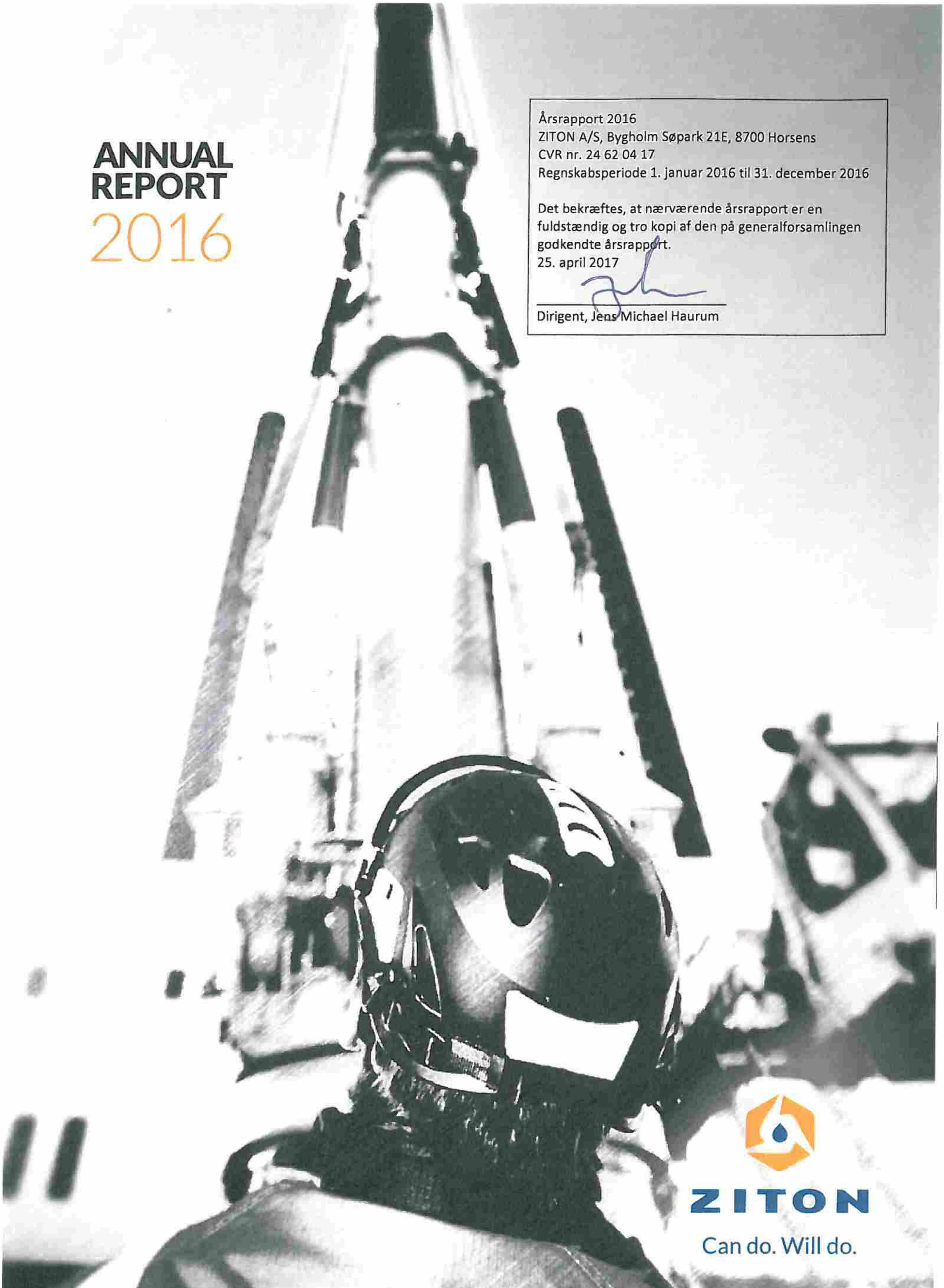
ANNUAL REPORT 2016

Årsrapport 2016
ZITON A/S, Bygholm Søpark 21E, 8700 Horsens
CVR nr. 24 62 04 17
Regnskabsperiode 1. januar 2016 til 31. december 2016

Det bekræftes, at nærværende årsrapport er en fuldstændig og tro kopi af den på generalforsamlingen godkendte årsrapport.
25. april 2017

Dirigent, Jens Michael Haurum



ZITON
Can do. Will do.

COMPANY DETAILS

COMPANY
ZITON A/S
Bygholm Søpark 21E
8700 Horsens
Denmark

WEBSITE
www.ziton.eu

PRODUCTION
Datagraf
Communications 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 530 service interventions at 40 wind farms.

Our customers are leading wind turbine manufacturers and wind farm owners. ZITON owns and operates three jack-up vessels:

- 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 70 employees offshore, and about 25 onshore at the office in Horsens, Denmark.

ZITON's primary business is to provide jack-up services for major component replacements, including gearboxes, generators, blades, transformers, main bearings, main shafts, full rotors etc.

In addition, ZITON provides jack-up services such as installation support, blade repair and decommissioning of turbines, foundations and met masts.

> The offshore wind power industry is evolving fast and ZITON remains an accountable and committed partner in delivering modern solutions for offshore operations and maintenance. This is especially important for us as more and more wind turbines are installed in increasingly challenging conditions.
>
> Rene Cornelis Wigmans, Head of Maritime and Aviation Solutions, Siemens Wind Power Service

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 decom-missioning	Met mast decom-missioning
	Geotechnical survey	Installation of met mast	Turbine installation	Installation support	O&M routines	Blade repair	Turbine decom-missioning	Substation decom-missioning

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

HIGHLIGHTS
OF THE YEAR

In this section, ZITON CEO Thorsten Jalk comments on the performance of 2016 and the outlook for the coming year.

Q&A

Q: What were your main achievements in 2016?
A: We entered into the three-year charter for J/U WIND SERVER with Siemens Wind Power effective from 14 March 2016. This first year of operations has enabled Siemens Wind Power to reduce downtime through shorter lead times required to mobilise, securing a faster response to unscheduled replacement of major offshore wind turbine components. In order to keep the vessel operational at all times, we have built redundancy into its design, and we maintain a very high level of preventive maintenance and carry an inventory of critical spare parts. As a result, we have operated the vessel with no off-hire days. Our two other vessels, J/U WIND PIONEER and J/U WIND, continue to perform well. I'm pleased to say, we have the industry's largest fleet of dedicated O&M jack-ups for the offshore wind industry.

Q: What is your contract situation?
A: We are very pleased with our portfolio of important contracts and agreements going into 2017. We signed with DONG Energy and Vattenfall in the second half of 2016. Very importantly, these contracts complement our existing contracts with Siemens Wind Power and MHI Vestas Offshore Wind. We have now signed agreements with Europe's two largest OEMs and the two largest wind farm operators. Clearly, this makes us the market-leading provider of O&M jack-ups for the offshore wind industry, a position we are very proud of and will work hard to maintain and defend in the years to come.

Q: How do you contribute to lowering levelized cost of energy?
A: Recent tenders for Kriegers Flak and Borsselle III & IV shows that the industry continues to reduce the levelized cost of energy ("LCOE"), and offshore wind may in the foreseeable future be able to compete with fossil fuels without subsidies. The O&M phase amounts to about one third of LCOE, so it is important to continue to improve our efficiency. This is also the reason why customers like DONG Energy and Vattenfall have entered into long-term framework agreements with us. By consistently using the same people to carry out major component replacements, we are able to carry out projects faster, using fewer resources, and reducing waiting time between projects.
Increasingly, our customers tell us that they see a mutual benefit from ZITON gradually taking over more and more of major component replacement operations. They understand that, as the market leader, we are able to add to our skills base at a scale that provides mutual benefits. As a result, we offer services that are complementary to our core jack-up business, such as turbine technicians, yoke operators, lifting equipment etc. It was for this purpose we established ZITON Contractors A/S at the beginning of 2017. The overall objective and main goal is to become more efficient and to lower LCOE for the benefit of our customers.

Q: What is the outlook for the market for operations & maintenance of offshore wind turbines?
A: The market size is determined by the failure rates of major components in turbines and by the number of turbines installed.

Failure rates mainly depend on wear and tear. It is important to remember that this is a very young industry. The first big-scale offshore turbines were installed only fifteen years ago, and the number of installations has only begun to accelerate over the past five years. Only one in ten turbines is more than ten years old. Also, we have to remember that offshore wind farms are exposed to highly variable and harsh weather conditions, including calm to severe winds, lightning and hail. We only have a small fact base about what years of wear and tear in offshore locations in very harsh weather conditions do to the turbines, but I can tell you this much: we have the industry's largest documented insight into main component failure rates for offshore wind turbines. As we are our customers' preferred provider of major component replacements, our data and insights into failure rates grows year by year. Our proprietary documented insights allow us to prepare scenarios for the predicted development

Thorsten Jalk, CEO, ZITON.

in failure rates during the coming years, enabling us to balance our vessel capacity with demand, for the benefit of our customers.

The offshore wind market has grown tremendously in recent years. We ended 2016 with about 3,400 grid-connected turbines in northern Europe, and growth is projected to continue in the foreseeable future. However, turbine technology innovation implies that turbines are becoming larger and larger, and this is a trend that is progressing much faster than anyone in the industry expected only a few years ago. Moreover, wind farms are being placed at ever greater water depths. This requires jack-up vessels with longer legs and a higher reach than previously expected. As the market leader and a dedicated provider of end-to-end services for major component replacement to the offshore wind industry, we are obviously exploring every option to continue to serve our customers and the future generation of wind farms.

“

ZITON and MHI Vestas Offshore Wind have a long and successful track record of working together. Building on their solid experience and mutual trust, the parties have drawn up a framework agreement ensuring that we can at any time carry out projects, at short notice and with a common goal in the safest and most efficient way for the benefit and satisfaction of all parties.

Thomas Rasmussen, Project Manager, Special Projects, Operation Support, MHI Vestas Offshore Wind A/S

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 m^2

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

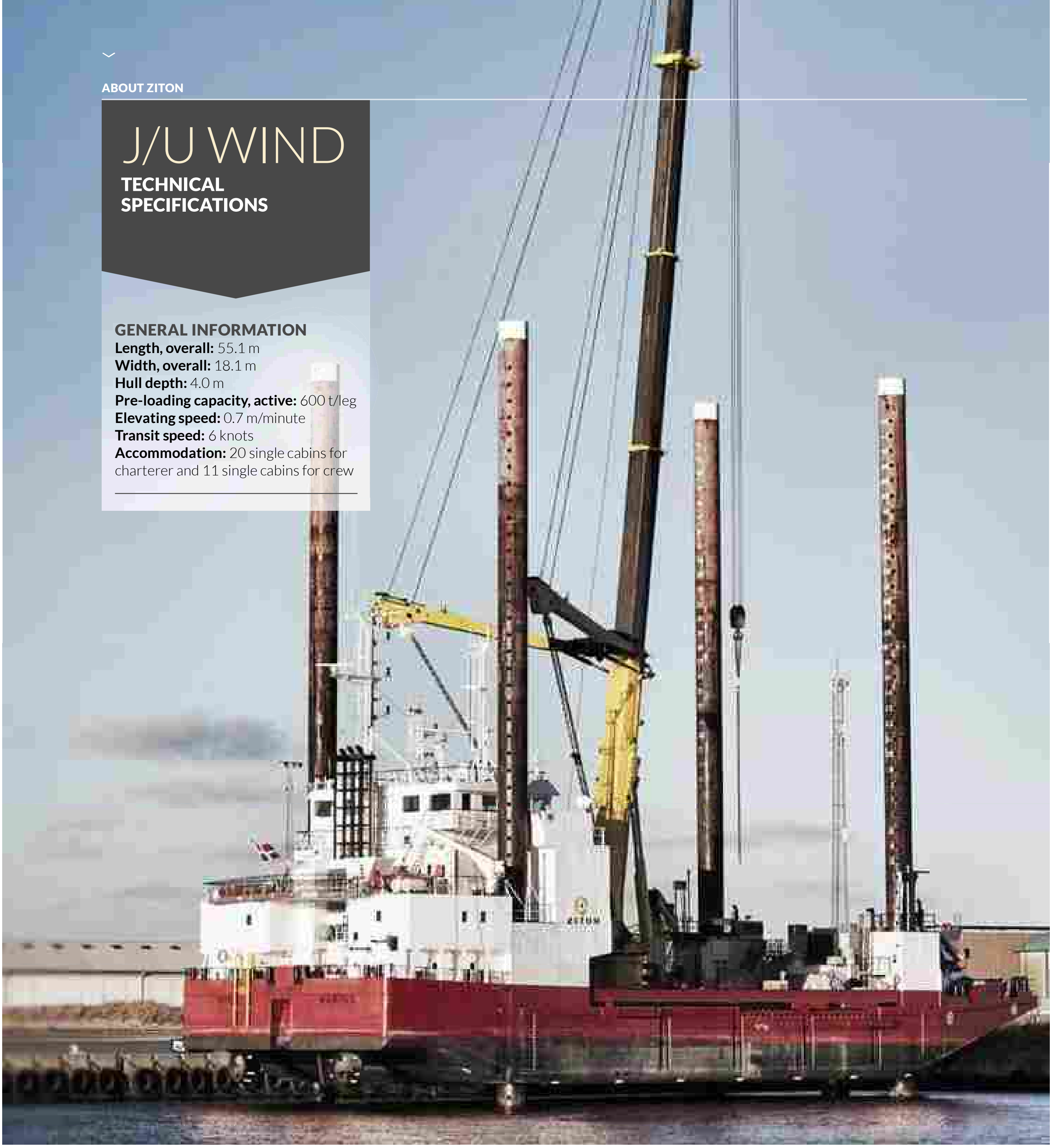
MAIN CRANE AND LIFTING CAPACITY
Main crane: Liebherr BOS 7500
Main crane boom length: 78 m
Main crane max. lifting capacity: 150 t at 19 m radius at 78 m height above deck

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 m^2

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

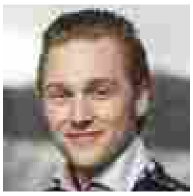
MANAGEMENT AND BOARD
EXECUTIVE MANAGEMENT TEAM

THORSTEN JALK
Chief Executive Officer
Appointed CEO in 2011
Born 1967

Mr Jalk has more than 15 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 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.

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

Previous engagements: Mr Haurum was CFO at Borg Automotive A/S and Head of Group Finance and Investor Relations at BioMar Group A/S. Prior to this he 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 A/S in June 2012 as Chief Financial Officer and was appointed Chief Legal Officer in April 2015.
Previous engagements: Prior to joining ZITON A/S, Mr Mühlebach held positions as Chief Financial Officer 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 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 A/S, Mr Albér worked as an Operations Manager with Fred. Olsen Windcarrier. He worked for ZITON A/S from 2008 to 2011 as Master Mariner (2009-2011) and HSEQ Manager (2008-2009). After graduating and before joining ZITON A/S, Mr Albér held positions as SQE Manager (2008) and Marine Superintendent (2006-2008) with the Clipper Group.
Educational background: Mr Albér is Master Mariner and holds a degree in navigation from Marstal Navigationsskole.

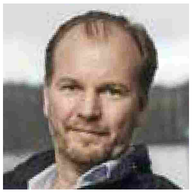
BOARD OF DIRECTORS

Members of the Board of Directors are elected for terms of one year. In 2016, the Board of Directors held a total of six board meetings. The Board of Directors has established an Audit Committee consisting of the entire 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 board of directors of Jack-Up InvestCo 3 Plc and Costamare Inc.
Previous engagements: Mr Møller has held different positions with A.P. Møller-Maersk during his entire career. He has also held numerous positions as chairman or a member of the board(s) of directors of a number of A.P. Møller-Maersk affiliated companies and as chairman of the board of Scan Global Logistics A/S.
Educational background: Management studies 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 board of directors of Hydratech Industries A/S, SH Group A/S, System Frugt A/S and Qubiqa Esbjerg A/S.
Previous engagements: Prior to founding Odin Equity Partners (today known as BWB Partners) in 2005, Mr Jørgensen worked with the consultancy firm AlixPartners and previously also 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 of BWB Partners. He serves as a member of the board of directors of Heatex AB, SSG Group A/S and Weiss A/S.
Previous engagements: Mr Jensen has a background in investment banking. He previously worked for six years as a director at Carnegie Investment Banking in Copenhagen, prior to which he worked for two years with Morgan Stanley Investment Banking in London.
Educational background: Master of Science in Management & Economics (cand. oecon) from Aarhus University.

DIVERSITY IN MANAGEMENT

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. ZITON recognises the value of diversity, including gender-related diversity. The Board of Directors has set target figures for the share of the underrepresented gender on the Board of Directors and has formulated a policy to increase the share 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 on 25 April 2017 to the annual general meeting to be held in April 2020. 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 presented as candidates in all recruitment processes. ZITON has had relatively little success in increasing the share of women at management levels. We believe this is due to employment patterns in the offshore wind and shipping industries, where men are generally overrepresented.

OVE C. ERIKSEN

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

Current engagements: Mr Eriksen serves as a director of Dansk Bjergning og Bugsering A/S.
Previous engagements: Founded Dansk Bjergning 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 is an independent consultant providing strategic management consultancy services to the Energy and Project sector.
Previous engagements: Mr Melin has held a number of positions with both wind turbine manufacturers and utility organisations, most recently as Vice President EPC & Construction Management with DONG Energy Wind Power and as a member of the board of A2SEA A/S. Previously served as Vice President Project & Technology with Vestas Offshore.
Educational background: BSc. Mechanical Engineering from the Engineering College of Aarhus (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 Director of 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 CEO. He is a former chairman of the Danish Shipyard Industry Association (Skibsværftsforeningen – 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.

