

MagneticMRO

CONSOLIDATED NON-AUDITED INTERIM REPORT FOR H2 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.

H2 2019 OPERATIONS AND ACTIVITIES

Q3 2019:

- **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**

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.

Q4 2019:

- **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 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.

Subsequent events

- The pandemic of COVID-19 and declared in Estonian Republic and other states emergency situation have negative impact on financial and operational results of the Magnetic MRO Group. The globality of emergency situation and the fact that its validity as well as victory over virus are unpredictable on current moment, precise estimation of financial impact is premature.
- Magnetic MRO AS increased its share capital by 20,486.40 euros and issued 3,201 new shares for the issue price of 950,000 euros to Sapphire Investment Holding Limited in accordance with the investment agreement entered into with Sapphire Investment Holding Limited, a Hong Kong company, on 5 June 2019 and in accordance with the resolution of 10 February 2020 on increase of the share capital of Magnetic MRO AS.

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 H2 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: 2.0**.

3) In July Magnetic MRO Group received two thirds of the contribution from the equity capital injection announced in Q2 2019, as of 31.12.2019 this contribution is reported as unregistered share capital (in Q3 2019 equity contribution was reported under Liabilities). At the date of the release H2 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>	16,598 8,000	11,712 2,722
2	Cash and bank	5,659	929
3=1-2	Net Debt	10,940	10,783
4	Total Equity	23,891	16,253
5	Total Assets	65,420	37,834
6=4/5	Equity Ratio	37%	43%
7	EBITDA	5,490	6,315
8=3/7	Net Debt/EBITDA	2.0	1.7
9	EBITDA Direct Maintenance (up to 02.2019)	109	1,472
10=7+9	EBITDA pro-forma (Direct Maintenance)	5,600	7,787
11=3/10	Net Debt/EBITDA pro-forma	2.0	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:

- 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;
- 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

	H2 2019	H2 2018
Sales revenue	63,865	35,640
Variable direct costs	-55,045	-28,731
Fixed direct costs	-421	-259
Other operating income	1,294	184
Other operating expenses	-1,797	-572
GROSS PROFIT	7,897	6,261
Marketing expenses	-256	-324
Administrative costs	-3,245	-2,402
Personnel costs	-1,851	-1,975
EBITDA	2,545	1,560
Depreciation and amortization	-1,743	-779
Financial income and expenses	96	519
Assets revaluation (FX)	3	-105
Equity method income *	1,038	-145
NET PROFIT	1,938	1,050
Minority Interest **	64	
ATTRIBUTABLE NET PROFIT	1,874	1,050

* 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 H2 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 H2 2019, total amount of **523 kEUR**:

MagneticMRO

- MAC Aero Interiors relocation to Estonia started at the end of December 2019. Reported relocation related costs are 150kEUR;
- Direct Maintenance Group - Personnel costs temporary increase 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 of the year 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 with the remaining aircraft sale to conclude in Q1 2020.

H2 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

	H2 2019	H2 2018
OPERATIONAL ACTIVITIES		
Operating profit	2,545	1,560
<i>Adjustments</i>	408	510
Change in receivables and prepayments	-3,118	-4,275
Change in inventories	-2,750	863
Change in liabilities and prepayments	7,139	90
TOTAL from OPERATIONAL ACTIVITIES	4,222	-1,251
INVESTMENT ACTIVITIES		
Proceeds from sale and purchase of Fixed Assets	-801	-1,872
Long-Term Investments	-1,192	-459
TOTAL from INVESTMENT ACTIVITIES	-1,993	-2,331
FINANCING ACTIVITIES		
Financing activities	2,518	3,532
TOTAL from FINANCING ACTIVITIES	2,518	3,532
TOTAL CASHFLOW	4,747	-51

BALANCE SHEET CONSOLIDATED

	12.2019	12.2018
Cash and bank	5,659	929
Receivables	22,785	16,032
Inventory	13,705	7,392
Total current assets	42,148	24,352
Non-current assets		
Long-term Investments	7,052	6,585
Fixed Assets	12,791	6,415
Goodwill	4,338	555
Total non-current assets	24,181	13,555
TOTAL ASSETS	66,329	37,907
LIABILITIES AND OWNERS EQUITY		
Short term liabilities		
Short-term Loans	7,553	6,881
Payables	25,839	9,945
Total Short-term liabilities	33,392	16,826
Long-term liabilities		
Long-term Loans	9,046	4,831
Total long-term liabilities	9,046	4,831
TOTAL LIABILITIES	42,437	21,657
Share capital	1,090	1,090
Unregistered Share Capital	5,317	
Share premium	6,619	6,619
Reserves	79	79
Unrealized FX BS	195	58
Minority Interest	31	
Retained earnings	8,178	3,325
Profit for the period	2,382	5,079
Total Owners' equity	23,891	16,250
TOTAL LIABILITIES AND OWNERS EQUITY	66,329	37,907

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
31.12.2018	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	100	-1,011		4,452
Minority interest							134	134
31.12.2019	1,090	5,317	6,619	79	195	10,560	31	23,891

Astrit Viisma-Kass

CFO

Astrit.Viisma@magneticmro.com

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 consist of Magnetic MRO AS 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 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 of incorporation	Principal activity	Ownership interest (%)	
			31.12.2019	31.12.2018
Magnetic Leasing Limited	Ireland	sale of aircraft spare parts	100.0	100.0
MAC Aero Interiors Ltd	United Kingdom	production of aircraft interior	100.0	100.0
Arrowhead Assistance UAB	Lithuania	repair of aircraft components	100.0	100.0
Direct Maintenance Holding BV	Netherlands	line maintenance	100.0	0.0
Shares of associate				
Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
			31.12.2019	31.12.2018
Magnetic Parts Trading Limited	United Kingdom	sale of aircraft spare parts	49.9	49.9
MAC Sichuan	China	production of aircraft interior	10.0	0.0

