

# ANNUAL REPORT

## 2020



mega

# INDEX

|   |    |
|---|----|
| FOREWORD  | 3  |
| VISION AND MISSION  | 4  |
| COMPANY PROFILE   | 6  |
| DETAILS OF THE SHARE CAPITAL  | 8  |
| BANK LOANS AND BONDS  | 9  |
| FINANCIAL INDICATORS  | 11 |
| COMPANY MANAGEMENT  | 13 |
| CAPITAL STRUCTURE OF THE MEGA GROUP   | 13 |
| DEVELOPMENT OF THE NUMBER OF EMPLOYEES  | 15 |
| THE ORGANIZATIONAL STRUCTURE  | 16 |
| COMPANY OBJECTIVES AND STRATEGY   | 18 |
| DIVISION OF MEMBRANE PROCESSES (DMP)  | 20 |
| DIVISION OF SURFACE TREATMENT (DST)   | 23 |
| DIVISION OF ECOLOGICAL SERVICES (DES)   | 27 |
| DIVISION OF WATER MANAGEMENT (DWT)  | 29 |
| REPORT ON RELATIONS   | 30 |
| CONTACT INFORMATION   | 33 |
| ANNEX 1   | 36 |
| — AN OVERVIEW OF CONTRACTS CONCLUDED BETWEEN THE CONTROLLED PERSON AND ENTITIES CONTROLLED BY THE SAME CONTROLLING PERSON |    |

## FOREWORD

Dear friends, in terms of the 2019-2023 strategy, we can say that in 2019-2020 we coped with the required tasks with dignity, although 2020 has already been significantly marked by the pandemic situation worldwide. That this situation harms the economy of all countries is clear.

I think that 2021 will be a very critical year in our strategy and we must do everything we can to make up for any fluctuations in some activities in 2022–2023. In terms of meeting the goals, there is no need to worry about the surface treatment activities (DST, MEGA-TEC) where I dare say even now, that the overall results will be met by 2023. The teamwork of the entire team is bearing fruit and is a guarantee for the long-term stability of this activity.

The activity related to water management and the technologies, including membrane technologies, applied in its solution is very important. Here, the basic task is to prepare projects for 2021, but especially for 2022, so that this sector becomes a very important pillar of our long-term prosperity. I am confident that we will accomplish this task.

In the field of membrane technologies, integration between business and R&D activities needs to be further enhanced. Of course, the complications of travel and the impossibility of frequent face-to-face communication with customers complicates in many cases the implementation and conclusion of new contracts.

We are not alone in this and we have to deal with it. Diversifying our activities is the basis for our group-wide stability.

Division of ecological services is confirming its assumptions and I am confident that it will successfully cope with the requirements of 2019–2023 despite the significant personnel weakening caused by the sudden retirement of the Division's Director.

In conclusion, I would like to say that we will meet the challenges of the 2023 strategy and demonstrate that our team spirit can meet the challenges and pitfalls of the current global situation.

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.

## THE CORNERSTONES TO ACHIEVE THE VISION

### 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.



*Headquarters and manufacturing facilities of MEGA in the 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, a group was formed under the leadership of Luboš Novák, PhD., the current chairman of the company's board of directors 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 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.

Offering solutions to the problems of individual clients is a comprehensive set 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 domestic and foreign companies, small and medium-sized businesses, as well as cities and municipalities. It goes without saying that we also provide all customers with the necessary legislative advice. MEGA 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 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        |
|--|--|-----|----------------|
| <b>MEGA-TEC s.r.o.</b><br>Bystřice nad Pernštejnem | delivery of technologies in the field of water treatment and electrophoresis                               | 51  | 100 000 CZK    |
| <b>OOO MEGA ProfiLine</b><br>Podolsk, Russia       | supply of technological units based on membrane processes especially for food (dairy)                      | 99  | 30 000 RUB     |
| <b>MemBrain s.r.o.</b><br>Stráž pod Ralskem        | solving research and development projects and efficient transfer research results into industrial practice | 100 | 1 000 000 CZK  |
| <b>TOV MEGA-UKRAINA</b><br>Kyjev, 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 2020 was again the year when there was no change of the banks we cooperate. MEGA 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 aimed at purchases of fixed assets in the form of machinery and equipment was terminated in 2019 and the loan was repaid - we expect long-term loans in the future only for strategic investments. For all types of financing provided, MEGA fulfils the set conditions. For 2021, we do not expect any changes in cooperation with banks again due to the satisfaction with the services provided. However, we see a different approach to securing receivables from customers. Due to lower financial demands, commercial insurance against payment insolvency is gradually being preferred – 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 2020 were ČSOB, and UniCredit Bank Czech Republic and Slovakia. We will continue to hold credit lines for commitment limits due to the provision of bank guarantees (contractual, performance etc.), concerning customized reinsurance in the membrane program.

