

MagneticMRO

CONSOLIDATED NON-AUDITED INTERIM REPORT FOR H1 2019



TALLINN

GENERAL INFORMATION

Magnetic MRO is a Total Technical Care maintenance and asset management organization with a global presence and more than two decades of worldwide experience. The company has a well-established reputation in innovative aviation solutions and proven track record as a one-stop shop for airlines, asset owners, OEMs and operators. It offers a wide range of services varying from asset management and engineering, to line and base maintenance.

H1 2019 OPERATIONS AND ACTIVITIES

- **The MRO Russia & CIS Award** ceremony is an event that celebrates the best of the best in the aviation maintenance industry each year. **Magnetic MRO wins an Achievement of the Year award** for being **the best international MRO provider in 2018**.
- **Acquisition of line maintenance company, Direct Maintenance**, completed on 1st of March. Direct Maintenance officially part of MMRO group: with this milestone total 50 different engine and aircraft type combinations brought to Magnetic MRO group capability, 11 new line maintenance stations, 120 staff members and 6 countries. Integration process ongoing according to plans.
NB! As PPA process is not finalized, Consolidated Financial Statements do not include Direct Maintenance results.
- **MAC Sichuan Aviation Technology Limited establishment completed** in January 2019, first deal worth of 5MRMB. The company is focusing on aircraft cabin repair, maintenance and production with an aim to be closer to the biggest and fastest growing aerospace market.
- Sub-brand **EngineStands 24 established engine stands rental hub in Dubai**. The first orders have been completed and service has received better loading than expected. Work is ongoing with the establishment of engine stands rental hub in China.
- **Training business unit opened its second training location in Malaysia, Kuala Lumpur**. Same location will also serve as Magnetic MRO sales office of aircraft spare parts and engines as well as asset trading. This marks as first physical move into the region by MMRO employees.
- **MMRO Signs first sizeable agreement with a Saudi Arabia based aviation maintenance and ground handling support provider called First Premium Support Services (FPSS)**. The arrangement between two organizations entails MMRO support in setting up a aircraft component maintenance facility (design and tooling sales) and develop jointly line maintenance services.
- Magnetic MRO is **raising additional capital** by introducing two new shareholders (announcement at Nasdaq on 06.06.2019). This equity injection is expected to bring 8,950,000EUR additional capital and as a result,

15,04% of shares are issued for two new shareholders. The capital will be used to support companies' organic growth and lower debt facilities.

- Magnetic MRO is proud to announce that the company is one of the partners of the **Estonian Aviation Cluster**, which introduced itself to the public for the first time in Tallinn Airport on Wednesday, April 24th. The Cluster was created in the hope of joining Estonian aviation enterprises and organizations via collaboration, to have a say in the creation of the national aviation strategy, and to increase the attractiveness of Estonia as an aviation country for foreign investors.
- Magnetic MRO has painted the Latvian airline **airBaltic's new A220-300 aircraft** into a unique one-off livery that features the **colours of the Estonian national flag**. Due to the growing popularity of airBaltic's services in Estonia, the Latvian airline decided to paint one of its new Airbus A220-300 aircraft into the Estonian national flag colours at the Magnetic MRO facilities in Tallinn. airBaltic's Airbus A220-300 aircraft, registered as YL-CSJ, will now be carrying the colours of the Estonian flag and the name of its capital – Tallinn – around the world.
- In May 2019, Magnetic MRO and **Finnair, the flag carrier of Finland**, have signed a contract for complete paint work, full interior refurbishment and maintenance on all 12 of the airline's ATR 72 fleet operated for Finnair by its partner company Norra. The first aircraft was delivered from Magnetic MRO's Tallinn hangars to the customer on May 8th.
- Magnetic MRO has launched **Interior Inspector** – a new service which connects airline workers and maintenance teams in logging damages found in the passenger cabin of a commercial airliner.
- In May 2019, **MAC Aero Interiors** published news about cooperation with **TUI Group**. Magnetic MRO 3D scanning the lavatories in order to get all the data to create prototypes.
- **Direct Maintenance**, subsidiary of Magnetic MRO, is happy to announce that **HAM station (Hamburg airport)** is approved and open. The first aircraft was successfully welcomed by our staff and the newly branded car. With a capability for A380, B777 and B787 we are excited to build this operation and welcome more customers in HAM. Hamburg is the third Germany location where Direct Maintenance has opened a station.
- As of 20th April 2019, **Direct Maintenance** has added **Iberia** to its customer portfolio at the company's brand new station in **Düsseldorf**. Direct Maintenance provides full maintenance support for the airline, both during the daytime operation as well as scheduled maintenance during night-stops. Iberia is already one of the customers at the company's first German station in **Berlin (TXL)**, so this shows the trust our customers have in us and the dedication Direct Maintenance gives to supply the services they rely upon.
- In June 2019, **Direct Maintenance** welcomed its first **A380 flight** at the recently opened station at **Düsseldorf (DUS) airport**. Since it's opening in April, the DUS station has been handling A320s and B767s, however, our DUS capability extends beyond those aircraft types.
- **Direct Maintenance** adds new capability at **Dublin station** the A320 IAE PW1100G engine to our EASA Part-145 line maintenance approval.

