

ANNUAL REPORT

2019



mega

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FOREWORD

Dear friends, in 2019 we started another strategic period 2019-2023 and I must say that we coped well with 2019 and we not only met the expected results but also exceeded them in some parameters. Unfortunately, I am writing this foreword at the time when we have been hit worldwide by a coronavirus pandemic, which consequences are in many cases catastrophic. This situation has and will have a global impact on the economy and will test the stability of companies, their ability to regenerate and predict, in other words, it will be a sieve through which only the best will not fall through. I am 100% convinced that among the best will be the group of our companies, which is financially stable, diversified in terms of focus and has a clear vision of how to proceed. Of course, in this situation, we must behave economically with minimal investment and operating costs. Long-term excellent results in the field of surface treatment, the transition of membrane process applications to world-leading customers and the acquisition of a significant environmental contract are a prerequisite for compensating of the impacts of the current situation in individual areas of our activities. At the end of 2019, negotiations took place regarding the creation of a new division of water management, which was launched at the beginning of 2020. The reason is the strategic concept in terms of the ability to comprehensively address water management issues. Water purification is not just desalination or concentration using electrodialysis processes. It is a complex of classical technological processes in combination with membrane processes, including pressure processes, which goal for the future is water recovery and recycling. Whoever will know how to do this does not have to worry about the future. Coronavirus is a problem, but it will fade after a while. Catastrophic water shortage in the Czech Republic is a long-term and fundamental, if not rather crucial, problem. In theory, it can be solved with the above-mentioned procedures, which now need to be put into practice ASAP, but it is a multidisciplinary matter. I believe that this year we will take a big step forward in this direction and contribute to even greater stability of the company.

We believe that we will meet the goals set in the Strategy 2019–2023 and that we will also receive great support in this direction from our MemBrain R&D base. Currently, I wish everyone good health, peace of mind, and faith in a better tomorrow. We think that a quality and stable company as an employer is also a necessary basis for a happy personal and family life of its employees in the whole spectrum of all life needs and values.

Luboš Novák, PhD



VISION AND MISSION

VISION FOR MEMBRANE PROGRAM

To become a globally active and financially stable company that offers its customers the best technological solutions based on electromembrane and integrated membrane processes with maximum emphasis on reuse of raw materials through implementation of waste-free technologies and environmental protection.

VISION FOR SURFACE TREATMENT

To become the leader in cataphoresis and other modern electrocoating technologies of surface treatments in the Czech and Slovak Republic.

VISION FOR ENVIRONMENTAL SERVICES

To become a recognized company interconnecting business and academic spheres in advanced remediation technologies in the Czech Republic.

UI G 2F P S O G S T U P O G T 2U P 2D F I JG W G 2U I G 2W JT JP O

TARGETED AND RAPID RESEARCH AND DEVELOPMENT (R & D)

The leader in innovation in the field of membrane processes.

STRONG ENGINEERING AND KNOW-HOW

The company delivering comprehensive solutions, not only processes.

GLOBAL PRESENCE

The company with a strong distribution network and support of strategic partners.



MEGA group headquarters and manufacturing facilities in Stráž pod Ralskem, Czech Republic

COMPANY PROFILE

COMPANY HISTORY

The history of the joint-stock company MEGA goes back to the mid-1970s when the ČSUP Central laboratories were established within the former Czechoslovak uranium industry, to address the issue of the impact of uranium mining and its subsequent processing on the environment.

Within this unit was formed a group led by Luboš Novák, PhD., the current CEO, single board member and owner of the company which began to address the issue of water treatment and industrial solutions using membrane technologies. In 1985, the first heterogeneous membrane was produced as an essential component of its own technology. The laboratories were an independent state enterprise before the process of coupon privatisation.

Since 1992, MEGA has been operating on the market as a Czech, private, joint-stock company. Although it has been clear from the outset that the main strategic direction of the company development focused on the water treatment issue (especially by membrane processes), the company sought further application in other areas of environmental protection. This gradually led to broadening the portfolio of services offered. MEGA used its previous experience for its own production and according to the needs and wishes of its customers, it started to produce complete technological units.

In the long term, MEGA has been active in three areas, in which it provides a complete supplies of quality technologies and comprehensive services. These are generally membrane processes (liquid separation), surface treatment of materials and environmental services.

MEMBRANE PROCESSES (SEPARATION OF LIQUIDS)

Within the Membrane Programme, the main business activity of the MEGA company is to supply its own products (ion-exchange membranes, distributors, membrane equipment manufactured within the manufacturing facilities of the company MEGA) and complete technologies for membrane separation processes (electro membrane or hybrid) based on its own know-how. In this field, MEGA belongs to world leaders. All products and technologies supplied by MEGA are the results of its own research and development base and reflect the latest knowledge and expertise.

SURFACE TREATMENT

In the field of surface treatment, we provide comprehensive technical and logistic services to customers of the segment, where we have been representing for a long time the established global manufacturer of coatings, the PPG Company, whose products GI (General Industry) are used in many paint shops in the Czech and Slovak Republic.

ENVIRONMENTAL SERVICES

In the area of environmental services, we have recently focused mainly on the interconnection of the commercial and academic sectors in the area of advanced remediation technologies.

The company aims to further develop its activities and the activities of its subsidiaries (MEGA-TEC, OOO MEGA ProfiLine, MemBrain, OOO MEGA Ukrajina) in such a way as to maximize mutual synergies and strengthen the position of the whole group on both domestic and foreign markets. Special emphasis is placed on the direction of innovation and technological progress which in particular should contribute to further development of its subsidiary MemBrain. A team of highly qualified experts from the MEGA company is a long-term leader in membrane processes in the Czech Republic.

MEGA is a member of the European Membrane Society (EMS) and the International Desalination Association (IDA). Currently, we are becoming a highly respected company in the field of membrane processes in foreign markets. CEO of the MEGA company is the founder of electromembrane processes in the Czech Republic and at the same time the president of the Czech Membrane Platform (CZEMP). In 2007 he was awarded in a project which supports scientific and technical minds, Česká Hlava (Czech Head) Award, in the „Inventions“ category for research and development of ion-exchange membranes for membrane processes in environmental and process applications. So far, he has been effectively managing the company's operations and has been actively engaged in popularizing the field of membrane separation.

MEGA cooperates with many foreign institutions in the field of membrane processes, with which it participates in the solution of projects within the European Union. We have long-time cooperations with universities and professional institutions, namely the University of Chemical Technology in Prague, University of Pardubice, Institute of Macromolecular Chemistry, Technical University of Liberec, Technical University of Ostrava, Palacky University in Olomouc, and Research Center in Řež, with which we solve several projects together. We have rich experience in project management. We also cooperate with several major foreign companies as preferred partners (Veolia Water, GEA, Novasep, TetraPak, SPX and PPG).