In 2020, cooperation was established with other banking institutions - in particular ERSTE bank - to seek optimal conditions for financing projects abroad not only in Europe, but also in more complex territories such as Belarus, the Russian Federation and South Africa, where potential financing provides a competitive advantage for customers and supports exports of MEGA Group companies. In addition, negotiations are still ongoing with VÚB Bank and KB - especially concerning customer financing in the Russian and South African markets. In 2020, the financing of projects in Ukraine and Russia continued from own resources - mainly to limit competition and prevent its entry into these market segments - these projects were for the most part regularly repaid in 2020 and there were no delays in payment. The exception is the project in the Russian Federation, where we have reached an agreement to extend the maturity of the equity financing provided. This loan provided is also regularly repaid and should be fully repaid in 2021.

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 jeopardize stability and at the same time increases the efficiency and effectiveness of the business. For the above reasons, we are gradually centralizing financial management from the parent company.

## FINANCIAL INDICATORS

|  | 2015    | 2016    | 2017    | 2018    | 2019    | 2020    |
|--|---------|---------|---------|---------|---------|---------|
| <b>Total sales</b> [thousands of CZK]                  | 748 461 | 611 532 | 629 536 | 721 727 | 789 232 | 798 876 |
| <b>Sales of own products and services</b> [th. of CZK] | 356 056 | 223 459 | 226 899 | 301 105 | 376 229 | 416 757 |
| <b>Sales of goods</b> [thousands of CZK]               | 392 404 | 388 073 | 402 637 | 420 622 | 413 003 | 382 120 |
| <b>ROA</b>   | 8,38 %  | 5,72 %  | 3,96 %  | 8,45 %  | 8,09 %  | 13,18 % |
| <b>ROE</b>   | 9,63 %  | 6,19 %  | 5,58 %  | 9,58 %  | 9,17 %  | 15,09 % |
| <b>EBITDA</b>  | 75 218  | 51 283  | 41 209  | 84 498  | 81 592  | 119 477 |
| <b>EBIT</b>  | 55 102  | 38 695  | 29 480  | 71 676  | 69 483  | 106 128 |
| <b>Liquidity common</b>                                | 3,27    | 3,92    | 4,28    | 2,90    | 3,25    | 3,39    |
| <b>Indebtedness</b>                                    | 29 %    | 24 %    | 25 %    | 29 %    | 23,5 %  | 21,84 % |
| <b>Number of employees</b> (annual average)            | 141     | 135     | 134     | 139     | 152     | 177     |

The year-on-year comparison of financial indicators shows an increase in total revenue of more than 1% compared to 2019, which we consider a success given the unexpected situation (Covid-19 pandemic). In the area of goods, there was a year-on-year decrease of 8% percent year-on-year (partly due to the strengthening of CZK / EUR, but especially outages due to the lockdown, which could not be replenished). Compared to 2019, revenues from own products and services increased again by more than 10% year-on-year. This was partly due to orders carried over from 2019 at the customer requests and delays in the delivery date, particularly in the commissioning area. The increase in sales was significantly influenced by the acquisition of a large order for the supply of our main technologies to European customers, and the inclusion of sales in the newly established water treatment division with the implementation of a contract in the Czech Republic for a major customer.

In year-on-year terms, performance indicators (ROA, ROE) increased by 13-15%. 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 and the delivery to the Segment Water, including the implementation of an order in a new segment. Our effort is to continue to invest considerable resources in the field of research and development, and to maintain competitiveness in the future period following the newly defined strategy 2019-2023. For the year 2020, we invested more than 3% of the company's total sales in R&D from our own resources.

The financial stability of the company is expressed by the ratios of current liquidity, debt ratio and interest coverage. These values were stable in the year-on-year comparison. The current liquidity is above the recommended threshold of 1.5 and, overall, it shows a year-on-year increase to the current value of 3.39 over the assessment periods. However, we expect the liquidity ratio to gradually decrease following the payment of retained dividends to the company's owner. Nevertheless, in part, we are still trying to maintain a high cash ratio for risk mitigation reasons in the event of a further downturn in the economic cycle, despite the reduction in economic efficiency. This has proven to be the right strategy in the long term, ensuring long-term stability and the ability to invest in research and development.

