



CONSOLIDATED NON-AUDITED INTERIM REPORT FOR Q2 2020



TALLINN

GENERAL INFORMATION

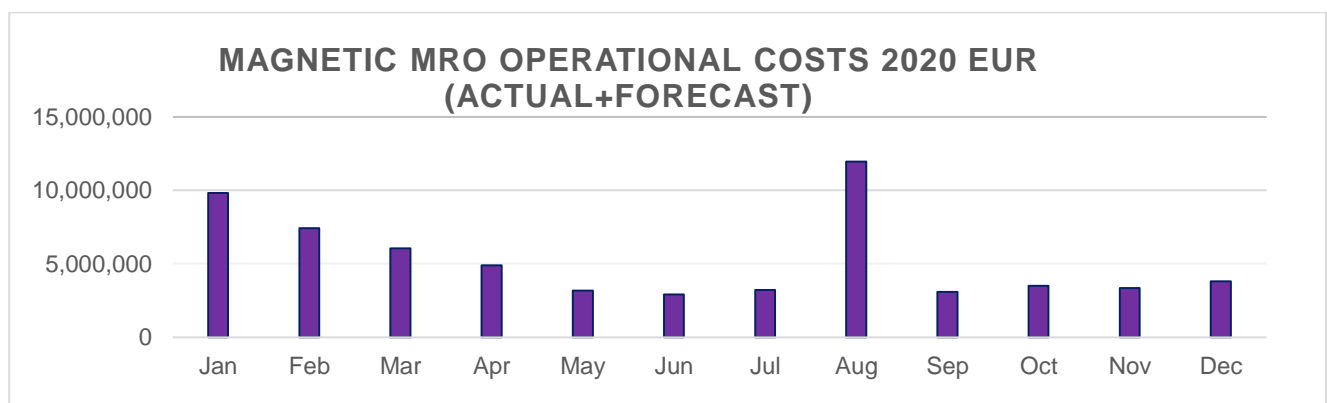
Magnetic MRO is a total technical care maintenance and asset management organization with a global presence and more than two decades of worldwide experience. The company has a well-established reputation in innovative aviation solutions and proven track record as a one-stop shop for airlines, asset owners, OEMs and operators. It offers a wide range of services varying from asset management and engineering, to line and base maintenance.

Q2 2020 OPERATIONS AND ACTIVITIES

COVID-19 crisis has had a major and rapid impact on the aviation sector overall. The countries wide lockdown, thus a sharp drop in the number of travellers starting March-April, had stopped most of the flights and thus cash inflow for our main customers. Respectively, Magnetic MRO business activity was decreased almost by three-fold compared to January and the number of debtors started to increase as rapidly having a major negative impact on the company cash flow. Due to reduced business activity, the company had to take immediate actions in order to restructure its activities. By evaluating the business outlook for 2020-2022, the company started to adjust its business strategy and restructure its cost base by cost cuts and implementing a more efficient way of working.

Main cost cut related activities:

- Reduction of material costs coming mainly from reduced business activity (March-December)
- Reduction and restriction of outsourced support activities (April-September)
- Restructuring of the organization (consolidation and reduction of business units permanently)
- Reduction of the workforce (March-September)
- Applying downtime for the workforce (15-100%; March-September)
- Salary and bonus cuts (March-September)
- Termination of rental agreements for premises (permanently)
- Travel restrictions (March-August)



- **MAC Aero Interiors, a subsidiary of Magnetic MRO, has had Airbus approved supplier status for many years.**

As a new milestone, the Magnetic MRO facility has received approval from Airbus to start producing interior elements for Airbus aircraft in their production facility located in Tallinn, Estonia.

MAC Aero Interiors has previously been producing parts for Airbus in the former plant in the UK. In early 2020 the production facility was relocated to Estonia. The manufacturing line in Tallinn has received the approval from Airbus for future production of literature pockets for A380 aircraft.

- **Magnetic MRO has announced the recent successful completion of their first virtual inspection on the aircraft as part of the pre-lease preparation.**

This inspection signifies industry's resilience and ability to adapt to the changed norms in the aviation industry. Performed by the company's engineering department, such inspection was executed with the preparation of video material of both the airframe and interior. „This virtual inspection is just an example of how innovative yet simple approach can help to continue operations even in times like these”, shared Tõnno Toompuu, Engineering Manager at Magnetic MRO.

- **The winner of the Estonian Employers' Confederation's competition "Best Internship Provider 2020" is Magnetic MRO AS.** Organising well-considered traineeships, and contributing to the development of curricula for the necessary professions, is what brought the main prize home. The company was submitted for the competition by the Estonian Aviation Academy, for whom Magnetic MRO is an important internship site and a valued cooperation partner.