The offer of solving problems of individual clients is a complex collection of all necessary steps and measures. These include condition monitoring, optimal solution offer, final technology delivery, process monitoring, guarantees and responsibility for the proposed solution. Our customers are large industrial companies, both domestic and foreign, small and medium-sized businesses, as well as cities and municipalities. We also provide all the necessary legal advice to all customers. MEGA a.s. is in all respects a company that provides comprehensive services with a responsible approach to the customer. An important moment in the existence of MEGA a.s. is the decision to verify its own customer approach. This was a challenging requirement, after which the company was granted certificates according to standards ČSN EN ISO 9001, ČSN EN ISO 14001, ČSN OHSAS 18001, which were further steps to gradually build up the market position. MEGA processes and products have been successfully certified not only according to ISO standards but also according to GOST-R for the Russian Federation.

DETAILS OF THE SHARE CAPITAL

The registered capital of the company amounts to 62,328,000 CZK. Share capital consists of 62,328 shares with a nominal value of 1 000 CZK. Forms of company shares: registered shares. The shares are in book-entry form and are not registered.

The sole shareholder of the company is První prokratický holding a.s. with 100% of the share capital, it owns 62,328 shares with a nominal value of 1 000 CZK.

EQUITY INVESTMENTS

Company	Field of activity	%	Capital
MEGA-TEC s.r.o. Bystřice nad Pernštejnem	delivery of technologies in the field of water treatment and electrophoresis	51	100 000 CZK
OOO MEGA ProfiLine Podolsk, Russia	supply of technological units based on membrane processes especially for food (dairy)	99	30 000 RUB
MemBrain s.r.o. Stráž pod Ralskem	solving research and development projects and efficient transfer research results into industrial practice	100	1 000 000 CZK
TOV MEGA-Ukraine Kiev, Ukraine	supply of technological units based on membrane processes especially for food (dairy)	100	249 999,95 UAH

BANK LOANS AND BONDS

Creditor	Type of contract
UniCredit Bank CZ a.s.	Multi-purpose credit line, investment loan, Treasury line
ČSOB a.s.	Multi-purpose credit line, Treasury line
ERSTE a.s.	Multi-purpose credit line

The year 2019 was again the year when there was no change of the banks we cooperate. MEGA a.s. has contracts with banking financial institutes to cover operating financing, contracts for commitment limits, to issue bank guarantees and a contract to cover the purchase of investments in machinery and equipment. The funds for operational financing are focused on short-term fluctuations in cash flow. The drawdown of the investment loan for the purchase of fixed assets in the form of machinery and equipment has not been increased and was successfully paid off in 2019. For all types of financing provided, MEGA a.s. fulfils the set conditions. For 2020, we do not expect any changes in cooperation with banks again due to the satisfaction with the services provided. Due to lower financial demands, commercial insurance against payment insolvency is gradually being favoured – insurance companies EGAP, Credendo, Loyd's etc. The main reason for this change in management is the optimization of fees paid for banking services and especially the simplicity and speed of the services. The aim of cooperation with banks is that any possible future changes in the financing structure are controlled by a structure that will increase the value of the company. The main banks with which we cooperated in 2019 were ČSOB, and UniCredit Bank Czech Republic and Slovakia a.s. We will continue to hold credit lines for commitment limits due to the provision of bank guarantees (contractual, performance etc.), in relation to customized reinsurance in the membrane program.

In 2019, cooperation with other banking institutions, in particular ERSTE Bank, continued in search for optimal conditions for financing projects abroad, not only in Europe but also in more complex territories from areas (Belarus, states of the RF, South Africa) where possible financing provides a competitive advantage for customers and supports the export of companies in the MEGA group. Negotiations with VÚB Bank and Commercial Bank are still ongoing - especially in connection with the financing of customers on the Russian and South Africa markets. In 2019, the financing of projects in Ukraine and Russia from our own resources continued - mainly to reduce competition and prevent its entry into these segments on the market - these projects were regularly repaid in 2019 and there were no payment delays. An exception is a project in the Russian Federation, where we have reached an agreement to extend the maturity of the provided financing from own resources.

Credit and financial policy are strictly followed within the group and its following is the principle for maintaining the financial stability of MEGA company and also of the entire group. The approved long-term strategy allows MEGA to finance subsidiaries if necessary with both long-term investment and short-term loans. For companies in the group, we implement automated financing using banking tools - cash pooling. The set price conditions are under competitive but commercial conditions. It is the duty of all companies within the MEGA group to maintain good relations with the above-mentioned banking institutions, to fulfil the terms and conditions of credit agreements and other agreements in a due and timely manner so that future financing is not endangered in case of need. MEGA strives to find an optimal financing structure that does not compromise stability while increasing business efficiency and effectiveness.

FINANCIAL INDICATORS

	2014	2015	2016	2017	2018	2019
Total sales	719 608	748 461	611 532	629 536	721 727	789 232
Sales of own products and services	330 775	356 056	223 459	226 899	301 105	376 229
Sales of goods	388 834	392 404	388 073	402 637	420 622	413 003
ROA	16,22 %	8,38 %	5,72 %	3,96 %	8,45 %	8,09 %
ROE	19,83 %	9,63 %	6,19 %	5,58 %	9,58 %	9,17 %
EBITDA	114 653	75 218	51 283	41 209	84 498	81 592
EBIT	101 614	55 102	38 695	29 480	71 676	69 483
Liquidity common	2,66	3,27	3,92	4,28	2,90	3,25
Indebtedness	33 %	29 %	24 %	25 %	29 %	23,5 %
Number of employees (annual average)	139	141	135	134	139	152

The year-on-year comparison of financial indicators shows an increase in total sales of more than 9% compared to 2018. In the area of goods, there was a year-on-year decrease of almost 2% (partial effect of the strengthening of CZK / EUR). Revenues from its own products and services increased by more than 20% compared to 2018. This was partly due to orders moving from 2018 at the customer's request and delays in the implementation deadline, especially in the area of commissioning. A significant effect on the increase in sales was the acquisition of a large order for the supply of our main technologies to European customers, but also the sale of a larger share of our technologies in the Russian Federation.

In year-on-year terms, performance indicators (ROA, ROE) were maintained at 8-9%. There were several effects on maintaining profitability: the implementation of the core project within the supply of MEGA's own products, the change in the ratio of sales in favor of aftersales and spare parts. Our effort is to continue to invest considerable resources in the field of research and development, and to maintain competitiveness in the future in connection with the newly established strategy 2019-2023. In 2019, we invested approximately 3% of the company's total sales in the area of R&D.