Another limitation of the risk was to keep the level of indebtedness, and even reduce it below 21%. 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, but this is gradually being repaid. We expect it to be paid in full in 2021. 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 debt level has stabilized, despite the low cost of external funds. However, we expect to be able to gradually draw on long-term foreign funds in connection with the expected strategic investments.

The main reason for the use of external credit sources in 2020 (especially for operational financing) is to optimize exchange rate changes, balanced by natural hedging. Once again, a partial exchange rate hedge of approximately 15-25% of the company's annual revenues has been established for the period until 2022.

We are monitoring the global situation with Covid-19 and its impact on the company's financial health. We are taking measures to mitigate any negative impacts (cost-saving measures, changes in the structure of operations, expansion of cooperation with holding companies, etc.).

#### 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 8 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 to pay another one-off dividend for 2020.

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 2020 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 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.

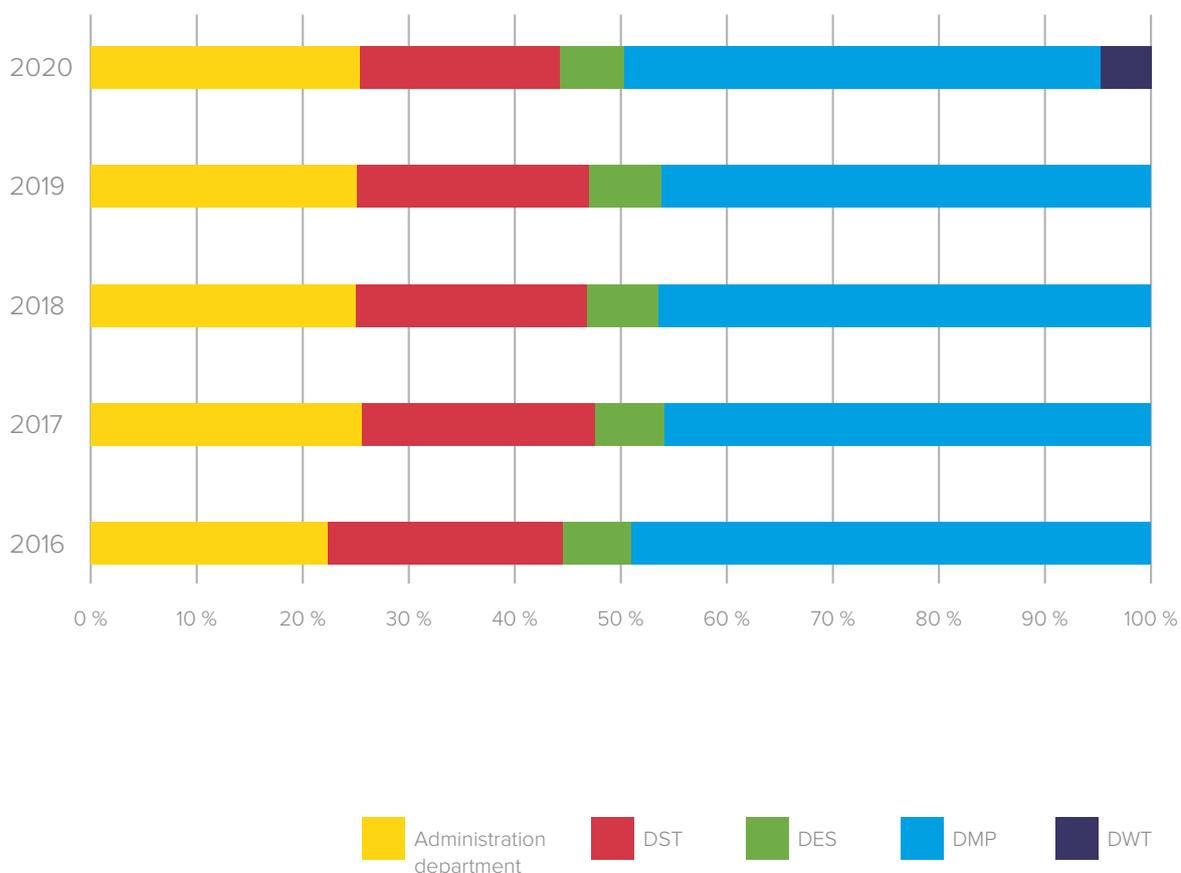
## CAPITAL STRUCTURE OF THE MEGA GROUP

There was no significant change in the capital structure of the MEGA Group during 2020. The shares of MEGA were already transferred in 2019 to the newly established company První pokratický holding, which is currently the sole shareholder of MEGA. The 100% owner of První pokratický holding is Luboš Novák, PhD. The MEGA Group has also grown by the newly established companies MEGA nemovitostní and NCVV.



