MagneticMRO

ANNUAL REPORT 2020

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CEO'S FOREWORD

n the early stages of the Covid-19 pandemic, we mobilized extremely fast and all of us made getting through the pandemic our first priority. Cost reduction initiatives were executed three months after the first major lockdowns in Europe. We became one of the first companies to take such aggressive measures within the MRO sector in the region. Seeing how global restrictions kept being extended proved our measures had been right. We didn't just remain operational, but those early adaptations kept our liquidity strong and enabled a refocus towards strategic incentives.

Very agile and, at times, harsh measures drove us through the peak of the crisis, and we were able to start focusing on opportunities within the chaos – most importantly, we were not part of the chaos ourselves. And I wish to express my gratitude to all the people within our organization what an honor it is to serve you all. Despite Covid-19, we carried out a record number of aircraft purchaseand-sales transactions and traded a total of eight commercial airplanes. The number of ageing aircraft is something the industry is facing for the first time in history, at least on such a large scale. Our strategy has been this: when it comes to asset trading, leasing (Magnetic Leasing). teardown or restoration, then we emphasize our ingenuity. We appreciate complex technical assets rather than simple assets, where we can add value with decades of hands-on experience and can therefore showcase our services.

Someone said, that "Mr. Covid is the best Chief Technical Officer (CTO) that an organization ever had". It may sound unproper, but there is truth in this. I must confess that when we used to think that we are all innovative organizations adapting fast, Covid suddenly gave us a new perspective. Our technological milestones had, up to now, been pioneering things such as 3D printing of cabin parts, a full tool tracking system at our maintenance facilities, augmented reality. A "culture of innovation" combined with Covid restrictions quickly brought about a new infrastructure, which will certainly keep our future operational costs lower and less dependent on human factors.

In 2019 our bonds started trading on NASDAQ. As Covid locked down Europe, we already saw, from a management perspective, that we might face difficulties meeting bond covenants in late 2020. Our fore-

casts motivated us to call for early redemption of the bonds. This was a tough but necessary decision, mainly driven by the fact that we highly respect our investors and wanted them to feel, that even at the toughest times, they can count on us. I am looking forward to future investment opportunities we will be offering – keep following our activities!

I urge you to read further into this annual yearbook. There are still aspects of our strategy that need to be revised and adapted based on the 'new reality'. Yes, we are making changes to our future strategy – some businesses we will remain untouched, others will go through lighter revisions, and some will face significant reshaping. All this will come soon. Meanwhile, keep turning the pages and get acquainted with our version of 2020.

CEO_RISTO MÄEOTS





MAGNETIC MRO STRUCTURE

MAGNETIC MRO SERVICES



LINE MAINTENANCE ENGINE FLEET MANAGEMENT ENGINE REPAIR **SPARE PARTS & COMPONENTS** INTEGRATED ENGINEERING SERVICES **INTERIOR DESIGN & PRODUCTION** FULL AIRCRAFT PAINTING **TECHNICAL TRAINING COURSES** ENGINESTANDS24

ASSET ACQUISITIONS & MANAGEMENT TECHNICAL SUPPORT DURING LEASES END-OF-LIFE ASSET MANAGEMENT TRANSITIONS BETWEEN LESSEES **TECHNICAL SUPPORT DURING LEASES RISKS/REWARDS SHARING PROJECTS**



"TO BECOME MORE AGILE AND DELIVER ON OUR CUSTOMERS' EXPECTATIONS STARTS WITH HOW WE ACT MORE CLOSELY WITHIN OUR ORGANIZATION - BEGINNING WITH STATION ENGINEERS TO MANAGEMENT - AS ONE TEAM."

JACCO KLERK





hat a year 2020 was! The harsh measures and mobilized team working together towards the simple goal – not only to survive, but to take the chance and use this pandemic situation to the benefit of the company, to lay the foundations for the future growth. Needless to say, this put great pressure on the commercial side of the business. We have strengthened business units (BUs) and we 'killed some of our darlings', we applied cost cutting and increased investments - all for the post-pandemic take-off. I'm proud to say, that our team's performance was exceptional, the agreed targets were executed, and this inspired the next movetowards the challenge of 2021.

The actions and plans of the company for 2021 were initiated already a year ago, deep into the pandemic. Today we are focused on further expansion and delivery of services and products that reflect the expectations of our customer – this is our ongoing goal. Our heavy maintenance business is looking how to expand capacity and accommodate a variety of projects resulting from the pandemic situation, in addition to our regular maintenance plans. We foresee the movement of fleet to continue during this year and, therefore, we are ready to accommodate related maintenance activities, starting from engine or landing gear changes, cabin modification, up to heavy transition checks, to assure safe and comfortable travel around the world. At the same time, our Engineering & CAMO division is involved in supporting aircraft owners and lessors, and in delivering accumulated in-house know-how

to the field far from its Tallinn base. Even though the pandemic situation caused inevitable lay-offs in the aviation industry, this also allowed us to secure talents and generate a good mixture of MRO and ex-airlines people, who are able to share their expertise in complex projects and provide a high standard of deliverables.

Jacco Klerk, Managing Director of Direct Maintenance, shares his detailed overview of the line maintenance business on page 26 in this report; however, I can't skip mentioning them here too. The line maintenance team had to regroup overnight when the pandemic started. We received requests and demands like never before. And yet, these were responded to, solutions were found, and services were delivered. Furthermore, the services we provided, such as support in remote locations, were well received by our customers, regardless of whether it was AOG, aircraft transition assistance, on-site repair, or engine work together with the engine maintenance team – we did it all and kept going the extra mile. I'm sure this will continue to be the case in 2021 and beyond. The strong team, with their strong passion for their work, will be ready to support the needs of our customers.