Financial stability of the company is presented by the indicators of current liquidity, degree of indebtedness and interest coverage. In the year-on-year comparison, the stability of these values was maintained. Current liquidity is above the recommended level of 1.5 and overall, within the evaluated periods, it shows year-on-year growth up to the current value of 3.25. Despite the partial reduction in economic efficiency, we are still trying to keep a high share of cash in order to reduce risks in the event of a further decline in the economic cycle. This is proving to be the right strategy that guarantees long-term stability and the opportunity to invest resources in research and development.

Another limitation of the risk was to keep the level of indebtedness and reduce it below 25%. The company does not have a significant problem with the recovery of its receivables, despite some long-term outstanding receivables, and even this is positively reflected in the positive cash flow of the company. The company is only dealing with a larger receivable from a company in the Russian Federation. So far, an amicable solution has been sought, and a medium-term repayment schedule has been agreed. The company fulfils all its obligations on time. The level of indebtedness has stabilized, despite the low cost of external resources - the reason is to maintain the financial stability of the company and prepare for any further investments following innovations. One of the reasons for the use of external credit resources (especially operational financing) is the optimization of exchange rate changes, balanced by natural hedging for 2019 exceeding to 2021. Again, there was a partial exchange rate hedging at about 15–25 % of the company's annual sales.

SIGNIFICANT FACTS AFTER THE BALANCE SHEET DATE

A significant event was the decision at the end of 2019 to establish a new Water Management Division in the parent company MEGA on 1 January 2020, followed by the recruitment of eight new employees. The division will focus on a new segment in the field of water treatment and will complement technologies related to membrane processes. The reason is the implementation of larger and strategic projects and entry into new segments.

Another significant event was the decision of the sole shareholder První pokratický holding a.s. on the payment of a one-off dividend.

All the above facts have always been discussed with the banking institutions providing the financing and have also been agreed in advance.

INFORMATION ON ACQUISITION OF OWN SHARES

The company did not acquire any own shares in 2019 and has no own shares.

INFORMATION REQUIRED UNDER SPECIFIC REGULATIONS

The company is not obligated to disclose in accordance with special regulations any further information.

COMPANY MANAGEMENT

THE MONISTIC MANAGEMENT SYSTEM OF THE COMPANY WAS CHANGED IN 2019 TO A DUALISTIC SYSTEM BASED ON THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The internal structure of MEGA a.s. is based on the so-called dualistic system in the sense of the provisions of § 435 et seq. Act No. 90/2012 Coll., Act on Business Corporations. Until 3 June 2019, the company's statutory body was the Statutory Director, who was also the only member of the Board of Directors. Subsequently, there was a change to a management system performed by experienced management at the level of the Board of Directors. At the same time, a supervisory board was established, which functions mainly as a supervisory body. Luboš Novák, PhD., is the Chairman of the Board of Directors, its other members are Ing. Jiří Truhlář, Ing. Miroslav Matuška and Ing. Zbyněk Petráš.

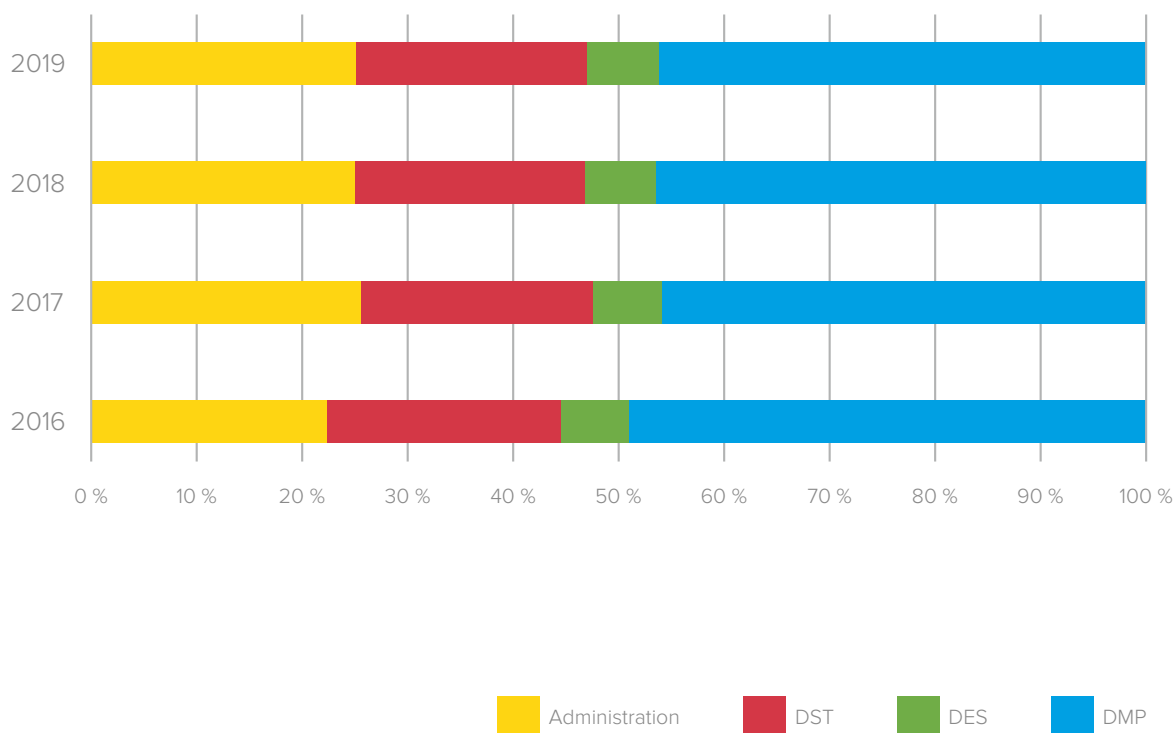
CAPITAL STRUCTURE OF THE MEGA GROUP

During 2019, the capital structure of the MEGA group also changed. Shares of MEGA a.s. were transferred to the newly established company První pokratický holding a.s., which is currently the sole shareholder of MEGA. The 100% owner of První pokratický holding is Luboš Novák, PhD. The MEGA Group has also expanded with the newly established MEGA nemovitostní s.r.o.