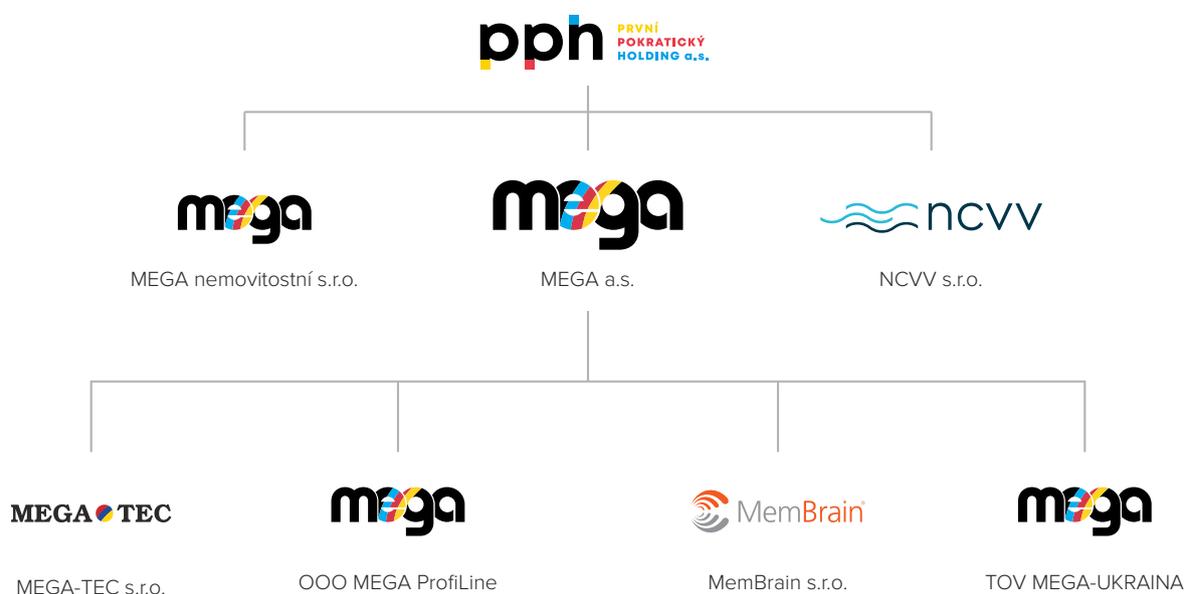
## DEVELOPMENT OF THE NUMBER OF EMPLOYEES

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 2020, 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 the standard in the Liberec region. In the long term, job positions in the division of membrane processes are not fully filled. In the context of the complexity of recruiting quality employees, we do not expect any changes in the unemployment situation in the whole country in 2021.



# THE ORGANIZATIONAL STRUCTURE

## DIVIDED 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.
- NCVV 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



*Industrial demineralization unit by MEGA*

# 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, broaden 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.

Implementing the approved new strategy for 2019-2023 with the goal to respond more flexibly to potential market developments, both positive and negative. A new strategy for 2019–2023 was completed and approved in 2018.



Electrolysers MEGA EDR-II/250

## 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 recent years, the aftersales segment has also contributed significantly to the division's total sales. The business activity of the division is global and is conducted through its own offices (Russian Federation, Ukraine, Belarus) and through an agent network that continues to be gradually expanded. Furthermore, the division cooperates with strategic business partners in the delivery of combined technology solutions. Overall, 2020 was marked by the spread of Covid-19 disease and the cessation of virtually all face-to-face communication with customers, which entails business risks, particularly in the future.

The presentation of MEGA's products and technologies was transferred almost exclusively to the online environment.

### WATER TREATMENT

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

#### IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2020

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:

- 6 projects in Europe
- 7 projects outside Europe

### DAIRY INDUSTRY

In the dairy segment, there was a decline in commodity prices, particularly in the 2Q of 2020, where MEGA technologies have a major contribution. Subsequently, there was a gradual recovery in prices during the rest of 2020. This was reflected in the investment activity of producers.

#### IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2020

A total of 4 projects were obtained for the processing of various dairy streams using electromembrane processes.