Last year I shared the highlights regarding our Engine maintenance division and the ambitious growth plan they had. Today, I'm proud to confirm that those decisions and actions are very much on track and we are looking forward to a thriving future by accommodating CFM56 engines for hospital repairs and module changes, and by using our know-how in delivering technical consultancy services.

In the meantime, our Components trading division, which was hit pretty hard by the 2020 situation, rose like a phoenix from the flames and keeps rocking. The landing gear exchange & repair program, escape slides exchange & repair program and supply of APU and other components are just a few things worth mentioning. However, most important of all is how empathetic the team has been to our customers: we have all been very much in the same boat facing issues that require prompt and reliable solutions. Successfully providing for our customers in 2020 has given us confidence for future growth, as all the programs we run today were born out of customers' demands and have a clear goal - to support others.

I hope this has given a bit of an overview of Magnetic today and where we are heading. I'm already looking forward to what 2022 onwards holds for us and how it can become the wind in the Magnetic ship's sails.

CCO_INGA DUGLAS





020 was surely a year that everyone will remember, especially people from the avi-_____ ation sector. It was the year where our focus was on survival. fast reaction and a fight against an invisible enemy. Many rapid changes occurred.

The company was restructured and reshaped, within just a few months, to survive and come out of the crisis stronger than ever. Yet, trying to summarize 2020 here in one sentence feels like describing an aircraft by showing just one set of bolts...

The crisis and the impact of the crisis are far from over; however, our

thoughts, plans and focus are back on ongoing and future business. The new normality had firmly arrived by end of 2020 and as of now we are living and breathing it every day. Many critical developments were impacted and postponed in 2020, which we are now continuing to work on. However, several IT and digitalization-related developments already gained speed and power at the beginning of 2020 and have been executed faster than originally planned. Now we are firmly back on our mission to push the boundaries to provide the world's most efficient and effective aircraft total technical care for aircraft owners and aviation companies!

The key elements in our toolbox for this are the lean approach and constant drive for operational excellence in every step of our value stream. We have found the EN9100/9110 standard to be a strong pillar to support our vision and whose principles we are rolling out throughout the company. Also, key supporting platforms, like ERP, BI and Maintenance/MX tool, are being replaced with world-class solutions to support our vision by reducing the number of supporting IT solutions and integrate the remaining ones, even more than before, to provide real-time transparency and good data on our fast-growing, global company. Consequently, we

will see quick responses to our operational and financial decisions/ actions and good quality data for overall long-term planning.

There are very interesting times ahead, as this "low season" will continue, according to the IATA's latest prognosis, until 2024. On the other hand, when looking into our hangars and other businesses pipelines, the "low season" has been. luckily for most of our business, anything but "low". However, the price pressure is heavy, which means that high service quality and very efficient operations are musts to stay in business. I saw a similar trend happening in the electronics industry during the

2000s and now see that it is happening in the aviation business, where "water is being squeezed from stones". Even though it is tough, we will see a lot of great developments and improvements to efficiency take place in the aviation industry in many companies and across the globe due to this. The time of heavy INNOVA-TION industry is ahead of us!





A COLLABORATION WITH SOLARIDE

agnetic MRO is collaborating with Solaride, an Estonian student team that is developing an ambitious project: a solar vehicle. For some, it might seem odd as to why Magnetic MRO, a strong player in the aircraft MRO industry, would join up with Solaride, but according to Risto Mäeots, CEO of Magnetic MRO AS, Solaride is "the breath of fresh air we aim to be". Indeed, Magnetic MRO is currently focusing on the long term, mainly design and manufacturing, which is financially the largest aviation segment. It is seeking to take a decisive step towards a conservative OEM industry. Even though Solaride is not directly related to aviation, its primary focus is design solutions, which, according to Mäeots, aligns with Magnetic MRO's plans. Moreover, in the opinion of Magnetic MRO's CEO, the whole of the aviation sector is shifting towards Solaride's current priorities.

Both Magnetic MRO and Solaride have a strong focus on innovation. As Solaride's project has been in motion for only one year, the team currently focuses on experiences and understanding related to building a solar car. Nevertheless, this definitely does not mean reading textbooks 24/7: Solaride's team is currently developing a software program that would be able to calculate the optimum possible speed so that

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electric cars could increase their efficiency. According to Kristel Leif, CEO of Solaride, they also strongly focus on aerodynamics and electronics: Solaride is even planning further product development on the electronics side.

Regarding Magnetic MRO's focus on innovation, it primarily favors sustainability. According to Mäeots, "sustainability is our ingenuity". The reason for this is that when the average asset, such as an engine or airframe, is disposed of, it usually still has some unused life. Thus, at Magnetic MRO, Magnetic Leasing, and Magnetic Engines, there is a focus on evaluating each element of the aircraft and its subsystems. All procedures, such as repairing, swapping, and replacing parts, are done to manage the asset's entire green time sustainably. In addition, when it shifts to the OEM business, Magnetic MRO will start not only to manage assets produced by others, but will start developing their own products and innovations, in a way similar to Solaride already does - inventing.

However, to implement innovations, every project and organization depends on its people. Solaride has around 70 students from various universities and fields of study in its project. They have people from marketing, design, human resources, logistics, and engineering. According to Leif, Solaride practices challenge-based learning: placing people from different backgrounds together to learn from each other and develop better ideas than engineers could develop alone. In aviation, historically, engineers are the dominant designers. However, Magnetic MRO is trying to focus on involving alternative designers, such as industrial designers, artists, psychologists, biologists and others, to create the best solutions. Mäeots believes that "if we look at some designs and products used in the automotive industry, for example, then there is much more we can

do, without compromising safety, to make future products." Thus, both Solaride and Magnetic MRO seek to attract a healthy number of fresh thinkers from outside their industry; in other words, they are both a hub for talent.

