

CONSOLIDATED ANNUAL REPORT

beginning of financial year: 01.01.2016

end of the financial year: 31.12.2016

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Management report**Main activity**

Since its founding in 2002 Magnetic MRO AS has provided aircraft repair and maintenance services. It includes aircraft line and base maintenance, wheels and brakes maintenance, spare parts supply and aircraft modifications.

At the end of 2015 we began to provide painting services to our customers. In 2016 our new brand Enginestands24 was launched. Enginestands24 offers engine stands lease, sale and purchase options through a web solution. Another significant event for Magnetic MRO AS in 2016 was the acquisition of a subsidiary MAC Aero Interiors Ltd, whose main activity is provision of interior design services. Newly acquired entity has more than 50 years of experience in that field and owns the following certificates issued by UK Aviation Authorities: EASA Part 145 maintenance organization, EASA Part 21 Subpart J Design Organization, EASA Part 21 Subpart G Production Organization.

In July 2014, as part of its new business strategy, Air Maintenance Estonia AS was re-branded to Magnetic MRO AS and company restructured into 5 P&L Business Units:

Base Maintenance
Line Maintenance
Spare Parts & Components (new)
Engine Management (new)
Engineering
Painting (launched in 2015)

New strategy and product range enabled Magnetic MRO to offer more tailored and one-stop-shop services, thus reducing the exposure to the seasonality of hangar operations and opening up new business areas never addressed before.

Magnetic MRO AS continued investments into sales, marketing, and PR activities in 2016, to develop strong sales pipeline and marketing presence in the global aviation industry.

Financial Results

2016 was the first year for Magnetic MRO AS to present consolidated results. Magnetic MRO AS Group's consolidated turnover amounts to €50 519 thousand, out of which 33% was related to Base maintenance services and 67% earner from new business directions including engine management and spare part trading.

In 2016 Group's profit is €2 474 thousand.

	2016	2015
Net sales (EUR)	50 519 631	36 504 480
Net sales growth	+38%	+121%
Net profit/loss (EUR)	2 474 090	2 251 415
Net margin	+4.9%	+6.2%
Current ratio	1.16	1.23
ROA	+8.6%	+13.8%

Used formulas:

- Revenue growth (%) = (net sales 2016 - net sales 2015) / net sales 2015 * 100
- Net profit margin (%) = net profit / revenue * 100
- Current ratio (times) = current assets / current liabilities
- ROA = Net profit / total assets * 100

Investments in 2016

Magnetic MRO AS Group invested €1 163 thousand in tangible and intangible assets.

Forecasts

As the Group continues to execute its new Total Technical Care strategy, Magnetic MRO AS expects continuous improvement in its financial performance. Construction works of the new hangar where the company plans to provide both base and painting services will be completed by the end of the current year. The Group expects revenue growth from new business directions, and continues to expand its client base of Boeing 737 family and Airbus 320 family maintenance.

The annual accounts

Consolidated statement of financial position

(In Euros)

	31.12.2016	31.12.2015	Note
Assets			
Current assets			
Cash and cash equivalents	8 053 415	2 717 764	
Receivables and prepayments	9 631 596	5 943 491	2
Inventories	6 840 715	4 650 509	3
Total current assets	24 525 726	13 311 764	
Non-current assets			
Investments in subsidiaries and associates	100	100	5
Receivables and prepayments	149 519	144 897	2
Property, plant and equipment	2 960 956	2 537 589	7
Intangible assets	892 675	54 536	8
Total non-current assets	4 003 250	2 737 122	
Total assets	28 528 976	16 048 886	
Liabilities and equity			
Liabilities			
Current liabilities			
Loan liabilities	3 875 333	3 515 621	11
Payables and prepayments	17 331 808	7 247 702	12
Total current liabilities	21 207 141	10 763 323	
Non-current liabilities			
Loan liabilities	102 017	2 394 352	11
Total non-current liabilities	102 017	2 394 352	
Total liabilities	21 309 158	13 157 675	
Equity			
Equity held by shareholders and partners in parent company			
Share capital in nominal value	1 090 189	793 600	13
Share premium	6 619 380	5 015 969	
Statutory reserve capital	79 359	79 359	
Unrealised exchange rates	-45 483	0	
Retained earnings (loss)	-2 997 717	-5 249 132	
Profit (loss) of the year	2 474 090	2 251 415	
Total equity held by shareholders and partners in parent company	7 219 818	2 891 211	
Total equity	7 219 818	2 891 211	
Total liabilities and equity	28 528 976	16 048 886	

Consolidated income statement

(In Euros)

	2016	2015	Note
Revenue	50 519 631	36 504 480	14
Cost of sales	-40 928 630	-29 154 784	16
Gross profit (loss)	9 591 001	7 349 696	
Distribution costs	-313 762	-172 764	
Administrative expense	-7 087 769	-4 812 249	17
Other income	528 011	96 991	15
Other expense	-100 215	-50 994	19
Operating profit (loss)	2 617 266	2 410 680	
Interest expenses	-150 359	-162 769	
Other financial income and expense	7 183	4 785	
Profit (loss) before tax	2 474 090	2 252 696	
Income tax expense	0	-1 281	
Profit (loss) of the year	2 474 090	2 251 415	
Profit (loss) from shareholders and partners in parent company	2 474 090	2 251 415	