Territorial distribution of acquired projects:

- 2 projects in Europe
- 2 projects outside 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 2020, one project was acquired within this segment.

## AFTERSALES

Business activity in the aftersales segment was stable throughout 2020, with sales in this segment gradually increasing.



*Industrial electro dialysis unit*



## DIVISION OF SURFACE TREATMENT (DST/DPÚ)

The Division of Surface Treatment has experienced steady growth in previous years. Of course, this was significantly influenced by objective factors, i.e. well-functioning industrial production and the generally stable economic situation in the Czech Republic. Already in 2019, the first predictions of an expected stagnation or decline in economic performance were coming. The department's plan partially took this into account, but the unprecedented restrictions in the context of the coronavirus pandemic and their impact on the total stoppage of production in the most important sectors, especially automotive and the production of transport, construction, mechanization and agricultural technology, were beyond any estimates. In spite of this objective situation, the Division of Surface Treatment managed to generate an exceptionally good profit and exceed the adjusted economic parameters of the industry. A significant share of this is due to the long-term build portfolio of our customers and our comprehensive services, which target manufacturers with high demands on surface treatment, the quality of the coating systems used and the technical level of cooperation. Thanks to the wide portfolio of manufactured paints and other products of our partner and global paint manufacturer, PPG, as well as many years of experience and know-how in the field, we are able to meet the requirements and maintain a demanding industrial clientele in the Czech and Slovak Republics even in such difficult times. A large part of this is also due to the similar level of experience and potential of our subsidiary MEGA-TEC, with which we are able to offer and implement a true "full package service" to those interested in such complex cooperation. The same applies to the above-standard chemical-analytical services thanks to the very close cooperation with our second subsidiary MemBrain.

All of this has enabled us to deal with honor with probably the most difficult year in our industry and not only in its field but probably in the state economy in general.

### PLAN FOR 2020 AND ITS IMPLEMENTATION

Although the expectations for the year under review were not as optimistic as for the previous, it ought to be mentioned, record period, we did not expect on a dramatic decline in industrial production and turnover of our customers. For most of them, the estimate aimed for stagnation, and in a few specific cases for a year-on-year decline in production, but only in the order of few percentage points. Even the initial months did not indicate a significant deviation from this assumption. However, in March there were major cutbacks, resulting in a severe lockdown in crucial manufacturing sectors. Production was shut down in automotive, i.e. their subcontractors, and by important customers such as our major client IVECO CR. Fortunately, the situation was not quite the same for agricultural production. In general, in Slovakia, even in a period of more than a month of non-production, we still had a small turnover and maintained a "stand-by" state for the expected resumption of industrial production. We did not encounter major problems internally, the problems were mostly in our limited ability to secure the supply of materials from PPG, as most of their plants were located in hard-hit locations in Italy, France, Austria and Germany. Since the end of May, there has been a noticeable recovery in production at most companies, although not to the original, but already solid level.

One of our largest and most complex customers, IVECO CR Vysoké Mýto, for which we provide highly developed outsourcing of the entire set of paint shops and accompanying surface treatment operations, finally made up for the loss thanks to extraordinary measures and closed the year-end on the de facto original plan. For us, this meant setting the conditions for regular working Saturdays and reducing the risk of infection for our workers, which was ultimately successful. ICR remains a key customer for the period ahead and we believe that the challenging period we have managed together in this way has strengthened our relationship.

Even most of our remaining clients managed to partially make up for the objectively caused shortfall. In the automotive sector, this was certainly thanks to the still commercially successful ŠKODA Auto. Agricultural machinery production was not affected by the fluctuations thanks to the subsidy policy. The biggest concerns were at the truck manufacturer F.X. Meiller Slaný, but even here the overall turnover did not fall significantly, probably also due to the transfer of orders from other European locations.

We successfully continued to expand synergic collaboration with our R&D subsidiary MemBrain for our core clientele and to address their internal challenges and objectives. The jointly developed and continuously optimized system of regular analytical control of cataphoresis baths, tests and presentations of new advanced coating systems as well as the solution of specific requirements in the field of troubleshooting, is an important support for a good and mutually beneficial cooperation with the majority of our customers. It significantly strengthens the professional level and promptness of our crisis and preventive service.

The joint service for the paint shop operations with the subsidiary MEGA-TEC, went well, i.e. ensuring comprehensive responsibility for the overall operation and quality of production, and surface treatment. This is a rather unique system in our territory, which is the preferred level of cooperation for many operators and is our business advantage.

