

MagneticMRO

CONSOLIDATED NON-AUDITED INTERIM REPORT FOR Q4 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.

Q4 2019 OPERATIONS AND ACTIVITIES

- **Magnetic MRO painted first ATR72 into a brand new Scandinavian Airlines (SAS) livery**

Magnetic MRO has painted first ATR72 into a new SAS livery at the Magnetic MRO dedicated paint hangar in Tallinn. SAS had launched a brand new visual identity for the first time in 21 years and revealed a new design for its aircraft exterior in late September 2019. The new livery is a modern take on classic Scandinavian design and is created to highlight the future of SAS.

- **Magnetic MRO Training received Airbus A320 NEO LEAP 1A and PW1100G type training approval**

Magnetic MRO Training has received an approval to provide Airbus A320 NEO LEAP 1A and PW1100G type training. The new capability's scope ranges from Airbus A320 CEO/NEO difference course to full Airbus A320 NEO type training for specialists with no previous background on the type.

- **Magnetic MRO finishes the 60th Base check on Austrian Airlines' aircraft and signs new Slot Reservation Agreement**

Magnetic MRO has signed a Slot Reservation Agreement with Austrian Airlines. By this agreement, Austrian Airlines is booking two nose-to-tail slots during the winter maintenance season, and it will be valid for three years during winter seasons from 2020 until 2023. Austrian Airlines has been using Magnetic MRO services since 2005 when the base maintenance services were provided for Boeing 737-800 aircraft. Since 2013, Magnetic started servicing Austrian Airline's Airbus 320 family aircraft. By the end of 2019, a total of 60 Austrian Airline's aircraft has been successfully serviced at Tallinn facility.

- **Magnetic MRO acquires four airBaltic's Boeing 737s**

Magnetic MRO acquired four Boeing 737 Classic aircraft from airBaltic. Following the delivery from Latvia's flag carrier, all aircraft will continue their service in the fleets of new owners. Being the launch operator of

MagneticMRO

Airbus A220, airBaltic operates a fleet of 36 aircraft, including twenty-one Airbus A220, twelve Bombardier Dash 8 Q400 NextGen, and four Boeing 737 CL, as of December 2019. The decision to sell Boeing 737 CL aircraft was a pre-planned move by airBaltic in order to focus on its new Airbus 220 fleet which delivers higher fuel efficiency and reduces the carbon footprint.

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), 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**). In December 2019 MAC Sichuan Aviation Technology Ltd (CN) was moved from the Group to Hangxin Aviation Services Co Limited (Magnetic MRO's parent company) and its results are no longer consolidated in the Group results.

The financial and other additional information of the Magnetic MRO Group published in the interim report Q4 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 Q4 2019 and Q4 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 are prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

COMPLIANCE WITH COVENANTS

According to p.3.4.2 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 December, 31 2019:

1) **Equity Ratio - 37%**.

2) **Net Debt/EBITDA – 2.1**.

3) In July Magnetic MRO Group received two thirds of the contribution from the equity capital injection announced in Q2 2019, in Q4 2019 this contribution is reported as unregistered share capital (in Q3 2019 equity contribution was reported under Liabilities). At the date of the release Q4 2019 Interim Report the equity increase is not registered in Commercial Register of Estonia. The remaining one third is expected in Q1 2020.

Covenants calculation:

	kEUR	TTM 12.2019	TTM 12.2018
1	Interest bearing liabilities <i>incl. Bonds</i>	16,638	11,712
2	Cash and bank	8,000	2,722
3=1-2	Net Debt	10,980	10,783
4	Total Equity	23,924	16,253
5	Total Assets	65,419	37,834
6=4/5	Equity Ratio	37%	43%
7	EBITDA	5,217	6,315
8=3/7	Net Debt/EBITDA	2.1	1.7
9	EBITDA Direct Maintenance (up to 02.2019)	109	1,472
10=7+9	EBITDA pro-forma (Direct Maintenance)	5,326	7,787
11=3/10	Net Debt/EBITDA pro-forma	2.1	1.4

*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:

- o 49,9% of net income from associated company Magnetic Parts Trading Ltd;
- o 10,0% of net income from associated company MAC Sichuan Aviation Technology Ltd.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS, KEUR