STATEMENT OF THE MANAGEMENT BOARD

The financial and other additional information published in the interim report H1 2019 is true and complete. The consolidated main financial statements give a true and fair view of the actual financial position, results of operations and cash flows of the Group.

The consolidated financial statements in the report for the period H1 2019 and H1 2018 are not audited. The financial information in Interim Report is prepared in accordance with the Estonian financial reporting standards. The Estonian financial reporting standards is prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

Herewith Management Board informs that Magnetic MRO AS is not complying with covenant set in p.3.4.3. of Terms and Conditions of Magnetic MRO AS Note Issue. The main driver of breach is bonds issued with the aim of acquisition of Direct Maintenance BV, as value of the them taken into calculation of covenant. Set covenant will be achieved by the end of current year by injection of additional capital and growing operational activities.

	kEUR	6.2019
12-m rolling adjusted EBITDA*		4,541
Interest bearing liabilities		19,398
<i>Bonds</i>		8,040
Cash and bank		912
Covenant proforma		4.07
Covenant without related to acquisition of Direct Maintenance (DM) liabilities (bonds) and DM group EBITDA		2.83

**Proforma: incl. 12m EBITDA of Direct Maintenance group*

Adjustments: one-off costs related to Magnetic MRO's change of shareholders and share capital rising

Covenant proforma = (Interest bearing liabilities – Cash) / 12m adjusted EBITDA

	H1 2019	H1 2018
ROAE	10%	30%
RONA	15%	48%
Working Capital	2,411	3,169

ROAE = Net Profit / Average Owners Equity

RONA = Net Profit / (Tangible Fixed Assets + Working Capital)

Astrit Viisma-Kass

CFO, Member of the Management Board

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Interim Consolidated Financial Statements, kEUR

The financial statements are for the group: Magnetic MRO AS and its subsidiaries MAC Aero Interiors Ltd, MAC Sichuan, Direct Maintenance group (from March 2019) and Arrowhead Assistance UAB
PPA for Direct Maintenance group acquisition is on finalization stage.

PROFIT and LOSS STATEMENT CONSOLIDATED

	H1 2019	H1 2018
Sales revenue	43,971	52,737
Variable direct costs	-36,026	-45,216
Fixed direct costs	-372	-246
Other operating income	333	433
Other operating expenses	-594	-279
GROSS PROFIT	7,311	7,428
Marketing expenses	-173	-245
Administrative costs	-3,399	-2,365
Personnel costs	-1,872	-1,726
EBITDA	1,866	3,093
Depreciation	-997	-840
Financial income and expenses	-222	1,776
MPTL equity method	-258	
NET PROFIT	389	4,029
Minority Interest	-119	
ATTRIBUTABLE NET PROFIT	508	4,029
Adjusted EBITDA	2,048	3,141

Minority Interest:

MAC Sichan 35,29%

Direct Maintenance East Africa Ltd (Kenya) 49%

Direct Maintenance Zanzibar Ltd 49%

Shareholding in MPTL: 49.9%

Adjustments: one-off costs related to Magnetic MRO's change of shareholders and share capital rising.

The impact to Magnetic MRO 1H results was driven by Power-by-Hour contract start-up. It is a vital and strategically important contract that provides long-term revenues and compliments Magnetic MRO other business units. Currently 24 airplanes exclusive material supply. The performance is expected to improve on H2 2019 as the investment to the own material pool is coming in and the business unit is tuned to scale.

Growth of Direct Costs in H1 2019 in comparison with H1 2018 is caused, in addition to expansion of MMRO, by growth of salaries and related to service agreements costs, and purchased technical services. Situation is saved by decrease of indirect costs.

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Under finance income and expenses are reflected interest income and interest expenses related to loan liabilities and bonds; FX gain and losses on assets and liabilities revaluation as of balance sheet date.