Talking about talent, Solaride is currently heading to the "World Solar Challenge" competition in Australia. It is a competition of significant scale, where large companies are searching for talent. Even Elon Musk will be looking for future Tesla engineers there. Leif says, "Solaride is much more than just innovation in the industry or sustainable transportation; it is about education and experiences that young engineers gain from this project." This competition, especially succeeding in it, is an excellent opportunity and an unforgettable experience for young

SOLARIDE

Tehnopo

people. In addition to the opportunities provided for students, Solaride's participation in these high-end competitions benefits Magnetic MRO; it is a great environment for networking and showcasing the company's brand as a sponsor of Solaride's ambitious project.

Although initially greeted with skepticism due to the weather conditions in Estonia not being the most suitable for a solar car, Solaride managed to communicate the educational part of the project successfully and became a household brand in Estonia in the space of just one year. With the help of Magnetic MRO, Solaride has built a strong community, with support for the project from regular members of the public right up to the President of Estonia. Moreover, Solaride is not only focused on building a solar car but also it seeks to inspire younger generations; with over 70 publications in Estonia, Solaride showcases this great example of combining innovation and sustainability, which are both priorities of Magnetic MRO. Leif says, "This solar car is the best possible tool to communicate sustainable energy and technology education, as well as to encourage people to take big challenges, think outside the box and do something differently." Solaride keeps inspiring Magnetic MRO to search for new opportunities, while Magnetic MRO shares its decades of experience in return. Indeed, it is a successful partnership that, hopefully in the future, will bring even more benefits for both parties.

WRITTEN BY_ AKVILE VZESNIAUSKAITE





viation is a rapidly growing field across the world. The European Commission (EC) states on their webpage that the aviation sector creates 13.9% of emissions from transport, making it the second biggest source of transport greenhouse gas (GHG) emissions after road transport. The transport sector is responsible for almost a quarter of Europe's greenhouse gas emissions and is the main cause of air pollution in cities. The transport sector, including aviation, has not seen the same gradual decline in emissions as other sectors; emissions only started to decrease in 2007 and still remain higher than in 1990. Therefore, it is crucial that the aerospace industry thinks critically about becoming environmentally neutral. In fact, the industry is already transforming to meet the goals set because of the climate crisis. To do this, it is integrating new technologies from energy science, material sciences and information and communications technology (ICT) fields. The Estonian Aviation Cluster, of which Magnetic MRO is a member, has proposed an ambitious plan, establishing the ZeroEST Climate Neutral Air Mobility Hub. This means that Estonia could become one of Europe's climate neutral aviation hot spots and by 2030 have

all regional domestic flights carbon neutral.

FUELLING UP FOR CHANGES

However, there are still many challenges the aviation industry faces before it can declare itself free of carbon emissions. For the European Union (EU), integrating new technologies means facing changes in each technology's value chain. The EU needs to rapidly invest in its R&D and manufacturing bases for next-generation aviation technologies in order to retain and grow its global competitiveness in this transformation.

Kristo Reinsalu, General Manager at the Estonian Aviation Cluster, says the main challenges lie – to phrase it quite simply – in price and technology. Over the last few decades, the passenger/fuel ratio per flight has been lower than ever before. Per passenger, it has quite frankly been lower than travelling by car from Tallinn to Tartu (the two biggest cities in Estonia, 183 km apart). Additionally, the energy density of liquid hydrogen is only about a quarter of that of jet fuel. That means



FOR A HYDROGEN AIRCRAFT TO FLY THE SAME DISTANCE AS ONE FUELLED BY KEROSENE, IT WOULD NEED TO BE BIGGER.

the fuel tanks that store kerosene, which is currently used as iet fuel in aviation, can store four times more energy per volume than those with liquid hydrogen, as hydrogen contains three times more energy per mass than kerosene, but lower energy by volume. By volume, even liquid hydrogen requires four times more space. This would require a decrease in the number of passengers per flight, but in recent years, it has been higher than ever before. Kerosene is also still much cheaper than hydrogen and is better suited for long-distance travel.

For a hydrogen aircraft to fly the same distance as one fuelled by kerosene, it would need to be bigger, which can only come either at the expense of passenger and luggage space, or with a completely new aircraft design. Unfortunately, this also means that the passenger/fuel ratio would go up and the ticket price per person would increase, resulting in more expensive travel overall.

PIONEERS FOR ALTERNATIVES

ZeroAvia has been one of the pioneers in modern hydrogen aviation

starting with a 6-seater Piper Malibu with a starting range of 370 km and extending to 560 km in 2021. In 2023, ZeroAvia is planning to go commercial with a 20-seater Dornier 228 with a range of 800 km. By 2027, ZeroAvia intends to fly an aircraft over a 1800 km range with 50-100 seats, and to at least double passenger numbers and distance, exceeding 200 passengers and 3700 km by 2035. In the meantime, Airbus is validating multiple hydrogen technologies (i.e. hydrogen turboprop and turbofan). In September 2020, they announced that hydrogen-fuelled propulsion systems would be at the heart of a new generation of zero-emissions commercial aircraft. The project, named ZeroE, is a flagship of the European Union's multibillion-euro stimulus package, aimed at greening the bloc's economy. Airbus will launch aircraft designs by 2025, and it targets entry into service with multiple new planes for 100–200 passengers with ranges of 1800–3700 km by 2035. Other companies and agencies working on hydrogen aviation are Universal Hydrogen, Pipister, Hypoint, the Japan Aerospace Exploration Agency (JAXA), Rolls-Royce, New Electric Aircraft Engines – GSI, Hy2Fly, Rostec, NLR and Estonia's very own Xfly amongst others.

