

MagneticMRO

CONSOLIDATED NON-AUDITED INTERIM REPORT FOR Q3 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.

Q3 2019 OPERATIONS AND ACTIVITIES

- **Magnetic MRO strengthens its position in Asia as EngineStands24 opens a hub in China**

EngineStands24, a subsidiary of Magnetic MRO, opened a new hub in Guangzhou, China. The Guangzhou hub will be launched in cooperation with Magnetic MRO's shareholder, Chinese company Hangxin Aviation Services Co. Ltd, and will begin operating by offering its customers a selection of the most popular engine stand types, like CFM56-5A/B, CFM56-7B and V2500.

- **Magnetic MRO paints airBaltic's Airbus A220-300 into a special Lithuanian flag livery**

Magnetic MRO has painted the Latvian airline airBaltic's third A220-300 aircraft into a unique one-off livery that features the colors of the Lithuanian national flag.

- **Magnetic MRO produces a record number of interior details for Finnair's ATR fleet**

Magnetic MRO and Finnair, the flag carrier of Finland, have signed a contract for complete paintwork, full interior refurbishment and maintenance of all 12 of the airline's ATR 72's operated for Finnair by its partner company Norra. For Magnetic MRO's Production organization this is the most components that the team has ever produced for an aircraft in-house.

- **Magnetic MRO hits 600th C-Check**

Magnetic MRO marks a new milestone by welcoming a freighter Boeing 737 for the company's 600th C-Check. The latest symbolic achievement echoes the company's ever-improving efficiency, as well as the geographical expansion of its clientele.

- **Berlin-Schönefeld (SXF) Airport station opened by Direct Maintenance**

MagneticMRO

Direct Maintenance announces the opening and approval of the fourth line maintenance station in Germany at Berlin-Schönefeld (SXF) Airport. The company's capabilities include aircraft types like B737, B767, A320 as well as exterior washes and engine washes.

STATEMENT OF THE MANAGEMENT BOARD

Magnetic MRO Group AS (further on **Magnetic MRO Group** or the **Group**) consists of parent company Magnetic MRO AS (EE), 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 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 Q3 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 Q3 2019 and Q3 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 September 30 2019:

1) Equity Ratio - 32%.

2) Net Debt/EBITDA – 3.7. The Net Debt/EBITDA ratio of 3.7 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 – 3.2. 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) In July Magnetic MRO Group received 2/3 of equity contribution, in Q3 2019 Financial statement equity contribution is reported under Liabilities - as of date of disclosure the current report, equity increase is not registered In Commercial Register of Estonia. The remaining 1/3 is expected by the year end.

Covenants calculation:

	kEUR	TTM 9.2018	TTM 9.2019
1	Interest bearing liabilities <i>incl. Bonds</i>	9,784	19,096 8,000
2	Cash and bank	792	734
3=1-2	Net Debt	8,992	18,362
4	Total Equity	15,620	19,305
5	Total Assets	35,855	59,429
6=4/5	Equity Ratio	44%	32%
	<i>EBITDA**</i>	6,489	4,678
	<i>Equity method income***</i>	1,565	352
7	EBITDA	8,055	5,030
8=3/7	Net Debt/EBITDA	1.1	3.7
9	EBITDA Direct Maintenance (up to 02.2019)	929	652
10=7+9	EBITDA pro-forma (Direct Maintenance)	8,984	5,682
11=3/10	Net Debt/EBITDA pro-forma	1.0	3.2

*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:

- Any provision on account of taxation;
- Any interest, commission, discounts or other fees incurred or payable, received or receivable in respect of financial indebtedness;
- Any depreciation and amortization of tangible and intangible assets; and
- 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

Interim Consolidated Financial Statements, kEUR

PPA for Direct Maintenance group acquisition is on finalization stage.