Among the negative facts of the year, in addition to covid restrictions, is the persistent and long-term problematic situation on the job market, or the lack of virtually any professional staff. The personnel situation in the division is relatively stable. We are maintaining the necessary growth in the number and expertise of our own employees, but unfortunately it is difficult to find new team members. In addition, we are also affected by the staffing problems of our customers. Fluctuation in many operator positions is high, resulting in a weaker level of expertise and lower experience in operating paint shop equipment, with potential negative impacts on quality and solutions beyond the normal level.

## OUTLOOK FOR 2021

Unfortunately, we will not get rid of the pandemic measures in 2021 either, this was clear when the updated DST plan was drawn up. In discussions with customers before the end of the year under review, some expectations and forecasts for production in 2021 emerged. With few exceptions, a decline in turnover in the range of 5-10% compared to the previous period is expected. In our sub-plan, we also anticipate a certain decline in sales volume, but we do not expect a dramatic drop due to new customers or their projects. In particular, the initially rather negative scenarios in IVECO CR are not confirmed. While our joint

business will not quite meet the numbers of the last record years, it should also not fall sharply (i.e. in the order of tens of percent or more).

Another important fact is that we have no signals from key customers that they are facing insurmountable financial problems due to pandemic restrictions and the general trend of economic slowdown. Price turbulence for some basic materials (organic solvents, iron...), which we have been dealing with indirectly and directly since the turn of the year, could become critical problems. Their development is completely unclear and unpredictable, as well as the potential impact on mechanical engineering industry and producers of coating systems, including PPG. On the positive side, there are 2–3 potential projects in progress and real business cases that could be gradually brought to a successful conclusion after there will no longer be any covid restrictions. Unless harsh negative scenarios occur, the industry should continue to maintain solid economic indicators, not dramatically far from 2020.

#### NEW AND IMPORTANT REFERENCES

KV Final Kuřívody — automotive

TATRAVAGONKA Poprad, SK — freight wagons

AGROSTROJ Pelhřimov — agricultural machinery, parts of trucks and special machinery

ECOS V. Mýto — production of bus subassemblies

KEREX, Michalovce, SK — an important manufacturer of transport containers

MATADOR Vráble, Slovensko — automotive parts

TATRA TRUCK a.s Kopřivnice — heavy trucks

BENTELER I, II, III - Stráž n. Nisou, Chratava, Rumburk — specialised drivetrain parts

KARSIT Jaroměř — car seat frames and other parts for the automotive industry

BRANO Group Hradec nad Moravicí — automotive parts VW GROUP, TOYOTA,...

FRITZMEIER Vyškov — Agriculture and construction machinery production

THERMAL-TREND Starovičky — Europe's fourth-largest bathroom radiator manufacturer

HITACHI Žatec - shock absorbers

BWI Cheb — production of shock absorbers

#### OUTSOURCING – COMPLEX SERVICE

IVECO Czech Republic, Vysoké Mýto — production of buses

F. X. MEILLER Slaný — truck bodies, tippers

KYB Manufacturing Pardubice — shock absorbers for cars

FUTABA CZ Havlíčkův Brod — car parts TPCA, SUZUKI

KORADO Česká Třebová — radiators



## DIVISION OF ECOLOGICAL SERVICES (DES)

In the "Supervision" segment, there was a decrease in turnover compared to previous years. Supervisions for the Ministry of Finance continued at the locations Ecoinvest Příbram, Magneton Kroměříž and Fosfa Břeclav. Furthermore, supervision was carried out for the Ministry of Defense on the contract of Čáslav Airport.

In the "Research and Development Projects" segment DES research activities in 2020 were carried out within two projects supported by TA CR, both of which have a period of implementation from 2018 to 2021. The first one (RealControl) is done in collaboration with the Technical University of Liberec, and deals with smart on-line management of our patented remediation technologies, and MEGA is the main beneficiary of the subsidy. The second is the Sammwap project, which is developing a contactless groundwater and sewer monitoring system in cooperation with the universities of Ostrava and Olomouc. In 2020, two new research projects have been prepared in cooperation with the Technical University of Liberec and Dekonta company, one focused on the possibility of extending our patented remediation technologies to a wider range of applications, even in normally inaccessible locations due to unsuitable geological subsoil. The second one is focused on the study of vertical stratification of inorganic contamination in the saturated zone and MEGA is again the main recipient of the subsidy. In this case, it is a study that is very important for remediation practice, and the Ministry of Environment has expressed interest in its results. In 2020, there was also a development project supported by a grant from the Liberec Region, which focused on the development of a real-time monitoring system for monitoring the stratification of water reservoirs associated with cyanobacterial overgrowth in the summer period.