Consolidated statement of cash flows

(In Euros)

	2016	2015	Note
Cash flows from operating activities			
Operating profit (loss)	2 617 266	2 410 680	
Adjustments			
Depreciation and impairment loss	761 254	506 291	
Profit (loss) from sale of non-current assets	-139 450	-88 129	7
Other adjustments	0	6 502	
Total adjustments	621 804	424 664	
Changes in receivables and prepayments related to operating activities	-3 541 073	-3 596 210	2
Changes in inventories	-2 194 908	-810 482	3
Changes in payables and prepayments related to operating activities	9 698 531	3 030 639	12
Total cash flows from operating activities	7 201 620	1 459 291	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-1 230 622	-1 348 038	7,8
Proceeds from sales of property, plant and equipment and intangible assets	286 743	196 226	7
Other cash payments to acquire subsidiaries	-256 324	0	
Interest received	0	59	
Total cash flows from investing activities	-1 200 203	-1 151 753	
Cash flows from financing activities			
Loans received	1 500 000	0	11
Repayments of loans received	-450 329	-612 847	11
Proceeds from overdraft	-1 209 047	3 046 477	11
Proceeds from finance lease	-34 927	-42 717	
Interest paid	-450 023	-69 057	
Income tax paid	0	-1 281	
Total cash flows from financing activities	-644 326	2 320 575	
Total cash flows	5 357 091	2 628 113	
Cash and cash equivalents at beginning of period	2 717 764	106 401	
Change in cash and cash equivalents	5 357 091	2 628 113	
Effect on exchange rate changes on cash and cash equivalents	-21 440	-16 750	
Cash and cash equivalents at end of period	8 053 415	2 717 764	

Consolidated statement of comprehensive income
(In Euros)

	2016	2015
Profit (loss) of the year	2 474 090	2 251 415
Other comprehensive income (expense):		
Effect on unrealised exchange rate changes	-45 483	0
Total other comprehensive income (expense)	-45 483	0
Annual period comprehensive income (expense)	2 428 607	2 251 415
Comprehensive profit (loss) from shareholders and partners in parent company	2 428 607	2 251 415

Consolidated statement of changes in equity

(In Euros)

	Equity held by shareholders and partners in parent company					Total
	Share capital in nominal value	Share premium	Statutory reserve capital	Unrealised exchange rate	Retained earnings (loss)	
31.12.2014	793 600	5 015 969	79 359	0	-5 249 132	639 796
Annual period profit (loss)	0	0	0	0	2 251 415	2 251 415
31.12.2015	793 600	5 015 969	79 359	0	-2 997 717	2 891 211
Annual period profit (loss)	0	0	0	-45 483	2 474 090	2 428 607
Issue of equity	296 589	1 603 411	0	0	0	1 900 000
31.12.2016	1 090 189	6 619 380	79 359	-45 483	-523 627	7 219 818

See Note 13.

Notes**Note 1 Accounting policies****General information**

The consolidated financial statements (hereinafter referred as "the financial statements") of Magnetic MRO AS (hereinafter also referred as "the parent company") for the financial year 2016 have been prepared in accordance with the Accounting Principles Generally Accepted in Estonia. The requirements of the Accounting Principles Generally Accepted in Estonia are stipulated in the Estonian Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board.

The financial statements are for the group consisting of Magnetic MRO AS and its subsidiary MAC Aero Interiors Ltd (together hereinafter referred as "the Group").

The financial statements have been prepared on the basis of acquisition, except when indicated differently. The consolidated financial statements have been prepared in Euros (EUR) if not indicated differently.

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 statement of profit and loss, statement of comprehensive income, statement of changes in equity and balance sheet.

The acquisition method of accounting is used to account for all business combinations (except business combinations under common control which are recorded at adjusted acquisition method). According to acquisition method identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The difference of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as a positive or negative goodwill.

Starting from the date of acquisition acquired assets, liabilities and contingent liabilities of subsidiaries and goodwill from business combination are recorded in consolidated balance sheet, income and expenses of subsidiary belonging to the group are recorded in consolidated income statement, unrealized FX gains and losses are shown in comprehensive income statement.

Negative goodwill is recognized directly in profit and loss.

According to Estonian Accounting Act par 29 and taking into consideration materiality principle group does not consolidate subsidiary with total assets less than 5% of the group total assets and revenue less than 5% of the group revenue. Investment in such subsidiary is recorded under acquisition cost method.

The results and financial position of foreign operations that have a functional currency different from the presentation currency of the group are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented and translated at exchange rates of the Central Bank of Europe officially valid on the date of that balance sheet.
- Income and expenses for each statement presented and translated at weighted average exchange rates of the Central Bank of Europe officially valid during the financial period.