OWNERSHIP STRUCTURE

THE OWNERSHIP STRUCTURE AND CURRENT SHAREHOLDINGS IN THE COMPANY ARE SET OUT BELOW

JACK-UP HOLDING A/S (BWB Partners)	DANSKE BJERGNING OG BUGSERING HOLDING APS (Ove Eriksen)	OY FINANS APS (Orskov Yard)	MANAGEMENT/ CHAIRMAN
59.5 %	25.1 %	14.8 %	0.6 %

ZITON A/S

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 was founded in 2015 in connection with the reorganisation of the former Odin Equity Partners' funds. As part of this reorganisation the investor base was renewed, a generational change in the management of BWB Partners was concluded, and investors added further commitments to the funds.

BWB Partners manages two funds investing on behalf of Danish and international investors. Both funds are actively investing and looking at new investment opportunities. BWB Partners I has a committed capital of EUR 175 million, while BWB Partners II has a capital commitment of EUR 130 million. ZITON is an investment held in BWB Partners II K/S.

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 the DVCA guidelines on corporate governance and its recommendations on responsible ownership. Consequently, ZITON is also subject to DVCA's corporate governance guidelines. For further information, please visit DVCA's homepage at www.dvca.dk.

DANSK BJERGNING OG BUGSERING HOLDING APS

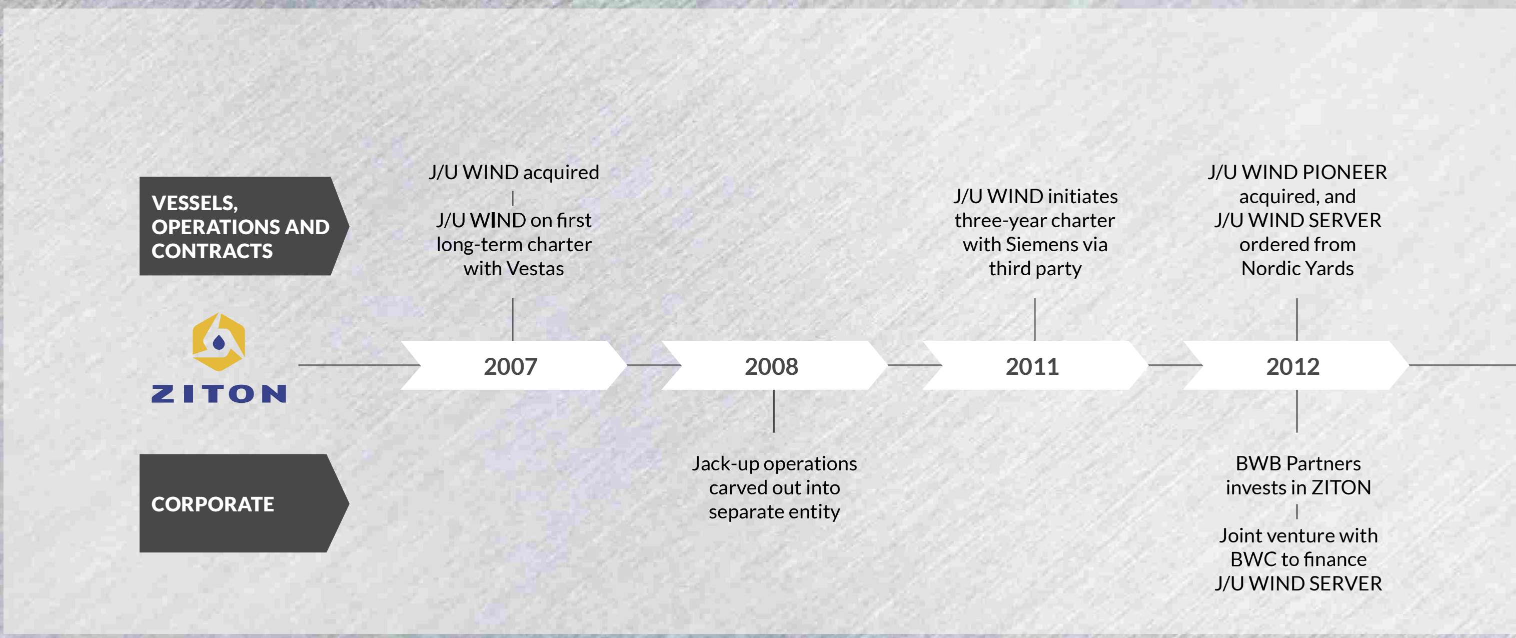
In addition to its shareholding in ZITON A/S, the company owns Dansk Bjergning og Bugsering A/S which focuses on salvage and towing operations, specialised heavy lift and ROV operations. The founder and owner, Mr Ove Eriksen, is in charge of the day-to-day management of the company and the vessels.

OY FINANS APS

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

HISTORY OF THE COMPANY

The Company was renamed ZITON A/S in June 2016. The change of name signals our ongoing commitment to providing specialised services within operating and maintaining offshore wind turbines. Eliminating jack-up services from our name signifies that we are prepared to further expand our scope of services.



LEGAL STRUCTURE AND VESSEL OWNERSHIP

ZITON Group consists of the parent company ZITON A/S, the wholly owned subsidiary Jack-Up InvestCo 2 A/S and a 50 per cent ownership of Jack-Up InvestCo 3 Plc. Jack-Up InvestCo 3 Plc. is owned in a joint venture with Blue Water Capital S.A. In accordance with IFRS, Jack-Up InvestCo 3 Plc. is fully consolidated in the accounts of ZITON A/S, as explained in note 1.1 to the financial statements. Blue Water Capital S.A. is an investment company whose promoter is Slim Bouricha. Mr. Bouricha serves on the board of Jack-Up InvestCo 3 Plc.

J/U WIND is wholly owned by ZITON A/S. J/U WIND PIONEER is owned by Jack-Up InvestCo 2 A/S. J/U WIND SERVER is owned by Jack-Up InvestCo 3 Plc. When J/U WIND SERVER was delivered in December 2014, ZITON A/S entered into a 10-year modified BIMCO standard bareboat charter agreement with Jack-Up InvestCo 3 Plc. Under the terms of the agreement, each party is entitled to terminate the charter upon default, bankruptcy or similar event by the other party. ZITON A/S is responsible for operating all three vessels commercially, is party to all external contracts and employs all crew.

Dansk Bjergning og Bugsering A/S was founded in 1989 by Ove Eriksen. In 2007, Dansk Bjergning og Bugsering A/S acquired the vessel J/U WIND, and in 2008 the jack-up operations were carved out into a separate company with ownership of J/U WIND. 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 the two vessels J/U WIND PIONEER and J/U WIND SERVER.

2013

2014
- 3-year charter signed for J/U WIND SERVER with Siemens Wind Power
- 1-year framework agreement with MHI Vestas
- New equity and issuance of EUR 40 million bond

2015
- J/U WIND SERVER operational in March 2015 and J/U WIND PIONEER in September 2015
- 2-year extension of agreement with MHI Vestas
- Issuance of EUR 100 million bond

2016
- J/U WIND SERVER initiates 3-year charter with Siemens Wind Power
- Framework agreement with DONG Energy with duration to March 2019
- 3-year framework agreement with Vattenfall
- DBB Jack-Up Services A/S changes name to ZITON A/S

2017
- Established ZITON Contractors A/S

LEGAL STRUCTURE OF ZITON

BLUE WATER CAPITAL S.A. (Luxembourg) — 50 % — **JACK-UP INVESTCO 3 PIC.** (Malta)

ZITON A/S (Denmark) — 50 % — **JACK-UP INVESTCO 3 PIC.** (Malta)

ZITON A/S (Denmark) — 100 % — **JACK-UP INVESTCO 2 A/S** (Denmark)

ZITON A/S (Denmark) — 100 % — **ZITON CONTRACTORS A/S*** (Denmark)

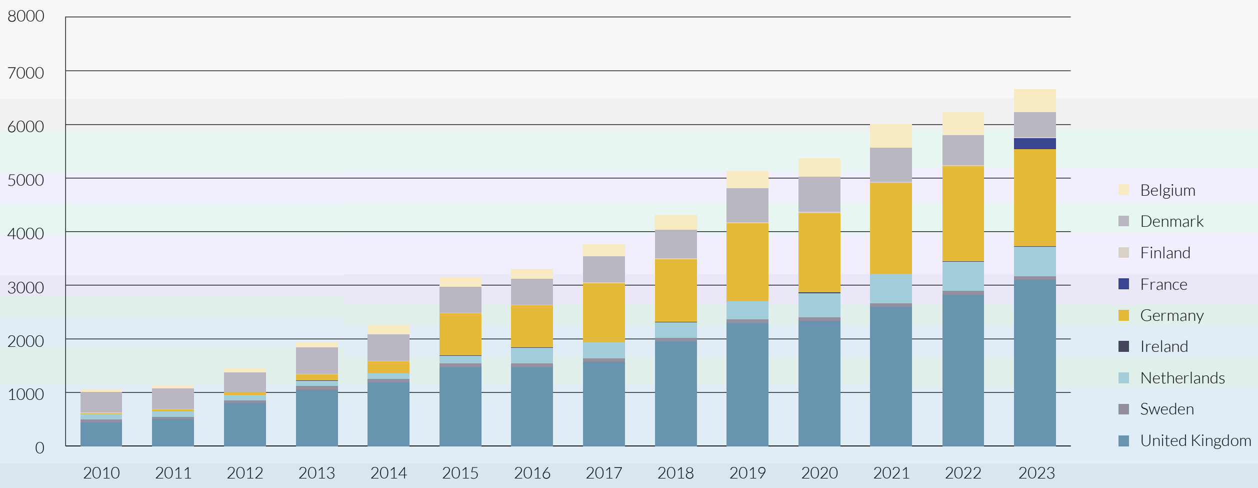
**Effective from February 2017*

MARKET TRENDS

The offshore wind industry has grown tremendously in recent years. This growth is expected to continue, with an increased need for O&M Services.

Expected growth in number of turbines installed

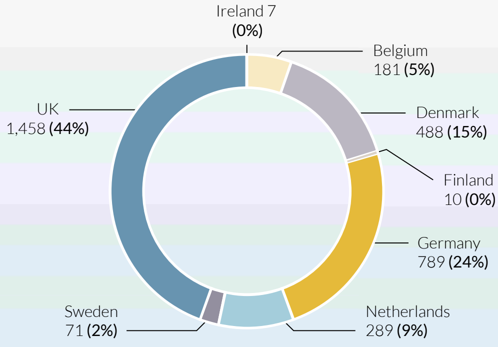
Turbines grid connected



- The number of turbines installed is projected to grow by 11% annually during the next seven years
- Strong growth projected in the UK and Germany

Country distribution

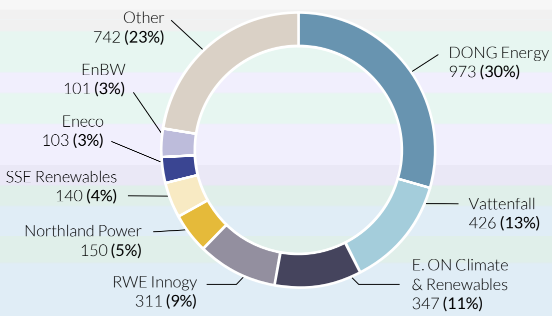
Turbines installed in Europe, end 2016



- All significant offshore wind farms are located in only six European countries
- UK and Germany are clearly dominant, accounting for almost 70% of the installed number of turbines

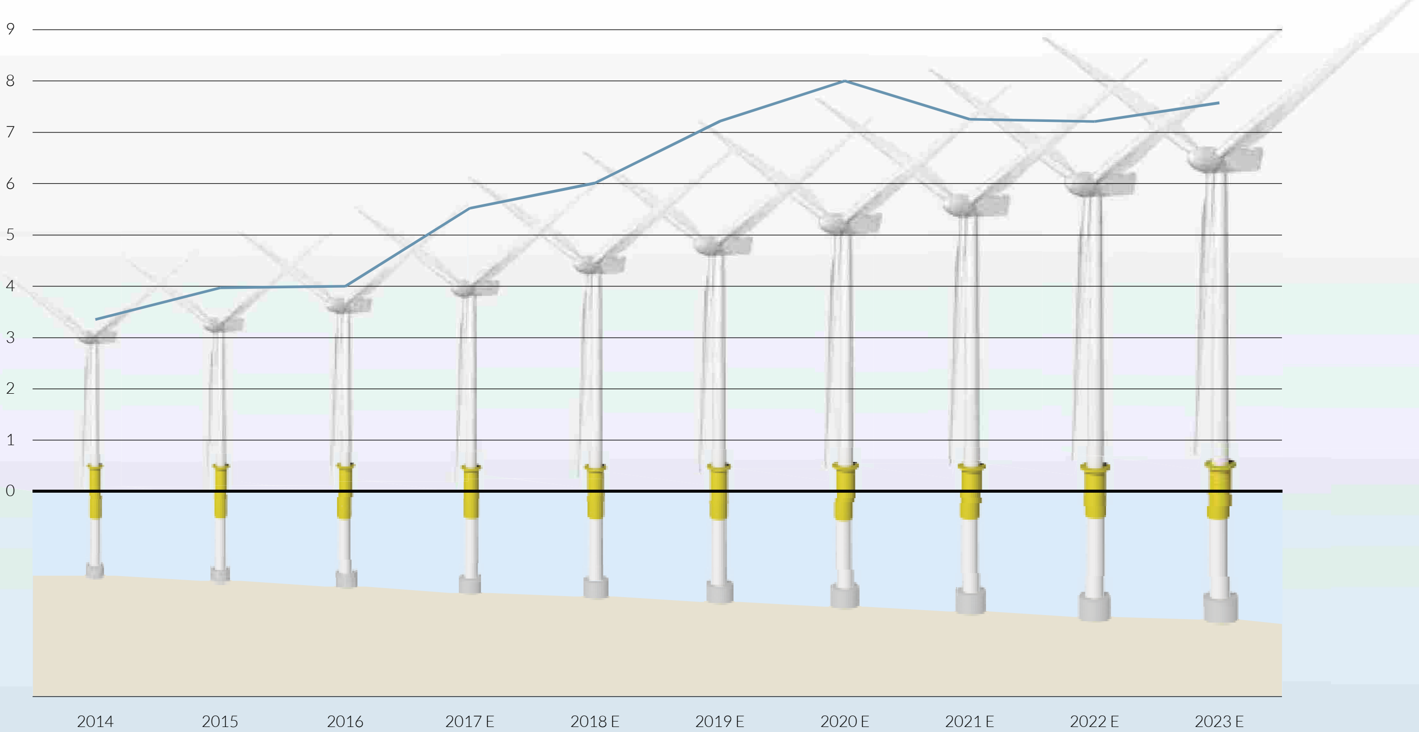
Wind farm operator distribution

Turbines installed in Europe, end 2016



- DONG Energy operates the largest installed base of turbines in Europe, ahead of Vattenfall

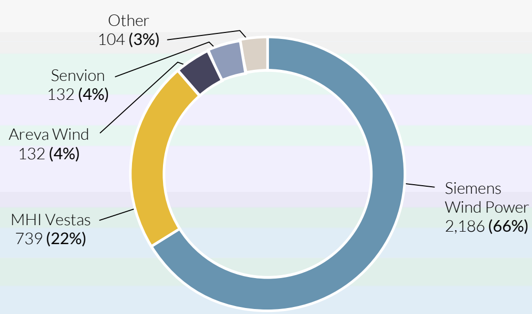
Development in average turbine size installed in the year
MW/Turbine



- Turbine technology innovation implies that turbines are becoming larger and larger, and this is a trend that is progressing much faster than expected only a few years ago.

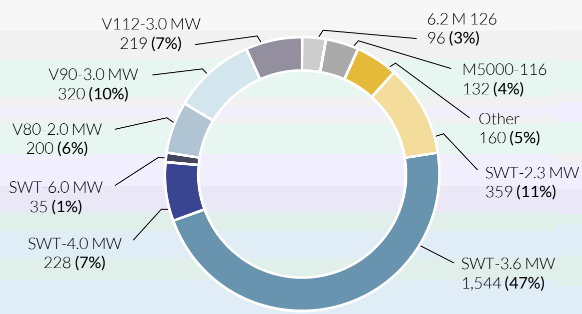
- Moreover, wind farms are being placed at ever greater water depths. This requires jack-up vessels with longer legs and a higher reach than previously expected.