The prize was handed over to the winner by the Minister of Education and Research Mailis Reps and Chief Executive Arto Aas of the Estonian Employers' Confederation.

- **Magnetic MRO AS increased its share capital.**

Magnetic MRO AS increased its share capital by 172,524.80 euros and issued 26,957 new shares for the issue price of 8,000,000 euros to Hongkong Yongtai Trading Services Co., Limited, a Hong Kong company, in accordance with the investment agreement entered into on 5 June 2019.

Sapphire Investment Holding Limited subscribed for the shares to the maximum extent prescribed in the investment agreement. After the subscription for the new shares, the amount of the registered share capital of Magnetic MRO AS is 1,283,200 euros and the total number of shares is 200,500.

- **Direct Maintenance**

Magnetic MRO subsidiary Direct Maintenance supported a Pakistan International Airlines flight bringing Dutch citizens back from Pakistan. We have been working together with PIA since 2010 when they had regular flights to and from Amsterdam. We were happy to assist their beautiful Boeing 777 aircraft on their short stop to Amsterdam, give them a warm welcome and wave them off to a safe return home flight.

Direct Maintenance welcomed back an old airline friend. Back in 2006, Malaysia Airlines was the first customer of Direct Maintenance in Amsterdam. Over the years we enjoyed supporting their fleet and greeting their crew in Amsterdam. It was a great pleasure to welcome the first flight since 2015 and experience the bond we continue to have with each other. Especially in these times, seeing back an old friend is a warm and positive experience. We look forward to continuing our cooperation with Malaysia Airlines for many years to come!

- **MAC Aero Interiors started sanitizing kits production.**

MAC Aero Interiors, subsidiary of Magnetic MRO, reacting to the current situation in the aviation market, has started the production of the sanitizing kits, designed for both airports and airlines and aimed at tackling both the virus and the fear of air-travel because of it.

In the light of the coronavirus crisis and reflecting to changing perception towards flying and personal health safety, MAC Aero Interiors, consulted by medical staff, have developed sanitizing kits which could be used both by passengers and the crew at the aircraft. PPE kits come with certificates and individual packaging, maintaining the items sterile until they are used, and also can be branded and customized according to the customer needs.

- **Magnetic MRO drastically expand engine workshop capabilities.**

Magnetic MRO has announced that the company has acquired tooling, dedicated to the engine workshop and drastically expanding its capabilities which already have received full EASA AND FAA approvals.

New tooling has already been delivered to Magnetic MRO's engine workshop in Tallinn, Estonia. This latest addition adds more than 40 new services in the company's list, including the ability to perform modular maintenance and repair of CFM56-5B and CFM56-7B engines. Also, new capability includes Fan, LPT MM, Hot section modules replacement, special procedures, partial and full replacement of HPT blades, HPT NGVs, HPT shrouds, LPT Stage 1 Vanes and others.

Airlines or leasing companies will be interested in deferring expensive overhauls of the engines and do only minimum quick fix which will return the engine back to operation without major investments. Moreover, we

see that CFM56-5B and -7B engines become more and more mature (oldest engines are 20+ years old already) and asset owners become much more flexible with the repair of such engines and prefer modules changes, quick and cheap repairs instead of overhauls.

- **Magnetic MRO reacting to the current situation in the aviation market, announced the company's readiness to provide temporary cabin modifications.**

In the light of the coronavirus crisis and reflecting to changing needs of the Airline's, company's DOA (EASA Part 21J) team is ready to provide its customers with cabin modifications for COVID-19 medical cargo transportation in primarily passenger cabin aircraft. Company has certification and experience in providing both types of modifications that are allowed by the European Union Aviation Safety Agency (EASA).

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: Direct Maintenance Holding BV (NL) (further on **Direct Maintenance Group**), MAC Aero Interiors Ltd (UK), Magnetic Leasing Ltd (IE), Arrowhead assistance UAB (LT), Magnetic MRO Malaysia Sdh Bhd (MY).

The financial and other additional information of the Magnetic MRO Group published in the interim report Q2 2020 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 Q2 2020 and Q2 2019 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 June, 30 2020:

1) **Equity Ratio: 41%.**

2) **Net Debt/EBITDA: 2.4.**

3) In July 2019 Magnetic MRO Group received two thirds of the contribution from the equity capital injection announced in Q2 2019. The remaining one third **is received in April 2020**. As of the date of the current report share capital increase registration in Commercial Register of Estonia is completed.