Separate financial statements of the parent

The separate primary financial statements of the parent are disclosed in the notes to the consolidated financial statements. The accounting policies applied for the preparation of the separate financial statements of the parent are the same as those which have been used for the preparation of the consolidated financial statements. In the separate financial statements of the parent, investments in subsidiaries and associates are recognised at cost.

Financial assets

Cash, shares and other securities, trade receivables, accrued income and other short-term and long term receivables are considered to be financial assets. Financial assets are initially recognized at cost, which is the fair value of consideration given or received to acquire the financial liability. Initial cost of financial liabilities includes all direct transaction costs.

Cash and cash equivalents

The balance sheet line "Cash" and cash flow statement line "Cash and cash equivalents" comprises cash on hand, bank accounts short-term demand deposits.

Cash flow from operating activities are reported under the indirect method, operating income is adjusted by elimination non-cash transactions and changes in working capital related to operational activity. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the financial year.

Foreign currency transactions and assets and liabilities denominated in a foreign currency

Transactions denominated in foreign currency are recorded on the basis of the foreign currency exchange rates of the Central Bank of Europe officially valid on the transaction date. Monetary assets and liabilities and non-monetary assets and liabilities that are measured at fair value, denominated in foreign currency have been translated into euro's on the basis of the currency exchange rates of the Central Bank of Europe officially valid on the balance sheet date. Foreign exchange gains and losses resulting from revaluation are recorded in net amount in the income statement of the reporting period.

Receivables and prepayments

Trade receivables, accrued receivables and other short and long-term receivables (incl. loans and deposits), 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.

Impairment is recognized when there is objective evidence that all amounts due cannot be collected according to the original terms of the contract. Debtor's bankruptcy or significant difficulties to meet payment deadlines are circumstances that indicate a possible impairment loss. Impairment (ie. the need for any write-downs) is evaluated on an individual basis, based on the present value of expected future collectible amounts. Revenue from unfinished projects recorded on "Accrued income" row is computed using the stage of completeness method.

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 realisable value. Net realisable 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 is 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.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits will flow to the Group and value of the asset could be reliably measured. Other maintenance and repair costs are expensed when incurred.

Depreciation is calculated on the straight-line basis. Depreciation rates are assigned separately to each tangible asset or its separately identifiable component depending on its estimated useful life.

Intangible assets are recorded at cost, which comprises purchase price and other directly attributable expenditures. Following initial recognition, intangible assets are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Amortisation is calculated on the straight-line method. Amortisation rates are set separately to each asset depending on its estimated useful life. If useful life of an intangible asset is unidentifiable, 10 years of amortization period applies.

Minimal acquisition cost 640 EUR

Useful life by assets group (years)

Assets group name	Useful life
Buildings	10-30% a year
Machinery and equipment	10-40% a year
Aircraft components	20-30% a year
Office equipment	20-40% a year
Computers and servers	20-40%
Goodwill	10% a year
Other intangible assets	10-40% a year

At each balance sheet date, management estimates whether there is any known indication of impairment of the asset. If there is such indication of impairment, the recoverable amount of the asset is compared to its carrying amount. Loss from impairment is recognised in the amount excess of carrying value over recoverable value. Asset recoverable value is the higher of asset's fair value less cost to sell or value in use. For the purpose of assessing impairment, recoverable value is determined for single asset or assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Loss from impairment is recognised as expenses during the reporting period.

Assets (excluding goodwill) that suffered impairment are reviewed for possible reversal of impairment at each reporting date. If during impairment test it becomes obvious that asset of asset group (cash-generating unit) recoverable amount is higher than its carrying amount, previous impairment loss is reversed and asset carrying value is adjusted up to the value taking into account normal depreciation during the previous periods. Impairment loss reversal is recognised as decrease of depreciation cost of assets during the reporting period.

Leases

A lease is classified as a finance lease, when all substantial risks and returns related to the ownership of the asset are transferred to the lessee. Other lease agreements are classified as operating leases.

The Group is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest) so as to achieve a constant rate on the finance balance outstanding. Finance costs are charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets leased under finance leases are depreciated similarly to acquired non-current assets, whereby the depreciation period is the lower of the asset's estimated useful life and the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease period.

The Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Lease revenue is recognised on a straight-line basis over the lease term.

Financial liabilities

All financial liabilities (trade payables, loans borrowed, accrued expenses, issued bonds and other short and long-term financial liabilities) are initially recognized at amortized cost. Amortized cost of current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet at their redemption value. For calculating the amortized cost of non-current financial liabilities, they are initially recognised at the 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.

Financial liabilities are classified as current when they are due to be settled within twelve month after the balance sheet date; or the Group does not have an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date or the lender had a contractual right to demand immediate repayment of the borrowing as a consequence of a breach of contractual terms.

Provisions and contingent liabilities

Provisions are recognized in the balance sheet when the group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The management's judgements and experience as well as evaluation of independent experts (if necessary) are taken as basis for evaluating the provisions. The provisions are recorded in the balance sheet in amount required to settle the obligation at the balance sheet date.

If provision would be settled after 12 month period after balance sheet date, the provision is recognized in discounted value (net present value of the settlement) except in case if discounting is immaterial.