Turbine OEM distribution
Turbines installed in Europe, end 2016



- Siemens Wind Power has the largest installed base of turbines in Europe, ahead of MHI Vestas Offshore Wind

Turbine model distribution
Turbines installed in Europe, end 2016



- The Siemens SWT-3.6 MW turbine is the most frequently installed model in Europe


84
Beatrice
SWT-7.0 MW
SSE Renewables
11
European Offshore
Wind Deployment
Centre - EOWDC
V164-8.0 MW
Vattenfall
5
Blyth demo
V164-8.0 MW
2-B Energy
27
Teesside
SWT-2.3 MW
EDF
58
Robin Rigg
V90-3.0 MW
E.ON Climate &
Renewables
Walney Phase 2
SWT-3.6 MW
DONG Energy
Walney Phase 1
SWT-3.6 MW
DONG Energy
Walney Extension
V164-8.0 MW
DONG Energy
Ormonde
5M 126
Vattenfall
47
40
51
30
51
108
30
Walney
Extension East
SWT-7.0 MW
DONG Energy
Barrow
V90-3.0 MW
DONG Energy
West of
Duddon Sands
SWT-3.6 MW
DONG Energy
Burbo Bank Extension
V164-8.0 MW
DONG Energy
Gwynt y Mor
SWT-3.6 MW
RWE Innogy
160
32
25
Burbo Bank
SWT-3.6 MW
DONG Energy
25
30
Liverpool
Rhyl Flats
SWT-3.6 MW
RWE Innogy
North Hoyle
V80-2.0 MW
RWE Innogy
7
Arklow Bank
Phase 1
GE 3.6-104
GE Energy
Deutsche Bucht
V164-8.0 MW
Northland Power
Veja Mate
SWT-6.0 MW
Highland Group Holdings
Trianel Windpark
Borkum - phase 2
6.2M 126
Trianel
Gemini
SWT-4.0 MW
Northland Power
Trianel Windpark
Borkum - phase 1
M5000-116
Trianel
35
Westermost Rough
SWT-6.0 MW
DONG Energy
174
Hornsea Project One
SWT-7.0 MW
DONG Energy
Humber Gateway
V112-3.0 MW
E.ON Climate &
Renewables
73
Race Bank
SWT-6.0 MW
DONG Energy
91
67
Dudgeon
SWT-6.0 MW
Statoil ASA
Inner Dowsing
SWT-3.6 MW
UK Green
Investment Bank
27
75
27
88
Sheringham Shoal
SWT-3.6 MW
Statkraft
East Anglia One
SWT-7.0 MW
Iberdrola
Lynn
SWT-3.6 MW
UK Green
Investment Bank
Lincs
SWT-3.6 MW
DONG Energy
30
Scroby Sands
V80-2.0 MW
E.ON Climate &
Renewables
Egmond aan Zee
V90-3.0 MW
Vattenfall
36
Prinses Amalia
V80-2.0 MW
Eneco
60
43
Ijmuiden
Galloper Wind Farm
SWT-6.0 MW
SSE Renewables
102
Eneco Luchterduinen
V112-3.0 MW
Eneco
Greater Gabbard
SWT-3.6 MW
SSE Renewables
Borssele IV
V164-8.2 MW
Eneco
Borssele III
V164-8.2 MW
Eneco
Gunfleet Sands I + II
SWT-3.6 MW
DONG Energy
140
56
Belwind I
V90-3.0 MW
Belwind
42
42
42
Nobelwind
V112-3.3 MW
Parkwind BV
Borssele II
V164-8.2 MW
DONG Energy
Harwich
48
Northwester 2
V164-8.0 MW
InControl S.A.
35
55
50
42
Borssele I
V164-8.2 MW
DONG Energy
London Array Phase 1
SWT-3.6 MW
DONG Energy
175
72
42
Vlissingen
30
15
42
100
6
30
18
44
Rentel
SWT-7.0 MW
Electrawinds
Offshore NV
Kentish Flats
V90-3.0 MW
Vattenfall
Kentish Flats
Extension
V112-3.0 MW
Vattenfall
Ramsgate
Norther
V164-8.0 MW
Eneco
Thorntonbank
Phase III
6.2M 126
RWE Innogy
Thanet Extension
V164-8.0 MW
Vattenfall
Northwind
V112-3.0 MW
Aspiravi
Thorntonbank
Phase II
6.2M 126
RWE Innogy
116
Rampion
V112-3.45 MW
E.ON Climate &
Renewables
Thanet
V90-3.0 MW
Vattenfall
Thorntonbank
Phase I
5M 126
C-Power nv

OFFSHORE WIND FARMS

GROWTH OF OFFSHORE WIND O&M

The market for major component replacement, such as gearboxes, generators and blades, is determined by the number of turbines installed and turbine failure rates.

The first of these drivers, the number of turbines installed, suggests a very encouraging outlook as explained in the "Market trends" section.

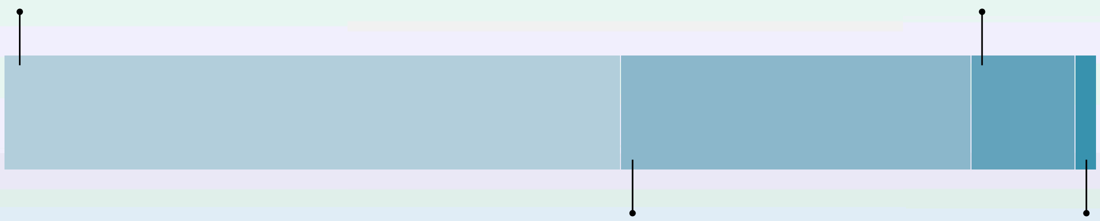
The second major driver of demand for O&M jack-up vessels is turbine failure rates. Depending on the particular model, a turbine may suffer from serial defects due to its design or to substandard components. These defects will often manifest themselves within the first few years after installation. Longer-term failure rates mainly depend on wear and tear. Offshore wind farms are like remote power plants, but unlike conventional power stations, they are also exposed to highly variable and harsh weather conditions, including calm to severe winds, lightning and hail. Due to these external variations, offshore wind turbines undergo constantly changing loads, which result in highly variable operating conditions that cause intense mechanical stress.

ZITON has been performing major component replacements since 2007 when J/U WIND was acquired. ZITON has carried out more than 530 service interventions at 40 wind farms and is the market-leading service provider within offshore wind operations & maintenance. In other words, we have the industry's greatest documented insight into offshore wind turbine failure rates. We consistently collect and analyse major component replacement data, adding to our experience base year by year. Our proprietary insights allow us to prepare scenarios for a predicted trend in failure rates over the coming years, enabling us to align our vessel capacity with the projected demand for the benefit of our customers.

AGE OF TURBINES INSTALLED

Age
Up to 5 years old
Number of turbines
1,864
Percentage of total number of turbines
57%

Age
Between 10 and 15 years old
Number of turbines
354
Percentage of total number of turbines
10%



Age
Between 5 and 10 years old
Number of turbines
1,048
Percentage of total number of turbines
32%

Age
More than 15 years old
Number of turbines
27
Percentage of total number of turbines
1%

As can be seen from the illustration, more than half of the turbines currently in operation are less than five years old. Only 381 of the installed turbine base, equivalent to 11%, are over ten years old. As a result, no long-term studies exist on failure rates of major components and the industry is still compiling insights into failure rates over the complete life cycle of offshore wind farms which is estimated at 20 years.

40
wind farms

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

27
years in business

PROVIDING OFFSHORE
SERVICES ABOVE AND BELOW
SEA LEVEL

530
WTGs serviced

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

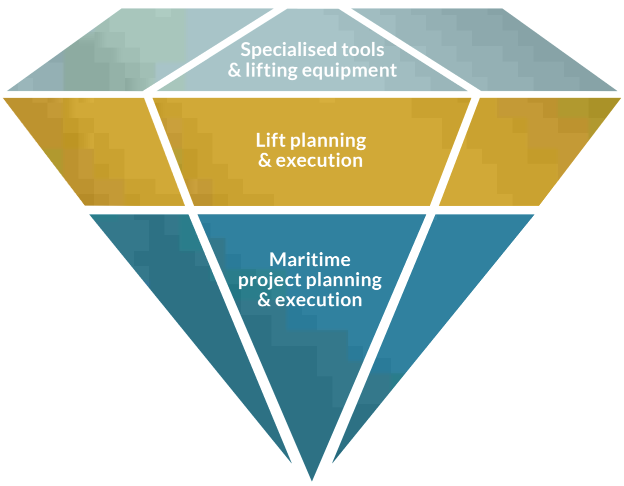
ZITON'S SERVICE OFFERING

ZITON's core business is to own, charter and operate jack-up vessels designed to carry out O&M services on turbines at offshore wind farms. The business is gradually developing to encompass a full-service solution to selected customers.

ZITON's core business has always been to own and operate jack-up vessels. While that will not change, we are getting requests from certain customer segments for assistance in a number of services closely related to our core business.

This has its obvious advantages from the customers' point of view. They have built their skills and expertise in day-to-day O&M routines, but major component replacement is not part of their day-to-day routines. Even for a large wind farm with 100 turbines, the wind farm operator may only need to perform a major component replacement 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 five 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 project documentation cost effectively and to collaborate with our customers on such operations.

As a result, we have established ZITON Contractors A/S to offer customers specialised tools & lifting equipment, yoke operators and technicians, thus expanding our scope of solutions as illustrated below.



CORE BUSINESS
A JACK-UP WITH A CRANE

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, electrical work etc. 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 larger service operation vessels (SOV) helps reduce travel times, because SOVs also function as a spare-part warehouse, hotel and workshop.

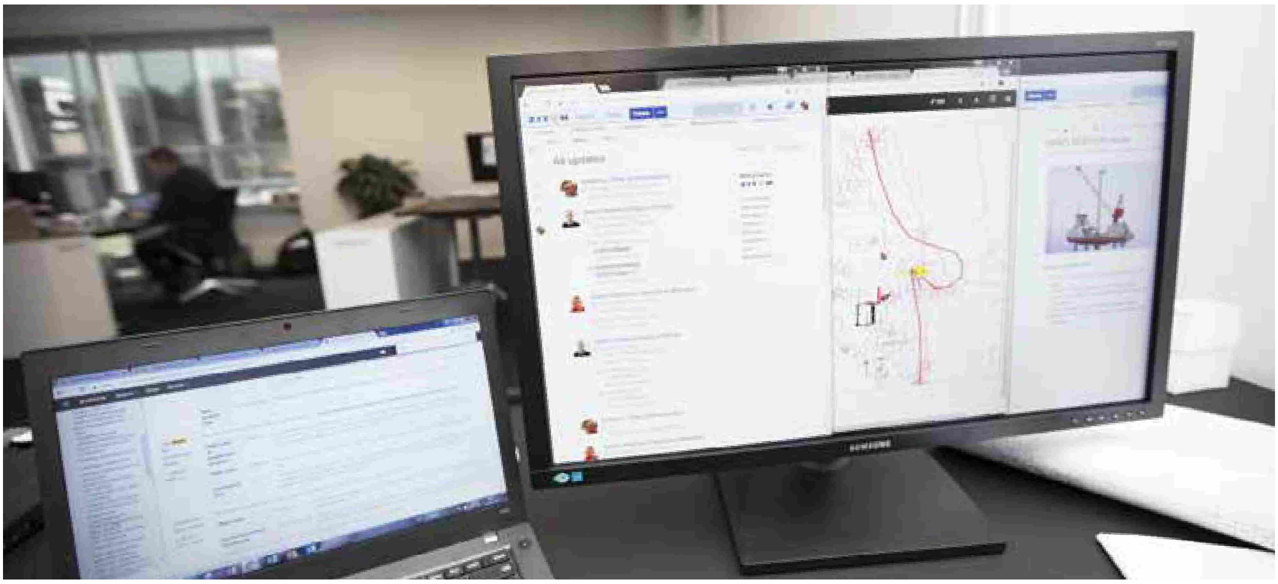
Jack-up vessels such as those operated by ZITON are required for major component replacement jobs involving gearboxes, blades, generators etc.

MAJOR COMPONENT REPLACEMENT

ZITON's scope of business in relation to major component repair or replacement covers the entire spectrum of the operation, from maritime project planning and documentation to execution. Normally, ZITON receives site information from the wind farm owner with the latest site survey including information on seabed cabling tracks, turbine positions, scour protection areas, seabed drill samples, unexploded ordnances and Bartholomew maps (seabed maps). Based on this information, a consultant prepares a leg penetration analysis ("LPA") report. The penetration analysis is based on the exact jack-up vessel for each location or for a group of locations depending on the seabed structure. Based on this LPA, a site specific assessment ("SSA") is carried out by another consultant. The SSA provides calculations that in turn determine the weather conditions under which the vessel can and must operate. The SSA is normally then subject to approval by the client's marine warranty surveyor.

For lifts of gearboxes, blades, generators etc., is a lifting plan is safety requirement. The lifting plan includes engineering calculations of strength of the lifting equipment, specifies the lifting equipment to be used, such as georgia, yoke, chain slings etc., and provides drawings of the lift from various angles. For some

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



customer segments, ZITON prepares a lifting plan. The lifting plan is prepared by an appointed person with thorough qualifications, in-depth knowledge and prior experience from preparing lifting plans. A lifting supervisor is present at the vessel to ensure that the lifts are carried out according to the lifting plan.

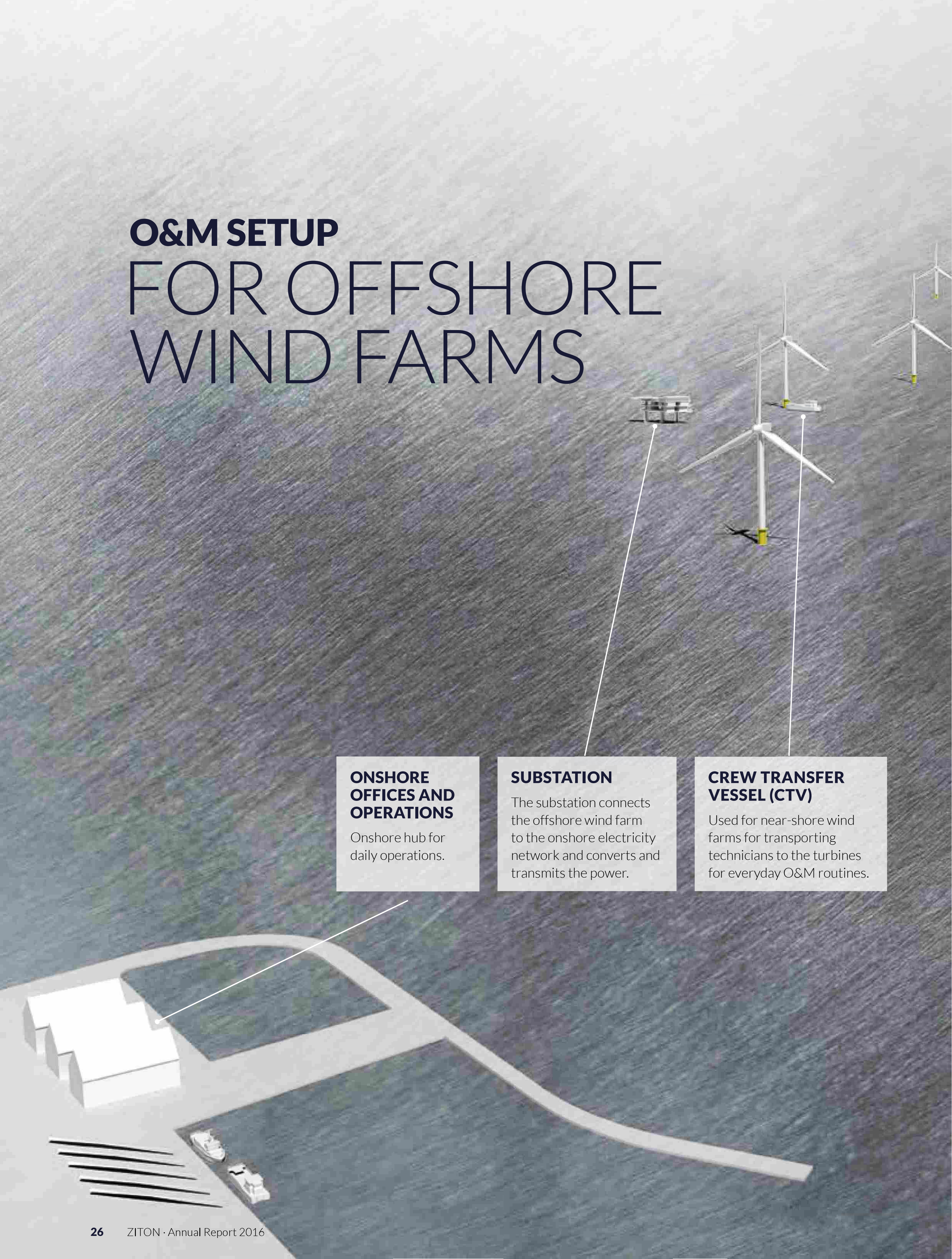
"

The ZITON Portal is an extremely useful and optimal solution for document sharing. It's a valuable tool that improves the way we collaborate and communicate because it enables us to work directly in a document, archive project documents and thereby reuse information for upcoming projects.

Jamal Alimbayev, Special Projects, Support Engineer,
Lifting Specialist (AP-NVQ), MHI Vestas Offshore Wind A/S

Normally, the required spare parts are loaded onto the jack-up vessel in a base port near the site. After securing the components, sea and weather permitting, the vessel sails out to the repair location. Offshore wind farms are deliberately placed in areas with harsh weather to maximise the energy output, and hence a window of benign weather conditions that fall within the vessel's operational capability is required. The length of this window depends on the type of repair work to be carried out, but it ranges from six to thirty-six hours. Wind speeds above the operational threshold is the most common factor causing delays or limitations to the work carried out, resulting in "waiting-for-weather". Before the jack-up service vessel commences its procedure, the turbine will be switched off and prepared by the wind farm's technical staff. Once the technical staff assess that the turbine is ready, the jack-up vessel moves into position, assisted by dynamic positioning systems which calculate and maintain an optimal vessel position throughout the procedure. Once the vessel is in position, jacking up commences. Having reached stable seabed pressure and after a sufficiently long pre-drive period, the crane is released for operation and a safe transfer from the vessel to the turbine foundation is established via a gangway. Subsequently, old parts are lifted from the turbine onto the deck of the vessel and replaced with new parts which are then lifted onto the turbine and installed. Upon completion of the procedure, the vessel jacks down and sails on, either to the next location or back to its base port.

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 the 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.

CUSTOMER CONTRACTS

Customers in the offshore wind O&M industry include both OEM turbine manufacturers and wind farm operators.

Once an offshore wind farm has been installed, turbine O&M is normally provided by turbine manufacturers under a warranty agreement. In many cases, warranty agreements are of a five-year duration. For wind farms operated by a utility, it is customary for the owner to assume full O&M responsibility when the warranty period ends. The purpose is to reduce O&M costs during the remainder of a wind farm's lifetime. Some wind farms are fully owned by financial investors that are inclined to outsource O&M responsibility to third parties or OEMs. Since none of the major offshore wind farm operators or OEMs own or operate O&M jack-up vessels in-house, both groups are customers or potential customers of ZITON. Wind farms operated by utilities are often partly owned by financial investors.

