

ANNUAL REPORT

2018



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FOREWORD

Dear friends, 2018 was an extremely successful year for us. The contracts received express our customers' confidence in our capabilities and confirm MEGA's significant position in the world markets.

Financial results exceeded our confidently set expectations - not only in 2018 but also in retrospect on the Strategy for 2014-2018. In the long term, it has been confirmed that the company focus on three different segments (membrane processes, surface treatment, environmental services) well diversifies risk and compensates for fluctuations of individual industries.

We managed to maintain a stable position in our traditional markets, but we also successfully penetrated new markets in spite of a very tough competitive environment. Again, I would like to mention that these achievements are not random but are the result of long-term and systematic work.

We do not stay in the past; constant research moves us forward. We are moving to the next strategic period with a clear vision and innovations prepared for each segment. So, we have the ideal technical background and at the same time, an experienced and reliable team to deal with everything that 2019 will prepare for us.



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 technology based on the utilization of electromembrane and integrated membrane processes with maximum emphasis on return utilization of raw materials due to implementation of waste-free technology and environmental protection.

VISION FOR SURFACE TREATMENT

To become the leader in cataphoresis and other modern electrocoating technology 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.

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 our 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 supply 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 (ionexchange membranes, distributors, membrane equipment manufactured within the manufacturing facilities of the company MEGA) and complete technologies for separation membrane 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's aim is to further develop its own activities and the activities of its subsidiaries (MEGA-TEC, OOO MEGA ProfiLine, MemBrain, OOO MEGA Ukraine) 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 a number of projects together. We have rich experience in project management. We also cooperate with a number of 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. It goes without saying that we also provide all the necessary legal advice to all customers. 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 ISO9001: 2009, ČSN EN ISO 14001: 2005, ČSN OHSAS 18001: 2008, 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. Five bulk certificates were released replacing individual shares as follows: one bulk certificate replacing 31,165 shares, one bulk certificate replacing 10,388 shares, three bulk certificates replacing 6,925 shares. The shares are in certificated form and are not registered.

The sole shareholder of the company is Luboš Novák, PhD. with 100% of the share capital, he 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	66	100 000 CZK
OOO MEGA ProfiLine Stavropol, Rusko	supply of technological units based on membrane processes especially for food (dairy)	57	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-UKRAINA Kyjev, Ukrajina	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 2018 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 for the purchase of fixed assets in the form of machinery and equipment has not been increased and is regularly repaid. For all types of financing provided, MEGA fulfils the set conditions. For 2019, 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, 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 2018 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.), in relation to customized reinsurance in the membrane program.

In 2018, cooperation with other banking institutions - ERSTE Bank and the Česká Exportní 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) where possible financing provides a competitive advantage for customers and supports the export of companies in the MEGA group. Negotiations with VÚB Bank and SBERBANK are still ongoing - especially in connection with the financing of customers on the Russian and South Africa markets. In 2018, 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 2018 and there were no payment delays.

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. For companies in the group, we realize automated financing using banking tools - cash pooling. It is the duty of all companies within the MEGA group to maintain good relations with the above-mentioned banking institutions, to fulfill 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

	2013	2014	2015	2016	2017	2018
Total sales	641 035	719 608	748 461	611 532	629 536	721 727
Sales of own products and services	294 144	330 775	356 056	223 459	226 899	301 105
Sales of goods	346 891	388 834	392 404	388 073	402 637	420 622
ROA	17,22 %	16,22 %	8,38 %	5,72 %	3,96 %	8,45 %
ROE	22,16 %	19,83 %	9,63 %	6,19 %	5,58 %	9,58 %
EBITDA	104 009	114 653	75 218	51 283	41 209	84 498
EBIT	92 975	101 614	55 102	38 695	29 480	71 676
Liquidity common	2,14	2,66	3,27	3,92	4,28	2,90
Indebtedness	38 %	33 %	29 %	24 %	25 %	29 %
Number of employees (annual average)	135	139	141	135	134	139

The year-on-year comparison of financial indicators shows the growth of total sales by more than 13 % compared to 2017. The area of goods shows year-on-year growth by more than 4 %. Sales from our own products and services increased by more than 25 % compared to 2017. This is partially caused by orders passing from 2017, due to the customer's request for a later date of commissioning - orders in Hungary. A major impact from increasing both sales and profitability has been to win a major contract to deliver our core technology to European customers.

