differ from those of the Group, which follows IFRS, with respect to only a few items, only policies that differ from those of the Group are detailed below. Reference is made to the accounting policies of the ZITON Group for other items.

The accounting policies of the parent company, including presentation, are unchanged compared to last year.

Income statement and balance sheet

Earnings from equity investments

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

Investments in subsidiaries

Investments in Jack-Up InvestCo 2 A/S, ZITON Contractors A/S and Jack-Up InvestCo 3 Plc. are recognised and measured according to the equity method.

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

Jack-Up InvestCo 2 A/S", "Investments in ZITON Contractors A/S" and "Investment in Jack-Up InvestCo 3 Plc.".

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

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

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

Goodwill amortisation 25 years

Other accounting policies

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

2.1 STAFF COSTS

Total staff costs

	PARENT COMPANY	
EUR '000	2018	2017
Staff costs		
Wages and salaries	6,056	5,889
Pensions - defined contributions plans	445	441
Other social security costs	110	55
Total staff costs	I/S 6,611	6,385
of which remuneration to:		
Management ¹⁾	385	326
Board of Directors	54	50

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

Average number of employees

	2018	2017
Total employees	101	96

2.2 NET FINANCIAL EXPENSES

EUR '000	PARENT COMPANY	
	2018	2017
Financial income		
Financial income, related parties	8,564	11,251
Other financial income	1	-
Total financial income	I/S 8,565	11,251
Financial expense		
Financial expenses, related parties	2,254	3,386
Other financial expenses	17,626	13,167
Total financial expenses	I/S 19,880	16,553
Net financial expenses	-11,315	-5,302

2,3 INCOME TAX EXPENSE

EUR '000	PARENT COMPANY	
	2018	2017
Current tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years - current tax	-	-
Total current tax	-	-
Deferred tax (note 3,4):		
Deferred tax on the profit/loss for the year	-1,611	1,695
Adjustments to prior years - deferred tax	-	47
Total deferred tax	-1,611	1,742
Income tax expense	I/S -1,611	1,742

3.1 INTANGIBLE ASSETS

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

3.2 VESSELS AND EQUIPMENT

2018 EUR '000	PARENT COMPANY		
	Fixtures & equipment	Vessel	Total
Cost at 1 January	627	37,068	37,695
Exchange rate adjustments	-2	-111	-113
Additions	479	72	551
Additions on leased assets	-	237	237
Disposals	-	-142	-142
Cost at 31 December	1,104	37,124	38,228
Depreciation at 1 January	-188	-14,711	-14,899
Exchange rate adjustments	1	44	45
Depreciation	-144	-1,425	-1,569
Depreciation of leased assets	-	-35	-35
Disposals	-	12	12
Depreciation at 31 December	-331	-16,115	-16,446
Impairment losses at 1 January	-	-	-
Impairment losses at 31 December	-	-	-
Carrying amount at 31 December	B/S 773	21,009	21,782
- of which car finance leases	185	0	185

3.3 FINANCIAL ASSETS

2018 EUR '000	PARENT COMPANY			Total
	Equity investment in Jack-Up InvestCo 3 Plc.	Equity investment in Jack-Up InvestCo 2	Equity investment in ZITON Contractors	
Cost at 1 January	14,001	742	64	14,807
Exchange rate adjustments	-	-3	3	-
Additions	29,636	734	-	30,370
Cost at 31 December	43,637	1,473	67	45,177
Adjustments at 1 January	5,039	-1,360	-207	3,472
Exchange rate adjustments	-14	-63	-	-77
Depreciation of goodwill	-83	-	-	-83
Profit during the year	2,847	110	121	3,078
Adjustments at 31 December	7,790	-1,313	-86	6,391
Total	51,427	160	-19	51,568
Transfer to other liabilities	-	-	19	19
Carrying amount at 31 December	B/S 51,427	160	-	51,587

Jack-Up InvestCo 3 Plc. (registered office: Qormi, Malta (Share of ownership 100% at 3 October 2018).

Jack-Up InvestCo 2 A/S (registered office: Horsens, Denmark (Share of ownership 100%))

ZITON Contractors A/S (registered office: Horsens, Denmark (Share of ownership 100%))

3.4 DEFERRED TAX

EUR '000	PARENT COMPANY	
	2018	2017
Deferred tax 1 January	3,118	1,425
Currency translation	-	-
Change in deferred tax - recognised in the income statement	-1,611	1,740
Utilisation of tax loss in joint taxation	-1,189	-
Adjustments to prior-years	-	-47
Adjustment to deferred tax asset	-	-
Total deferred tax, net at 31 December	B/S 318	3,118
Deferred tax gross		
Deferred tax asset	2,637	5,487
Deferred tax liabilities	-2,319	-2,369
Total deferred tax, net at 31 December	B/S 318	3,118

4.1 LOANS

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

2017 EUR '000	Current debt	Non-current debt		Total	
	0-1 year	1-5 years	After 5 years		
	Subordinated loan	-	35,560		-
Bond	5,437	85,486	-	90,923	
Lease obligation	55	110	-	165	
Total	B/S	5,492	121,156	-	126,648

4.2 PROPOSED DISTRIBUTION OF PROFIT

EUR '000	PARENT COMPANY	
	2018	2017
Reserve for equity value	3,079	3,315
Amortisation of goodwill	-83	-
Accumulated profit (loss)	-4,218	-9,635
Proposed distribution of profit	-1,222	-6,320

5.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)

See note 6.1 to the consolidated financial statements.

Contingencies

Lease obligations

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

Proposed distribution of profit

EUR '000	2018	2017
Lease obligations from operating lease		
Total future lease payments:		
Within 1 year	8,396	9,235
Between 1 and 5 years	-	-
After 5 years	-	-

Security

A vessel with a total carrying amount of EUR 21,009k (2016: EUR 22,357k) has been pledged as security for bond and bank debt at a total carrying amount of EUR 40,002k (2016: EUR 40,002k).

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

Guarantees

See note 6.1 to the consolidated financial statements.

Unrecognised contingent liabilities

See note 6.1 to the consolidated financial statements.

5.2 SHARE-BASED PAYMENTS

See note 6.2 to the consolidated financial statements

5.3 FEES TO AUDITORS

See note 6.3 to the consolidated financial statements

5.4 RELATED PARTY TRANSACTIONS

See note 6.4 to the consolidated financial statements.

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

The ownership share above 5% is listed on page 14 in the consolidated financial statements.

5.5 SUBSEQUENT EVENTS

See note 6.5 to the consolidated financial statements







ZITON

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