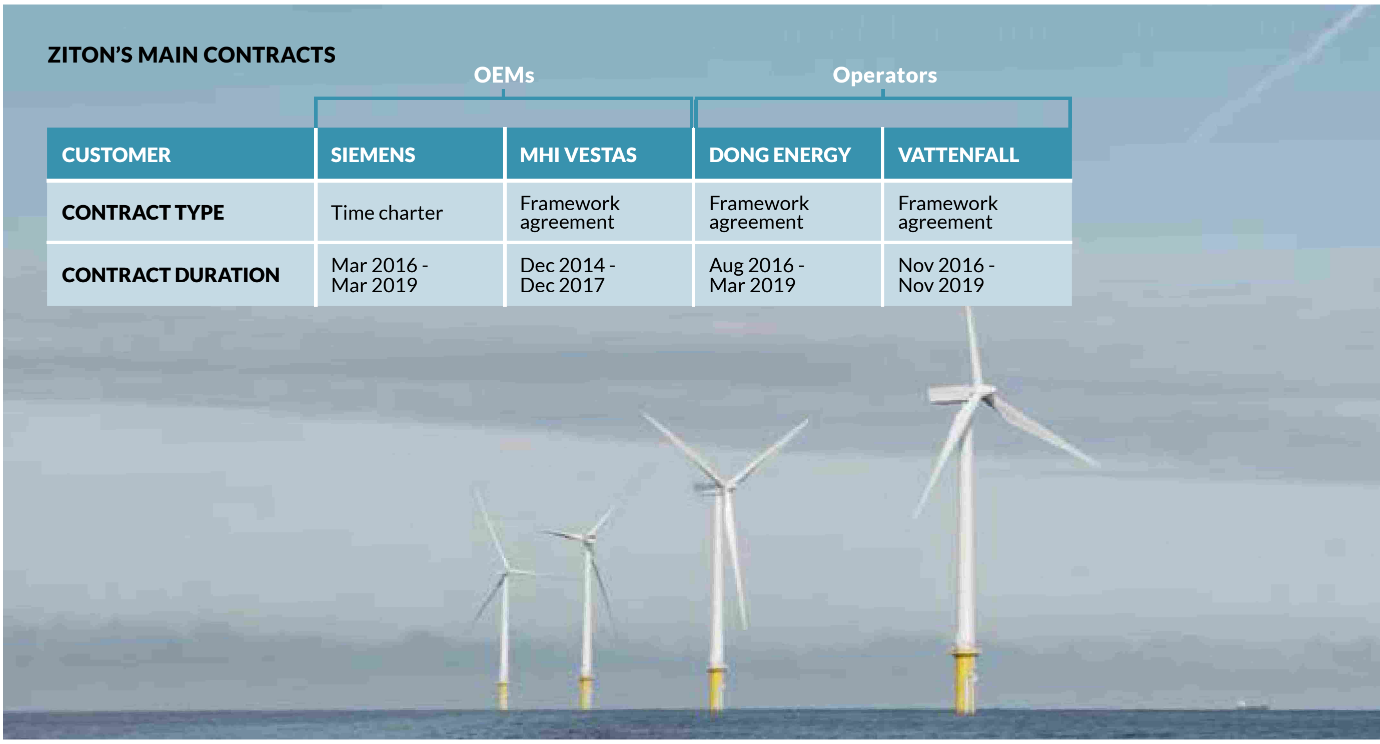
ZITON applies different types of contracts with its customers: Time charter (T/C), framework agreements or turnkey contracts.

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 lump sum prices or T/C rates. If T/C rates apply, they are based on a short term rate and are often somewhat higher than long-term T/C rates. For the replacement of major components such as gearboxes, generators, transformers, blades or main shafts, ZITON also offers customers fixed lump sum prices per replacement. When quoting lump sum prices, 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. During the winter period when the weather is harsher, weeks can go by without the weather permitting any major component replacement. In the summer period, on the other hand, several components can be replaced in a week if the turbines are located in close proximity to one another.

ZITON'S MAIN CONTRACTS

	OEMs		Operators	
CUSTOMER	**SIEMENS**	**MHI VESTAS**	**DONG ENERGY**	**VATTENFALL**
CONTRACT TYPE	Time charter	Framework agreement	Framework agreement	Framework agreement
CONTRACT DURATION	Mar 2016 - Mar 2019	Dec 2014 - Dec 2017	Aug 2016 - Mar 2019	Nov 2016 - Nov 2019



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 and/or turbines. 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 subpar performance of any subcontractors hired to perform, for instance, subsea operations. The responsibility of a turnkey project requires strong project management skills in order to avoid cost overruns. Contracts are generally entered into following a tender process initiated by the customer issuing a request for a quotation. The request is sent to a number of vessel operators either directly, through shipbrokers or through supplier management communities. Tender processes normally require a price indication, evaluation of contractual conditions, description of HSEQ systems, proposed project execution plans, availability of proposed vessels and vessel specifications including water depth, load, crane load, accommodation facilities, etc. Participating in tender processes requires substantial documentation, in particular in relation to more complex turnkey solutions. ZITON's management team has significant experience in managing tender processes and preparing tender documentation.

ZITON has entered into contracts with four of the leading customers within offshore wind O&M.

> The combination of being a designated O&M provider with the newly entered framework agreement makes ZITON a unique partner for DONG Energy Wind Power.
>
> Luis Bustamante Storey, Head of Jack-up & Heavy Lifting Solutions, DONG Energy - Wind Power

THREE-YEAR CHARTER WITH SIEMENS WIND POWER

ZITON commenced a three-year T/C for J/U WIND SERVER with Siemens Wind Power on 14 March 2016. Siemens Wind Power is the OEM with the largest installed base of turbines in Europe. The vessel is part of an initiative to service offshore wind power projects installed by Siemens Wind Power across northern Europe. This highly innovative, purpose-built jack-up vessel allows Siemens Wind Power to keep the vessel ready for fast mobilisation, reducing the required lead time for servicing turbines. During the tenor of the three-year contract, ZITON will be remunerated on the basis of a fixed day rate. Siemens has an option to extend the charter contract by two one-year periods.

FRAMEWORK AGREEMENT WITH MHI VESTAS OFFSHORE WIND

ZITON has secured a framework agreement with MHI Vestas Offshore Wind covering the period 2015-2017. MHI Vestas Offshore Wind is the OEM with the second-largest installed base of turbines in Europe. Demonstrating the strong relationship between the parties, the agreement grants ZITON the right of first refusal on all service interventions on the majority of MHI Vestas' offshore turbines until the end of 2017. The agreement is not vessel specific. In principle, this means that ZITON has the option to carry out an intervention if it can mobilise a vessel appropriate for the assignment to the relevant site within a predetermined time period. 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 DONG ENERGY

ZITON has secured a framework agreement with DONG Energy covering the period from August 2016 until March 2019. At 31 December 2016, DONG Energy was 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 secured a three-year framework agreement with Vattenfall covering the period from November 2016 to November 2019. At 31 December 2016, Vattenfall was Europe's second-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, 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.

CORPORATE SOCIAL RESPONSIBILITY

ZITON maintains various policies and certifications in relation to corporate social responsibility.

These policies are maintained within the areas of Human Rights and Labour, Environment, Anti-Corruption, and Safety and Quality management. The Safety and Quality management policies are fundamental to working at sea and are elaborated upon separately on the next page.

HUMAN RIGHTS AND LABOUR

Within the area of Human Rights and Labour, ZITON maintains a policy of not employing young people under the age of 18 on board the company's vessels. The aim is to avoid young people performing dangerous 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 2016, as no direct employees or employees of suppliers or sub-contractors under the age of 18 worked on our vessels during the year.

ENVIRONMENT

Environment includes climate effects. In this area, ZITON maintains a policy for Garbage Management. The aim is 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. The policy was successfully applied in 2016, as there were no incidents of garbage being disposed of overboard from any of our vessels at sea.

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 2016, as we have not identified any indicators of corruption.

SAFETY AND QUALITY MANAGEMENT

Working at sea can be hazardous. Safety First is therefore a cornerstone of the way we work and how we approach each assignment, as reflected in our ‘Can Do, Will Do’ approach. We set our standards high and our objective is always zero injuries to personnel and zero damage to the environment.

At ZITON, our relentless focus on health, safety, environment and quality (HSEQ) for our employees, subcontractors and customers and our Safety First culture permeates our entire organisation and is the all-encompassing rule onboard our vessels. 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.

ZITON’s HSEQ system has been certified by Bureau Veritas to satisfy the requirements of the ISM Code /MLC2006 and to the ISO9001:2008 / ISO14001:2004 & OHSAS 18001:2008 standards. The ISO and OHSAS standards are all voluntary, but the company uses them to strengthen its safety and quality standards.

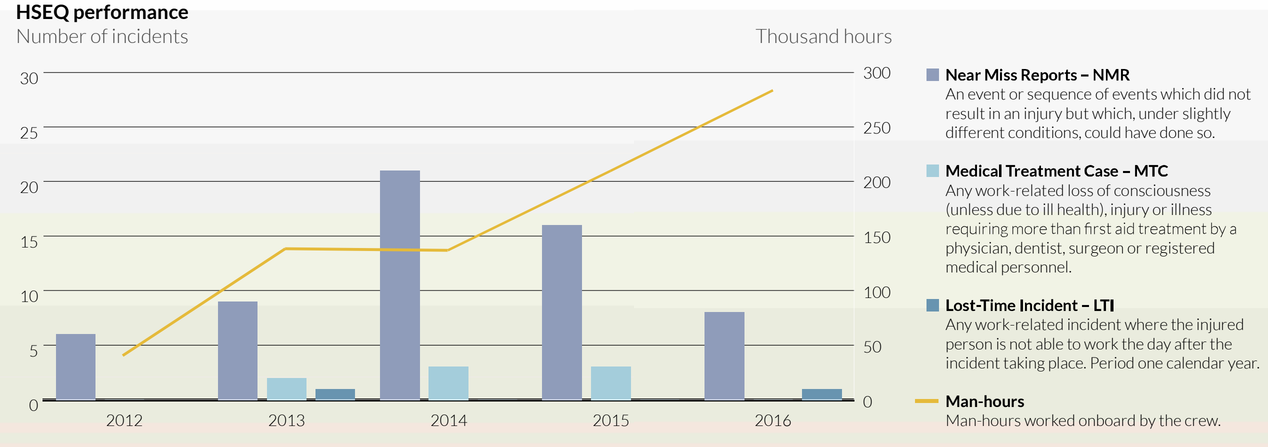
We fully support well-integrated international health and safety policies and we apply a vessel risk assessment management system which includes a toolbox talk and safety card system. We use the BIMCO Shipping KPI system to benchmark our HSEQ performance for the purpose of implementing best practice recommendations.

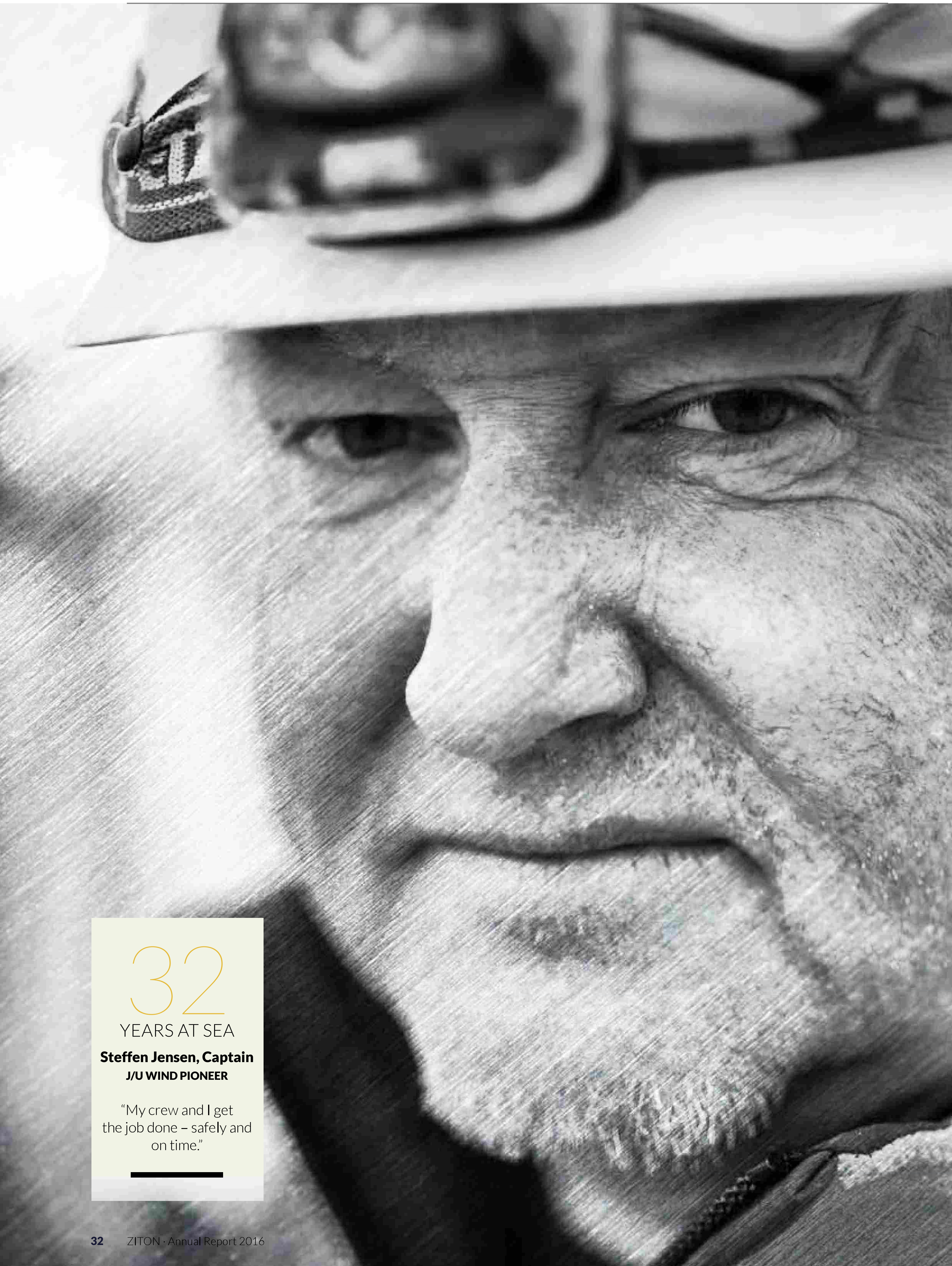
Our vessels are at all times manned by highly qualified staff who follow the ZITON code of conduct in which zero drug and alcohol tolerance is indisputable and never open to question.

Routine examinations are standard procedure and are conducted by an external agency with expertise in implementing drug and alcohol programs.

> Safety has a high priority for ZITON which is of critical importance to DONG. The crew on-board are always very helpful and professional and the vessels are operated and maintained to very high standards, which only speaks well of the company.
>
> Luis Bustamante Storey, Head of Jack-up & Heavy Lifting Solutions, DONG Energy - Wind Power

HSEQ performance





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YEARS AT SEA

Steffen Jensen, Captain

J/U WIND PIONEER

"My crew and I get the job done – safely and on time."

Can do. Will do.

VISION AND MISSION

OUR VISION

Offshore renewables are the preferred future source of energy.

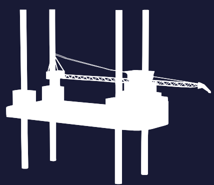
OUR MISSION

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

BUSINESS MODEL

A business model for jack-up operations 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.

> At Greater Gabbard we were looking for a simple and market leading solution to our decommissioning project, and ZITON provided just that. Their flexibility and enthusiasm to get the job done safely and on time was demonstrated at all stages and exceeded our expectations with regards to competence and ability, and they managed to get all work completed well ahead of schedule.
>
> Magnus Blomquist, Lead Offshore Asset Engineer, SSE



KEY RESOURCES

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

VALUE TO CUSTOMERS

For wind farm owners, it is important to avoid any unscheduled downtime that reduce the power production of the wind turbines. Customers use remote condition monitoring of turbines to avoid breakdowns and optimise the timing of major component replacements. Our vessels are dedicated to operations & maintenance and always ready to provide swift assistance to "keep the blades turning" at offshore wind farms.

CUSTOMER SEGMENTS

There are two customer segments in the offshore wind industry; turbine manufacturers and wind farm operators. Turbine manufacturers include Siemens Wind Power, MHI Vestas Offshore Wind, Senvion, GE Renewable Energy, among others. Wind farm operators are primarily utilities like DONG Energy, E.On, Vattenfall, Innogy, SSE, EnBW, among others. Once an offshore wind farm has been installed, turbine manufacturers normally provide operations & maintenance services under their warranty programme, the typical duration of which is five years. It is customary for wind farm operators to assume full O&M responsibility when the warranty period ends.

COST STRUCTURE

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.

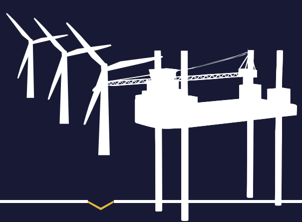
● = best/highest score

○ = worst/lowest score

CHARACTERISTICS OF VESSELS

Jack-up vessels as a category can be divided into installation jackups, which are large, sophisticated high-cost vessels specially designed for installing offshore turbines, and dedicated O&M jackups, which are flexible, leaner vessels purpose-built for major component replacement operations.

Vessel characteristics	DEDICATED O&M JACK-UPS	INSTALLATION JACK-UPS
Operational flexibility	●	◔
Deck load	◔	●
Crane height	◑ – ◕	◑ – ◕
Crane lifting capacity	◑	◕ – ●
Max. water depth	◑ – ◕	◑ – ◕
Bunker consumption	●	○
Impact on seabed	◕	○



REVENUE STREAMS

Due to the high initial investments and the fixed-cost base, achieving a satisfactory return on invested capital requires high vessel utilisation rates at adequate day rates. The Company endeavours to secure longer-term contracts with customers. Preferably, this is in the form of time charter contracts or right-of-first refusal framework agreements that provides a predictable revenue stream.