In year-on-year terms, performance indicators (ROA, ROE) increased significantly at 40-50 %. There were several influences on profitability increase: realization of the main project within the delivery of own products of MEGA company, partial transfer of profit from 2017 (commented in AR 2017), where we proceeded in accordance with Czech GAAP and further implementation of significantly higher sales in the area of aftersales. Our aim is to continue investing considerable resources in the area of R&D and maintaining competitiveness in the future (2019-2023) in line with the newly established strategy.

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 shows a year-on-year growth up to the current value of 2.9. Despite a partial reduction in economic efficiency, we are still trying to increase our share of cash to reduce risks in the event of a further decline in the economic cycle.

Another limitation of the risk was to maintain the level of indebtedness, up to 30 %. For now, we do not have significant problems with debt collection, despite some long-term outstanding receivables, and this is positively reflected in the company's positive cash flow. The company addresses only a bigger asset to the company in BLR - for now, we are trying to reach an amicable solution – they already paid more than 50 % on the date of the FS. The company fulfills all its obligations on time. The level of debt has stabilized, despite the low cost of foreign sources - the reason is to maintain the company's financial stability and to prepare for any further induced investment following innovations. One of the reasons for the use of external credit resources (especially operating financing) is the optimization of exchange rate changes, balanced by natural hedging for 2018 and exceeding to 2019. Again, there was a partial exchange rate hedging of approximately 30 % of the company's annual sales.

SIGNIFICANT FACTS AFTER THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date.

INFORMATION ON ACQUISITION OF OWN SHARES

The company did not acquire any own shares in 2018 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.