As for electric planes, their debut is expected shortly. Swedish electric aviation start-up Heart Aerospace has successfully designed a regional airplane ES-19, that runs on batteries and electric motors instead of traditional jet fuel, and it seats 19 people. They recently received their biggest order to date: 200 of its inaugural ES-19 electric aircraft from aviation giant United Airlines and its regional airline partner Mesa Air Group. The start-up says it will deliver the first aircraft for commercial use by 2026. These aircraft will be able to fly up to 250 miles based on today's battery technology.

Battery technology is the most common challenge when it comes to electric planes. However, the aviation industry is already actively seeking alternatives for lithium batteries, which are currently used on electric planes, and it is trying to work out ways to store more energy and make the batteries lighter. "We



THE FIRST STEP TOWARDS CARBON-NEUTRAL AVIATION IS MAKING CHANGES IN CONVENTIONAL FLEETS.

look forward to our very own Skeleton Technologies paving the road towards longer lasting electric engine usage cycles," says Risto Mäeots, CEO of Magnetic MRO.

CURRENT CHALLENGES IN THE INDUSTRY

There are many challenges the aviation industry must overcome to become carbon neutral. One of them is that most fleets contain aircraft that are 10–12 or even 20 years old and should be renewed. However, it is unthinkable to simply abandon all these aircraft.

The EU has set a target to reduce emissions from transportation by 90% by 2050 compared to targets set in 1990, and aviation is no exception. Most likely, current aircraft will be retrofitted to meet these new aviation standards. In addition to this, new planes will be added to fleets over time as new aircraft technologies develop. Through faster deployment of electric flight and drone technologies, there is enormous potential to become a frontrunner in European aviation. By 2040, the world will see hybrids. fully electric and hydrogen aircraft in service, and they will scale up in production over the following 10 years, as stated in Eurocontrol's Aviation Intelligence Units Think Paper #10.

There are also legislative challenges. Currently, each EU member state has established its own overflight fees. As some fees are higher and some lower, flight routes are optimized using the air space of countries whose fees are lower. This often results in longer flight routes, which require more fuel, longer flight times and produce more CO2 emissions. The

usage of air space can also be a political decision. as was shown with the latest crisis in Belarus. "If overflight fees were no longer an issue. flight operators would plan flights using the most direct flight routes, thus consuming less fuel, and saving time. That would really help to optimize flight corridors," states Reinsalu. One way to do this is for the EU and EC to contribute to going carbon neutral by changing EU legislation to establish general overflight fees for all EU states, in a similar way to how cell phone roaming fees were dealt with.

THE NEXT STEPS TOWARDS CARBON-NEUTRAL AVIATION

The legislative differences are something for the EU and the EC to tackle and, in all fairness, they have begun to do that. As it is with all big changes, they don't happen overnight and are often broken down into smaller steps. When it comes to aviation, the first step towards becoming carbon neutral is making changes in conventional fleets by blending kerosene with non-fossil fuels (bio and synthetic fuels called sustainable aviation fuel (SAF)). According to Eurocontrol's Aviation Intelligence Units Think Paper #10, by 2030, the use of SAF as a percent of all fuels will increase to 10% or more, assuming the supply increases. By 2040, the use of SAF as a percent of all fuels will be upscaled to 50%. By 2050, the use of SAF will be upscaled to 83% of all fuels.

As an intermediate step towards climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by at least 55% by 2030. This initiative is called the Fit for 55 package and was published on July 14th 2021. With this. the EU has set mandatory blending targets of 2% SAF by 2025 and 5% SAF by 2030; however, many countries have set higher targets of 10% or more for themselves to fast-track the decarbonization of our airspace. The ReFuelEU Aviation initiative is coherent with other initiatives of the Fit for 55 package and introduces an obligation on jet fuel suppliers to blend a growing share of SAF (advanced biofuels and e-kerosene) into fuel provided to airports in Europe.

"Retrofitting current aircraft to meet new aviation criteria set by the EU creates an opportunity for designers and manufacturers as well as MRO organizations to contribute," says Risto Mäeots. "Magnetic MRO has launched, under its design and manufacturing arm, a series of new initiatives to keep us at the forefront. Some of these initiatives include accommodating the best brains of different industries in a series of workshops that would bring together new ideas that Magnetic MRO will physically bring to life."

> WRITTEN BY_ KADRI EISENSCHMIDT

ENTERING THE WIDE-BODY ENGINE STANDS MARKET

his is a promise, as well as a slogan than Engine-Stands24 takes pride in. Even though 2020 was a very tough year for the whole aviation industry, EngineStands24 was right in place to help airlines and lease companies manage their assets.

EngineStands24 shows constant and stable growth on a year-on-year basis and in 2020 we also had various factors contributing to our growth.

SHORT OVERVIEW OF THE **RESULTS IN 2020:**

Revenue stayed at the same level as 2019; nevertheless, we had a 7% increase on EBITDA and NET profit.

We also increased our pool of engine stands by 9%.

Good result in the number of loan days - 15% growth in 2020 vs 2019.

One noteworthy change is that in 2020 we entered the wide-body engine stand market. Since we saw an increase in the demand for such stands, it was very natural to follow this and meet the needs of our customers. It opens more doors to us now too as we are able to service more airlines operating wide-body aircraft. There are also new additions to our pool - PW4000-94 engine stands for B747 and B767 aircraft, as well as the Trent 700 for the A330.

We also added a new tracking system, which allows tracking the engine stand in real time, including both during storage and transportation. In addition to tracking current location, the new devices allow checking of the storage location temperature, and they have other additional features too. The plan is to add a dedicated tracking platform to the website, where customers will be able to track the engine

during the entire loan period of the stand.

Due to the pandemic situation our geographical expansion was on hold, but our plans in 2021 are renewed and agile. New hubs in Asia and the US are on the way.