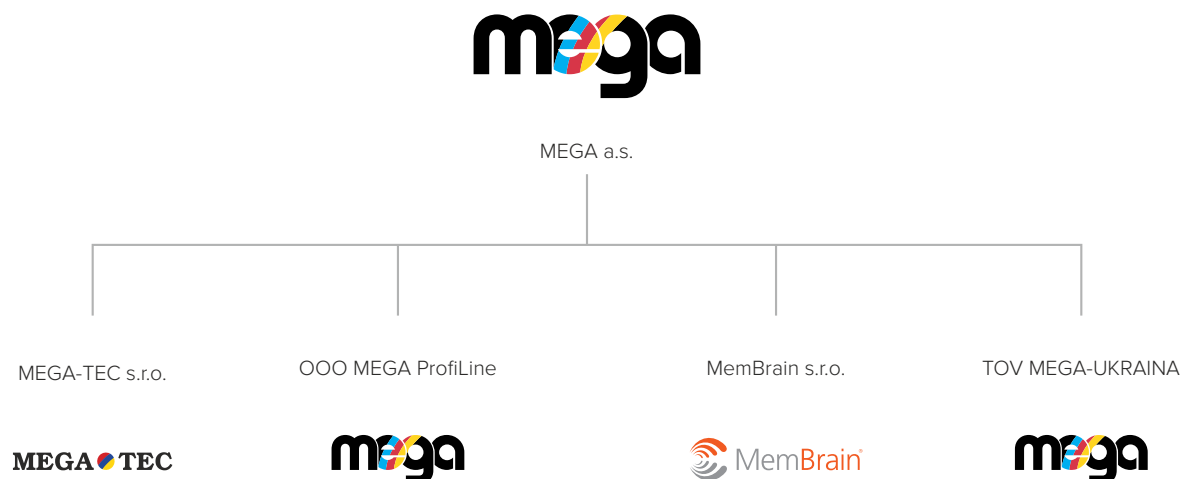
DEVELOPMENT OF THE NUMBER OF EMPLOYEES

The share of divisions in the total number of employees reflects the strategy of the company. The company aims to meet the criteria of strategic growth and at the same time to meet the conditions of SMEs as a group. For this reason, there is a change in the structure of employees in individual divisions with an increase in the number of employees in the division of membrane processes. The company focuses more on the number of employees to increase intensive rather than extensive. In 2019, MEGA was also facing a problem of high employment rate in the Czech Republic, especially in the field of qualified employees. Of course, this is also seen in pressure on wage growth, even though the MEGA group is among employers with higher average wages than is the standard in the Liberec Region. In the long term, job positions in the division of membrane processes are not fully filled. In 2019, some services were partially transferred to the administration centres due to centralization, especially in the financial area. Due to the complexity of the selection of quality employees, we do not expect any changes in the state of unemployment in the Czech Republic in 2020.



THE ORGANIZATIONAL STRUCTURE

DIVISION BY COMPANIES



DIVIDED BY PROGRAM

Membrane program

- MEGA a.s.
Division of Membrane Processes
- MEGA a.s.
Division of Water Management
- MemBrain s.r.o.
- OOO MEGA ProfiLine
- TOV MEGA-UKRAINA
- MEGA-TEC s.r.o.

Surface treatment

- MEGA a.s.
Division of Surface Treatment
- MEGA-TEC s.r.o.

Ecological services

- MEGA a.s.
Division of Ecological Services

THE ORGANIZATIONAL STRUCTURE OF THE COMPANY MEGA A.S

- Board of Directors
 - Supervisory Board
 - Company management
 - Division of Surface Treatment
 - Division of Ecological Services
 - Division of Membrane Processes
 - Division of Water Management

WASTEWATER DISCHARGE BY ELECTRODIALYSIS

FOR COST REDUCTION OF YOUR ZLD PROCESS

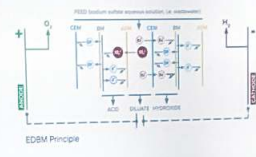
€ 0.35
2.85 kWh/m³
WASTE CONCENTRATIONS
(100 - 200 g/l - 1000 g/l)

€ 0.53
4.4 kWh/m³
WASTEWATER AND THERMAL
CONCENTRATIONS (100 - 1000 g/l - 10000 g/l)

NaCl TDS 3g/l to solids

NON-THERMAL ZLD PROCESS

ACID AND CAUSTIC RECOVERY FROM WASTE SALTS FOR LOCAL USE



- Elimination of thermal treatment
- Reduction of wastewater
- Production of acid/caustic for re-use
- Environmental friendly technology
- Reduction of wastewater plant operating expenditures

MEGA'S ELECTRODIALYSIS BIPOLAR MEMBRANES FOR INDUSTRIAL USE

- Unique low-cost membranes
- High feed water limits for total hardness
- Increased mechanical strength
- Long life-time
- Modules for reduced footprint

ELECTRODIALYSIS WITH INTENSIVE FLOW

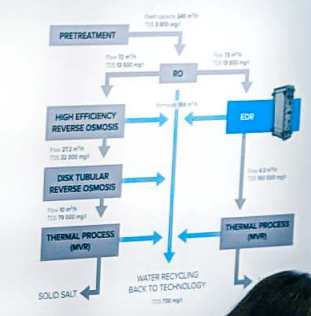
THE FUTURE OF ELECTRODIALYSIS

- Up to 40 % higher performance compared to the existing state-of-the-art stacks
- Reduction of downtime for EDR technology
- Up to 30 % layout reduction for EDR systems
- Minimized internal or external leakages
- Cost reduction
- Robust design

ED TECHNOLOGY FOR SALINITY WATER TREATMENT APPLICATIONS

- RO brine concentration
- Pre-concentration before ZLD applications
- Wastewater recovery

ZERO LIQUID DISCHARGE CASE STUDY



OPEX COMPARISON



COMPANY OBJECTIVES AND STRATEGY

Objectives of individual fields of activity are described in the following chapters.

The basic and long-term goal is to increase the efficiency of the business in all areas, further expand activities abroad, expand the product portfolio, improve individual financial indicators through comparative analyzes with similar domestic and foreign companies and reduce financial dependence on banking institutions.

Great emphasis, as in the previous period, is dedicated towards HR policy and social program to stabilize employees. Efforts to supplement the motivational components for employees and gain the position of a sought-after employer in the region.

Fulfilment of the approved strategy for 2019–2023 to respond more flexibly to possible positive and negative market effects. In 2018, a new strategy for the years 2019–2023 was completed and approved. 2019 was the first year of this strategy.



MEGA EDR-II/250 electrodialysis stacks

DIVISION OF MEMBRANE PROCESSES (DMP)

The business activities of the division are mainly focused on deliveries outside the Czech Republic. The division of membrane processes provides customers with sophisticated solutions based on electromembrane processes, especially in the water and dairy segments and special applications. In last years there has also been a significant share of the aftersales segment in the division's total sales. The business activity of the division is worldwide and is provided by its own subsidiaries (Russian Federation, Ukraine, Belarus) and through an agent network (India, Sub-Saharan Africa, Spain, China, Argentina and others), and it also cooperate with strategic business partners in the delivery of combined technology solutions. During 2019, the agent network was expanded to include other territories.