CASHFLOW CONSOLIDATED

	H1 2019	H1 2018
OPERATIONAL ACTIVITIES		
Operating profit	1,866	3,093
<i>Adjustments</i>	-408	-936
Change in receivables and prepayments	-6,175	-1,619
Change in inventories	-1,649	-616
Change in liabilities and prepayments	9,474	-498
TOTAL from OPERATIONAL ACTIVITIES	3,108	-576
INVESTMENT ACTIVITIES		
Proceeds from sale and purchase of Fixed Assets	-457	1,923
Long-Term Investments	-9,985	-1,689
TOTAL from INVESTMENT ACTIVITIES	-10,442	234
FINANCING ACTIVITIES		
Financing activities	7,316	212
TOTAL from FINANCING ACTIVITIES	7,316	212
TOTAL CASHFLOW	-17	-130

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BALANCE SHEET CONSOLIDATED

	6.2019	12.2018	6.2018
Cash and bank	912	929	980
Receivables	19,666	15,956	11,757
Inventory	10,954	7,392	8,255
Total current assets	31,532	24,277	20,991
Non-current assets			
LT Investments	15,956	6,588	6,126
Fixed Assets	8,437	6,415	5,401
Goodwill	514	555	600
Total non-current assets	24,906	13,558	12,126
TOTAL ASSETS	56,438	37,834	33,117
LIABILITIES AND OWNERS EQUITY			
Short term liabilities			
Loans	9,749	6,881	7,968
Payables	19,372	9,869	9,855
Total Short-term liabilities	29,121	16,750	17,822
Long-term liabilities			
Loans Long-Term	9,649	4,831	212
Total long-term liabilities	9,649	4,831	212
TOTAL LIABILITIES	38,770	21,581	18,035
Share capital	1,090	1,093	1,090
Share premium	6,619	6,619	6,619
Reserves	32	79	79
Unrealized FX BS	90	58	-60
Minority Interest	99		
Retained earnings	9,170	3,325	3,325
Profit for the period	568	5,079	4,029
Total Owners' equity	17,669	16,253	15,083
TOTAL LIABILITIES AND OWNERS EQUITY	56,438	37,834	33,117

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Statutory reserve capital	Unrealised exchange rate	Retained earnings (loss)	Total
31.12.2017	1,090	6,619	79	-58	3,446	11,177
Annual period profit (loss)				-2	3,908	3,906
30.06.2018	1,090	6,619	79	-60	7,354	15,083
Annual period profit (loss)				-3	1,171	1,168
31.12.2018	1,090	6,619	79	-63	8,524	16,251
Mergers and Acquisitions					706	706
Annual period profit (loss)			-47	153	508	614
Minority interest	218				-119	99
30.06.2019	1,308	6,619	32	90	9,619	17,669

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NOTES

Accounting Principles

The interim consolidated financial statements have been prepared in accordance with the same standards as last Annual Report - Estonian financial reporting standard. The Estonian financial reporting standard is prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

The financial statements are for the group consisting of Magnetic MRO AS and its subsidiaries Direct Maintenance group, MAC Aero Interiors Ltd, MAC Sichuan, Arrowhead Assistance UAB.

Preparation of consolidated statements

The financial information of all subsidiaries under the control of the parent is combined on a line-by-line basis in the consolidated financial statements. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Non-controlling interest in the results and equity of subsidiaries are shown separately in the consolidated income statement, comprehensive income statement, statement of changes in equity and balance sheet.

Related Parties

Name of accounting entity's parent company - **Hangxin Aviation Services Co., Ltd**

Country where accounting entity's parent company is registered - **People's Republic of China**

Shares of subsidiaries, general information				
Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
			30.06.2019	30.06.2018
Magnetic Leasing Limited	Ireland	sale of aircraft spare parts	100	100
MAC Aero Interiors Ltd	United Kingdom	production of aircraft interior	100	100
Arrowhead Assistance UAB	Lithuania	repair of aircraft components	100	100
MAC Sichuan	China	production of aircraft interior	64.71	0
Direct Maintenance Holding BV	Netherlands	line maintenance	100	0
Shares of associate				
Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
			30.06.2019	30.06.2018
Magnetic Parts Trading Limited	United Kingdom	sale of aircraft spare parts	49.9	49.9

Transactions with related parties

Transactions, receivables and payables for non-consolidated subsidiaries and related parties