Covenants calculation:

	KEUR	TTM 6.2020	TTM 6.2019
1	Interest bearing liabilities <i>incl. Bonds</i>	19,654 8,000	19,398 8,000
2	Cash and bank	6,444	912
3=1-2	Net Debt	13,209	18,486
4	Total Equity	26,904	17,669
5	Total Assets	65,239	56,438
6=4/5	Equity Ratio	41%	31%
7	EBITDA	5,517	5,995
8=3/7	Net Debt/EBITDA	2.4	3.1

*TTM - trailing twelve months

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

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

*** Equity method income:

- 49,9% of net income from associated company Magnetic Parts Trading Ltd;
- 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

	Q2 2020	Q2 2019
Sales revenue	12,591	24,656
Variable direct costs	-10,702	-20,520
Fixed direct costs	-75	-197
Other operating income	669	135
Other operating expenses	-492	-436
GROSS PROFIT	1,992	3,638
Marketing expenses	-36	-78
Administrative costs	-871	-1,755
Personnel costs	-425	-949
EBITDA	659	855
Depreciation and amortization	-789	-572
Interest income/expense	-276	-113
Financial income and expenses	-150	-26
Foreign exchange gain/loss	93	-236
Equity method income *	26	64
Income tax	3	
NET PROFIT	-433	-28
Minority Interest **	23	-60
ATTRIBUTABLE NET PROFIT	-456	32

* 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%

Sales by Business Units and Subsidiaries:

<i>non-consolidated, kEUR</i>	Q2 2020	Q2 2019	Q2 2020, %
Base Maintenance	4,207	5,408	35.5%
Line Maintenance	779	1,434	6.6%
Trading	5,440	8,359	45.9%
Engines	609	2,975	5.1%
Engineering	255	429	2.1%
Workshop	119	1,188	1.0%
Others	445	177	3.8%
MMRO TOTAL	11,853	19,969	92.8%
MAC Aero Interiors	60	1,082	0.5%
Direct Maintenance	853	2,714	6.7%
MAC Sichuan*		137	0.0%
MMRO Malaysia **			0.0%

* Starting from December 2019 Magnetic MRO Group participation in MAC Sichuan is 10%, results are not consolidated