Deliveries from the portfolio of MEGA a.s. have been presented at various exhibitions around the world.

WATER TREATMENT

Within the segment, several projects with a high potential are elaborated.

IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2019

A total of 13 projects were obtained:

- 9 projects for the production of ultrapure water, using EDI
- 4 projects for water treatment using membrane and electromembrane processes

Territorial distribution of acquired projects:

- 3 projects in Russian-speaking countries
- 5 projects in Europe
- 5 projects outside Europe

DAIRY INDUSTRY

In the dairy segment, prices of commodities, which are benefiting from MEGA technologies, increased, peaking in 1Q 2019. After this prices dropped slightly, then stabilized and then rose again. This was reflected in the investment activity of manufacturers, especially for reworking specific inputs.

IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2019

A total of 7 projects were obtained for the processing of various dairy streams using electromembrane processes.

Territorial distribution of acquired projects:

- 3 projects in Russian-speaking territories
- 4 projects in Europe

SPECIAL APPLICATIONS

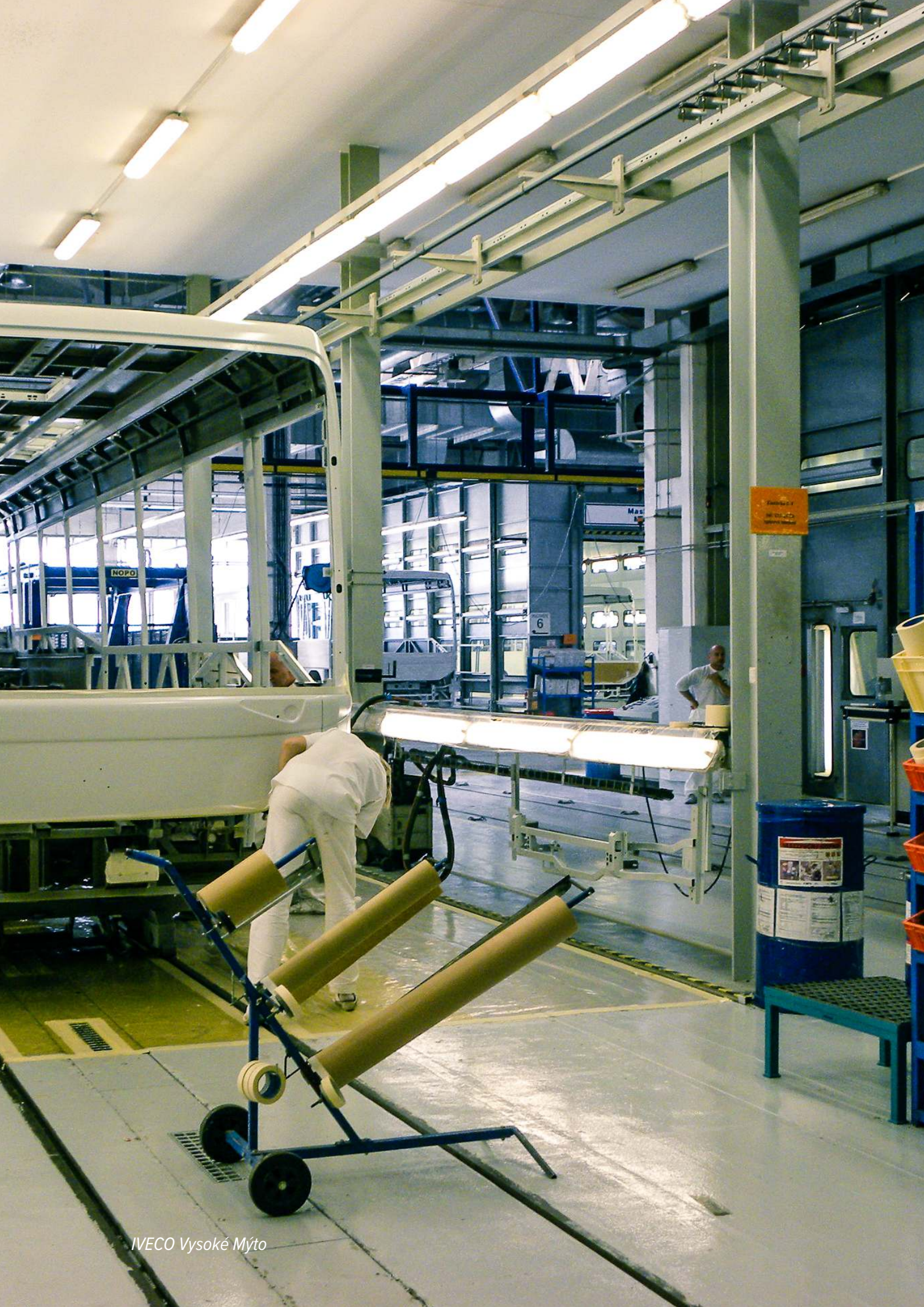
The business activities in this segment were mainly focused on using the knowledge acquired from the pilot and laboratory tests to offer specific products. Several interesting projects are being developed. In 2019, one project was acquired within this segment.

AFTERSALES

Business activity in the aftersales segment was stable throughout 2019.



Industrial dairy demineralization unit



DIVISION OF SURFACE TREATMENT (DST)

The Division of Surface Treatment followed up on the successful previous periods and in the evaluated year confirmed the turnover stability as well as making solid operating result in the industry. Industrial production and the overall economic situation in the Czech Republic were still in good shape, especially in key areas, ie in automotive and related productions of transport, construction, mechanization and agricultural machinery. That is, in fields with high demands on the surface protection of products, the quality of the coating systems used and the complexity of the service provided by the supplier. That is, in the target group of our current and potential customers and partners. Thanks to the product portfolio of our partner and global paint manufacturer, PPG, many years of experience and know-how in the field, we can meet these requirements, maintain and expand the industrial clientele in the Czech and Slovak Republic. We also appropriately use the positive synergies of the services provided with the supply and servicing of cathaphoretic paint shop equipment by the subsidiary MEGA-TEC and the chemical-analytical department MemBrain. Thanks to this, we can provide our Czech and Slovak industrial customers with an extremely comfortable "full package service" from a single source. All this forms the essence of the success so far, and a solid perspective of the field for the coming years.