We are also working on developing new products, and recently one of those was introduced: smart solutions for smart business – stand pool inspection to total management.

Another important factor for a successful business is cooperation with partners, so in 2020, during the MRO Middle East Expo, Engine-Stands24 and Rhinestahl CTS signed an engine stand service agreement, covering the maintenance service of the EngineStands24 stand pool for the all the company's global hubs. From now on, all ES24 stands at all our hubs worldwide will receive technical support from Rhinestahl.

The EngineStands24 team is always ready to assist when there is a need for a serviced engine stand for one of the most valuable of aviation's assets - the engine. With a number of well-located hubs and a stand pool for both narrow and wide bodies, we can accommodate clients' needs even when they are time-sensitive.

> DAIVA ZEMAITE_HEAD OF ENGINESTANDS24





n the years before 2020, Direct Maintenance and the Magnetic-MRO Line Maintenance unit had a strong growth trajectory; this was a major boost to the opening of new stations, including a strategic homebase line maintenance operation for a leading European LCC carrier.

Needless to say that 2020 required managing and running the business differently during the pandemic. We saw low flight demand, increased demand for storage/parking, airlines changing their used aircraft equipment frequently, and, for line maintenance service providers, an increased need to provide flexible solutions; all this gave Direct Maintenance and the MagneticMRO Line Maintenance a good platform to demonstrate our capabilities. We needed to be agile in supporting our customers in their line maintenance needs and to swiftly adapt as an organization to serve our customers. It was challenging to swiftly adjust our business due to the significant reduction of airline operations across our European and African stations. In parallel, our Tallinn station saw substantial growth in more heavy line maintenance and casualty work concerning the storage/parking of aircraft. At the same time, right across the business, the company has been there to support our employees in these uncertain times, working together on our contingency planning. In return, all this provided good opportunities to reassess and review our business operation, and to make decisions on preparing our next growth trajectory after the pandemic.

We have conducted a company-wide review, engaging all our personnel and consulting our customers. From observation to lessons learned, there is a range of improvements that we are implementing now in order to be well prepared and adaptable coming out of this pandemic, and to become more agile and deliver on our customers' expectations. It all starts with how we act more closely within our organization – starting with station engineers to management – as one team. We gain significantly from all our initiatives – so will our customers.

The pandemic significantly impacted our intended plans and operations.

We diversified into a new set of opportunities to revamp/improve our business process and future development plans. We are driving dedicatedly towards cooperation between Direct Maintenance and the Magnetic MRO Line maintenance operation, providing an expanded suite of tailored support options to serve our customer base and to welcome new customers. We have seen, in parallel, how our personnel put in their best efforts globally and



show great flexibility in supporting our customers across our stations. Some great examples of how our teams have gone above and beyond during the pandemic are as follows: a bumpy 2400 km drive across Africa to release an aircraft, AOG engine changes at an airport that was not actively operating, taking on ground handling duties, providing aircraft storage in extreme winter conditions, a mobile repair team for severe lightning strike structure repairs, technical ferry flight support across the globe for OEMs. Demonstrating our unique can-do and caring spirit has unlocked new doors for us to grow further and develop Direct Maintenance.

Looking back over 2020, all our employees have worked together to take the initiative and act to pull through this challenging period. In return, this has strenghened the bonds within the team and the sense of solidarity across our stations in Europe and Africa, as well as reinforcing our ongoing commitment to supporting our customers. As an organization positioned in the wake of the industry's recovery, we must remain flexible and adaptive in order to support our customers.

In coming out of this pandemic, passenger airlines tend to focus more on their core business. Based on our interactions with passenger airlines, we see a development where they are leaning more and more towards independent line maintenance network service providers – next-generation service providers who will be able to provide a service beyond the current scope of standard line maintenance services. Cargo airlines already focus more on services beyond the usual scope; besides, they expect us, as service providers, to be flexible concerning the dynamics of their operations.

Leasing companies are looking to work more with organizations that can provide a range of services and to have reliable partners looking after their assets; from our perspective, this includes providing a full suite of solutions, from storage programs, ferry flight support, and line & base maintenance.

A wave of new operators will come who will need proactive service providers to get their aircrafts prepared for operations again, and, after beginning operations, to have a flexible supporting line & base maintenance service provider. More likely, they would need an independent provider who has a greater focus on the customer and provides bespoke tailored and cost-effective solutions – Direct Maintenance, as part of Magentic Group, are in a great position to offer this. We have instiled a lean and agile approach in our business attitude by engaging and empowering our personnel, and by striving for constant improvement and promoting the sharing of the best practices. In parallel, we are focused on accelerating digitalization and optimization to increase how effectively we run our organization. Our stations are known to have strong customer focus in their DNA, and we will strengthen and enhance this further. We are currently finalizing a strategic review of our long-term projects following the pandemic, which will provide new opportunities within our industry. Also, we are utilizing our group's capabilities as a





JACCO KLERK_MANAGING DIRECTOR OF DIRECT MAINTENANCE

Magnetic Group subsidiary to develop adaptive solutions that will support our customers' outlook for the coming years.



Magnetic/RO

he year 2020 started as one of the most stable, predictable, and positive years for the Magnetic MRO engines business, but with the Covid-19 pandemic, everything was turned upside down.

• Asset trading and leasing almost fully stopped in second half of March 2020

• There were no engine overhauls so material trading became much more complicated

• Only demand for quick-turn engine repairs remained the same

From starting as the most stable and predictable year it turned into a totally unpredictable year – the hardest year possible.

We didn't give up. The whole team stood up and we gave more than we ever thought we could give to make 2020 as good as possible.

We focused on all potential leads, on all possibilities, and those hard days brought people closer together through the company. Cooperation between different businesses became better than it ever was in the past.