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 the segment "Environmental projects - revitalization and reclamation", several contracts were implemented in 2020, mainly related to the possibility of drawing on subsidies. The contracts were approached comprehensively, i.e. from the preparation of project documentation through the preparation of the grant application to the final implementation and overall project administration. Some of the major contracts include the reconstruction of road greenery in the Frýdlant area, the revitalization of the school playground in the village of Dřevčice, the reconstruction of the garden at the Varnsdorf kindergarten or the construction of a sports complex in the village of Březhrad.

A number of significant contracts were executed in the "Environmental services" segment in 2020. The main contract was the remediation in Srní, more precisely the "Remediation of old ecological burden in the area contaminated by the historical wood impregnation plant in the area of the water source Česká Lípa - South", which runs from 2019 to 2023. The second major contract was the National Inventory of Contaminated Sites, which takes place in the period from 2019 to 2023. In addition, smaller projects were carried out in the form of special-purpose risk analyses, preparation of project documentation, expert opinions and monitoring. In all cases, these were technically demanding projects with a high proportion of expert work. At the end of 2020, a very demanding preparation of three contracts for expert remediation work with our patented electroreduction technology (owner MEGA, TUL) was underway.

## DIVISION OF WATER MANAGEMENT (DWT)

The Division of Water Management (DWT) was established on 1 January 2020 to complement the portfolio of the MEGA Group. It delivers modern environmental solutions for the economical use of water resources for municipalities, cities and industry. As an engineering and supply division, it covers a comprehensive range of services and equipment in the field of water treatment. By selecting the appropriate technology, it reduces the costs of water treatment and at the same time waste disposal, while meeting strict environmental standards. Using knowledge, experience and the right technology, DWT treats boiler, process, ultrapure, potable, waste and cooling water. It recycles water and treats condensate. It delivers the overall solution from technology design through the project (design) and engineering to its implementation, including the construction, electrical and HVAC parts. DWT is engaged in two main activities, namely water treatment for any segment and wastewater treatment (industrial, municipal, etc.). DWT's operations were affected by the Covid-19 pandemic in 2020. It affected the ability to communicate with existing and potential customers, personal contact and communication was reduced to an absolute minimum, which had a negative impact on DWT's business activities. The presentation of MEGA's products, activities and technologies was moved almost exclusively to the online environment.

### WATER TREATMENT SEGMENT

In this segment, 5 projects were implemented, both in the form of implementation, feasibility studies and equipment designs.

Another 10 are in the preparatory phase for implementation or in the phase of participation in tenders, of which 6 are outside the Czech Republic.

### WASTEWATER TREATMENT SEGMENT

In this segment, 2 projects have been carried out as part of technical studies.

There are 6 projects in the preparatory phase for implementation or in the phase of participation in a tender procedure, 3 of which are outside the Czech Republic.



# 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.

ID 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 the members of the Board of Directors. Each member of the Board of Directors is authorized to represent the company individually, unless the legal action is a legal transaction whose subject matter exceeds the value of CZK 15 million. The Chairman of the Board of Directors shall represent the Company in legal transactions whose subject matter exceeds the value of CZK 15 million.

(Hereinafter the controlled person)

### Controlling Person

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

### **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, ID 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 2020 to 31 December 2021.

## **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 31 March 2021

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,<br>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  |
| Email                    | 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 – kancelář pro SR**

Pekárska 11, 917 01 Trnava, Slovenská republika

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

### **Praha**

Drahobejlova 1452/54, Praha 9 – Vysočany – company headquarters

Plkovská 2934/1, Praha 9 – Horní Počernice, 193 00 – DWT until March 2021

Ke Klíčovu 191/9, Praha 9 – Vysočany, 190 00 – DWT from April 2021

## 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

MEGA a.s. 2020 Annual report

Published by MEGA a.s. in June 2021, photos and illustrations provided by company archive.

Published electronically.