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

There are some 30 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 providers 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 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 results in significantly higher OPEX and CAPEX for installation jack-ups and a need for higher charter rates relative to dedicated O&M jack-ups. Thus, owners of installation jack-ups are less inclined to use their jack-ups for O&M. See the illustration above.

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 crew has experience from working with a variety of wind turbine models, sites, ports and under various operating conditions. Everyone in our crew knows exactly the sequence and details of operations including the imperative of 'safety first' in all operations. Our crew's experience enables us 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 the short leadtimes 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 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".

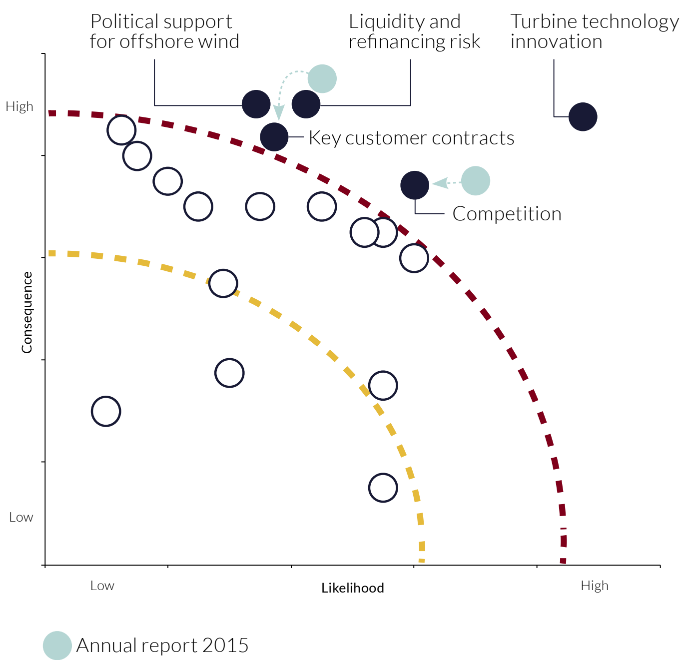
RISK MANAGEMENT PROCESS

The risk assessment process is anchored in the Executive Management team, which periodically goes through the process of risk identification, analysis, evaluation and consideration of treatment, as illustrated below. At regular board meetings, the Board of Directors and the Executive Management assess and discuss main changes in key risks.

Risk factors are divided by origin as strategic, operational, financial or compliance risk. Risk factors are not only perceived as risks, but also as opportunities to continue developing the strategy. Strategic responses to risk factors may consequently 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. The risks beyond the dotted red line are assessed to be the most significant risks to which the Company is exposed.



MAIN CHANGES OF RISK EVALUATION

Two main changes have occurred to the risk assessment compared to last years' annual report. The changes are illustrated in the risk heat map on the previous page.

Firstly, the likelihood and consequences of the risk to key customer contracts are assessed to be lower. The three-year charter with Siemens is the company's single largest customer contract. This contract was commenced on 14 March 2016 with J/U WIND SERVER operating under the contract for the remainder of the year with no off-hire days. As a result, it is our assessment that the likelihood of risk under the contract has been reduced. Furthermore, we also assess that the consequence of losing a key customer contract has been reduced, the main reason being that we have entered into framework agreements with DONG Energy and Vattenfall, making ZITON less dependent upon individual customer contracts.

Secondly, the likelihood of risk from competition is assessed to have been reduced. The main reason is that A2SEA decided in early 2016 to withdraw from offering O&M services and to focus on its core business of installing new turbines. Furthermore, having entered into the framework agreements with DONG Energy and Vattenfall has also strengthened our competitive position.

INTERNAL CONTROL AND RISK MANAGEMENT RELATED TO THE FINANCIAL REPORTING PROCESS

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

THE FIVE MOST NOTICEABLE RISK FACTORS SHOWN IN THE RISK HEAT MAP ARE ELABORATED UPON BELOW.

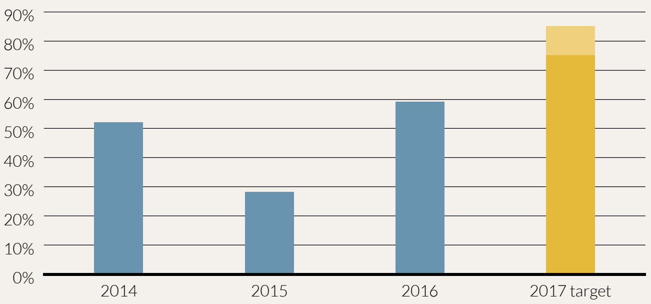
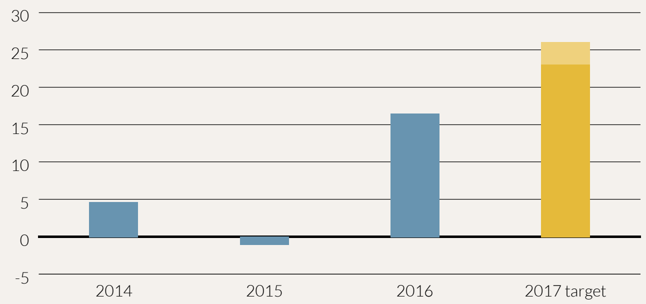
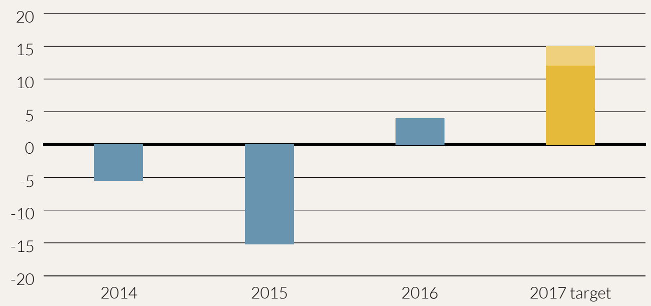
RISK FACTORS	POSSIBLE CAUSES	POTENTIAL CONSEQUENCES	ENSUING MITIGATION
TURBINE TECHNOLOGY INNOVATION	• Technology innovation enabling the industry to build larger turbines with a height that exceeds the lifting heights of the company's current fleet • Turbine technology innovation making it possible to carry out major component replacement offshore without the need for a jack-up • Development of more reliable turbine technology with fewer defects	• Uncertainty about future market demand for the Company's current fleet	• Continue investing in vessels capable of meeting technology trends of increasingly larger turbines. The bond issue contains a limitation of EUR 2.0m on Newbuild CAPEX during the tenor of the bond. This amount is thus likely to be used for the initial specification and design of a new vessel
COMPETITION	• O&M services for major component replacements at offshore wind farms is currently offered by only a few companies. New entrants may invest in jack-ups to offer major component replacements. • In addition, companies with jack-ups used for new wind farm installations could offer O&M services if there is inadequate demand for installation of new wind farms	• Excess capacity of jack-up vessels could lead to low utilisation rates and price competition	• 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 dedicated O&M services more difficult to compete with
POLITICAL SUPPORT FOR OFFSHORE WIND	• Development of new wind farms relies on continued political support to decarbonise the economy. This involves maintaining regulatory regimes that make investing in offshore wind farms attractive	• A drop in the number of new wind farms will reduce the projected demand for O&M services, although O&M services will still be needed for existing turbines. This may also lead to excess capacity of jack-up vessels and price competition	• ZITON accepts this event as a risk inherent to being in the offshore wind industry • A continued reduction of the Levelized Cost of Energy (LCOE) reduces the need for subsidies. More efficient O&M services is an important factor in reducing LCOE
KEY CUSTOMER CONTRACTS	• ZITON relies on being able to fulfil contracts with its key customers to secure future revenue. Inability to fulfil requirements of contracts with key customers will have material consequences to the company's cash flows. In the medium-term, the company relies on the prolongation of existing contracts or on winning new contracts	• Contracts with Siemens Wind Power, DONG Energy, Vattenfall and MHI Vestas collectively account for the majority of projected revenue in 2017	• To reduce the risk of going off-hire redundancy is built into design of J/U WIND SERVER. We also ensure a very high level of preventive maintenance in all aspects of the vessel and keep an inventory of critical spare parts
LIQUIDITY AND REFINANCING RISK	• Liquidity and refinancing risk includes the risk of the group experiencing a liquidity shortage and the inability to refinance its maturing bond loan and credit lines as needed	• If refinancing of the company is not possible when the bond loan matures or if the company encounters liquidity risk the cost may be critical and the ability to operate the Company may be hampered	• The company currently has a loan to book value of vessels ratio of approx. 60% and plans to reduce that percentage before the current bond issue comes due for refinancing (matures 26 November 2019)

KPIs

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

KPIs	DEFINITION	WHY WE USE THE MEASURE	COMMENTS ON 2016 PERFORMANCE
WEIGHTED AVERAGE UTILISATION RATE	Weighted average utilisation rate is defined as revenue during the period divided by full utilisation at standard rates. Each vessel has a different weighting depending on its specifications. J/U WIND PIONEER and J/U WIND SERVER were included in 2015	A high utilisation rate is driven by the level of sales to customers, as well as our own ability to make the vessel available to customers. The measure shows the combined efficiency of sales and operations	We had guided a target of 65–70% in the 2015 annual report, but achieved a utilisation rate of 59%. The main reason for the shortfall was lower than expected customer demand for major component replacement in the first half of 2016. Utilisation improved in the second half of the year, mainly due to the new framework agreements signed with DONG Energy and Vattenfall
EBITDA	EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation	EBITDA is a good measure for operating efficiency and the ability to generate cash flows	The target set out in the 2015 annual report was EUR 18-21m. The guidance was lowered to EUR 16-19m in the Q2 2016 interim report, as utilisation and revenue were lower than expected in the first half 2016. We realised EBITDA of EUR 16.4m, in line with the revised guidance
CASH FLOWS FROM OPERATING ACTIVITIES	Cash flows from operating activities is EBITDA mainly less working capital adjustments and financial items	Cash flows from operating activities is useful for assessing our ability to amortise debt, and cash available for CAPEX	We did not publish an external target for cash flows from operating activities in 2016. We realised EUR 4.0m in 2016, as can be seen from the consolidated cash flow statement

The KPIs applied are both financial and operational, internal and external, leading and lagging indicators. KPIs are maintained for different 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, utilisation of individual vessels, realised day rates, return on invested capital and employee turnover. The three main KPIs, disclosed externally, are elaborated upon in the table below.

TARGETS FOR 2017	PERFORMANCE
We target a weighted average utilisation rate of 75-85% for 2017. The projected improvement is based on the framework agreements signed in 2016 with DONG Energy and Vattenfall. In addition, J/U WIND SERVER will be on time charter for the entire year, compared to 8½ months in 2016	**Weighted average utilisation rate** Per cent 
We target EBITDA in the range of EUR 23-26m for 2017. The projected improvement is largely a result of higher revenue, as fixed costs account for most of the overall vessel OPEX	**EBITDA** EUR million 
We target cash flows from operating activities in the range of EUR 12-15m for 2017. The main reason for the projected improvement is the higher EBITDA forecast	**Cash flows from operating activities** EUR million 

KEY FIGURES

EUR '000	Danish GAAP* 2012	Danish GAAP* 2013	IFRS 2014	IFRS 2015	IFRS 2016
Income statement					
Revenue	11,506	11,044	10,433	9,138	29,042
EBITDA	7,841	5,502	4,635	-966	16,411
Income before tax	4,822	3,767	1,929	-21,154	-4,550
Balance sheet items					
Non-current assets	55,645	105,330	164,966	173,108	167,370
Current assets	15,638	8,104	6,320	2,756	6,398
Total assets	71,283	113,434	171,286	175,864	173,768
Equity and subordinated capital	52,681	64,486	88,229	71,892	69,197
Current liabilities	7,670	21,426	11,442	5,983	10,975
Cash flows					
Net cash flows from operating activities	5,381	16,644	-5,427	-15,071	4,049
Net cash used in investing activities	-27,740	-51,418	-29,535	-11,061	-2,378
Net cash used/received in financing activities	35,388	27,722	33,415	25,029	-2,500
Net change in cash and cash equivalents	13,029	-7,052	-1,547	-1,103	-829
Financial ratios and other key figures					
EBITDA margin	68%	50%	44%	-11%	57%
Subordinated capital ratio	74%	57%	52%	41%	40%
NIBD (adjusted for capitalised financing costs)	3,771	30,496	68,928	99,888	98,209
Loan to vessel ratio	8%	31%	42%	60%	61%
Total number of operating vessels (average)	1	1	1	2	3

*The key figures from 2012 to 2013 have not been restated to comply with the International Financial Reporting Standards (IFRS).

KEY RATIOS HAVE BEEN PREPARED IN ACCORDANCE THE DESCRIPTION BELOW

EBITDA margin $= \dfrac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Revenue}}$

Subordinated capital ratio $= \dfrac{\text{Total equity + Subordinated loans}}{\text{Total assets}}$

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

Loan to vessel ratio $= \dfrac{\text{NIBD}}{\text{Vessel book value}}$


LIEBHERR

CAPITAL STRUCTURE

A revised capital structure implemented in November 2015 significantly strengthened the Company's financial position.

On 26 November 2015, the company issued a EUR 100 million bond, the proceeds of which were used to refinance existing debt. The bond was listed on the Oslo Stock Exchange in November 2016. The key terms of the bond are available in note 4.3.

The illustration below shows the capital structure of the ZITON Group. The three vessels make up approximately 93% of the assets.

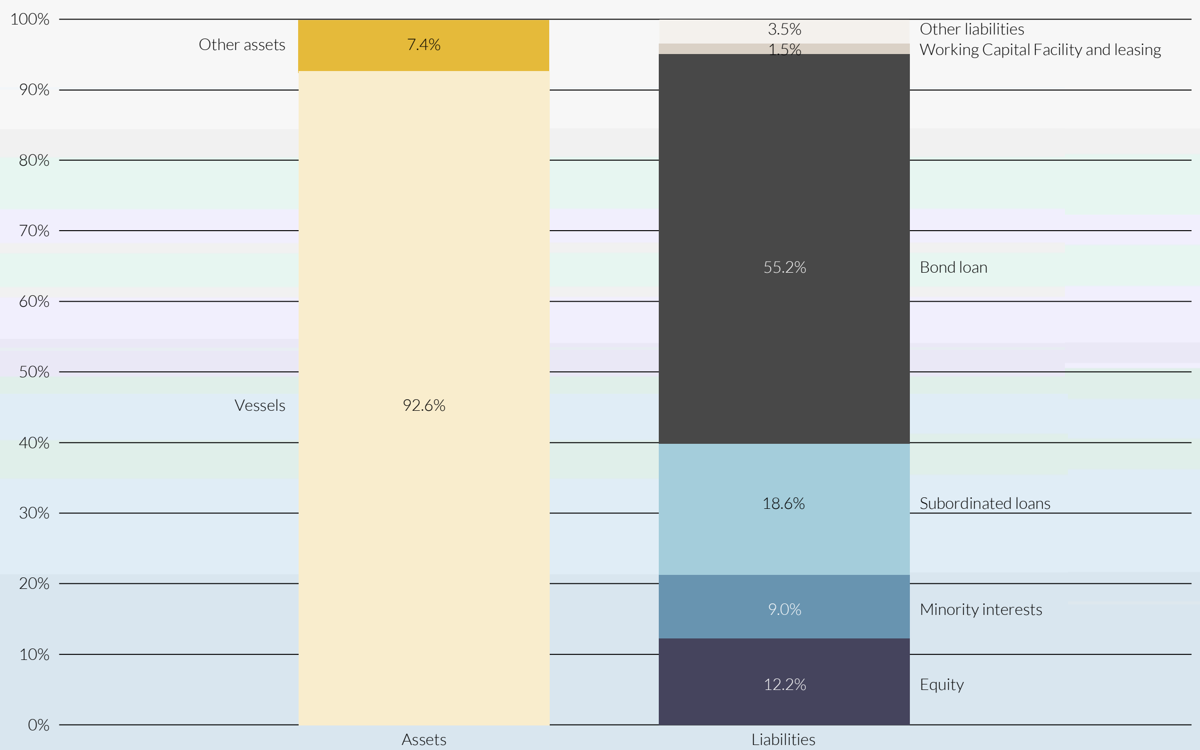
Subordinated capital makes up 39.8% of the assets. The equity is owned by BWB partners, Dansk Bjergning og Bugsering Holding ApS, OY Finans ApS and management. Equity minority interests relate to Blue Water Capital's 50% ownership of Jack-Up InvestCo 3 Plc. The subordinated capital was provided by a Danish pension fund.

The senior debt consists of the original EUR 100m bond loan and a DKK 50m (≈EUR 6.7m) working capital facility. The working capital facility and the bond loan holds a joint security package with 1st lien security in all three vessels.

The subordinated loan matures in December 2019. There are no instalments on the subordinated loan, and interest accrues until maturity with the exception of 2% annual interest payable in cash. The bond issue matures on 26 November 2019, and the working capital facility is renewed annually. In 2017, instalments on the bond loan are EUR 2.5m on 26 May 2017, the amount is increasing to EUR 3.0 semi-annually until maturity.

In addition, there is a cash sweep of liquidity in excess of EUR 5.0m. The cash sweep is measured semi-annually at the end of June and December, and the excess amount is repaid to bondholders at the subsequent interest payment date as a prepayment at a 2.0% premium.