PROFIT and LOSS STATEMENT CONSOLIDATED

	Q3 2019	Q3 2018
Sales revenue	26,650	16,201
Variable direct costs	-21,140	-13,086
Fixed direct costs	-289	-109
Other operating income	224	82
Other operating expenses	-873	-41
GROSS PROFIT	4,571	3,047
Marketing expenses	-96	-135
Administrative costs	-1,595	-1,087
Personnel costs	-910	-1,108
EBITDA	1,970	718
Depreciation	-634	-410
Financial income and expenses	324	380
Assets revaluation	-215	-43
Equity method income *	513	-242
NET PROFIT	1,958	403
Minority Interest **	-95	
ATTRIBUTABLE NET PROFIT	2,052	403

* 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 generates significant cross-synergies on our Group level and boosts further our exposure to international spare parts market. The start-up costs 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 the revision to Enter Air PBH agreement in better financial terms to Magnetic MRO is signed. We anticipate that with the Group's organic growth, we will be fully compliant with all Covenants. Furthermore, the remaining proceeds from the equity injection could be used to lower the Group's net debt.

SALES BY BUSINESS UNITS AND SUBSIDIARIES

<i>non-consolidated, kEUR</i>	Q3 2019	Q3 2018
Base Maintenance	6,021	3,936
Line Maintenance	1,818	1,106
Trading	10,127	6,763
Engines	2,371	2,430
Engineering	465	599
Workshop	1,476	667
Others	175	90
MMRO TOTAL	22,454	15,593
MAC Aero Interiors	770	779
Direct Maintenance group	3,271	
MAC Sichuan	128	
MMRO Malaysia	40	

CASHFLOW CONSOLIDATED

	Q3 2019	Q3 2018
OPERATIONAL ACTIVITIES		
Operating profit	1,970	718
<i>Adjustments</i>	13	315
Change in receivables and prepayments	-605	-3,120
Change in inventories	-1,838	446
Change in liabilities and prepayments	-3,661	595
TOTAL from OPERATIONAL ACTIVITIES	-4,122	-1,045
INVESTMENT ACTIVITIES		
Proceeds from sale and purchase of Fixed Assets	-501	35
Long-Term Investments	-569	-408
TOTAL from INVESTMENT ACTIVITIES	-1,070	-373
FINANCING ACTIVITIES		
Financing activities	5,015	1,604
TOTAL from FINANCING ACTIVITIES	5,015	1,604
TOTAL CASHFLOW	-177	186

BALANCE SHEET CONSOLIDATED

	9.2019	9.2018
Cash and bank	734	792
Receivables	20,272	14,877
Inventory	12,793	7,808
Total current assets	33,798	23,477
Non-current assets		
Long-term Investments	16,525	6,160
Fixed Assets	8,606	5,639
Goodwill	500	579
Total non-current assets	25,631	12,377
TOTAL ASSETS	59,429	35,855
LIABILITIES AND OWNERS EQUITY		
Short term liabilities		
Short-term Loans	9,698	9,460
Payables	21,027	10,450
Total Short-term liabilities	30,725	19,910
Long-term liabilities		
Long-term Loans	9,399	324
Total long-term liabilities	9,399	324
TOTAL LIABILITIES	40,124	20,234
Share capital	1,090	1,090
Share premium	6,619	6,619
Reserves	32	79
Unrealized FX BS	95	60
Minority Interest	-103	
Retained earnings	9,011	3,340
Profit for the period	2,560	4,432
Total Owners' equity	19,305	15,620
TOTAL LIABILITIES AND OWNERS EQUITY	59,429	35,855

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium	Statutory reserve capital	Unrealised exchange rate	Retained earnings (loss)	Minority interest	Total
31.12.2017	1,090	6,619	79	-58	3,446		11,177
Annual period profit (loss)	-			117	4,326		4,443
30.09.2018	1,090	6,619	79	60	7,772		15,620
Annual period profit (loss)	-			-123	753		630
31.12.2018	1,090	6,619	79	-63	8,524		16,250
Annual period profit (loss)			-47	159	3,047		3,158
Minority interest						-103	-103
30.09.2019	1,090	6,619	32	95	11,571	-103	19,305

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