Asset trading started recovery in the second half of 2020. We tried to use it fully and managed to deliver 6 airplanes to customers in 2020 (which is actually our all-time record for one year), 2 serviceable and 5 unserviceable engines. We also secured delivery on 3 unserviceable and 1 serviceable engines for January 2021. Asset leasing didn't pick up in 2020 at all, but there were serious signs that it would recover in 2021 and it fully did, as we managed to lease 5 CFM56-3 engines in the first half of 2021.

Repair of engines in our engine shop continued strongly during 2020 and proved to be resistant to the crisis. We invested into extension of our CFM56-5B and CFM56-7B capability and tooling was received in March 2020. The crisis slowed down these significant repairs, but throughout the whole year we had constant loading of the shop with smaller repairs.

In 2020, we managed to work on 56 customer related events, as well as on some 24 of our own, out of which more than 10 can be considered more complex (significant).

In Q4 2020, we made the first major repair of a CFM56-5B engine involving the replacement of a combus-



tion chamber. This repair utilized, what was at the time, the highest level of our capabilities.

Strong shop loading continued throughout the first half of 2021, and we continue to carry out more and more significant repairs.

In late 2020, we prepared for the launch of Magnetic Engines – a brand that will help to distinguish our line of work from the remaining Magnetic MRO business lines.

2020 was hard but we managed to survive it and it made us stronger than ever. We are ready for new challenges in the future.

HEAD OF MAGNETIC ENGINES_ FILIP STANISIC





he Mac Aero Interiors relocation program was initiated in 2019 and was strategized to improve the company's productivity and to make the most of the expansion into larger premises. There was the added goal of relocating production to be in a prime location to offer products and services from an airside-based facility.

Although undertaking such a challenging task could have potentially impacted on the operational aspect of our business, our dedicated team worked tirelessly to ensure that our procedures were maintained, and not only that, but also streamlined to improve the team's integrity.

Our internal procedures have been rewritten to incorporate such aspects as new joint business ventures with some of the industry's leading names. Our team has undergone extensive in-house training and attended workshops to guarantee that we can offer our customers the very best quality and service at all times. The supply chain, production and design have all been restructured. This, in turn, has strengthened our position within the global aviation market, and has had a positive impact on sales.

Whilst embarking on this business venture, we also had to manage the Covid-19 crisis and the severity of the impact on our business. Thanks to our senior management, who were able to swiftly draft a recovery strategy along with a step-by-step support guide, the business and our team were able to continue to function efficiently, safely and confidently.

We also used this challenging time to review our product range and obtain our customers' feedback concerning their expectations, as well as regarding what we could do to fulfill their future requirements. We have introduced PPE kits to allow our customers to continue to operate safely within the set government guidelines. This has demonstrated our ability to adapt and support this everchanging industry.

Another exciting step for us was the introduction of our new, exclusive product line, which includes a range of solutions that can be incorporated into a multitude of areas within the aircraft, allowing operators to save time and money while storing aircrafts. Alongside this, we also showcased a new range of solutions for engines, wheels, and windscreens, which are lightweight, durable and cost effective. They can be customized to any preferred color scheme, shape, or size, depending on the customer's requirements.

As part of our business strategy, refurbishment has also been an area of focus. We recognized that during the recent period of restricted travel, operators were able to



have essential work carried out on their aircraft, which would otherwise have disrupted their normal flight schedule. For instance, one of the most notable refurbishment programs was our project for VJET, which has recently been completed by providing refurbishment on a Legacy 600. MAC Aero Interiors also worked on an Embraer Legacy 600, providing a complete program covering the interior refurbishment and full aircraft painting in a VIP finish. This program comprised everything from the creation of the interior and painting design concept; to the pre-induction cabin survey; to the full aircraft painting in a VIP finish; to the design, manufacture, installation and refurbishment of the seats, lavatories, and other interior parts. In addition to the production and sales elements of the business, our design team have also been heavily involved with supporting numerous



LOPA changes, drawing revisions & CMM supplements. Their continued input into these areas has allowed us to be involved in some fantastic projects and offer expertise to our entire clientele.

After the global challenges the industry has endured over the last year, we are more confident and excited than ever to continue to develop and grow as a leading name within the aviation interiors market.

> MANAGING DIRECTOR OF MAC AERO INTERIORS_ MARKO MÄNNISTE





BUSINESS AND FINANCIAL REVIEW

t is a well-known fact that the Covid-19 pandemic emergency situations declared in the Republic of Estonia and other states had a negative impact on the financial and operational results of Magnetic MRO Group and the whole aviation sector. By the end of 2020, the globality of the emergency situation and the fact that its validity, as well as victory over the virus, were still unpredictable meant that precise estimation of its final financial impact would still have been premature. However, significant impairments of goodwill and investments were already done all over the sector and within Magnetic MRO Group as of the end of 2020.

In total, Magnetic Group impaired 4.7M EUR of goodwill and 2.4M EUR of investment. The pandemic caused 6.5M EUR in one-off costs, including redundancy and bad debts. The Magnetic-Group-associated company Magnetic Part Trading Ltd was forced to impair assets worth 4.4M USD.

In September 2020, Magnetic MRO's application for state aid was approved by the government, and the group received a liquidity loan from Kredex to the sum of 10M EUR. The maturity of the loan is 5 years and the interest rate is 2%. In 2020, group revenue decreased by 25%; the main units affected by the crisis were Interior, Line

Maintenance and Trading. In general, overall revenue can be divided between business lines as follows: 33% is generated by Spare Parts, 23% by Engine Management, 39% by Base and Line Maintenance, and 5% by other business units.

Including one-off costs related to the pandemic, EBITDA for 2020 turned negative; however, agile actions taken by the Magnetic Group as a response to the situation brought positive results, and the adjusted EBITDA dropped only 16%, with the adjusted EBITDA margin remaining around last year's level at 5.78%.