Equity statutory reserve capital

According to the Commercial Code of the Republic of Estonia, at least 1/20 of the net profit must be transferred the reserve capital each year, until the reserve capital amounts to at least 1/10 of the share capital. Reserve capital might be used for covering loss also share capital increase. Payments to shareholders from reserve capital are not allowed.

Revenue recognition

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. 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.

Taxation

According to the Income Tax Act, Estonian companies are not subjected to pay income tax on the profit. Rather, they are subjected to income tax on the paid dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The established tax rate is 20/80 of the net dividend paid from 1 January 2015 onwards.

Under certain condition, it is possible to distribute dividends without any additional income tax expense. The payment of dividends and corporate income tax liability are recognized in the income statement in the period when dividends are declared irrespective of the period for which they declared or when they are paid out. Income tax liability arises on the 10th day of the month following the dividend payment.

Magnetic MRO AS has a permanent establishment in Lithuania. According to Lithuanian law, income earned from permanent establishment is a subject to corporate income tax at rate of 15%. Income tax payable is accounted under short term liabilities.

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.

Subsequent events

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the reporting date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Note 2 Receivables and prepayments

(In Euros)

	31.12.2016	Allocation by remaining maturity			Note
		Within 12 months	1 - 5 years	Over 5 years	
Accounts receivable	6 455 072	6 455 072	0	0	
Trade receivables	6 455 072	6 455 072	0	0	
Tax prepayments and receivables	469 026	469 026	0	0	4
Other receivables	2 474 852	2 325 333	149 519	0	
Loan receivables	149 519	0	149 519	0	
Interest receivables	20 809	20 809	0	0	
Accrued income	2 304 524	2 304 524	0	0	
Prepayments	382 165	382 165	0	0	
Deferred expenses	382 165	382 165	0	0	
Total receivables and prepayments	9 781 115	9 631 596	149 519	0	

	31.12.2015	Allocation by remaining maturity			Note
		Within 12 months	1 - 5 years	Over 5 years	
Accounts receivable	5 019 779	5 019 779	0	0	
Trade receivables	5 113 912	5 113 912	0	0	
Allowance for doubtful receivables	-94 133	-94 133	0	0	
Tax prepayments and receivables	187 657	187 657	0	0	4
Other receivables	415 816	270 919	0	144 897	
Loan receivables	144 897	0	0	144 897	
Interest receivables	12 359	12 359	0	0	
Accrued income	258 560	258 560	0	0	
Prepayments	465 136	465 136	0	0	
Deferred expenses	465 136	465 136	0	0	
Total receivables and prepayments	6 088 388	5 943 491	0	144 897	

Loan receivables consists of a loan granted to non-consolidated subsidiary in the amount of \$150 000 and €7 118, interest rate 5%, due date 01.03.2019.

Revenue from unfinished projects accounted under completion method is recognised on the line "accrued revenue" in the amount of €2 304 524.

Note 3 Inventories

(In Euros)

	31.12.2016	31.12.2015
Raw materials	4 055 440	3 462 967
Inventory prepayments	2 785 275	1 187 542
Total Inventories	6 840 715	4 650 509

As of 31.12.2016 allowance on inventories in the amount of €303 674 (as of 31.12.2015 in the amount of €131 340) was created. Allowance was created to align the inventory book value to the net realizable value.

Note 4 Tax prepayments and liabilities

(In Euros)

	31.12.2016		31.12.2015	
	Tax prepayments	Tax liabilities	Tax prepayments	Tax liabilities
Value added tax	234 509	0	77 189	0
Personal income tax	0	221 413	0	205 146
Fringe benefit income tax	0	213	0	1 354
Social tax	0	389 245	0	364 749
Contributions to mandatory funded pension	0	20 240	0	18 663
Unemployment insurance tax	0	27 556	0	25 499
Other tax prepayments and liabilities	126 598	241 797	0	22 242
Prepayment account balance	107 919	0	110 468	0
Total tax prepayments and liabilities	469 026	900 464	187 657	637 653

See notes 2 and 12.

Note 5 Investments in subsidiaries and associates

(In Euros)

	31.12.2016	31.12.2015
Shares of subsidiaries	100	100
Total investments in subsidiaries and associates	100	100

In February 2016 Magnetic MRO AS acquired a subsidiary MAC Aero Interiors Ltd. Purchase price for 100% ownership amounts to €451 thousand. Acquired fair value of net assets at the moment of purchase was negative and amounted to €476 thousand. As a result of the acquisition goodwill in the amount of €927 thousand was recognized. Transaction was committed between independent parties using purchase price method.

Previously acquired 100% subsidiary Magnetic Leasing Ltd is a dormant company without any economic activity. According to the Estonian Accounting Act par 29 and taking into consideration the materiality principle the group does not consolidate a subsidiary with total assets less than 5% of the group total assets and revenue less than 5% of the group's revenue.

