CONSOLIDATED NON-AUDITED INTERIM REPORT FOR H1 2019

(corrected report)

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**.
- **MAC Sichuan Aviation Technology Limited establishment completed** in January 2019. 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.
- Magnetic MRO is **raising additional equity 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 as needed. The project finished successfully and the transfer of capital is in the last stage and expected to be transferred latest December 2019.
- 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 aim 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 **colors of the Baltic States countries' national flags**.

- 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 software platform 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** lavatory upgrade project. Magnetic MRO used its 3D scanning capability in order to get all the data to create prototypes for future manufacturing.
- **Acquisition of line maintenance company, Direct Maintenance**, completed on 1st of March. With this milestone total 50 different engine and aircraft type combinations was brought to Magnetic MRO group capability, 11 new line maintenance stations, 120 staff members and 6 countries. Integration process ongoing according to plans.
- **Direct Maintenance**, subsidiary of Magnetic MRO, is happy to announce that **HAM station (Hamburg airport)** is approved and open with the capability for A380, B777 and B787. 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. Also, in June 2019, Direct Maintenance welcomed its first A380 flight at the recently opened station at Düsseldorf (DUS) airport.
- **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

Magnetic MRO Group AS (further on **Magnetic MRO Group**) consists of parent company Magnetic MRO AS (EE), and its subsidiaries: MAC Aero Interiors Ltd (UK), MAC Sichuan Aviation Technology Ltd (CN), Arrowhead assistance UAB (LT), Magnetic MRO Malaysia Sdh Bhd (MY). Starting from March 01 2019 Magnetic MRO Group consolidates newly acquired group of line maintenance companies - Direct Maintenance Holding BV (NL) (further on **Direct Maintenance Group**).

The financial and other additional information of the Magnetic MRO Group is 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 of the Magnetic MRO Group 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.

COMPLIANCE WITH COVENANTS

According to p3.4.2 and 3.4.3 of the Terms and Conditions of ***Magnetic MRO 8% 21.12.2021 bonds***, the Issuer shall be obliged to comply with the following covenants until the Notes are fully repaid:

3.4.2 **Equity Ratio** shall not fall **under 25%** at the end of each Reporting Period;

3.4.3 **Net Debt/EBITDA Ratio** shall **not be higher than 3.2**.

The Management Board confirms the following execution of covenants as of June 30 2019:

1) Equity Ratio - 31%.

2) Net Debt/EBITDA – **3.8**. The Net Debt/EBITDA ratio of 3.8 is higher than the covenant of 3.2 and therefore we are non-compliant with p3.4.3 of the Terms and Conditions of Magnetic MRO 8% 21.12.2012 bonds. This is caused by the adverse impact of a PBH (Power by the Hour) contract signed at the end of 2018 and related start-up costs. Adjusted conditions were signed with the client and will become valid from October 2019 and will improve the situation.

3) Net Debt/Pro-forma EBITDA – **3.1**. However, taking into account the pro-forma EBITDA contribution of Direct Maintenance Group (acquired in March 2019), **Magnetic MRO Group fully complies with above mentioned covenant ratio.**

4) Subsequently in July Magnetic MRO Group received 2/3 of equity contribution. The remaining 1/3 is expected until year end. As of date of disclosure the current report, equity increase is not registered In Commercial Register of Estonia.

Covenants calculation:

	kEUR	H1 2018	H2 2018	H1 2019	H1 2019 TTM*
1	Interest bearing liabilities				19,398
	incl. Bonds				*8,000*
2	Cash and bank				912
3=1-2	**Net Debt**				**18,486**
4	Total Equity				17,669
5	Total Assets				56,438
6=4/5	**Equity Ratio**				**31%**
	*EBITDA***	*3,093*	*1,560*	*1,866*	*3,426*
	*Equity method income****		*1,662*	*-258*	*1,404*
7	**EBITDA Total**	**3,093**	**3,223**	**1,608**	**4,830**
8=3/7	**Net Debt/ EBITDA**				**3.8**
9	Direct Maintenance Group EBITDA contribution for period 01/07/2018 – 29/02/2019	416	1,055	109	1,165
10=7+9	**EBITDA pro-forma**	**3,509**	**4,278**	**1,717**	**5,995**
11=3/10	**Net Debt/EBITDA pro-forma**				**3.1**

*TTM - trailing twelve months

** Per p.2.1.11 of Terms and Conditions of ***Magnetic MRO 8% 21.12.2021 bonds***, EBITDA means the net income of the measurement period before:

a) Any provision on account of taxation;
b) Any interest, commission, discounts or other fees incurred or payable, received or receivable in respect of financial indebtedness;
c) Any depreciation and amortization of tangible and intangible assets; and
d) Any re-valuation, disposal or writing off of assets.