The net results for the Magnetic MRO joint venture company Magnetic Parts Trading Ltd were lower than the year before, mainly due to asset impairment; however, the value of residual assets remained higher than the loans granted.

The pandemic year also caused negative cash flow from operating activities, but the adjusted operating cash flow still remained positive at a level of 2M EUR.

In 2020, the investing cash flow of 5M EUR included the purchase of fixed assets, covering components for power-by-the-hour stock, expansion of the pool of engine stands, and investment into line-maintenance workshop tools for engines.



The financing cash flow in the given period turned positive due to the receipt of monetary contributions as share capital from two new shareholders of the Magnetic MRO Group: Sapphire Investment Holding Limited (3,201 new shares) and Hong Kong Yongtai Trading Services Co Limited (26,957 new shares). After subsequent registration of new shareholders, the ownership of the main shareholder Guangzhou Hangxin Aviation Technology Co Limited remained at 84.96%. After this share capital increase, the new share capital amounted to 1,283M EUR and share premium amounted to 15,38M EUR.

At the end of the third quarter of 2020, the group's major shareholder made a monetary contribution of 2,6M EUR to the group voluntary reserve. Furthermore, Magnetic MRO performed early redemption of previously issued unsecured bonds in full.

The management of Magnetic MRO Group, in cooperation with shareholders, undertook all the above-mentioned activities with the aim of securing the liquidity of the group, avoiding breach of covenant, and maintaining sustainability.

CFO_ASTRIT VIISMA-KASS



MAGNETIC MRO 2020 KEY FIGURES

REVENUE EBITDA	80.95 -1.8	2020	107.98 3.1	2019
ADJUSTED EBITDA* COMBINED GROUP EBITDA**	4.7 5.9	(EUR	5.6 8.0	(п С Т
NET PROFIT NET PROFIT MARGIN	-13.5 -16.7%	MILLIO	0.9 0.8%	
EBITDA MARGIN Adjusted ebitda margin	- 2 . 2 % 5 . 8 %	Z	2.9% 5.2%	N N
ROAA (ADJUSTED NET PROFIT) ROAE (ADJUSTED NET PROFIT)	0.2% 0.6%		1.6% 4.4%	
BALANCE SHEET TOTAL Working capital Equity Net financial debt	47.2 4.7 15.2 17.8		66.6 7.5 22.6 16.6	



A agnetic Parts Trading Limited (MPTL) was established by Magnetic MRO and Crestline Investors as a joint venture in 2017 in order to focus on aviation asset investments. While Crestline Investors is furnishing Magnetic

Parts Trading Limited with the majority of its capital needs, Magnetic MRO gets to focus on project management, part-out and the value realization process. Magnetic Parts Trading Limited will focus on acquiring aircraft and engines for imme-

REVENUE EBITDA NET PROFIT

EBITDA MARGIN

ROAA NET CASH FLOWS

BALANCE SHEET TOTAL WORKING CAPITAL EQUITY NET FINANCIAL DEBT

* ONE-OFF EXPENSES EXCL **COMBINED GROUP EBITDA IS THE 49.9% EBITDA OF MPTL AND MMRO'S ADJUSTED EBITDA

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diate part-out, or short-term lease and subsequent part-out. It aims to invest in the most popular narrow-body aircraft types, such as the A320 and B737 families and their corresponding engines.

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CONSOLIDATED FINANCIAL STATEMENTS

onsolidated Financial Statements are prepared in accordance with the Estonian fi-

financial reporting standards are prescribed by the Accounting Act of Estonia and supplemented by the nancial reporting standards. The Estonian guidelines issued by the Accounting Standards Board.

MAGNETIC MRO CONSOLIDATED INCOME **STATEMENT**

REVENUE	80.9	2	108.0
COST OF SALES	-77.5	0 2	-94.6
GROSS PROFIT (LOSS)	3.5	0	13.4
DISTRIBUTION COSTS	-0.4	Ē	-0.5
ADMINISTRATIVE EXPENSE	-16.2		-13.3
OTHER INCOME	3.1	~	0.8
OTHER EXPENSE	0		-0.1
OPERATING PROFIT (LOSS)	-10.0	- -	0.3
PROFIT (LOSS) FROM ASSOCIATES	-2.4	$\overline{\bigcirc}$	1.1
INTEREST INCOME	0.6	Z	0.5
INTEREST EXPENSE	-0.9		-1.0
OTHER FINANCIAL INCOME AND EXPENSE	-0.8		0
PROFIT (LOSS) BEFORE TAX	-13.6		0.8
INCOME TAX EXPENSE	0		0.1
ANNUAL PERIOD PROFIT (LOSS)	-13.5		0.9
PROFIT (LOSS) FROM SHAREHOLDERS AND	-13.5		1.1
PARTNERS IN PARENT COMPANY			

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

ANNUAL PERIOD PROFIT (LOSS)	-13.5	20	0.9
OTHER COMPREHENSIVE INCOME (EXPENSE):		N	
EFFECT ON UNREALISED EXCHANGE RATE CHANGES	0	•	0.1
TOTAL OTHER COMPREHENSIVE INCOME (EXPENSE)	0	Ē	0.1
ANNUAL PERIOD COMPREHENSIVE INCOME (EXPENSE)	-13.6		1.0
COMPREHENSIVE PROFIT (LOSS) FROM SHAREHOLD-	-13.5	7	1.2
ERS AND PARTNERS IN PARENT COMPANY			
MINORITY INTEREST	0	_	-0.2
		0	
		Z	