PLAN FOR 2019 AND ITS IMPLEMENTATION

Despite some pessimistic news from Germany and expectations of a decline in industrial production, economic stability in the Czech market was maintained, and there was certainly no significant economic downturn. Thanks to this, the field exceeded the planned turnover and the creation of EBIT. Most clients maintained the volume of their production. This was especially true for subcontractors of automotive manufacturers (VW ŠKODA, ...), but also for heavy transport equipment, such as the largest customer of classic liquid paints, the German company F.X. Meiller Slaný, manufacturer of truck bodies. Agricultural engineering has been a very stable and important field for many years. We have been cooperating for a long time with the largest European subcontractor in the agriculture segment, Agrostroj Pelhřimov, where we found a way to further expand our supplies and service for a new set of paint shops with the assumption of interesting turnover growth in the coming years. One of the largest European manufacturers of intercity buses, the company IVECO CR in Vysoké Mýto, remains our fundamental and constantly growing customer, where we provide highly developed outsourcing of the entire set of paint shops and accompanying surface treatment operations. In the evaluated year, we also expanded our activities to the area of servicing other auxiliary operations. From the originally additional supplies of powder paints, we managed to build a separate branch with a solid turnover and economic result. A very positive result of the period is the acquisition of two more new promising customers in the field of cathaphoresis.

Furthermore, the cooperation with our R&D subsidiary MemBrain is successfully expanding. The jointly created system of regular analytical control of cathaphoresis baths, tests and presentations of new modern painting systems as well as the solution of specific requirements in the field of "troubleshooting" is an important support for good and mutually beneficial cooperation with most of our customers. It significantly strengthens the professional level and promptness of our crisis and preventive service.

For selected customers, the joint service for surface treatment operations with the subsidiary MEGA-TEC s.r.o. continued successfully, ie ensuring comprehensive responsibility for the overall operation of paint shops. For many operators is this a preferred system of cooperation and it is also our advantage.

Among the negative results and facts of the year, it is necessary to include a price increase in inputs, both from PPG and internal, especially labor costs. Unfortunately, the development of prices of basic materials for the production of paints in the last 2-3 years has seen a relatively significant increase, to which manufacturers have responded by raising prices. It should be noted that they reacted quite individually. In our case, we had to accept an increase of a few percentage points. The long-term unfavorable situation on the job market, or rather the lack of professional staff, resulted in further pressure on wages and bonuses for employees, which our customers also do not accept during price negotiations. They themselves are in a similar situation. However, the personnel situation at the division is relatively stable and maintains the necessary growth in the number and expertise of its own employees.

OUTLOOK FOR 2020

Over the past year, it was possible to record forecasts of the expected slowdown, perhaps even a drop in production, which more or less did not occur in 2019. For the coming period, we expect a certain decline in industrial production, especially in the automotive industry. We also adapted to this the plan for sales and profit-making. On the other hand, the beginning of cooperation with two new customers, one in Slovakia, the other in the Czech Republic, as well as the announced increase in production of approx. 2–3 long-term customers will have a positive effect. Following a price agreement with PPG, we have a guaranteed status quo for at least one year. An unpleasant, albeit objective, factor for us is the currently strengthening of the CZK exchange rate against the EURO, and thus the actual reduction in CZK profitability. Despite all these negatives, the industry should maintain solid economic indicators at approximately the level of 2019.

NEW AND IMPORTANT REFERENCES

KV Final, Kuřivody, Czech Republic – automotive
TATRAVAGONKA, Poprad, Slovakia – freight wagons
AGROSTROJ Pelhřimov, Czech Republic – agricultural machinery, parts of trucks and special machinery
ECOS, Vysoké Mýto, Czech Republic – production of bus subassemblies
KEREX, Michalovce, Slovakia – an important manufacturer of transport containers
MATADOR, Vráble, Slovakia – automotive parts
TATRA TRUCK a.s., Kopřivnice, Czech Republic – heavy trucks
BENTELER I, II, III, Stráž n. Nisou, Chrastava, Rumburk, Czech Republic – specialised drivetrain parts
KARSIT Jaroměř, Czech Republic – car seat frames and other parts for the automotive industry
BRANO Group Hradec nad Moravicí, Czech Republic – automotive parts VW GROUP, TOYOTA, ...
FRITZMEIER Vyškov, Czech Republic – Agriculture and construction machinery production
THERMAL TREND, Starovičky, Czech Republic – Europe's fourth-largest bathroom radiator manufacturer
HITACHI, Žatec, Czech Republic – shock absorbers
BWI Cheb, Czech Republic – production of shock absorbers

OUTSOURCING – COMPLEX SERVICE

IVECO Czech Republic, Vysoké Mýto – production of buses
F. X. MEILLER Slaný, Czech Republic – truck bodies, tippers
KYB Manufacturing Pardubice, Czech Republic – shock absorbers for cars
FUTABA CZ Havlíčkův Brod, Czech Republic – car parts TPCA, SUZUKI
KORADO Česká Třebová, Czech Republic – radiators



Ostramo industrial premises

DIVISION OF ECOLOGICAL SERVICES (DES)

In the “supervision” segment, there was a significant increase in turnover compared to previous years. Supervisions for the Ministry of Finance continued at several locations, the most significant of which were Magnetron Kroměříž and Fosfa Břeclav. In 2020, supervisory work for the Ministry of Finance of the Czech Republic will continue on smaller contracts and for the Ministry of Defense on a significant contract at Čáslav Airport.

In the “Research and Development Projects” segment in 2019, DES researched within the Competence Center “NANOBIOWAT - Environmentally friendly nanotechnologies and biotechnologies for soil water treatment. The project deals with advanced technologies of contaminant removal focusing on hazardous organic substances such as endocrine disruptors. The project was completed in December 2019. In 2017, TACR supported 2 new projects with deadline in 2020. The first one (RealControl) is designed in cooperation with the Technical University of Liberec and deals with smart on-line management of our patented remediation technologies. The second new research project is the Sammwap project. It is a development of a contactless monitoring system for groundwater and sewerage systems, solved in cooperation with universities in Ostrava and Olomouc. In both cases, there is a shift from previous DES research projects focused on the development of remediation technologies to the currently supported goals of Industry 4.0.

The results of R&D projects are gradually put into practice. This is mainly the implementation of patents (owner MEGA, TUL) granted in 2014 and 2017 and patent (owner UPOL) granted in 2015 within the project DIFBAR (beneficiary MEGA grant) covering the use of composites based on micro and nanoparticles of pure iron. In 2019, DES focused on delivering special remediation work involving in-situ chemical reductions. Active orders were Hluk near Uherský Brod, Chemopetrol Litvínov, Zurzach (Switzerland), Mars Svratka, Metro Blansko. Other sites are being prepared for 2020.