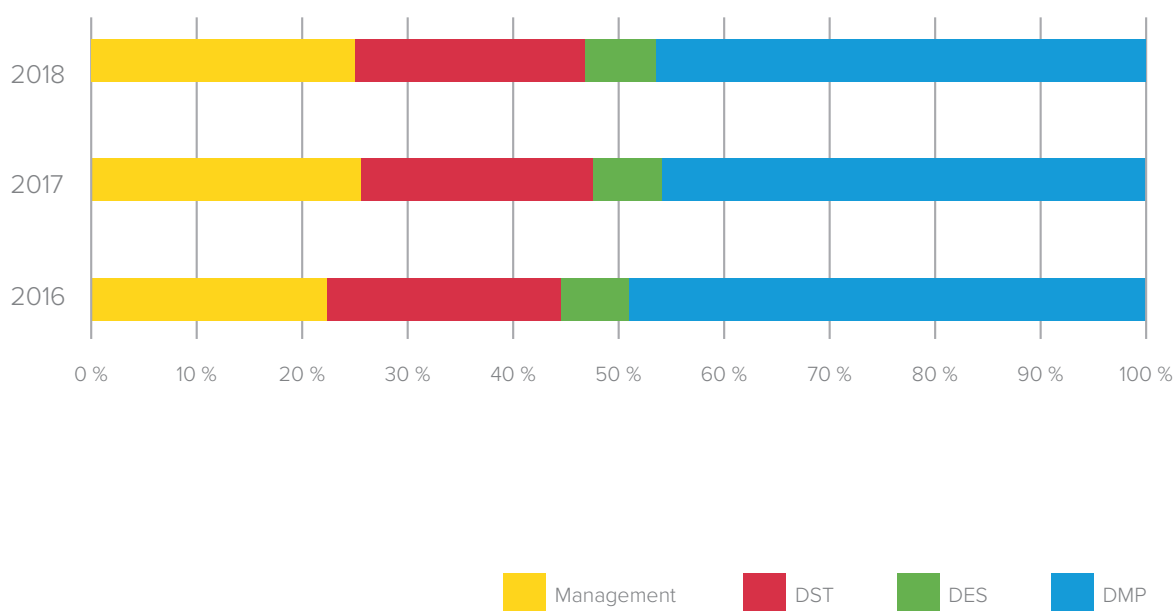
COMPANY MANAGEMENT

STATUTORY DIRECTOR AND THE ADMINISTRATIVE BOARD

The internal structure of MEGA is based on the monistic system under provision § 456 et seq. Act No. 90/2012 Coll., The Business Corporations Act. The company's statutory body is the statutory director. The Administrative Board then has a supervisory function and partly also an executive function when it determines the basic focus of the company's management. Ing. Luboš Novák, CSc. is the chairman (and also the only member) of the Administrative Board and is also the statutory director. He may also use the title of CEO in accordance with the Company's Articles of Association.

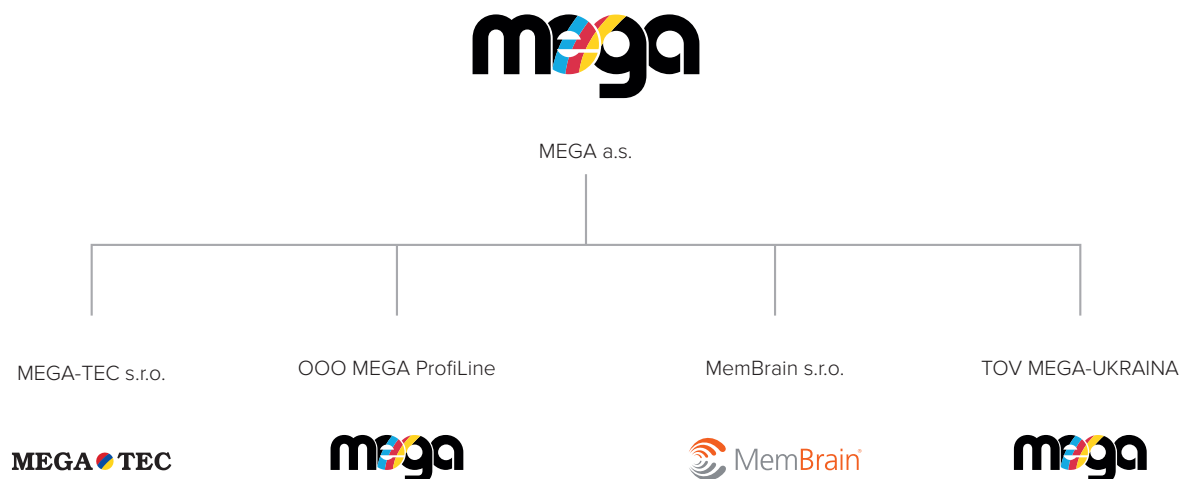
DEVELOPMENT OF THE NUMBER OF EMPLOYEES

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 employees to increase intensive rather than extensive growth. Currently, MEGA is 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 will be 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 2019.



THE ORGANIZATIONAL STRUCTURE

DIVIDED BY COMPANIES



DIVIDED BY PROGRAM

Membrane program

- MEGA a.s. - Division of Membrane Processes
- 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

- 110 Administrative Board
- 114 Statutory Director (CEO)
 - 100 Company management
 - 400 Division of Surface Treatments
 - 500 Division of Ecological Services
 - 900 Divize membránových procesů

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. 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 also cooperates with strategic business partners in the delivery of combined technology solutions GEA, Novasep, VWS and others). During 2018, the network of agents was expanded to include other territories such as Chile.

WATER TREATMENT

Within the segment, a number of potential projects for the application of electrodialysis are elaborated. Further references of this new product have been obtained for electrodeionization application.

IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2018

- Israeli customer, EDI incl. rectifiers
- Dutch customer, EDI incl. rectifiers
- Austrian customer, EDI incl. rectifiers
- Italian customer, EDI incl. rectifiers
- Indian customer, EDI incl. rectifiers
- Czech customer, EDI incl. rectifiers

DAIRY INDUSTRY

In the dairy segment, prices of commodities, which are benefiting from MEGA technologies, increased, peaking in about 3Q 2018, when prices dropped slightly and prices stabilized. This was reflected in the investment activity of manufacturers, especially for reworking specific inputs.