Name of related party	H1 2019		H1 2018		
	kEUR	Purchases	Sales	Purchases	Sales
Hangxin Aviation Services Co Limited		170	5		
Guangzhou Hangxin Avionics Co Ltd		0	0		
Magnetic Parts Trading Limited		1,996	915	19,426	1,261
Magnetic Leasing Ltd		0	68		

Name of related party	30.06.2019		30.06.2018		
	kEUR	Receivables	Payables	Receivables	Payables
Hangxin Aviation Services Co Limited		5	0		
Guangzhou Hangxin Avionics Co Ltd		0	18		
Magnetic Parts Trading Limited		247	1,861	5,292	
Magnetic Leasing Ltd		83	0	83	

Labor expenses & Remuneration for members of management and highest supervisory body

	kEUR	H1 2019	H1 2018
Total labor expense		10,687	7,793
Average number of employees Magnetic MRO		496	365
Average number of employees MAC Interiors		27	34
Average number of employees Direct Maintenance		137	
Remuneration and other significant benefits calculated for members of management and highest supervisory body		341	221

Revenue

Sales by Business Units and Subsidiaries:

<i>non-consolidated, kEUR</i>	H1 2018	H1 2019
Base Maintenance	11,906	12,968
Line Maintenance	2,201	2,662
Trading	16,671	14,980
Engines	17,397	4,680
Engineering	989	963
Workshop	1,089	1,776
Others	233	381
MMRO TOTAL	50,486	38,410
MAC Aero Interiors	2,332	1,906
Direct Maintenance		3,540
MAC Sichuan		193

MMRO TOP10 geographical location:

Country	H1 2019 kEUR	H1 2018 kEUR	Growth 2019 to 2018	H1 2019 % in Total	H1 2018 % in Total
Great Britain	9,707	25,013	-61%	31%	64%
United States of America	9,046	6,078	49%	29%	16%
France	2,743	2,162	27%	9%	6%
Ireland	2,109	374	464%	7%	1%
Lithuania	1,832	1,018	80%	6%	3%
Russia	810	120	574%	3%	0%
Germany	802	986	-19%	3%	3%
Denmark	790	639	24%	3%	2%
Netherlands	695	273	154%	2%	1%
Serbia	600	164	266%	2%	0%

Receivables and prepayments

Trade receivables, accrued receivables and other short and long-term receivables (incl. loans and deposits) that the company has not purchased for resale, including financial assets that are intended to be held to maturity, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the year to maturity.

	<i>kEUR</i>	6.2019	12.2018	6.2018
Trade receivables		12,635	11,818	8,925
Other receivables		70	25	276
Accrued revenue		3,749	2,645	872
Prepayments made		3,213	1,468	1,683
Total Receivables		19,666	15,956	11,757

Inventories

Inventories are recorded in the balance sheet at cost, consisting of the purchase costs and other costs incurred in bringing the inventories to their present location and condition.

Inventories are expensed using the FIFO method.

Inventories are measured in the balance sheet at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Plant, property and equipment and intangible assets

Property, plant and equipment are initially recorded at cost, including purchase price and other expenses directly associated with the acquisition of those assets, which are necessary for bringing the asset to its operating condition and location. Property, plant and equipment are stated at historical cost less any accumulated depreciation and any impairment losses.

Liabilities

	kEUR	6.2019	12.2018	6.2018
Short-term Loans		9,749	6,881	7,968
Trade payables		9,967	5,507	4,666
Other payables		649	388	162
Taxes payable		1,289	1,141	1,000
Accrued expenses		1,860	1,663	1,365
Prepayments received		5,606	1,170	2,661
Total Short-term liabilities		29,121	16,750	17,822
Long-term Loans		9,649	4,831	212
Total long-term liabilities		9,649	4,831	212

	kEUR	6.2019				6.2018			
		Amount	Interest rate	Base currency	Due date	Amount	Interest rate	Base currency	Due date
Short-term Loans									
Luminor Bank AS (Overdraft)	7,852	3.6% + base rate	EUR	26.06.2020	7,164	3.4% + base rate	EUR	29.03.2019	
Luminor Bank AS	1,000	3.4% + base rate	EUR	22.11.2021	700	2.5% + base rate	EUR	19.03.2019	
Luminor Bank AS									
Hangxin Aviation Services Co., Ltd	800	2.5% + base rate	EUR	10.07.2019					
Financial Lease Short-Term	97				103				
Long-term Loans									
Luminor Bank AS	1,417	3.4% + base rate	EUR	22.11.2021					
Long-term signing of bonds	8,040	8%	EUR	21.12.2021					
Long-term Financial Lease	191				211				