In the segment “Environmental projects - revitalization and reclamation”, in 2019 there were several smaller contracts connected mainly with the possibility of drawing subsidies from the Operational Programme Environment. The contracts were approached in a comprehensive way, ie from the preparation of project documentation, through the preparation of an application for a subsidy to the final implementation and overall administration of the project. Important projects include a rural arboretum in Polevsko, a natural garden at the Šluknov Kindergarten, and the renovation of a multi-purpose sports field at the primary school in the village of Dřevčice.

In the "Environmental Services" segment, several smaller orders were executed in 2019. The main order was the launch of the National Inventory of contaminated sites for the Ministry of the Environment of the Czech Republic. MEGA a.s. provides inventory in the Karlovy Vary, Ústí nad Labem and Liberec regions. The “Risk Analysis of Kortan a.s. Hradec nad Nisou ” has been completed. These were technically demanding projects with a high share of expert work.

The most important contract for the years 2019 to 2022 is the rehabilitation of the location Srní u České Lípy. In 2019, all legislative requirements were prepared and a bioaugmentation area was built. The extraction of contaminated soils and the preparation of remediation technology for the photooxidation of contaminated waters were also started.

REPORT ON RELATIONS

REPORT ON RELATIONS BETWEEN THE CONTROLLING PERSON AND THE CONTROLLED PERSON AND BETWEEN THE CONTROLLED PERSON AND PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON.

SECTION I – STRUCTURE RELATIONS

Controlled Person

MEGA a.s.

IČ 44567146, Registered office: Drahobejlova 1452/54, 19000 Praha

Registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry 9113 Represented by a statutory director Luboš Novák, PhD

(Hereinafter the controlled person)

Controlling Person

Since 1. 1. 2019 till 11. 11. 2019

Luboš Novák, PhD,

born 6. 9. 1947, address: Českokamenická 3117, 470 01 Česká Lípa

Since 11. 11. 2019 till 31. 12. 2019

První pokratický holding a.s.

ID: 07756895, Registered office: Drahobejlova 1452/54, Libeň, 190 00 Praha 9

Registered in the Commercial Register maintained by the Municipal Court in Prague under file No. B 24082

The sole shareholder of the controlling person:

Luboš Novák, PhD, born 6. 9. 1947, address: Českokamenická 3117, 470 01 Česká Lípa

(Hereinafter referred to as the controlling person)

Persons controlled by the same controlling person

MEGA-TEC s.r.o., ID 255 38 276, Registered office: Průmyslová 1415, 593 01 Bystřice nad Pernštejnem, Registered in the Commercial Register kept by the Regional Court in Brno, Section C, File 30723, on 3 March 1998

MEGA nemovitostní s.r.o., ID 07756933, Registered office: se sídlem Drahobejlova 1452/54, Libeň, 190 00 Praha 9, Registered in the Commercial Register kept by the Regional Court in Brno, Section C, File 307110

OOO MEGA ProfiLine, Reg. number: 1072635016277, Registered office: Bolshaja Serpuhovskaja 202B, 142.181 Podolsk, Russian Federation

MemBrain s.r.o., ID 286 76 092, Registered office: Pod Vinicí 87, 471 27 Stráž pod Ralskem, Registered at the Registration Court in Ústí nad Labem, Section C, File 26344, on 8 October 2008

TOV MEGA-UKRAINA

Registered office: Mechanizatorov 2, 03035 Kyiv, Ukraine, IČ 38419553

Structure relations

The controlling person owns 100 % of the shares of the controlled person.

The controlled person owns a 51 % interest in MEGA-TEC s.r.o.

The controlled person owns a 100 % interest in MEGA nemovitostní s.r.o.

Luboš Novák, PhD owns a 1 % interest in OOO MEGA ProfiLine and the controlled person owns a 99 % interest in OOO MEGA ProfiLine.

The controlled person owns a 100 % interest in MemBrain s.r.o.

The controlled person owns a 100 % interest in TOV MEGA-UKRAINA.

Control is carried out exclusively through general meetings or by the decision of the sole shareholder outside the general meeting in cases where only one shareholder is involved.

The controlled person does not have a specific role within the group.

SECTION II. — THE REFERENCE PERIOD

This report is prepared for the accounting period from 1 January 2019 to 31 December 2019.

SECTION III. — OVERVIEW OF MEETINGS EXCEEDING 10 % OF THE OWN CAPITAL OF THE CONTROLLED PERSON

Such meetings were not held in the decisive period at the instigation or in the interest of controlling persons.

SECTION IV. — OVERVIEW OF MUTUAL CONTRACTS

An overview of contracts concluded between the controlled person and entities controlled by the same controlling person in the reference period is in Annex 1 to this Report.

SECTION V. — ASSESSMENT OF RELATIONSHIP BETWEEN CONTROLLED AND CONTROLLING PERSONS

In the reference period, the controlling person did not conduct any legal acts towards the controlled person and no contracts were concluded between them that would cause harm to the controlled person. It is therefore not appropriate to settle the damage under § 71 and 72 of the Business Corporations Act.

The relations between the controlling person and the controlled person or between the controlled person and persons controlled by the same controlling person do not entail any particular disadvantages or risks for the controlled person. The advantage of relations between the controlled person and persons controlled by the same controlling person is the possibility of mutual sharing of resources and capacities following applicable legislation and founding legal acts of persons.

SECTION VI. — CONCLUSION

This report was prepared by the statutory body of the controlled person.

Given that the controlled person is obliged by law to prepare an annual report, this report will be accompanied by an annual report as its integral part.

Stráž pod Ralskem on 25. July 2020

Luboš Novák, PhD, Chairman of the Board of MEGA a.s.

CONTACT INFORMATION

Company Name	MEGA a.s.
Registration	in the Commercial Register at the Municipal Court in Prague, Section B, Entry 9113
Headquarters	Drahobejlova 1452/54, 190 00 Praha 9 – Vysočany
Statutory representative	Luboš Novák, PhD, Chairman of the Board
Phone	+420 487 888 111
Fax	+420 487 888 102
E-mail	info@mega.cz
ID / VAT	44567146 / Cz699005394
Bankers	UniCredit Bank Czech Republic a.s., Na Příkopě 20, 111 21 Praha 1
Account number	318881-004/2700
ID databox	ui6cfzk
Website	www.mega.cz