IMPLEMENTATION AND ACQUISITION OF NEW PROJECTS IN 2018

- Ukrainian customer, demineralization of casein whey
- Italian customer, demineralization of sweet whey
- Italian customer, demineralization of mozzarella whey
- Greek customer, demineralization of ricotta whey
- Russian customer, demineralization of sweet whey
- Russian customer, demineralization of sour whey
- Russian customer, demineralization of sweet and sour whey
- Danish customer, under CDA
- Several pilot tests were carried out on various customers in industrial scale

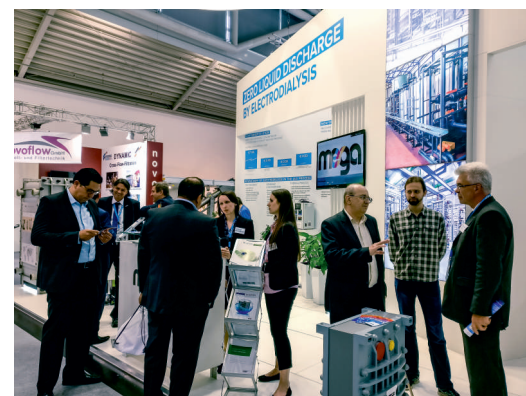
SPECIAL APPLICATIONS

The business activities in this segment were mainly focused on using the knowledge acquired from the pilot and laboratory tests to offer specific products.

- carrying out a pilot test on an industrial scale

AFTERSALES

Business activity in the aftersales segment was stable throughout 2018.



DIVISION OF SURFACE TREATMENT (DST)

The surface treatment is in the long term a stable and prosperous business of the MEGA company. Thanks to the very good economic situation of the Czech Republic, strong and stable automotive and related production of transport, construction and agricultural technology, DST achieved record turnover in the evaluated year. The generally high demand for basic raw materials, materials for surface treatment in the European zone, brought a negative development in the price level.

Our strategic partner, PPG, even came up twice with the price increase requirement. Despite difficult and tough negotiations, we managed to partially postpone the price increase in 2018 and keep it at an acceptable level. Unfortunately, this does not apply entirely for the new period. We entered the next year with higher purchase prices, and we are facing the task of finding an agreement with our customers to translate this increase into their acquisition cost. Unfortunately, the market situation is getting more competitive, and some suppliers are using cost growth to attack customers. However, thanks to our long-term experience in the field, utilization of the synergy with supplies and service of the subsidiary MEGA-TEC, we are able to comfortably meet the requirements of domestic industrial clientele especially in the field of cathaphoresis protection. Our outsourcing of surface treatment operations at IVECO CR, Vysoké Mýto, is extremely economically stable, both in terms of reference and experience. All this constitutes the essence of the past success and a solid perspective of the field for the coming years.

PLAN FOR 2018 AND ITS IMPLEMENTATION

The achieved turnover and creation of PHV division exceeded expectations. Most of our clients retained or increased their production. This was particularly true of subcontractors for fundamental automotive manufacturers (VW ŠKODA, ...). Similarly positive development was also at our biggest buyer of classic liquid paints, German company F.X. Meiller, Slaný, truck body manufacturer. Agricultural engineering has been a very stable and significantly growing field for many years. Thanks to our long-term cooperation with Agrostroj Pelhřimov, we have found agreement in further expanding of our supplies and services for a new large project and created good conditions for turnover growth in the following years. A particularly stable, growing and for us very important customer, is IVECO CR, one of Europe's largest intercity bus manufacturers. For the plant in Vysoké Mýto, we have been providing highly developed outsourcing of the whole set of paint shops and accompanying surface treatment operations for 18 years. For the following period, we agreed to expand our activities into another area of service and complementary plants. We maintained creditable results even in the more or less complementary powder paint supply industry.

For strategic customers, we offered and continued to benefit from the synergies of the activities of DST and the subsidiary MEGA-TEC. Among the most important partners are certainly IVECO CR, Japanese KYB Manufacturing, FUTABA CZ, and newly also ECOS Choceň, etc.