Note 6 Shares of subsidiaries

(In Euros)

Shares of subsidiaries, general information					
Subsidiary's registry code	Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
				31.12.2015	31.12.2016
537659	Magnetic Leasing Limited	Ireland	Sale of a/c spare parts	100	100
8335187	MAC Aero Interiors Ltd	United Kingdom	Design and production of a/c interiors	0	100

Shares of subsidiaries, detailed information			
Name of subsidiary	31.12.2015	Acquisition	31.12.2016
Magnetic Leasing Limited	100	0	100
MAC Aero Interiors Ltd	0	451 460	451 460
Total shares of subsidiaries, at end of previous period	100	451 460	451 560

Acquired ownership interests			
Name of subsidiary	Acquired ownership interest %	Acquisition date	Cost of acquired ownership interest
MAC Aero Interiors Ltd	100	03.02.2016	100

Magnetic Leasing Ltd. did not performed any economic activities during year 2016.

Note 7 Property, plant and equipment

(In Euros)

	Buildings	Transportation	Computers and computer systems	Other machinery and equipment	Machinery and equipment	Other property, plant and equipment	Prepayments	Unfinished projects and prepayments	Total
31.12.2014									
Carried at cost	60 209	105 385	176 858	3 396 758	3 679 001	576 515	22 507	22 507	4 338 232
Accumulated depreciation	-12 181	-54 021	-141 384	-2 119 870	-2 315 275	-260 074	0	0	-2 587 530
Residual cost	48 028	51 364	35 474	1 276 888	1 363 726	316 441	22 507	22 507	1 750 702
Acquisitions and additions	514 190	0	45 239	795 590	840 829	13 534	0	0	1 368 553
Depreciation	-15 292	-13 105	-25 437	-331 981	-370 523	-72 185	0	0	-458 000
Disposals	0	0	0	-114 599	-114 599	0	0	0	-114 599
Reclassifications	0	0	0	0	0	0	-9 067	-9 067	-9 067
Reclassifications from prepayments	0	0	0	0	0	0	-9 067	-9 067	-9 067
31.12.2015									
Carried at cost	574 398	105 385	220 431	3 918 707	4 244 523	590 049	13 440	13 440	5 422 410
Accumulated depreciation	-27 472	-67 126	-165 155	-2 292 809	-2 525 090	-332 259	0	0	-2 884 821
Residual cost	546 926	38 259	55 276	1 625 898	1 719 433	257 790	13 440	13 440	2 537 589
Acquisitions and additions	67 835	3 950	19 435	1 059 600	1 082 985	12 657	83 446	84 446	1 246 923
Additions through business combinations	0	5 072	0	32 341	37 413	0	0	0	37 413
Depreciation	-86 339	-14 675	-29 671	-438 369	-482 715	-74 376	0	0	-643 430
Impairment loss	0	0	0	-70 246	-70 246	0	0	0	-70 246
Disposals	0	0	0	-147 293	-147 293	0	0	0	-147 293
31.12.2016									
Carried at cost	642 234	115 128	189 107	4 713 739	5 017 974	602 706	96 886	86 886	6 359 800
Accumulated depreciation	-113 812	-82 522	-144 067	-2 651 808	-2 878 397	-406 635	0	0	-3 398 844
Residual cost	528 422	32 606	45 040	2 061 931	2 139 577	196 071	96 886	86 886	2 960 956

Disposed property, plant and equipment at selling price

	2016	2015
Machinery and equipment	286 743	196 226
Computers and computer systems	0	1
Other machinery and equipment	286 743	196 225
Total	286 743	196 226

Note 8 Intangible assets

(In Euros)

	Goodwill	Computer software	Total
31.12.2014			
Carried at cost	0	263 880	263 880
Accumulated depreciation	0	-185 276	-185 276
Residual cost	0	78 604	78 604
Acquisitions and additions	0	24 223	24 223
Depreciation	0	-48 291	-48 291
31.12.2015			
Carried at cost	0	283 731	283 731
Accumulated depreciation	0	-229 195	-229 195
Residual cost	0	54 536	54 536
Acquisitions and additions	831 551	138 567	970 118
Depreciation	-86 543	-45 436	-131 979
31.12.2016			
Carried at cost	831 551	422 299	1 253 850
Accumulated depreciation	-86 543	-274 632	-361 175
Residual cost	745 008	147 667	892 675

Information related to goodwill is presented in Note 5.

Note 9 Finance lease

(In Euros)

Accounting entity as lessee

	31.12.2016	Allocation by remaining maturity			Base currencies	Due date
		Within 12 month	1 – 5 years	Over 5 years		
Overall						
Finantsinvesteeringud	811	469	342	0	EUR	30.08.2018
Nordea Finance Estonia	13 536	3 967	9 569	0	EUR	01.09.2018
Nordea Finance Estonia	16 548	8 431	8 117	0	EUR	01.12.2018
Nordea Finance Estonia	16 030	8 213	7 817	0	EUR	01.12.2018
Nordea Finance Estonia	22 651	10 404	12 247	0	EUR	01.11.2019
Nordea Finance Estonia	61 315	28 988	32 327	0	EUR	01.11.2019
Nordea Finance Estonia	40 792	19 807	20 985	0	EUR	01.11.2019
Nordea Finance Estonia	19 234	8 621	10 613	0	EUR	16.11.2019
Finance lease obligations, total	190 917	88 900	102 017	0		