MAGNETIC MRO BALANCE SHEET CONSOLIDATED

ASSETS

CURRENT ASSETS

CASH AND CASH EQUIVALENTS RECEIVABLES AND PREPAYMENTS INVENTORIES **TOTAL CURRENT ASSETS**

NON-CURRENT ASSETS

INVESTMENTS IN SUBSIDIARIES AND ASSO RECEIVABLES AND PREPAYMENTS PROPERTY, PLANT AND EQUIPMENT INTANGIBLE ASSETS **TOTAL NON-CURRENT ASSETS** TOTAL ASSETS

LIABILITIES

CURRENT LIABILITIES LOAN LIABLITIES PAYABLES AND PREPAYMENTS **TOTAL CURRENT LIABILITIES**

NON-CURRENT LIABILITIES LOAN LIABLITIES PAYABLES AND PREPAYMENTS TOTAL NON-CURRENT LIABILITIES TOTAL LIABILITIES

EQUITY

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EQUITY HELD BY SHAREHOLDERS AN PARTNERS IN PARENT COMPANY ISSUED CAPITAL UNREGISTERED SHARE CAPITAL SHARE PREMIUM STATUTORY RESERVE CAPITAL UNREALISED EXCHANGE RATE RETAINED EARNINGS (LOSS) ANNUAL PERIOD PROFIT (LOSS) TOTAL EQUITY HELD BY SHAREHOLD

AND PARTNERS **IN PARENT COMPANY** MINORITY INTEREST TOTAL EQUITY TOTAL LIABILITIES AND EQUITY

	2020	2019
	2.1 12.6 12.6 27.2	5.7 21.5 14.4 41.6
OCIATES	5.2 10.8 4.0 20.0 47.2	2.5 4.6 8.3 9.7 25.0 66.6
	9.1 13.3 22.5	7.6 26.5 34.1
	8.7 0.8 9.5 32.0	9.1 0.9 10.0 44.0
D		
ERS	1.3 - 15.4 2.7 0 9.4 -13.5	1.1 5.3 6.6 0.1 0.1 8.3 1.1
	15.3 -0.1 15.2 47.2	22.6 0 22.6 66.6

MAGNETIC MRO CASH FLOW CONSOLIDATED

CASH FLOW FROM OPERATING ACTIVITIES Ν 0 0 9 0 -10.0 **OPERATING PROFIT (LOSS)** 0.3 ADJUSTMENTS 8.2 DEPRECIATION AND IMPAIRMENT LOSS (REVERSAL) 2.8 PROFIT (LOSS) FROM SALE OF NON-CURRENT ASSETS -0.4 -0.7 OTHER ADJUSTMENTS 2.4 Ζ TOTAL ADJUSTMENTS 10.3 2.1 CHANGES IN RECEIVABLES AND PREPAYMENTS 7.7 -1.6 CHANGES IN INVENTORIES 0.6 -7.0 CHANGES IN PAYABLES AND PREPAYMENTS -13.1 14.1 TOTAL CASH FLOW FROM OPERATING 7.9 -4.6 ACTIVITIES CASH FLOW FROM INVESTING ACTIVITIES PURCHASE OF PPE AND INTANGIBLE ASSETS -5.1 -3.8 PROCEEDS FROM SALES OF PPE AND INTANGIBLE ASSETS 1.1 1.0 OTHER CASH PAYMENTS TO ACOUIRE SUBSIDIARIES -9.3 TOTAL CASH FLOW FROM INVESTING ACTIVITIES -4.0 -12.1CASH FLOW FROM FINANCING ACTIVITIES LOANS RECEIVED 8.0 6.1 REPAYMENTS OF LOANS RECEIVED -8.6 -3.3 PROCEEDS FROM OVERDRAFT 1.7 2.1 -0.3 PROCEEDS FROM FINANCE LEASE -0.6 INTEREST PAID - 1 - 1 PROCEEDS FROM GOVERNMENT GRANTS CONTRIBUTION TO SHARE CAPITAL 5.3 6.2 TOTAL CASH FLOW FROM FINANCING 5.8 8.9 ACTIVITIES TOTAL CASH FLOW -2.8 4.7 CASH AND CASH EQUIVALENTS AT BEGINNING 5.7 0.9 OF PERIOD CHANGE IN CASH AND CASH EQUIVALENTS -2.84.7 EFFECT ON EXCHANGE RATE CHANGES ON CASH AND -0.7 0 CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT THE END OF PERIOD 2.1 5.7

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31.12.2017 1.1 6.6 0.1 -0.1 3.4 1 ANNUAL PERIOD PROFIT (LOSS) 5.1	1.2 5.1	2	- (
31.12.2018 1.1 6.6 0.1 -0.1 8.5 10 ANNUAL PERIOD PROFIT (LOSS) 1.1 -0.2 1.1 1.1 1.1 -0.2 1.1	6.3 0.9	\$ }	
CONTRIBUTION TO SHARE CAPITAL 5.3	5.3	5	
OTHER CHANGES IN EQUITY 0.1 -0.2 0.2 31.12.2019 1.1 5.3 6.6 0.1 0.1 9.4 0 22 ANNUAL PERIOD PROFIT (LOSS) -13.5 -0.1 -1	0.2 2.6 3.5		
CONTRIBUTION TO SHARE CAPITAL0.2 - 5.3 8.8OTHER SHAREHOLDERS CONTRIBUTION2.6	3.6	5	
31.12.2020 1.3 15.4 2.7 0 -4.1 -0.1 1	5.2	2	



MAGNETIC MRO CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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"EARLY REDEMPTION OF OUR BONDS WAS A TOUGH BUT NECES-SARY DECISION, DRIVEN BY THE FACT THAT WE HIGHLY RESPECT OUR INVESTORS AND WANTED THEM TO FEEL, THAT EVEN AT THE TOUGHEST TIMES, THEY CAN COUNT ON US."

RISTO MÄEOTS



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