** Due to COVID Malaysian office is temporarily closed. Plans is to open up again during 4th quarter 2020.

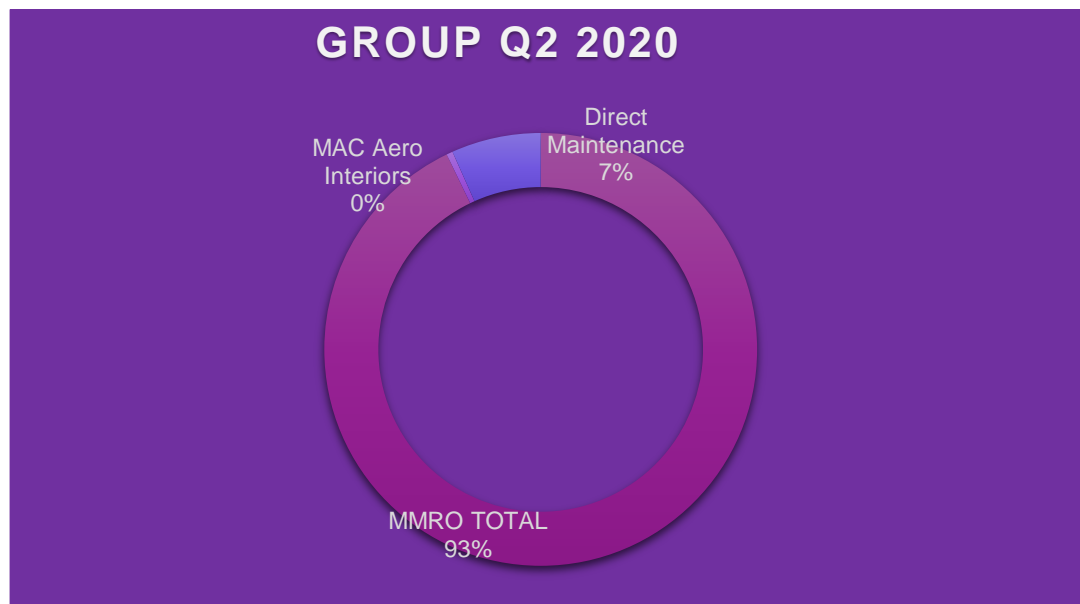


Diagram 1. Magnetic MRO Group revenue

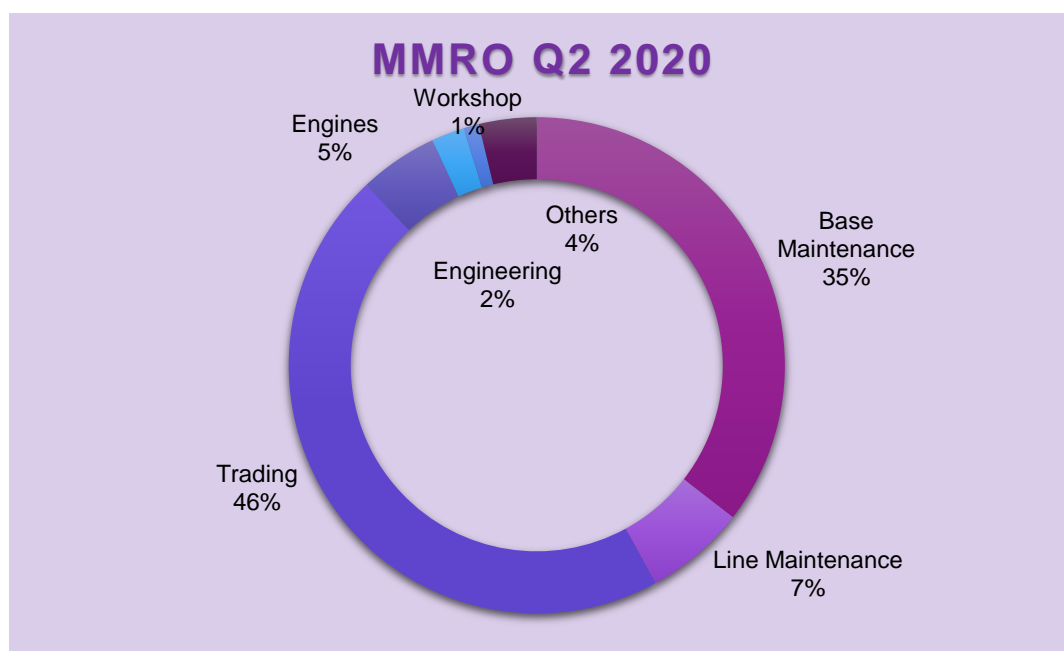


Diagram 2. Magnetic MRO Group revenue by business lines

CASHFLOW CONSOLIDATED

	Q2 2020	Q2 2019
OPERATIONAL ACTIVITIES		
Operating profit	659	855
<i>Adjustments</i>		883
Change in receivables and prepayments	4,246	-3,879
Change in inventories	-904	-1,839
Change in liabilities and prepayments	-1,296	3,765
TOTAL from OPERATIONAL ACTIVITIES	2,705	-216
INVESTMENT ACTIVITIES		
Proceeds from sale and purchase of Fixed Assets	-876	-2,366
Long-Term Investments		-117
TOTAL from INVESTMENT ACTIVITIES	-876	-2,482
FINANCING ACTIVITIES		
Financing activities	-353	2,670
Paid in capital	2,683	
TOTAL from FINANCING ACTIVITIES	2,331	2,670
TOTAL CASHFLOW	4,160	-28

BALANCE SHEET CONSOLIDATED

	06.2020	6.2019
ASSETS		
Current assets		
Cash and bank (incl OD)	6,444	912
Trade receivables	9,857	12,635
Other receivables	1,050	70
Accrued revenue	3,555	3,749
Prepayments made	1,798	3,213
Inventory	15,533	10,954
Total current assets	38,238	31,532
Non-current assets		
Long-term Investments	7,566	15,956
Tangible assets	10,211	8,260
Intangible assets	4,223	177
Goodwill	5,002	514
Total non-current assets	27,001	24,906
TOTAL ASSETS	65,239	56,438
LIABILITIES AND OWNERS EQUITY		
Short term liabilities		
Short-term Loans	11,068	9,749
Trade payables	6,882	9,967
Other payables	1,494	649
Taxes payable	1,695	1,289
Accrued expenses	924	1,860
Prepayments received	6,851	5,606
Total Short-term liabilities	28,914	29,121
Long-term liabilities		
Long-term Loans	8,585	9,649
Deferred tax	836	
Total long-term liabilities	9,421	9,649
TOTAL LIABILITIES	38,335	38,770
Share capital	1,283	1,090
Unregistered Share Capital		
Share premium	15,376	6,619
Reserves	79	32
Unrealised FX BS	263	90
Retained earnings	10,176	9,170
Minority Interest	29	99
Profit for the period	-304	568
Total Owners' equity	26,904	17,669
TOTAL LIABILITIES AND OWNERS EQUITY	65,239	56,438

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
Mergers and Acquisitions						827		827
Annual period profit (loss)				-47	32	508		493
Minority interest								
30.06.2019	1,090		6,619	32	-31	9,859		17,570
31.12.2019	1,090	5,317	6,619	79	195	10,550	31	23,881
Paid in share capital	173	-5,317	7,828					2,683
Annual period profit (loss)					-1	-1,014		-1,015
Minority interest							67	67
30.06.2020	1,283		15,376	79	263	9,872	29	26,903

Astrit Viisma-Kass

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