Capital structure
Per cent



OUTLOOK FOR 2017

Our strong contract portfolio underpins the outlook for 2017. The following sets out our guidance for our key performance indicators in 2017:

Weighted average utilisation rate
We expect a utilisation rate in the range of 75%-85%. The 2016 weighted average utilisation rate was 59%. The projected improvement is mainly based on the framework agreements signed in 2016, and on J/U WIND SERVER being on time charter for the entire year.

EBITDA
We expect EBITDA to be in the range of EUR 23-26m. This is a projected improvement from the 2016 EBITDA of EUR 16.4m driven mainly by higher revenue, as fixed costs account for most of the overall vessel OPEX.

Cash flow from operating activities
is defined as EBITDA less changes in working capital and financial payments. We expect cash flows from operating activities of EUR 12-15m, up from EUR 4.0m in 2016. The main reason for the projected improvement is the higher EBITDA forecast.

CAPEX

We expect CAPEX of up to EUR 5.0m, compared to EUR 2.4m in 2016.

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 2016.

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 2016 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 2016.

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, 25 April 2017

EXECUTIVE MANAGEMENT

Thorsten Henrik Jalk

BOARD OF DIRECTORS

Vagn Lehd Møller
Chairman

Niels Ørskov Christensen

Esben Bay Jørgensen

Ove Carsten Eriksen

Lars Thorsgaard Jensen

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 2016, which comprise income statement, total income statement, balance sheet, statement of changes in equity, cash flow statement, notes and a summary of significant 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 according to 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 2016 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's and of the results of the Parent Company's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

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.

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 2016. 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.

How our audit addressed the Key Audit Matter

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 disclosure 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 provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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, 25 April 2017
BDO Statsautoriseret revisionsaktieselskab
CVR-no. 20 22 26 70

Michael Graversen
State Authorised Public Accountant

Claus Muhlig
State Authorised Public Accountant

FINANCIAL REVIEW AND STATEMENTS

TABLE OF CONTENTS

READING GUIDE:
In the notes the following abbreviations I/S, B/S and C/F show which amount in the notes can be found in the income statement, balance sheet and cash flow.

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

INCOME STATEMENT

EUR '000	Note	2016	2015
Revenue	2.1	**29,042**	**9,138**
Project-related expenses		-1,161	-272
Operating expenses		-7,846	-6,193
Gross profit		**20,035**	**2,673**
Administrative expenses		-1,294	-1,778
Staff costs, office staff	2.2	-2,330	-1,862
EBITDA		**16,411**	**-966**
Depreciation	3.1	-7,775	-5,967
EBIT		**8,636**	**-6,933**
Financial income	4.4	954	108
Financial expenses	4.4	-14,140	-14,329
Income before tax		**-4,550**	**-21,154**
Tax on profit (loss)	5.1	-1,254	4,630
Income for the year		**-5,804**	**-16,524**
Attributable to:			
Owners of ZITON A/S		-8,184	-14,859
Non-controlling interests		2,380	-1,665
Income for the year		**-5,804**	**-16,524**

STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	2016	2015
Income for the year		**-5,804**	**-16,524**
Items that will be reclassified subsequently to the income statement when specific conditions are met:			
Reserve for equity settled warrants		7	-
Exchange adjustments of foreign entities, net of tax		41	-40
Total comprehensive income for the year, after tax		**-5,756**	**-16,564**
Attributable to:			
Owners of ZITON A/S		-8,136	-14,899
Non-controlling interests		2,380	-1,665
Total comprehensive income for the year, after tax		**-5,756**	**-16,564**

REVIEW OF THE INCOME STATEMENT FOR 2016

Revenue
For the full year 2016, net revenue was EUR 29.0m compared to EUR 9.1m in 2015. The main reason for the increase in revenue is that J/U WIND SERVER has been on charter with Siemens Wind Power since 14 March 2016, following limited revenue during 2015. Furthermore, we have benefitted from new framework agreements with DONG Energy and Vattenfall. In addition, the competitive situation has improved as A2SEA in March 2016 announced they will focus on their core business of installation of new turbines, withdrawing from O&M services.

Expenses
Total expenses in ZITON increased to EUR 12.6m in 2016 from EUR 10.1m in 2015.

Project-related expenses
Project-related expenses increased to EUR 1.2m in 2016 from EUR 0.3m in 2015. The main reason for the EUR 0.9m increase is costs related to a decommissioning project, as well as a higher activity level.

Operating expenses
Operating expenses increased to EUR 7.8m in 2016 from EUR 6.2m in 2015. The main reason for the increase of EUR 1.6m is due to a higher activity level.

Administrative expenses
Administrative expenses amounted to EUR 1.3m in 2016 compared to EUR 1.8m in 2015. The reduction of EUR 0.5m is primarily a consequence of one-off costs in 2015 related to the bond issue in November 2015.

Staff costs, office staff
Salaries for office staff increased to EUR 2.3m in 2016 from EUR 1.9m in 2015. The main reason for the increase of EUR 0.4m is an increase in office staff as a consequence of the higher activity level.

EBITDA
EBITDA for the full year 2016 was a EUR 16.4m profit, which was within the expected range of EUR 16-19m, as announced in the quarterly report for second quarter of 2016. It is below the original expectation of EUR 18-21m, announced in the beginning of 2016.

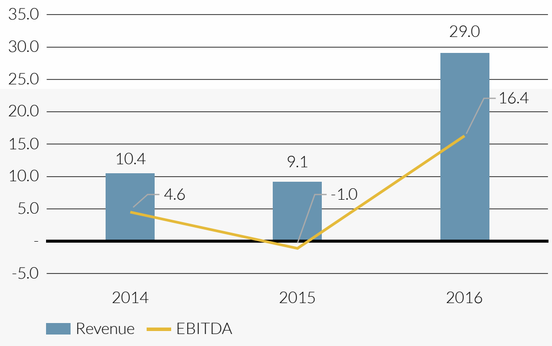
Depreciation
Depreciation charges increased to EUR 7.8m in 2016 from EUR 6.0m in 2015. The increase of EUR 1.8m reflects the full year depreciation of J/U WIND PIONEER in 2016. The vessel became operational during 2015.

Net financials
Financials, net was EUR -13.2m in 2016 compared to EUR -14.2m in 2015. Financial income and expenses are described further in note 4.4.

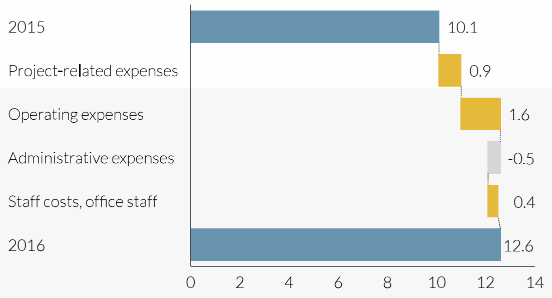
Tax on profit
Income before tax was a loss of EUR 4.6m and tax on profit was an expense of EUR 1.2m. Taxation is described further in note 5.1

Non-controlling interests
BWC S.A. owns 50% of the Malta-based company Jack-Up InvestCo 3 Plc. Non-controlling interests of EUR 2.4m is 50% of the Income for the year in Jack-Up InvestCo 3 Plc.
ZITON A/S bareboat charter J/U WIND SERVER from Jack-Up InvestCo 3 Plc.

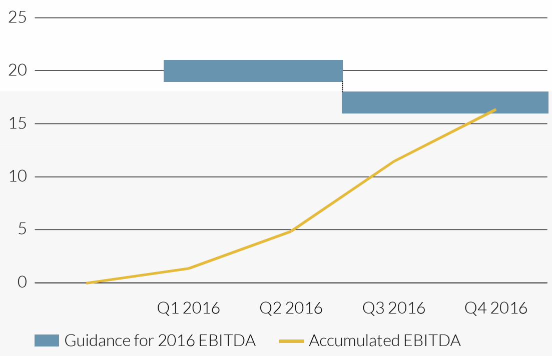
Revenue & EBITDA
EUR million



Expenses
EUR million



Accumulated EBITDA & Expected range
EUR million



BALANCE SHEET
31 DECEMBER

ASSETS

EUR '000	Note	2016	2015
Non-current assets			
Vessels, including fixtures & equipment	3.1	161,313	166,352
Financial assets	3.2	6,057	6,057
Deferred tax assets	5.2	-	699
Non-current assets		**167,370**	**173,108**
Current assets			
Trade and other receivables	3.4	4,454	634
Cash and cash equivalents	4.2	1,944	2,122
Current assets		**6,398**	**2,756**
Total assets		**173,768**	**175,864**

EQUITY AND LIABILITIES

EUR '000	Note	2016	2015
EQUITY			
Share capital		11,093	11,093
Reserves		188	140
Retained earnings		9,838	18,021
Total equity attributable to owners of ZITON A/S		**21,119**	**29,254**
Non-controlling interests		15,705	13,326
Total equity		**36,824**	**42,580**
LIABILITIES			
Non-current liabilities			
Subordinated loans	4.3	32,373	29,312
Bank and bond loans	4.3	90,919	95,849
Deferred income tax liabilities	5.2	2,441	1,909
Provision for other liabilities	3.3	236	231
Total non-current liabilities		**125,969**	**127,301**
Current liabilities			
Bank and bond loans	4.3	7,590	3,960
Trade and other payables	3.5	2,762	1,675
Provision for other liabilities	3.3	623	348
Total current liabilities		**10,975**	**5,983**
Total liabilities		**136,944**	**133,284**
Total equity and liabilities		**173,768**	**175,864**

REVIEW OF THE BALANCE SHEET 2016

Vessels, including fixtures & equipment
The total value of the vessels amounted to EUR 161.3m at the end of 2016, compared to EUR 166.4m at the end of 2015. The reduced value of EUR 5.1m reflects depreciation that is partly counterbalanced by CAPEX of EUR 2.5m.

Net working capital
Changes in working capital were negative in the amount of EUR 3.3m in 2016, due to changes in trade receivables and trade payables

Trade receivables
Trade receivables increased from EUR 0.3m in 2015 to EUR 4.2m mainly due to higher revenue in 2016.

Trade payables
Trade payables increased from EUR 0.8m in 2015 to EUR 1.5m, due to higher activity in 2016 and in particular in Q4 2016.

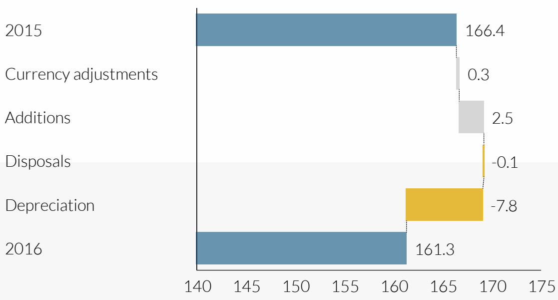
Equity
Total equity declined to EUR 36.8m at the end of 2016 from EUR 42.6m at end 2015. The EUR 5.8m decline mainly relates to losses during the period.

Subordinated capital ratio
The subordinated capital ratio (defined as total equity plus subordinated capital divided by total assets) at end 2016 was 39.8%. This is a decline compared to 40.9% at the end of 2015. The decline is mainly a consequence of losses during the period. The subordinated capital ratio has a safe margin relative to the company's only financial covenant, which requires a subordinated capital ratio of 33.0% or higher, at the end of 2016.

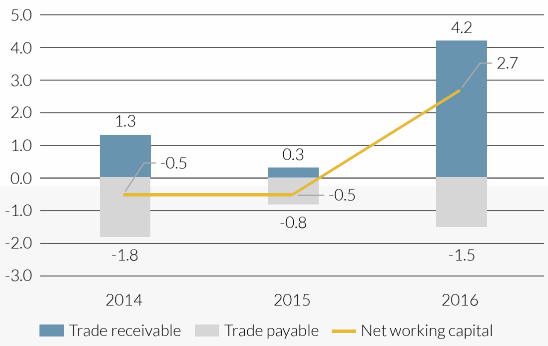
Net Interest Bearing Debt (NIBD)
NIBD includes bond debt (adjusted for capitalised expenses), working capital facility and finance lease liabilities less cash and cash equivalents.

Change in NIBD:
NIBD decreased from EUR 99.9m in 2015 to 98.2m in 2016. The decrease is due to a positive EBITDA of EUR 16.4m, which is partly offset against working capital adjustments, capex and finance costs.

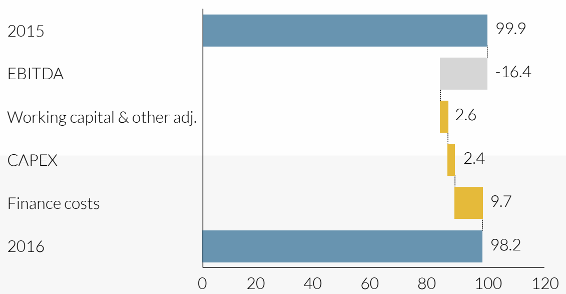
Vessels, including fixtures & equipment
EUR million



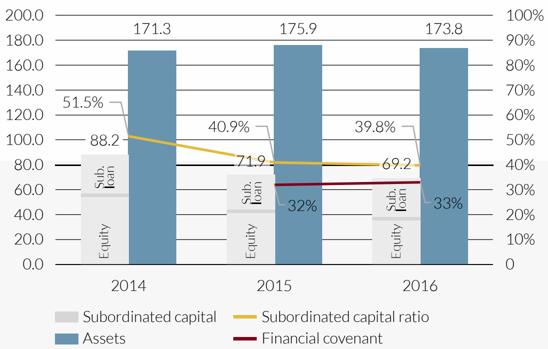
Net working capital
EUR million



Change in NIBD
EUR million



Subordinated capital ratio
EUR million



CASH FLOW STATEMENT
1 JANUARY - 31 DECEMBER

EUR '000	Note	2016	2015
Income before tax		**-4,550**	**-21,154**
OPERATING ACTIVITIES			
Adjustments for non-cash items			
Reversal of financial expenses, net	4.4	13,186	14,221
Depreciation and writedowns for the period	3.1	7,775	5,967
Other adjustments		632	-73
Working capital adjustments			
Change in trade receivables		-3,872	954
Change in trade payables		619	-1,000
Financial payments			
Financial receipts		-	108
Financial payments		-9,741	-14,094
Income tax expense			
Income tax expense		-	-
Net cash flows from operating activities		**4,049**	**-15,071**
INVESTING ACTIVITIES			
Purchase of vessel, including fixtures & equipment (excl. interest)	4.4 + 3.1	-2,378	-5,004
Other cash flows from investing activities	3.2	-	-6,057
Net cash used in investing activities		**-2,378**	**-11,061**
FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		-	3,330
Proceeds from bank and bond loans		-	100,000
Change of subordinated loans		-	6,700
Repayment of debt to bank and bond holders		-2,500	-85,001
Net cash used/received in financing activities		**-2,500**	**25,029**
Net change in cash and cash equivalents		**-829**	**-1,103**
Cash and cash equivalents at beginning of period	4.2	162	1,267
Exchange gains/losses on cash and cash equivalents		-3	-2
Cash and cash equivalents at end of period [1)]	4.2	**-670**	**162**

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

REVIEW OF CASH FLOWS FOR 2016

Operating activities
Cash flows from operating activities were positive at EUR 4.0m in 2016 as a result of positive EBITDA, which was partly offset by working capital adjustments and financial payments.

Investing activities
Investing activities were insignificant in 2016 at EUR 2.4m compared to previous years, when investment in J/U WIND SERVER and J/U WIND PIONEER were ongoing. The guidance for 2017 is for CAPEX up to EUR 5.0m.

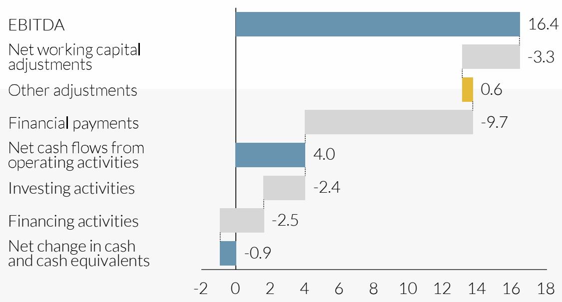
Financing activities
EUR 2.5m was repaid to bondholders in November 2016. In 2017, EUR 5.5m will be repaid to bondholders, excluding eventual cash sweep.

Available liquidity
According to the bond agreement, the Super Senior Working Capital Facility was reduced from DKK 75m (≈EUR 10.1m) to DKK 50m (≈EUR 6.7m) on 26 November 2016.

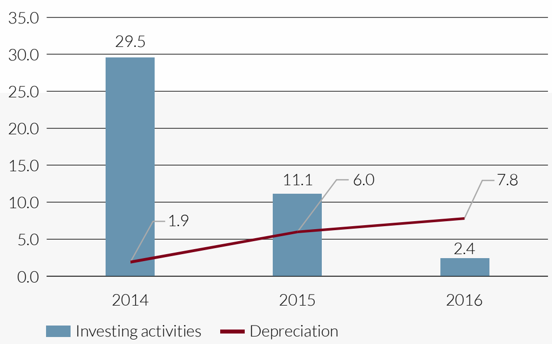
Available liquidity including available draw on working capital facility amounted to EUR 4.9m at the end of 2016, consisting of:

EUR million	2014	2015	2016
Cash and cash equivalents	4.6	2.1	1.9
Cash on retention account	2.2	-0.7	-1.1
Liquidity	**6.8**	**1.4**	**0.8**
Working capital facility	-3.3	-2.0	-2.6
Available draw	0.7	10.1	6.7
Available liquidity	**4.2**	**9.5**	**4.9**

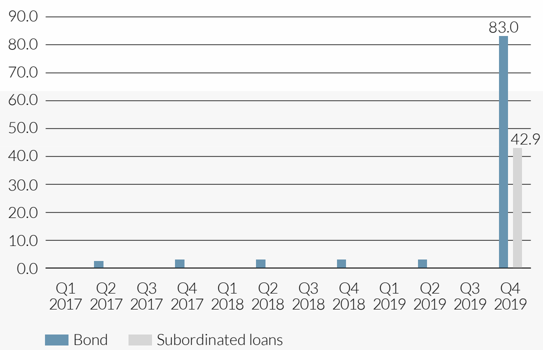
Cash flows
EUR million



Investing activities vs. depreciation
EUR million



Debt repayment next three years
EUR million



STATEMENT OF CHANGES IN EQUITY

2016 EUR '000	Attributable to owners of ZITON A/S							
	Share capital	Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2015	**11,093**	**136**	**4**	**140**	**18,021**	**29,254**	**13,326**	**42,580**
Reserve for equity settled warrants	-	7	-	7	-	7	-	7
Total comprehensive income for the year, after tax	-	-	41	41	-8,183	-8,142	2,379	-5,763
Balance at 31 December 2016	**11,093**	**143**	**45**	**188**	**9,838**	**21,119**	**15,705**	**36,824**

Share capital
At the end of 2016, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 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 consist 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 different from DKK and translation from the functional currency to the presentation currency.