Transactions with related parties

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

Name of related party	H2 2019		H2 2018		
	kEUR	Purchases	Sales	Purchases	Sales
Hangxin Aviation Services Co Limited		17	410	168	27
Guangzhou Hangxin Avionics Co Ltd		113			28
Skyho Aviation Technology co Ltd				63	
Magnetic Parts Trading Limited		1,458	1,110		122
Magnetic Leasing Ltd			420		
MAC Aero Interiors Ltd		26	458		
Arrowhead Assistance UAB		-58			
Direct Maintenance BV			44		

Name of related party	31.12.2019		31.12.2018		
	kEUR	Receivables	Payables	Receivables	Payables
Hangxin Aviation Services Co Limited		414	-125	19	
Guangzhou Hangxin Avionics Co Ltd			113	25	
Skyho Aviation Technology co Ltd			4		9
Magnetic Parts Trading Limited		122	430	206	
Magnetic Leasing Ltd		477		31	
MAC Aero Interiors Ltd		1,955	65	1,103	84
Arrowhead Assistance UAB			15		
Direct Maintenance BV		95			

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

	kEUR	H2 2019	H2 2018
Total labor expense		11,003	6,855
Average number of employees Magnetic MRO		497	452
Average number of employees MAC Interiors		30	34
Average number of employees Direct Maintenance		160	-
Remuneration and other significant benefits calculated for members of management and highest supervisory body		221	234

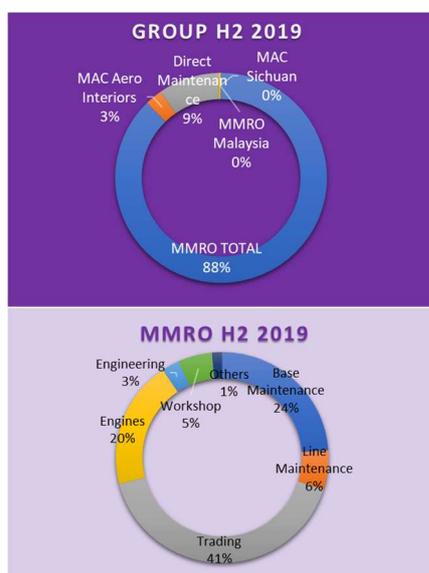
Revenue

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:

<i>non-consolidated, kEUR</i>	H2 2019	H2 2018
Base Maintenance	13,693	10,694
Line Maintenance	3,427	2,149
Trading	23,487	13,471
Engines	11,243	4,734
Engineering	1,552	976
Workshop	2,951	1,463
Others	888	482
MMRO TOTAL	57,241	33,970
MAC Aero Interiors	1,724	1,894
Direct Maintenance	6,069	
MAC Sichuan	213	
MMRO Malaysia	41	



MMRO Total H2 2019 revenue includes allocated between business units finalized three deals of Boeing 737s sale in total amount of 6.3MEUR:

- Engines 4.3M

- Trading 1.1M
- Engineering 0.6M
- Workshop 0.2M

MMRO TOP10 geographical location:

Country	H2 2019 kEUR	H2 2018 KEUR	Growth 2019 to 2018	H2 2019 % in Total	H2 2018 % in Total
United Arab Emirates	6,399	553	1058%	12%	2%
Austria	5,967	3,571	67%	11%	13%
United Kingdom	4,770	2,877	66%	9%	11%
Poland	3,299	687	380%	6%	3%
Federal Republic of Nigeria	3,170	1,764	80%	6%	7%
Ireland	3,022	772	291%	6%	3%
Finland	2,891	87	3238%	5%	0%
Lithuania	2,593	632	311%	5%	2%
Sweden	2,296	848	171%	4%	3%
Denmark	1,828	37	4889%	3%	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	12.2019	12.2018
Trade receivables	13,574	11,818
Other receivables	594	25
Accrued revenue	6,517	2,645
Prepayments made	2,100	1,468
Total Receivables	22,785	15,956

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.

	<i>kEUR</i>	12.2019	12.2018
Short-term Loans		7,553	6,881
Trade payables		11,460	5,507
Other payables		633	388
Taxes payable		1,435	1,141
Accrued expenses		2,231	1,663
Prepayments received		9,171	1,170
Total Short-term liabilities		32,483	16,750
Long-term Loans		9,046	4,831
Total long-term liabilities		9,046	4,831

MagneticMRO

kEUR	12.2019				12.2018			
	Amount	Interest rate	Base currency	Due date	Amount	Interest rate	Base currency	Due date
Short-term Loans								
Luminor Bank AS (Overdraft)	6,197	3.6% + base rate	EUR	26.06.2020	4,130	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 Aviation Services Co., Ltd Financial Lease Short-Term	355				800	2.5% + base rate	EUR	10.07.2019
					251			
Long-term Loans								
Luminor Bank AS	917	3.4% + base rate	EUR	22.11.2021	1,917	3.4% + base rate	EUR	22.11.2021
Long-term signing of bonds	8,000	8%	EUR	21.12.2021	2,722	8%	EUR	21.12.2021
Long-Term Loan MAC Interiors					1			
Long-term Financial Lease	128				191			