	31.12.2015	Allocation by remaining maturity			Base currencies	Due date
		Within 12 month	1 – 5 years	Over 5 years		
Overall						
Finantsinvesteeringud	1 231	420	811	0	EUR	30.08.2018
Nordea Finance Estonia	16 721	3 515	13 206	0	EUR	01.09.2018
Nordea Finance Estonia	23 541	7 580	15 961	0	EUR	01.12.2018
Nordea Finance Estonia	22 672	7 300	15 372	0	EUR	01.12.2018
Finance lease obligations, total	64 165	18 815	45 350	0		

Residual cost of leased assets		
	31.12.2016	31.12.2015
Machinery and equipment	234 485	100 292
Total	234 485	100 292

Finance lease contracts bear an interest in range 2.45-3.25% + 6m or 3m EURIBOR.

Note 10 Operating lease

(In Euros)

Accounting entity as lessor

	2016	2015
Operating lease income	652 594	745 763

Accounting entity as lessee

	2016	2015
Operating lease expenses	1 809 744	1 880 478

Future lease expense under non-cancellable lease contracts		
	31.12.2016	31.12.2015
Within 12 months	1 418 650	1 212 862
1 - 5 years	5 023 069	4 918 667
Over 5 years	4 088 811	5 314 842

Note 11 Loan commitments

(In Euros)

	31.12.2016	Allocation by remaining maturity			Interest rate	Base currencies	Due date	Note
		Within 12 month	1 – 5 years	Over 5 years				
Current loans								
Nordea Bank Finland Estonian branch - overdraft	1 837 430	1 837 430			2.725%	EUR	31.03.2017	
Nordea Bank Finland Estonian branch	1 500 000	1 500 000			2.45%+base interest	EUR	31.05.2017	
Current loans total	3 337 430	3 337 430						
Non-current loans								
Nordea Bank Finland Estonian branch	25 367	25 367	0	0	2.15%+base interest	EUR	02.01.2017	
Nordea Bank Finland Estonian branch	423 636	423 636	0	0	2.75%+base interest	EUR	06.03.2017	
Non-current loans total	449 003	449 003	0	0				
Finance lease obligations total	190 917	88 900	102 017	0				9
Loan commitments total	3 977 350	3 875 333	102 017	0				

	31.12.2015	Allocation by remaining maturity			Interest rate	Base currencies	Due date	Note
		Within 12 month	1 – 5 years	Over 5 years				
Current loans								
Nordea Bank Finland Estonian branch - overdraft	3 046 477	3 046 477			2.94%	EUR	31.03.2016	
Nordea Bank Finland Estonian branch	3 046 477	3 046 477						
Current loans total								
Non-current loans								
Baltcap Private Equity Fund L.P	1 900 000	0	1 900 000	0	5%	EUR	31.12.2018	20
Nordea Bank Finland Estonian branch	345 399	320 033	25 366	0	2.15%+base interest	EUR	02.01.2017	
Nordea Bank Finland Estonian branch	553 932	130 296	423 636	0	2.75%+base interest	EUR	06.03.2016	
Non-current loans total	2 799 331	450 329	2 349 002	0				
Finance lease obligations total	64 165	18 815	45 350	0				9
Loan commitments total	5 909 973	3 515 621	2 394 352	0				

Carrying amount of collateral assets

	31.12.2016	31.12.2015
Other property, plant and equipment	67 429	67 429
Other assets	5 132 629	5 132 629
Total	5 200 058	5 200 058

As of 31.12.2016 the parent company has the option to use the overdraft from Nordea Bank Finland PLC Estonian branch in the amount of €3 080 000. The term of the contract is 31.03.2017. At the end of the period

parent company plans to extend the usage of existing limits. Commercial pledge is set on parent company movable property that belonged to the parent company at the time the commercial pledge entry or which were purchased after the commercial pledge entry was set, with the exception of the Commercial Pledges Act par 2 section 3 listed property.

Note 12 Payables and prepayments

(In Euros)

31.12.2016		Allocation by remaining maturity			Note
		Within 12 month	1 – 5 years	Over 5 years	
Trade payables	5 447 897	5 447 897	0	0	
Employee payables	731 165	731 165	0	0	
Tax payables	900 464	900 464	0	0	4
Other payables	1 404 402	1 404 402	0	0	
Interest payables	3 683	3 683	0	0	
Other accrued expenses	1 400 719	1 400 719	0	0	
Prepayments received	8 847 880	8 847 880	0	0	
Deferred income	8 847 880	8 847 880	0	0	
Total payables and prepayments	17 331 808	17 331 808	0	0	

31.12.2015		Allocation by remaining maturity			Note
		Within 12 month	1 – 5 years	Over 5 years	
Trade payables	2 009 384	2 009 384	0	0	
Employee payables	687 263	687 263	0	0	
Tax payables	687 263	687 263	0	0	4
Other payables	598 936	598 936	0	0	
Interest payables	312 890	312 890	0	0	
Other accrued expenses	286 046	286 046	0	0	
Prepayments received	3 314 466	3 314 466	0	0	
Deferred income	3 314 466	3 314 466	0	0	
Total payables and prepayments	7 247 702	7 247 702	0	0	

Other accrued expenses consists of expenses related to unfinished projects accounted under completion method.