2015 EUR '000	Attributable to owners of ZITON A/S							
	Share capital	Reserve for warrants	Translation reserves	Total reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2014	**7,763**	**136**	**44**	**180**	**32,880**	**40,823**	**14,990**	**55,813**
Total Comprehensive Income for the year, after tax	-	-	-40	-40	-14,859	-14,899	-1,665	-16,564
Capital increase	3,330	-	-	-	-	3,330	-	3,330
Balance at 31 December 2015	**11,093**	**136**	**4**	**140**	**18,021**	**29,254**	**13,326**	**42,580**

Share capital
In 2015, the share capital was increased by 25,000,000 B shares of DKK 1 each (EUR 3,330k) by means of a cash payment. At the end of 2015, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 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 Bjergning & 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 3.2.

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 the ZITON A/S Group consist of the 100% owned subsidiary Jack-Up InvestCo 2 A/S, and the 50% owned company Jack-Up InvestCo 3 Plc., which management has evaluated can be 100% consolidated according to IFRS 10.

Profit or loss and each component of other comprehensive income are attributed to the owners of 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.

The financial details of non-controlling interests are listed below.

EUR '000	2016	2015
Income statement		
Revenue	7,564	4,509
EBITDA	7,545	4,406
Total comprehensive income	2,380	-1,665
Balance sheet items		
Non-current assets	38,363	40,053
Current assets	10,393	2,343
Equity	15,705	13,324
Non-current liabilities	33,046	29,069
Current liabilites	5	3
Cash flow		
Net change in cash and cash equivalents	-18	-1,880
Dividends paid to non controlling interests	-	-

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 because the main financing is 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.

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 payables. 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, changes in working capital, interest payments and income taxes paid.

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.

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.

100% consolidation of Jack-Up InvestCo 3 Plc.

According to IFRS, the consolidation principle is an overall evaluation of the

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect the amount of the investor´s return.

Based on management's evaluation of the above and our unconditional right to purchase the remaining shares, Jack-Up InvestCo 3 Plc. is 100 % consolidated in the balance sheet from 1 January 2014.

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 3.2)
- Leases (note 3.1 and 6.1)
- Trade receivable (note 3.4)
- Deferred tax (note 5.2)
- Provisions (note 3.3)
- Contingent liabilities (note 6.1)

RELEVANT NEW ACCOUNTING STANDARDS

ZITON A/S has adopted the following amended standards and interpretations from 1 January 2016.

Amendments to IAS 1 Disclosure Initiative was published in December 2014 and clarifies that entities are able to use judgment when presenting their financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation was published in May 2014. The amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.

Annual improvement to IFRSs 2012-2014 cycle covering 4 standards, from September 2014.
The adoption of the amended standards and interpretations has not had a significant impact on recognition or measurement in the consolidated financial statments for 2016, and is not anticipated to have a significant impact on future periods.

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 2016, some of which have not yet been endorsed by the EU. ZITON A/S expects to adopt the standards and interpretations when they become mandatory. None of these are expected to have a significant impact on recognition and measurement, but may lead to further disclosures in the notes.

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. The standard requires extensive disclosures. The standard is effective for annual periods beginning on or after 1 January 2018. During 2016 we have used the five-step model framework on our current revenue streams and have not identified any significant effect on recognition and measurement. However it is expected that disclosure requirements will increase.

IFRS 16 - Leases. For the lessee, the distinction between finance and operating leases will be removed. In the future, operating leases 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.

IFRS 9 - Financial instruments. The number of categories of financial assets is reduced to 3: amortised cost category, fair value through other comprehensive income category or fair value through the income statement category. Simplified rules regarding hedge accounting are introduced, and impairment of receivables must be based on expected loss. The standard comes into force in 2018 and is not expected to have a significant effect on the consolidated financial statements.

2.1 SEGMENT REPORTING

The internal reporting framework used for reporting on revenue and expenses to theExecutive Management team and the Board of Directors has been set up to reflect and report on jack-up vessel revenue and expenses. As all three jack-up vessels operate on similar assignments, management reviews the results of the Group as a whole to assess performance. Thus, there is only one operating segment.

Revenue
The Group operates in northern Europe. The geographical distribution of revenue is based on the country in which the wind farm is located.

Geographical distribution of revenue

EUR '000		2016	2015
Denmark		11,528	378
United Kingdom		12,586	1,439
Germany		3,990	5,433
Holland		756	1,633
Belgium		182	255
Total	**I/S**	**29,042**	**9,138**

Sales to the two largest customers made up 68% and 15%, respectively, of total revenue in 2016 (2015: 59% and 32%, 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 arrangement.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

For vessels on time charters, that is operating leases, charter hire is recognised on a straight-line basis over the term of the lease.

2.2 STAFF COSTS

Total staff costs in the Group

EUR '000		2016	2015
Staff costs, office staff			
Wages and salaries		2,147	1,740
Pensions – defined contribution plans		146	120
Other social security costs		38	2
Total office staff	**I/S**	**2,330**	**1,862**
Vessel staff - the amount is included in "Operating expenses"			
Wages and salaries		2,817	2,405
Pensions – defined contribution plans		207	166
Other social security costs		29	38
Total vessel staff		**3,053**	**2,609**
Total staff costs		**5,383**	**4,470**

Average number of employees

	2016	2015
Office staff	21	17
Vessel staff, Danish nationalities	50	44
Vessel staff, other EU nationalities	18	10
Total employees	**90**	**72**

The increase in employees, was made to support the operation of three vessels in 2016, compared to 2015 when J/U WIND PIONEER came in operation during the year.

The Group measures the employee turnover in accordance with Bimco shipping KPI system, for whole of 2016 the officer retention rate is 93%.

3.1 VESSELS AND EQUIPMENT

2016 EUR '000		Fixtures & equipment	Vessels	Total
Cost at 1 January		779	180,679	181,458
Exchange rate adjustments		1	365	366
Additions		131	2,351	2,482
Disposals		-219	-	-219
Cost at 31 December		**692**	**183,395**	**184,087**
Depreciation at 1 January		-301	-14,805	-15,106
Exchange rate adjustments		-1	-43	-44
Depreciation	I/S	-164	-7,609	-7,773
Disposals		149	-	149
Depreciation at 31 December		**-317**	**-22,457**	**-22,774**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**375**	**160,938**	**161,313**
– of which capitalised interests, with an average interest rate of 11.7%			18,141	18,141

At 31 December 2016, EUR 37k of the book value of fixtures & equipment was financial leases of cars.

3.1 VESSELS AND EQUIPMENT (CONTINUED)

2015 EUR '000		Fixtures & equipment	Vessels under construction	Vessels	Total
Cost at 1 January		626	84,449	89,056	174,131
Exchange rate adjustments		-2	-214	-226	-442
Additions		154	5,915	1,700	7,769
Disposals		-	-	-	-
Transferred during the year			-90,149	90,149	-
Cost at 31 December		**779**	**-**	**180,679**	**181,458**
Depreciation at 1 January		-137	-	-9,028	-9,165
Exchange rate adjustments		1	-	25	26
Depreciation	I/S	-165	-	-5,802	-5,967
Disposals		-	-	-	-
Depreciation at 31 December		**-301**	**-**	**-14,805**	**-15,106**
Impairment losses at 1 January		-		-	-
Impairment losses at 31 December		-		-	-
Carrying amount at 31 December	**B/S**	**478**	**-**	**165,874**	**166,352**
– of which capitalised interests, with an average interest rate of 11.7%				18,833	18,833

At 31 December 2015, EUR 60k of the book value of fixtures & equipment was financial leases of cars.

Impairment of vessels

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

The value in use is calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives. This includes any concluded framework agreements and signed charters 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 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.

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

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

3.1 VESSELS AND EQUIPMENT (CONTINUED)

As cash flows from the CGU in 2016 were lower than expected, an impairment test is carried out based on value in use. The impairment test is performed by estimating the recoverable amount at value in use calculated as the present value of the total expected cash flows during the rest of the vessels' economic lives and a determined WACC of 8.2% 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 160,938k.

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

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 Chief Operating Officer. At the current depreciation rate, the vessel are fully depreciated over 12 to 26 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 price of steel.

Impairment

Revenue for "open charter periods" is estimated based on projected future installation of offshore turbines, the average rate 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 rate and utilisation of the vessels. However, an increase of the WACC of 2 basis point to 10.2% and a reduction of either 10% 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 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

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 amount. 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 FINANCIAL ASSETS

ZITON A/S has a call option to acquire all remaining shares in Jack-Up Invest Co 3 Plc. from the co-investor (the 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 revised capital structure for the Group.

As there is no active market for this option, the financial assets are measured at cost less impairment.

2016 EUR '000		Assets at fair value through P/L	Total
Fair value at 1 January		6,057	6,057
Fair value at 31 December	**B/S**	**6,057**	**6,057**

2015 EUR '000		Assets at fair value through P/L	Total
Fair value at 1 January		-	-
Prepayment on call option		6,057	6,057
Fair value at 31 December	**B/S**	**6,057**	**6,057**

SIGNIFICANT ESTIMATES AND ASSUMPTIONS – FINANCIAL ASSETS

As the financial asset is measured at cost less impairment, significant accounting estimates include estimates of impairment on financial assets.

Impairment will occur if management does not intend to use the call option, or if the vessel owned by Jack-Up InvestCo 3 Plc. does not generate the expected future value.

As part of the vessel impairment test we did not recognise any impairment losses, hence the value of EUR 6.057k for the prepayment of the call option is appropriate.

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.

At 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 at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value for 'financial assets at fair value through profit or loss' are recognised as follows in profit or loss within other income or other expenses. If there is no active market for the financial assets and the range of reasonable fair values is significant and these estimates cannot be made reliably, then the financial assets is measured at cost less impairment.

3.3 PROVISIONS

Provisions for employee benefits

EUR '000		2016	2015
Provisions at 1 January		**580**	**487**
Change in long-term employee bonus provision		152	94
Change in holiday provisions for employees		127	-
Provisions at 31 December		**859**	**580**
Recognised in the balance sheet as follows:			
Non-current	B/S	236	231
Current	B/S	623	348
Total trade and other receivables		**859**	**580**

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 employees bonus programme is based on realised EBITDA figures. It is estimated that the target will be met for the short- and long-term bonus. This affects the change in bonus provision by EUR 152k in 2016. It is expected that the short-term bonus will be paid in 2017 and the long-term bonus will be paid in 2018.

Holiday provisions are estimated based on employee turnover, number of expected vacation days, and future salary increases. The provision is increased with EUR 127k, due to the increase of employees.

ACCOUNTING POLICIES

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.

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.

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.

3.4 TRADE AND OTHER RECEIVABLES

EUR '000		2016	2015
Trade receivables		4,183	311
Provision for impairment		-	-
Other receivables		119	181
Intercompany receivables		29	29
Prepayments		124	111
Total trade and other receivables	**B/S**	**4,455**	**634**
Recognised in the balance sheet as follows:			
Non-current		-	-
Current		4,455	634
Total		**4,455**	**634**

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

Trade receivables of total EUR 846k were overdue, by less than 30 days at 31 December 2016. All payments were received during January 2017. (2015: Trade receivable of EUR 280 was overdue by less than 30 days at 31 December 2015. Payment was received during January 2016).

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 are no need for provisions on receivables at 31 December 2016 (2015: No provision on receivables).

ACCOUNTING POLICIES

Trade receivables

Trade receivables are recognised at amortised cost less provision for impairment where it is assessed that an objective indication of impairment has occurred. Impairment is performed on an individual basis.

Other receivables and prepayments

Other receivables comprise VAT receivables and 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.

3.5 TRADE AND OTHER PAYABLES

EUR '000		2016	2015
Trade payables		1,450	831
Other liabilities		1,312	844
Total trade and other payables	**B/S**	**2,762**	**1,675**

ACCOUNTING POLICIES

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Other liabilities represent accruals for primarily interest and VAT.

Trade payables and Other liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value 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" earlier 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 in reputable 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 November 2015, obtaining a solid capital structure with subordinated loans maturing, in December 2019 and the bond issue maturing in November 2019.

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.

	Maturities				
EUR '000	in 2017	Between 2018 to 2019	2020 and onwards	Total	Book value
Loans and receivables					
Cash	1,944	-	-	**1,944**	1,944
Trade receivables	4,183	-	-	**4,183**	4,183
Other receivables	119	-	-	**119**	119
Financial liabilities					
Subordinated loans	-	42,998	-	**42,998**	32,373
Bank and bond loans	13,795	107,082	-	**120,877**	95,856
Trade and other payables	1,450	-	-	**1,450**	1,450
Working capital facility, incl. lease liability	2,653	-	-	**2,653**	2,653

Response:
The Group currently has a loan-to-value ratio for its vessels of approx. 60%, which it plans to reduce before refinancing of the bond.

Covenants
The bond loan agreement includes financial covenants that, if broken, involve default on credit facilities. The subordinated capital ratio must not fall below 33% at the end of 2016.

Market risk
Bunker price risk
The Group is exposed to fluctuating bunker prices. Bunker expenses in 2016 amounted to EUR 280k (2015: EUR 656k).

If bunker prices increase by 50%, the Group's expenses are assessed to increase by less than EUR 500k.

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 EUR 100 million bond issue, carries a floating rate of interest. Consequently, an increase in the general interest level, as denoted by 3 months EURIBOR, will have an adverse effect on the Group's interest expenses.

An increase of 1 percentage point in interest rates will increase interest expenses by approx. EUR 1 million. If EURIBOR rates fall below 0%, it will not benefit the Group to any major extent as there is a floor of 0% on ZITON A/S´s bond issue.

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

4.2 WORKING CAPITAL FACILITY

EUR '000		2016	2015
Cash and bank overdraft			
Cash and cash equivalents	B/S	1,944	2,122
Working capital facility		-2,614	-1,960
Total	**C/F**	**-670**	**162**

At 31 December 2016, total cash at bank included EUR 1,121k on retention account, in favour of bond amortisation and interest (2015: EUR 708k).

At 31 December 2016, the Group had an undrawn working facility with the bank of EUR 4,111k (2015: EUR 8,111k).

4.3 LOANS

2016 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loan		Fixed rate	-	32,373	32,373
Bond		Floating rate	4,937	90,919	95,856
Lease liabilities		Floating rate	39	-	39
Working capital facility		Floating rate	2,614	-	2,614
Total loans	**B/S**		**7,590**	**123,292**	**130,882**

Fair value:
At 31 December 2016, the latest trading price quoted for the bond on the Oslo Stock Exchange was 97.67. The fair value (hierarchy level 1) of the bond is equivalent to EUR 95,228k, compared to the carrying amount of 97,500k (adjusted for capitalised fees ofEUR 1,644k).
The fair value of the remaining loans are equivalent to the carrying amounts. Hence the total fair value of loans at 31 December 2016 was EUR 130,254k, excluding capitalised fees of EUR 1,644k.

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 32% in the first 12 months from the Issue Date and increase it by 1% each subsequent year. At 31 December 2016, the minimum ratio is 33%. The key terms of the bond is listed below accounting policies.

4.3 LOANS (CONTINUED)

2015 EUR '000		Interests type	Current debt	Non-current debt	Total
Subordinated loans		Fixed rate	-	29,312	29,312
Bond		Floating rate	1,950	95,849	97,799
Lease liabilities		Floating rate	50	-	50
Working capital facility		Floating rate	1,960	-	1,960
Total loans	**B/S**		**3,960**	**125,161**	**129,121**

Fair value:
At 31 December 2015, the bond was traded close to par value. Hence, the fair value of the loans is equivalent to the carrying amount excluding capitalised fees. The total fair value of loans at 31 December 2015 was EUR 131,322k, excluding capitalised fees of EUR 2,201k.

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 32% in the first 12 months from the Issue Date and increase it by 1% each subsequent year. At 31 December 2015, the minimum ratio is 32%.

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 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 reporting period.