DETACHED WORKPLACES, BRANCHES AND SUBSIDIARIES OF MEGA A.S

Stráž pod Ralskem

Pod Vinicí 87, 471 27 Stráž pod Ralskem

tel.: +420 487 888 111, 100, fax: +420 478 888 102, e-mail: info@mega.cz

Bystřice nad Pernštejnem

Průmyslová 1415, 593 01 Bystřice nad Pernštejnem

tel.: +420 566 550 925, fax: +420 566 550 898, e-mail: dpu@mega.cz

IVECO Czech Republic, a.s., (KAROSA) Vysoké Mýto

Dobrovského 74/II., 566 03 Vysoké Mýto

tel.: +420 465 452 960, fax: +420 465 452 961, e-mail: karosa@mega.cz

Hodonín

Velkomoravská 87, průmyslový areál č.p. 3543, 695 01 Hodonín

tel./fax: 518 390 263, e-mail: sklad.hodonin@mega.cz

Pardubice

Náměstí Čs. legií 565, 530 09 Pardubice, Zelené Předměstí

Trnava – office for Slovakia

Pekárska 11, 917 01 Trnava, Slovenská republika

Tel./fax: +421 910 913 298, e-mail: lackovic@mega.cz

SUBSIDIARIES OF MEGA A.S

MEGA-TEC s.r.o., Průmyslová 1415, 593 01 Bystřice nad Pernštejnem, kral@megatec.cz

OOO MEGA ProfiLine, ul. Bolshaja Serpuhovskaja 202B, 142.181 Podolsk, Russian Federation,
tel.: +7 495 739 82 02, e-mail: info@mpline.ru

MemBrain s.r.o., Pod Vinicí 87, 471 27 Stráž pod Ralskem, info.membrain@membrain.cz

TOV MEGA-UKRAINA, Kyjev, ul. Mekhanizatorov 2, tel.: +38 099 452 52 52, e-mail: natalia@mpline.ru

Annual report MEGA a.s. 2019

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Electronic publishing only.



PŘÍLOHA Č. 1 -

PŘEHLED VZÁJEMNÝCH SMLUV MEZI OSOBOU OVLÁDANOU A OSOBOU OVLÁDAJÍCÍ
A MEZI OSOBOU OVLÁDANOU A OSOBAMI OVLÁDANÝMI STEJNOU OVLÁDAJÍCÍ OSOBOU

Číslo	Druhá smluvní strana	Předmět smlouvy		
Číslo	Smluvní strana I.	Smluvní strana II.	Předmět smlouvy	Datum uzavření
SI18104	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	3.1.2019
SI18105	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	3.1.2019
SI18106	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	7.1.2019
SJ19002	MEGA a.s.	MemBrain s.r.o.	Smlouva o budoucí smlouvě o úvěru	14.1.2019
SI19006	MEGA a.s.	OOO MEGA ProfiLine	Prodej výstavního svazku na výstavu	25.1.2019
SI19007	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	1.2.2019
SI19009	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	4.2.2019
SI19012	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	15.2.2019
SO19014	MEGA a.s.	MemBrain s.r.o.	Smlouva o dílo	15.2.2019
SODB19007	MemBrain s.r.o.	OOO MEGA ProfiLine	Smlouva o prodeji membránových folií	25.2.2019
SI19017	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	1.3.2019
SI17034/01	MEGA a.s.	MemBrain s.r.o.	Dodatek č. 1 - prodloužení platnosti smlouvy	18.3.2019
SI19021	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.3.2019
SI19022	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.3.2019
SJ18002/02	MEGA a.s.	MemBrain s.r.o.	Dodatek č. 2 k smlouvě o pilotních testech	25.3.2019
SI14056/04	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 4 - změna platnosti smlouvy	25.3.2019
SI14056/05	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 5- změna údajů o smluvních stranách	25.3.2019
SI16008/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - Změna platnosti smlouvy	25.3.2019
SI16008/02	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 2 - Změna údajů o smluvních stranách	25.3.2019
SI19021/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - změna platebních podmínek	1.4.2019
SI19022/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - změna platebních podmínek	1.4.2019
SI18037/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - prodloužení platnosti smlouvy	2.4.2019
SI19029	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	16.4.2019
SI19021/02	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 2 - změna platebních podmínek	17.4.2019
SI19022/02	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 2 - změna platebních podmínek	17.4.2019
SI19035	MEGA a.s.	MemBrain s.r.o.	Smlouva o nájmu dopravního prostředku	30.4.2019

SI19040	MEGA a.s.	MemBrain s.r.o.	Smlouva o nájmu dopravního prostředku	22.5.2019
SO19045	MEGA a.s.	Ing. Luboš Novák, CSc.	Smlouva o výkonu funkce člena představenstva	3.6.2019
SI19032	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	5.6.2019
SJ18002/03	MEGA a.s.	MemBrain s.r.o.	Dodatek č. 3 k smlouvě o pilotních testech	14.6.2019
SI19042	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.6.2019
SI19043	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.6.2019
SI19048	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.6.2019
SI19050	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	18.6.2019
SO19058	MEGA a.s.	MemBrain s.r.o.	Smlouva o účasti na projektu	9.7.2019
SO19059	MEGA a.s.	MemBrain s.r.o.	Smlouva o účasti na projektu	9.7.2019
SO19068	MEGA a.s.	MemBrain s.r.o.	Smlouva o spolupráci na řešení projektu	22.8.2019
SI19065	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	29.8.2019
SI19069	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	16.9.2019
SI19074	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	23.9.2019
SO19079	MEGA a.s.	OOO MEGA ProfiLine	Pomoc MPL při zprovoznění jednotek	23.9.2019
SI19077	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	9.10.2019
SO19092	MEGA a.s.	OOO MEGA ProfiLine	Dohoda o spolupráci na projektu	15.10.2019
SI19076	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	17.10.2019
SI19076/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - změna celního skladu	18.10.2019
SI19078	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	22.10.2019
SI18096/01	MEGA a.s.	OOO MEGA ProfiLine	Dodatek č. 1 - změna splatnosti ceny a platnosti smlouvy	23.10.2019
SI19081	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	7.11.2019
SODB19034	MemBrain s.r.o.	OOO MEGA ProfiLine	Smlouva o prodeji modulu elektrodialýzy	20.11.2019
SI19096	MEGA a.s.	OOO MEGA ProfiLine	Smlouva o dodávce náhradních dílů	5.12.2019
SO19139	MEGA a.s.	MemBrain s.r.o.	Smlouva o převodu know-how EDIF	15.11.2019
SO19140	MEGA a.s.	MemBrain s.r.o.	Smlouva o převodu know-how GLYKOLY	15.11.2019
SO19132	MEGA a.s.	Ing. Luboš Novák, CSc.	Smlouva o převodu obchodního podílu v MEGA ProfiLine	19.12.2019
SJ19078	MEGA a.s.	MemBrain s.r.o.	Dohoda o výkonu spoluvlastnických práv EDIF	20.12.2019
SJ19079	MEGA a.s.	MemBrain s.r.o.	Dohoda o výkonu spoluvlastnických práv GLYKOLY	20.12.2019