Note 13 Share capital

(In Euros)

	31.12.2016	31.12.2015
Share capital	1 090 189	793 600
Number of shares (pcs)	170 342	124 000
Nominal value of shares	6.40	6.40

There is no potential income tax liability related to the distribution of dividends as the group does not have any related earnings as of 31.12.2016. In March 2016 shareholders decided to increase parent company's share capital by €296 588 by issuing 46 342 new shares. Shares were issued with premium in the amount of €34,599 per share. The shares were paid for with a non-monetary contribution. The object of the non-monetary contribution was BaltCap Private Equity Fund L.P. principal claim against the parent company in the amount of €1 900 000.

Note 14 Net sales

(In Euros)

	2016	2015
Net sales by geographical location		
Net sales in European Union		
Estonia	1 695 871	3 407 273
Other European Union net sales	24 896 858	18 448 365
Total net sales in European Union	26 592 729	21 855 638
Net sales outside of European Union		
Other net sales outside of European Union	23 926 902	14 648 842
Total net sales outside of European Union	23 926 902	14 648 842
Total net sales	50 519 631	36 504 480
Net sales by operating activities		
Line maintenance	2 150 682	2 395 678
Base maintenance	17 157 776	16 055 880
Components overhaul	3 434 704	1 742 250
Sale of materials and other services	26 206 897	15 896 579
Painting	0	414 093
Engineering services	1 569 572	0
Total net sales	50 519 631	36 504 480

Note 15 Other operating income

(In Euros)

	2016	2015
Profit from sale of plant, property and equipment	139 450	88 129
Other	388 561	8 862
Total other operating income	528 011	96 991

Note 16 Cost of goods sold

(In Euros)

	2016	2015	Note
Raw materials	27 600 208	18 549 436	
Subcontracting work	2 674 087	2 846 671	
Transportation expense	547 925	282 229	
Labor expense	9 655 675	7 110 905	18
Depreciation	426 887	331 981	
Other	23 848	33 562	
Total cost of goods sold	40 928 630	29 154 784	

Note 17 Administrative expense

(In Euros)

	2016	2015	Note
Leases	1 577 425	1 287 579	
Energy	407 211	393 938	
Electricity	214 420	201 306	
Heat energy	170 025	173 771	
Fuel	22 766	18 861	
Transportation expense	36 803	0	
Logistics expense	1 661	2 126	
Miscellaneous office expenses	43 448	24 281	
Travel expense	386 301	239 942	
Training expense	78 126	133 474	
State and local taxes	5 637	6 328	
Allowance for doubtful receivables	80 451	62 274	
Labor expense	2 270 290	1 107 158	18
Depreciation	350 667	174 310	
Asset impairment expense	122 436	1 618	
Other	1 727 313	1 379 221	
Total administrative expense	7 087 769	4 812 249	

Note 18 Labor expense

(In Euros)

	2016	2015
Wage and salary expense	9 402 045	6 152 055
Social security taxes	2 523 920	2 066 008
Total labor expense	11 925 965	8 218 063
Average number of employees in full time equivalent units	300	264

See Notes 16 and 17.

Note 19 Other operating expenses

(In Euros)

	2016	2015
Loss from exchange rate differences	84 087	50 737
Fines, penalties and compensations	16 128	257
Total other operating expenses	100 215	50 994

Note 20 Related parties

(In Euros)

Related party balances according to groups

	31.12.2016		31.12.2015	
	Receivables	Liabilities	Receivables	Liabilities
Parent company	0	0	0	2 211 178
Subsidiary	170 229	0	157 256	0
Other entities belonging into same consolidation group	0	10 033	0	10 953

2016	Given loans	Given loans repayments	Loans received	Loans received repayments	Interest rate	Base currencies	Due date
Parent company							
BaltCap Private Equity Fund L.P.	0	0	0	1 900 000	5%	EUR	02.06.2016

Purchases and sales

	2016		2015	
	Purchases	Sales	Purchases	Sales
Parent company	19 260	0	95 000	0
Subsidiary	0	8 451	0	5 114
Other entities belonging into same consolidation group	58 593	0	122 862	0

Remuneration and other significant benefits calculated for members of management and highest supervisory body

	2016	2015
Remuneration	408 858	388 313

Line "receivables from subsidiaries" includes receivables from a non-consolidated subsidiary is recorded. See Note 5.