Key terms for the BOND: FRN ZITON A/S 2015/2019 - ISIN NO0010751332

Coupon	Floating rate note 3m EURIBOR (floor at 0%) + 8.5% p.a. Quarterly coupon payments
Issue size	EUR 100 million
ISIN & listing	ISIN: NO0010751332. Listed on the Oslo Stock Exchange
Maturity	26 Nov 2019
Maintenance covenant	Subordinated capital ratio >33% (increasing by 1%-point annually)
Call option	Make whole first 2 years at 104.31+PV of remaining interest. Thereafter 104.31/103.02/101.72/100.43 after 24/30/36/42 months respectively
Change of control	Change of control with new owner obtaining above 50% ownership allows bondholders to sell the bond at 101.00
Security	1st lien security in J/U WIND SERVER, J/U WIND PIONEER and J/U WIND
Amortisation	2.5 MEUR semi-annually from 12 months after issue date 3.0 MEUR semi-annually from 24 months after issue date
Cash sweep	Semi-annual (30.06 & 31.12) cash sweep of cash in excess of 5 MEUR in free liquidity (at 102% of par)
Carve out for negative pledge	WCF of 50 MDKK + performance guarantees. Financial lease etc. limited to 0.5 MEUR
CAPEX restrictions	Newbuild CAPEX limited to 2 MEUR during tenor. Any debt on a non-recourse basis to ZITON.
Capital distribution	No distribution of dividend or repayment of subordinated capital (net)

4.4 NET FINANCIAL EXPENSES

EUR '000		2016	2015
Financial income:			
Foreign exchange gains on financing activities		949	107
Other		5	1
Total financial income	**I/S**	**954**	**108**
Interest expense			
Subordinated loans		3,535	5,192
Bank loans		317	1,572
Transaction costs, incl. premium for 2015 bond option call		581	7,747
Bond loans		8,679	4,700
Finance lease liabilities		2	12
Foreign exchange loss on financing activities		750	125
Other interest expense		276	-
Total		**14,140**	**19,349**
Less: amounts capitalised on qualifying assets		-	-2,767
Less: fees capitalised to offset loans		-	-2,253
Total financial expenses	**I/S**	**14,140**	**14,329**
Net financial expenses		**13,186**	**14,221**

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.

5.1 INCOME TAX EXPENSE

Income tax expense

EUR '000		2016	2015
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		-1,229	4,520
Adjustments in respect of prior years – deferred tax		-25	110
Total deferred tax		**-1,254**	**4,630**
Income tax expense	**I/S**	**-1,254**	**4,630**

The tax on the Group's profit before tax 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	2016	2015
Profit/loss before tax	**-4,550**	**-21,154**
Danish tax rate (2016 = 22%; 2015 = 23.5%)	**1,001**	**4,971**
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate	-944	585
Impact of change in the Danish tax rate	-	-241
Non-deductible interest	-1,268	-798
Other adjustments	-18	3
Income tax expense for the year	**-1,229**	**4,520**

The reason for the tax expense of EUR 1.2m is due to the effect of the Malta tax rate of 35% and non-deductible interest in Denmark. Hence the taxable income is a profit of EUR 5.6m which result in a taxable expense of EUR 1.2m.

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 unused 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	2016	2015
Deferred tax 1 January	-1,209	-5,795
Currency translation	-7	0
Change in deferred tax - recognised in the income statement	-1,229	4,520
Adjustments related to previous years	4	110
Adjustment to deferred tax asset		-44
Total deferred tax, net at 31 December	**-2,441**	**-1,209**
Deferred tax gross:		
Deferred tax asset	5,122	9,337
Deferred tax liabilities	-7,563	-10,545
Total deferred tax, net at 31 December	**-2,441**	**-1,209**

Specification of deferred tax

EUR '000	2016	2015
Vessel and equipment	-7,563	-10,545
Tax-loss carry forwards	5,122	9,337
Total deferred tax at 31 December	**-2,441**	**-1,209**

Deferred tax in balance sheet

EUR '000		2016	2015
Deferred tax assets	B/S	-	699
Deferred income tax liabilities	B/S	-2,441	-1,909
Total deferred tax at 31 December		**-2,441**	**-1,209**

In 2016, total deferred tax consists of an asset from Jack-Up InvestCo 3 Plc. of EUR 1,799k and a deferred tax asset of EUR 642k concerning the Danish joint taxation, in total EUR 2,441k. In 2015, total deferred tax was spilt between an asset concerning Jack-Up InvestCo 3 Plc. of EUR 699k and a deferred tax liability of EUR 1,909k concerning the Danish joint taxation.

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.

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 subsidiary Jack-Up Invest Co 2 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	2016	2015
Recognised in the income statement in respect of rentals	230	146
Lease commitments:		
0 - 1 year	123	113
1 - 5 years	108	193
After 5 years	-	-
Total lease commitments	**230**	**306**

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.

6.1 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

Security
In November 2015, the company issued a bond for an amount of EUR 100,000k and obtained a working capital facility consisting of an overdraft facility and performance guarantees. The overdraft facility is limited to DKK 50,000k (EUR 6,702k). The bondholders and the provider of the working capital facility 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 160,938k
- (2015: EUR 165,874k) have been pledged for a total amount of EUR 195,003k (2015: EUR 195,003k).
- The Group's deposit, at any time, on Retention Account in SEB.
- 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 Wind Power 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 Wind Power A/S. The guarantee amounts to EUR 5,330k (2015: EUR 7,107k), 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.

A perfomarnce gurantee is provided by the Group's bank, covering decommission work in the United Kingdom in 2017. The guarentee amounts to EUR 219k (2015: EUR 0k) and expires on 1 June 2017 or upon completion of the decommissioning.

Unrecognised contingent liabilities
There are pending disputes with individual suppliers. Management believes that the outcome of these 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 esimate 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. Due to increase of capital by conversion of debt to equity in 2014 and a cash payment in 2015, the value of the warrants granted in 2012 has decreased. 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.

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 2019. 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.

	Staff expenses		Interest	
2016 Warrants – amount and value in EUR	Management	Employees	Subordinated loan provider	Total
Outstanding warrants at 1 January 2016	187,641	31,272	99,500	318,413
Granted in 2016	139,688	19,806	-	159,494
Outstanding warrants at 31 December 2015	**327,329**	**51,078**	**99,500**	**477,907**
Number of exercisable options at 31 December 2016				**477,907**
Fair value at the time of grant (EUR´000) at 1 January 2016	61	10	64	136
Fair value for granted warrants in 2016	7	-	-	7
Fair value at the time of grant (EUR´000) at 31 December 2016	**68**	**10**	**64**	**143**

No warrants were exercised or cancelled in 2016. During 2016, the fair value of the new warrants is fully recognised, and a expense of EUR 7k has been recognised in the income statement and equity during 2016.

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.

6.2 SHARE-BASED PAYMENTS (CONTINUED)

2015 Warrants – amount and value in EUR	Staff expenses Management	Staff expenses Employees	Interest Subordinated loan provider	Total
Outstanding warrants at 1 January 2015	187,641	31,272	99,500	318,413
Outstanding warrants at 31 December 2015	**187,641**	**31,272**	**99,500**	**318,413**
Number of exercisable options at 31 December 2015				**318,413**
Fair value at the time of grant (EUR ´000)	**61**	**10**	**64**	**136**

No warrants were exercised or cancelled in 2015. The fair value of the warrants is fully recognised, hence there was no effect in the income statement or equity during 2015.

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	2016	2015
BDO		
Statutory audit	25	26
Assurance engagements	-	2
Tax advisory	5	11
Other services	12	11
Total	**42**	**50**

6.4 RELATED PARTY TRANSACTIONS

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

Remuneration

	Executive Management		Board of Directors	
EUR '000	2016	2015	2016	2015
Wages and salaries	288	251	30	29
Pensions – defined contributions plans			-	-
Other social security costs	0	1	-	-
Total	**288**	**252**	**30**	**29**

Please refer to Note 6.2 for a description of the share-based payment.

6.4 RELATED PARTY TRANSACTIONS (CONTINUED)

Trading and accounts with related parties

EUR '000	2016	2015
Income statement items:		
Administrative expenses:		
Rent to Dansk Bjergning og Bugsering A/S 1)	-	258
Balance sheet items:		
Vessels, including fixtures & equipment		
CAPEX relating J/U WIND PIONEER to Orskov Yard A/S 2)	-	523
Intercompany balances		
Effect of joint taxation with Jack-Up Holding A/S and Anpartsselskabet af 1. December 2011	29	30

1) Dansk Bjergning og Bugsering A/S is a subsidiary of Dansk Bjergning & Bugsering Holding ApS
2) Orskov Yard A/S is a subsidiary of OY Finans ApS

No other material transactions took place during the year with 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 Bjergning & Bugsering Holding ApS 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 HoldingA/S's holding company Anpartsselskabet af 1. december 2011 ApS.

The above-mentioned companies are considered related parties, including their subsidiaries and associates, board of directors and the executive management of these entities together with their immediate families.

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

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

6.5 SUBSEQUENT EVENTS

No significant events have occurred between the reporting period and the 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 the annual general meeting and authorised for issue on 25 April 2017.

PARENT COMPANY FINANCIAL STATEMENTS
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INCOME STATEMENT
1 JANUARY - 31 DECEMBER

		PARENT COMPANY	
EUR '000	Note	2016	2015
Revenue		**29,042**	**9,138**
Project-related expenses		-1,161	-272
Operating expenses		-28,182	-15,697
Gross profit (net earnings from vessel activities)		**-301**	**-6,831**
Administrative expenses		-1,269	-1,589
Staff costs	2.1	-5,365	-4,452
Earnings before interest, tax, depreciation etc. (EBITDA)		**-6,935**	**-12,872**
Depreciation	3.2	-2,095	-1,825
Earnings before interest and tax (EBIT)		**-9,030**	**-14,697**
Income from equity investment		2,329	-2,769
Financial income	2.2	12,055	5,942
Financial expenses	2.2	-15,747	-6,678
Income before tax		**-10,393**	**-18,202**
Tax on profit (loss)	2.3	2,209	3,343
Income for the year		**-8,184**	**-14,859**
Proposed distribution of profit			
Reserve for equity value		159	-596
Accumulated profit		-8,343	-14,263
Total		**-8,184**	**-14,859**

BALANCE SHEET AT 31 DECEMBER
– ASSETS

		PARENT COMPANY	
EUR '000	Note	2016	2015
Vessel	3.1	24,283	24,145
Fixtures & equipment	3.1	252	290
Tangible assets		**24,535**	**24,435**
Investments in Jack-Up InvestCo 2 A/S	3.2	-	-
Investment in Jack-Up InvestCo 3 Plc.	3.2	15,708	13,326
Deferred tax asset	3.3	1,425	177
Financial assets	3.2	6,057	6,057
Long-term receivable in Jack-Up InvestCo 2 A/S		68,694	63,400
Long-term receivable in Jack-Up InvestCo 3 Plc.		63,284	58,838
Financial assets		**155,168**	**141,798**
Trade receivables		4,183	311
Other receivables		117	134
Prepayments		123	111
Cash and cash equivalents		1,884	2,023
Current assets		**6,307**	**2,579**
Total assets		**186,010**	**168,812**

BALANCE SHEET AT 31 DECEMBER – EQUITY AND LIABILITIES

		PARENT COMPANY	
EUR '000	Note	2016	2015
EQUITY			
Share capital		11,093	11,093
Reserves		302	141
Retained earnings		9,724	18,020
Total equity		**21,119**	**29,253**
LIABILITIES			
Other provisions		236	231
Subordinated loans	4.1	32,373	29,312
Bond loans	4.1	90,919	95,849
Total non-current liabilities		**123,528**	**125,392**
Other provisions		623	348
Current portion of long-term loans	4.1	4,974	2,001
Debt to bank - Bank overdraft		2,615	1,959
Trade payables		1,234	527
Intercompany payable, associated companies		92	92
Intercompany payable, Jack-Up InvestCo 2 A/S		9,987	3,055
Intercompany payable, Jack-Up InvestCo 3 Plc.		19,725	4,596
Other liabilities		2,113	1,588
Total current liabilites		**41,363**	**14,167**
Total liabilities		**164,891**	**139,559**
Total equity and liabilites		**186,010**	**168,812**

STATEMENT OF CHANGES IN EQUITY

	PARENT COMPANY						
2016 EUR '000	Share capital	Reserve for warrants	Translation reserves	Reserve for equity value	Total reserves	Retained earnings	Total equity
Balance at 31 December 2015	**11,093**	**136**	**5**	**-**	**141**	**18,020**	**29,254**
Exchange rate adjustments		-	-	-	-	47	47
Reserve for equity settled warrants	-	7	-	-	7	-	7
Total comprehensive Income for the year, after tax	-	-	-	159	159	-8,343	-8,184
Exchange rate adjustment of Jack-Up InvestCo 3 Plc.	-	-	-5	-	-5	-	-5
Balance at 31 December 2016	**11,093**	**143**	**-**	**159**	**302**	**9,724**	**21,119**

Share capital
At the end of 2015, the share capital consisted of 82,782,192 shares of DKK 1 each (EUR 11,093K). The shares are divided into two classes: 11,118,416 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	2016	2015	2014	2013	2012
Share capital	11,093	11,093	7,763	2,026	2,026

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 only differ from those of the Group, which follows IFRS, with respect to a few items, only those policies that differ from the Group's are detailed below. Reference is made to the accounting policies of the ZITON Group for the 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
In the parent company's income statement, the proportional share of earnings is recognised under the item "Income from equity investment".

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

The total net revaluation of investments in equity 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 by 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.

Other accounting policies
With reference to the provisions of the Danish Financial Statements Act, the 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		2016	2015
Staff costs			
Wages and salaries		4,945	4,125
Pensions - defined contributions plans		353	286
Other social security costs		67	41
Total staff costs	**I/S**	**5,365**	**4,452**
of which remuneration to:			
Management [1)]		288	250
Board of Directors		30	30

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

Average number of employees

	2015	2014
Total employees	**90**	**72**

2.2 NET FINANCIAL EXPENSES

EUR '000		PARENT COMPANY 2016	PARENT COMPANY 2015
Financial income			
Financial income, related parties		11,102	5,836
Other financial income		953	106
Total financial income	**I/S**	**12,055**	**5,942**
Financial expense			
Financial expenses, related parties		1,610	4,605
Other financial expenses		14,137	4,326
Total		**15,747**	**8,931**
Less: fees capitalised to offset loans		-	-2,253
Total financial expenses	**I/S**	**15,747**	**6,678**
Net financial expenses		**-3,692**	**-736**

2,3 INCOME TAX EXPENSE

EUR '000		PARENT COMPANY 2016	PARENT COMPANY 2015
Current tax			
Current tax on income for the year		-	-
Adjustments in respect of prior years - current tax		-	-
Total current tax		-	-
Deferred tax (note 3,3):			
Deferred tax on the income (profit/loss) for the year		2,209	3,326
Adjustments in respect of prior years - deferred tax		-	17
Total deferred tax		**2,209**	**3,343**
Income tax expense	**I/S**	**2,209**	**3,343**

3.1 VESSELS AND EQUIPMENT

2016 EUR '000		PARENT COMPANY Fixtures & equipment	Vessel	Total
Cost at 1 January		523	34,747	35,270
Exchange rate adjustments		2	132	134
Additions		131	2,041	2,172
Disposals		-219	-	-219
Cost at 31 December		**437**	**36,920**	**37,357**
Depreciation at 1 January		-233	-10,602	-10,835
Exchange rate adjustments		-1	-40	-41
Depreciation		-100	-1,995	-2,095
Disposals		149	-	149
Depreciation at 31 December		**-185**	**-12,637**	**-12,822**
Impairment losses at 1 January		-	-	-
Impairment losses at 31 December		-	-	-
Carrying amount at 31 December	**B/S**	**252**	**24,283**	**24,535**
– of which capitalised interests		-	-	-
– of which financial leases of cars.		37	0	37

3.2 FINANCIAL ASSETS

2016 EUR '000	PARENT COMPANY Equity investment in Jack-Up InvestCo 3 Plc.	Equity investment in Jack-Up InvestCo 2 A/S	Total
Cost at 1 January	14,000	737	14,737
Exchange rate adjustments		3	3
Additions	-	-	-
Cost at 31 December	**14,000**	**740**	**14,740**
Adjustments at 1 January	-674	-1,492	-2,166
Exchange rate adjustments		-6	-6
Profit during the year	2,382	-53	2,329
Adjustments at 31 December	**1,708**	**-1,551**	**157**
Total	**15,708**	**-811**	**14,897**
Transfer to other liabilities	-	811	811
Carrying amount at 31 December	**15,708**	**-**	**15,708**

Jack-Up InvestCo 3 Plc. (registered office: Qormi, Malta (Share of Ownership 50%))
Jack-Up InvestCo 2 A/S (registered office: Horsens, Denmark (Share of Ownership 100%))

3.3 DEFERRED TAX

EUR '000		PARENT COMPANY 2016	PARENT COMPANY 2015
Deferred tax 1 January		177	-3,124
Currency translation		1	-
Change in deferred tax - recognised in the income statement		2,213	3,326
Utilisation of tax loss in joint taxation		-967	-
Adjustments related to previous years		2	15
Adjustment to deferred tax asset		-1	-40
Total deferred tax, net at 31 December	**B/S**	**1,425**	**177**
Deferred tax gross			
Deferred tax asset		4,259	3,395
Deferred tax liabilities		-2,834	-3,218
Total deferred tax, net at 31 December	**B/S**	**1,425**	**177**

4.1 LOANS

PARENT COMPANY

2016 EUR '000		Current debt 0-1 year	Non-current debt 1-5 years	Non-current debt After 5 years	Total
Subordinated loans		-	32,373	-	32,373
Bonds		4,937	90,919	-	95,856
Lease liabilities		37	-	-	37
Total	**B/S**	**4,974**	**123,292**	**-**	**128,266**

2015 EUR '000		Current debt 0-1 year	Non-current debt 1-5 years	Non-current debt After 5 years	Total
Subordinated loans		-	29,312	-	29,312
Bonds		1,950	95,849	-	97,799
Lease liabilities		51	-	-	51
Total	**B/S**	**2,001**	**125,161**	**-**	**127,162**

5.1 COMMITMENTS AND CONTINGENCIES

Commitments (operating lease arrangements)
See note 6.1 to the consolidated financial statements.

Contingencies

Security
A vessel with a total carrying amount of EUR 24,283k (2015: EUR 24,144k) has been pledged as security for bond and bank debt at a total carrying amount of EUR 40,002k (2015: EUR 40,002k).

ZITON A/S has pledged the shares in the 50% ownership in Jack-Up Invest Co 3 Plc. and the shares in the 100% 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

FOTO: PHILIP H. WILLIAMS

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