## ANNEX 1

— AN OVERVIEW OF CONTRACTS CONCLUDED BETWEEN THE CONTROLLED PERSON AND ENTITIES  
CONTROLLED BY THE SAME CONTROLLING PERSON

| <b>Číslo</b> | <b>Smluvní strana I.</b> | <b>Smluvní strana II.</b>     | <b>Předmět smlouvy</b>  | <b>Datum uzavření</b> |
|--------------|--------------------------|-------------------------------|---|-----------------------|
| SO20015      | MEGA a.s.                | MemBrain s.r.o.               | SMLOUVA O ÚČASTI NA ŘEŠENÍ PROJEKTU   | 05.02.2020            |
| SO20045      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o využití výsledků výzkumu a vývoje projektu                        | 25.06.2020            |
| SO20084      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o využití výsledků výzkumu a vývoje projektu                        | 27.10.2020            |
| SO20106      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o převodu práv k know-how   | 01.12.2020            |
| SO20107      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o převodu znalostní báze k technickému řešení (know-how)            | 31.12.2020            |
| SO20024      | MEGA a.s.                | OOO MEGA ProfilLine           | Dohoda o spolupráci na projektu   | 13.03.2020            |
| SO20086      | MEGA a.s.                | OOO MEGA-UKRAINE              | Smlouva o zprostředkování   | 27.10.2020            |
| SI20067      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o nájmu dopravního prostředku                                       | 09.07.2020            |
| SI20083      | MEGA a.s.                | MemBrain s.r.o.               | Dodávka pitné vody a odvádění a čištění odpadních vod z chemické kanalizace | 21.10.2020            |
| SI20102      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o poskytování správních služeb                                      | 14.12.2020            |
| SJ14016/01   | MEGA a.s.                | MemBrain s.r.o.               | Změna splatnosti úvěru  | 14.10.2020            |
| SJ20009      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o úvěru   | 30.01.2020            |
| SJ20024      | MEGA a.s.                | MemBrain s.r.o.               | Smlouva o úvěru   | 07.04.2020            |
| SI20096      | MEGA a.s.                | První pokratický holding a.s. | Smlouva o podnájmu nebytových prostor                                       | 30.11.2020            |
| SI20097      | MEGA a.s.                | MEGA nemovitostní s.r.o.      | Smlouva o podnájmu nebytových prostor                                       | 30.11.2020            |
| SI20002      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 24.01.2020            |
| SI20002/01   | MEGA a.s.                | OOO MEGA ProfilLine           | Dodatek ke smlouvě  | 22.12.2020            |
| SI20003      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce marketingových materiálů                                  | 17.01.2020            |
| SI20013      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 14.04.2020            |
| SI20027      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 28.04.2020            |
| SI20027/01   | MEGA a.s.                | OOO MEGA ProfilLine           | Dodatek ke smlouvě  | 22.12.2020            |
| SI20028      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 28.04.2020            |
| SI20028/01   | MEGA a.s.                | OOO MEGA ProfilLine           | Dodatek ke smlouvě  | 22.12.2020            |
| SI20029      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 28.04.2020            |
| SI20032      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce náhradních dílů   | 20.05.2020            |
| SI20033      | MEGA a.s.                | OOO MEGA ProfilLine           | Smlouva o dodávce technologie   | 28.04.2020            |

|            |           |                    |                                   |            |
|------------|-----------|--------------------|-----------------------------------|------------|
| SI20033/01 | MEGA a.s. | OOO MEGA ProfiLine | Dodatek ke smlouvě                | 03.12.2020 |
| SI20044    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 17.06.2020 |
| SI20044/01 | MEGA a.s. | OOO MEGA ProfiLine | Dodatek ke smlouvě                | 22.12.2020 |
| SI20047    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 17.06.2020 |
| SI20047/01 | MEGA a.s. | OOO MEGA ProfiLine | Dodatek ke smlouvě                | 10.08.2020 |
| SI20048    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 17.06.2020 |
| SI20048/01 | MEGA a.s. | OOO MEGA ProfiLine | Dodatek ke smlouvě                | 22.12.2020 |
| SI20049    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce modulu          | 15.10.2020 |
| SI20052    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 14.07.2020 |
| SI20052/01 | MEGA a.s. | OOO MEGA ProfiLine | Dodatek ke smlouvě                | 22.12.2020 |
| SI20054    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 08.10.2020 |
| SI20091    | MEGA a.s. | OOO MEGA ProfiLine | Smlouva o dodávce náhradních dílů | 04.12.2020 |
| SI20035    | MEGA a.s. | OOO MEGA-UKRAINE   | Smlouva o dodávce náhradních dílů | 04.05.2020 |
| SJ20068    | MEGA a.s. | OOO MEGA-UKRAINE   | Smlouva o úvěru                   | 15.09.2020 |