Note 21 Non-consolidated statement of financial position

(In Euros)

	31.12.2016	31.12.2015
Assets		
Current assets		
Cash and cash equivalents	7 990 249	2 717 764
Receivables and prepayments	10 045 114	5 943 491
Inventories	6 508 510	4 650 509
Total current assets	24 543 873	13 311 764
Non-current assets		
Investments in subsidiaries and associates	451 660	100
Receivables and prepayments	149 419	144 897
Property, plant and equipment	2 925 974	2 537 589
Intangible assets	120 790	54 536
Total non-current assets	3 647 843	2 737 122
Total assets	28 191 716	16 048 886
Liabilities and equity		
Liabilities		
Current liabilities		
Loan liabilities	3 875 333	3 515 621
Payables and prepayments	16 880 829	7 247 702
Total current liabilities	20 756 162	10 763 323
Non-current liabilities		
Loan liabilities	102 017	2 394 352
Total non-current liabilities	102 017	2 394 352
Total liabilities	20 858 179	13 157 675
Equity		
Issued capital	1 090 189	793 600
Share premium	6 619 380	5 015 969
Statutory reserve capital	79 359	79 359
Retained earnings (loss)	-2 997 717	-5 249 132
Annual period profit (loss)	2 542 326	2 251 415
Total equity	7 333 537	2 891 211
Total liabilities and equity	28 191 716	16 048 886

Note 22 Non-consolidated income statement

(In Euros)

	2016	2015
Revenue	46 515 795	36 504 480
Cost of sales	-38 633 634	-29 154 784
Gross profit (loss)	7 882 161	7 349 696
Distribution costs	-296 269	-172 764
Administrative expense	-5 397 237	-4 812 249
Other income	528 011	96 991
Other expense	-75 284	-50 994
Total operating profit (loss)	2 641 382	2 410 680
Interest expenses	-140 816	-162 769
Other financial income and expense	41 760	4 785
Profit (loss) before tax	2 542 326	2 252 696
Income tax expense	0	-1 281
Profit (loss) of the year	2 542 326	2 251 415

Note 23 Non-consolidated statement of cash flows

(In Euros)

	2016	2015
Cash flows from operating activities		
Operating profit (loss)	2 641 382	2 410 680
Adjustments		
Depreciation and impairment loss	740 107	506 291
Profit (loss) from sale of non-current assets	-139 450	-88 129
Other adjustments	0	6 502
Total adjustments	600 657	424 664
Changes in receivables and prepayments related to operating activities	-2 990 913	-3 596 210
Changes in inventories	-1 858 001	-810 482
Changes in payables and prepayments related to operating activities	9 942 337	3 030 639
Total cash flows from operating activities	8 335 462	1 459 291
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-1 180 362	-1 348 038
Proceeds from sales of property, plant and equipment and intangible assets	286 743	196 226
Other cash payments to acquire subsidiaries	-451 560	0
Loans given	-1 067 978	0
Interest received	0	59
Total cash flows from investing activities	-2 413 157	-1 151 753
Cash flows from financing activities		
Loans received	1 500 000	0
Repayments of loans received	-450 329	-612 847
Proceeds from overdraft	-1 209 047	3 046 477
Proceeds from finance lease	-34 927	-42 717
Interest paid	-450 023	-69 057
Income tax paid	0	-1 281
Total cash flows from financing activities	-644 326	2 320 575
Total cash flows	5 277 979	2 628 113
Cash and cash equivalents at beginning of period	2 717 764	106 401
Change in cash and cash equivalents	5 277 979	2 628 113
Effect on exchange rate changes on cash and cash equivalents	-5 494	-16 750
Cash and cash equivalents at end of period	7 990 249	2 717 764

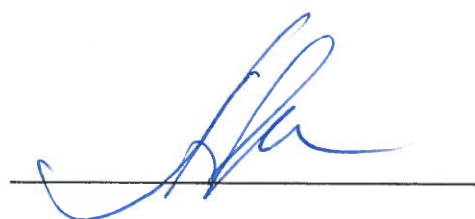
Note 24 Non-consolidated statement of changes in equity

(In Euros)

	Share capital in nominal value	Share premium	Statutory reserve capital	Retained earnings (loss)	Total
31.12.2014	793 600	5 015 969	79 359	-5 249 132	639 796
Annual period profit (loss)	0	0	0	2 251 415	2 251 415
31.12.2015	793 600	5 015 969	79 359	-2 997 717	2 891 211
Annual period profit (loss)	0	0	0	2 542 326	2 542 326
Issue of equity	296 589	1 603 411	0	0	1 900 000
31.12.2016	1 090 189	6 619 380	79 359	-455 391	7 333 537
Governing and material influence ownership interest value of financial position	0	0	0	451 560	451 560
Governing and material influence on the value of holdings under the equity method	0	0	0	17 976	17 976
Restated non-consolidated equity 31.12.2016	1 090 189	6 619 380	79 359	14 145	7 803 073

SIGNATURES OF THE MANAGEMENT TO THE ANNUAL REPORT 2016

We hereby confirm the correctness of information presented in the Annual Report of 2016 of Magnetic MRO AS:



Astrit Viisma-Kass

Member of the Management Board

31.05.2017

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Magnetic MRO AS

Opinion

We have audited the consolidated financial statements of Magnetic MRO AS and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Estonian generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

Other information

Management is responsible for the other information. Other information consists of management report, but does not consist of the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Estonian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 1 June 2017



Ivar Kiigemägi
Authorised Auditor's number 527
Ernst & Young Baltic AS
Audit Company's Registration number 58



Erik Oja
Authorised Auditor's number 600