PROFIT and LOSS STATEMENT CONSOLIDATED

	Q4 2019	Q4 2018
Sales revenue	37,216	19,439
Variable direct costs	-33,897	-15,645
Fixed direct costs	-131	-151
Other operating income	1,070	102
Other operating expenses	-923	-531
GROSS PROFIT	3,333	3,214
Marketing expenses	-160	-189
Administrative costs	-1,633	-1,315
Personnel costs	-939	-867
EBITDA	601	842
Depreciation and amortization	-1,109	-369
Financial income and expenses	-216	138
Assets revaluation (FX)	206	-61
Equity method income *	525	97
NET PROFIT	7	647
Minority Interest **	159	
ATTRIBUTABLE NET PROFIT	-152	647

* Shareholding in Magnetic Parts Trading Ltd: 49.9%

*Shareholding in MAC Sichuan Aviation Technology Ltd: 10.0%

**Minority Interest:

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 included in its strategy since 2012, and that is the signing of a 3 year 'power-by-hour' contract with a fleet of 22 airplanes with Enter Air. This project generates significant cross-synergies within the Group and boosts further our exposure to the international spare parts market. The start-up costs of the project brought negative impact to EBITDA. Magnetic MRO management foresaw the shortcoming in the results to a degree, but there was a negative impact to the results, as the investment to warehouse materials happened with a delay. At that point, both the investment to material stock had started and a revision to the Enter Air PBH agreement with better financial terms to Magnetic MRO was agreed.

The negative impact to Q4 2019 **EBITDA** in total amount of **587kEUR** is caused by the following year-end adjustments:

- Yearly write-off of repair costs made for leased components under PBH agreement in amount of 287kEUR;
- Reserve for possible impairment of MAC Aero Interiors stock value in amount of 300kEUR.

The following one-off costs took place in 4th quarter, total amount of **523 KEUR**:

- MAC Aero Interiors relocation to Estonia started at the end of December 2019. Relocation related costs reported in Q4 2019 are 150kEUR;
- Direct Maintenance Group - Personnel costs temporary increase during Q4 2019 related to the opening of new stations (permanent staff training and their replacement by contractors during type training courses for period 1-3 months) in amount of 373kEUR. Permanent staff for new stations will complete type training courses in February 2020.

During the last quarter the Group purchased four Boeing 737s from airBaltic which had a material impact to revenues and likewise to direct costs. Of the four aircraft purchased, three were sold in Q4 2019 with the remaining aircraft sale to conclude in Q1 2020.

Q4 2019 **net profit** is impacted by the amortization of goodwill from the acquisition of Direct Maintenance Group as the purchase price allocation was finalized in that period.

CASHFLOW CONSOLIDATED

	Q4 2019	Q4 2018
OPERATIONAL ACTIVITIES		
Operating profit	601	842
<i>Adjustments</i>	395	195
Change in receivables and prepayments	-2,345	-1,079
Change in inventories	-170	417
Change in liabilities and prepayments	9,818	-581
TOTAL from OPERATIONAL ACTIVITIES	8,299	-206
INVESTMENT ACTIVITIES		
Proceeds from sale and purchase of Fixed Assets	-294	-1,156
Long-Term Investments	-622	-428
TOTAL from INVESTMENT ACTIVITIES	-917	-1,585
FINANCING ACTIVITIES		
Financing activities	-2,458	1,928
TOTAL from FINANCING ACTIVITIES	-2,458	1,928
TOTAL CASHFLOW	4,924	137

BALANCE SHEET CONSOLIDATED

	12.2019	12.2018
Cash and bank	5,659	929
Receivables	22,617	15,956
Inventory	12,963	7,392
Total current assets	41,238	24,277
Non-current assets		
Long-term Investments	7,052	6,588
Fixed Assets	12,791	6,415
Goodwill	4,338	555
Total non-current assets	24,181	13,558
TOTAL ASSETS	65,419	37,834
LIABILITIES AND OWNERS EQUITY		
Short term liabilities		
Short-term Loans	7,553	6,881
Payables	24,857	9,869
Total Short-term liabilities	32,409	16,750
Long-term liabilities		
Long-term Loans	9,086	4,831
Total long-term liabilities	9,086	4,831
TOTAL LIABILITIES	41,495	21,581
Share capital	1,090	1,093
Unregistered Share Capital	5,317	
Share premium	6,619	6,619
Reserves	79	79
Unrealized FX BS	201	58
Minority Interest	31	
Retained earnings	8,178	3,325
Profit for the period	2,409	5,079
Total Owners' equity	23,924	16,253
TOTAL LIABILITIES AND OWNERS EQUITY	65,419	37,834

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Unregistered Share 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
Annual period profit (loss)		5,317		47	106	-985		4,485
Minority interest							134	134
31.12.2019	1,090	5,317	6,619	79	201	10,586	31	23,924

Astrit Viisma-Kass

CFO

Astrit.Viisma@magneticmro.com