*** Equity method income - 49,9% of net income from associated company Magnetic Parts Trading Ltd.

Astrit Viisma-Kass
CFO, Member of the Management Board
Tallinn

MagneticMRO

Interim Consolidated Financial Statements, kEUR

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	-225	1,907
Assets revaluation	3	-132
Equity method income *	-258	
NET PROFIT	**389**	**4,029**
Minority Interest **	-119	
ATTRIBUTABLE NET PROFIT	**508**	**4,029**

** Shareholding in Magnetic Parts Trading Ltd: 49.9%*

***Minority Interest:*
MAC Sichuan 35,29%
Direct Maintenance East Africa Ltd 49%
Direct Maintenance Zanzibar Ltd 49%

Magnetic MRO had an opportunity to step into a new business line, which it had foreseen in its strategy since 2012, and that is the signing of ‘power-by-hour’ 3 years contract with a fleet of 22 airplanes (Enter Air). This project provides significant cross-synergies on our group level and boosts further our exposure to international spare part market. The start-up of the project brought negative impact to EBITDA. MMRO management foresaw the shortcoming in the results, but had anticipated less, because the investment to warehouse material happened with a delay. At this point, both the investment to material stock has started and also the revision to Enter Air PBH agreement is freshly signed, which provides better financial terms to Magnetic MRO. We believe that organic business can turn the Covenant into necessary limits, in case not, then we will use the upcoming equity injection to lower debt.

CASHFLOW CONSOLIDATED

	H1 2019	H1 2018
OPERATIONAL ACTIVITIES		
Operating profit	**1,866**	**3,093**
Adjustments	-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**

MagneticMRO

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**

Astrit Viisma-Kass
CFO
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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 consolidated financial statements of Magnetic MRO Group consists of Magnetic MRO AS and its subsidiaries: MAC Aero Interiors Ltd (UK), MAC Sichuan Aviation Technology Ltd (CN), Magnetic Leasing Ltd (IE), Arrowhead assistance UAB (LT), Magnetic MRO Malaysia Sdh Bhd (MY). Starting from March 01 2019 Direct Maintenance Holding BV (NL).

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.

Investments in associates are accounted for at cost. Investment is initially recognized at cost, which is the fair value of paid fee and costs directly related to the acquisition. Subsequently investment is adjusted by the changes of investor's participation in the investee's equity.

Related Parties

The parties are considered related if one party exercises control over the other party or exercises significant influence on the other party's business decisions, including other entrepreneurs belonging to the same group, owners, members of the board and management, their families and companies in which above-mentioned persons have control or significant influence.

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 ofincorporation	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 aircraftinterior	100	100
Arrowhead Assistance UAB	Lithuania	repair of aircraftcomponents	100	100
MAC Sichuan	China	production of aircraftinterior	64.71	0
Direct Maintenance Holding BV	Netherlands	line maintenance	100	0
Shares of associate				
Name of subsidiary	Country ofincorporation	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

Revenue is recognized at the fair value of the received / receivable income taking into account all discounts and rebates. Revenue from sales of goods is recognized when all material risks related to the ownership of the asset have been transferred to the buyer and the amount of revenue and expenses related to the transaction can be reliably measured.

Revenue from provided services is recognized when service is provided and accepted by the third party of for ongoing services revenue is determined on balance sheet date based on method of completion. Completion is determined based on the ratio between the actual and estimated costs on balance sheet date.

Sales by Business Units and Subsidiaries:

non-consolidated, kEUR	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.

kEUR	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.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses and other current and long-term liabilities) are stated at amortized cost. The amortized cost of current financial liabilities generally equals their nominal value; therefore current financial liabilities are carried in the balance sheet at their net redemption value. For calculating the amortized cost of non-current financial liabilities, they are initially recognized at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current if its payment term is within twelve months of the balance sheet date or if the group does not have an unconditional right to postpone the payment of the liability for more than twelve months after the balance sheet date. Loan payables that the lender has the right to recall at the balance sheet date due to a breach of the terms and conditions specified in the loan agreement are also recognized as current 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
Hangxin Avaition Services Co., Ltd	800	2.5% + base rate	EUR	10.07.2019				
Financal 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			