Collaboration with our research and development subsidiary, Membrain, has been successfully set up. The together developed system of regular analytical control of cataphoretic baths, tests and presentations of new state-of-the-art coating systems as well as solving specific problems in troubleshooting had significantly strengthened the professional level and promptness of our crisis and preventive service.

In addition to the prevalence of positive results, it is necessary to mention the negative aspects and impacts that the industry faced in the commented period. Apart from price turbulence, it is mainly the loss of a very interesting customer APP Nymburk. Generally unfavorable situation on the job market, or virtually any shortage of skilled workers, has resulted in high turnover among our clients. This results in an inadequate level of operation and operation of paint shops, high demands on extraordinary interventions, continuous training of new employees, etc. On the other hand, internally, the division is very stable in terms of personnel and maintains the necessary growth in the number and expertise of its own staff to manage this situation.

OUTLOOK FOR 2019

Already at the end of last year, it was possible to notice signals of expected slowdown or deceleration of production. In the automotive industry, specifically in car manufacturers, demand was expected to decline as well as the impact of conceptual changes towards electro-mobility.

So far, it seems that in our region, thanks to the business successes of ŠKODA AUTO, there are no significant and rapid downturns. Yet it is clear that there is a more difficult period ahead. The sales and profit generation plan has been partially adapted to this. We calculate the negative impact of the increase in the purchase price of paints, which we will only partially pass on to our customers. We lost an interesting customer, the pressure of competition is growing and there is practically no space for maintaining or increasing the margin. On the other hand, we succeeded in winning new customers, increasing the volume of cooperation with some strategic clients, albeit at the cost of the higher initial investment in the first painting baths, which will appear in the 2019 results. Highly stable and growing production in IVECO CR and its subcontractors can be expected. After PPG price pressures, we expect at least a year status quo. Of course, the objective factor is the appreciation of the CZK against the EUR and a de facto decrease in CZK profitability. In spite of all these negatives, the industry should maintain solid economic indicators, but they certainly will not catch up with the extraordinary result of 2018.

NEW AND IMPORTANT REFERENCES

ECOS, Vysoké Mýto, Czech Republic – production of bus subassemblies
KEREX, Michalovce, Slovakia – an important manufacturer of transport containers
AGROSTROJ Pelhřimov, Czech Republic – agricultural machinery, parts of trucks and special machinery
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
JANTAR Plzeň, Czech Republic – jobcoater ŠKODA Electric, Transportation Plzeň, FXM
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
KORADO Česká Třebová, Czech Republic – radiators
KYB Manufacturing Pardubice, Czech Republic – shock absorbers for cars
FUTABA CZ Havlíčkův Brod, Czech Republic – car parts TPCA, SUZUKI

DIVISION OF ECOLOGICAL SERVICES (DES)

In the “supervision” segment, there was a significant decrease 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 2019, 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 2018, DES carried out research 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 “Cleaning of landfill leachates by combined membrane technology using biological pre-treatment systems” was launched at the beginning of 2015. Inventory of all landfills in the Czech Republic was carried out in connection with their production of landfill leachates. In the technological part, possible procedures for the elimination of hazardous substances from landfill leachates were tested experimentally. In 2018 pilot tests were completed at selected locations and the project was completed in mid-2018. In 2017, TAČR supported two 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 system of contactless monitoring of groundwater and sewerage systems, solved in cooperation with universities in Ostrava and Olomouc. In both cases, a move away from earlier DES research projects on the development of remediation technologies to the currently supported Průmysl 4.0 (Industry 4.0) goals can be seen.

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 2018, 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 2019.

In the segment “Environmental projects - revitalization and reclamation”, in 2018 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 the revitalization of the Snědovice Castle garden, the restoration of landscape structures in the Chotovice municipality and the revitalization of the school playground in the Polevsko municipality.

In the segment “Environmental Services”, a number of smaller contracts were executed in 2018. The main contract was “Risk Analysis Kortan a.s. Hrádek nad Nisou”. These were technically demanding events with a high share of expert work. An important event was also the preparation of the remediation of the location Srní near Česká Lípa and several other contracts for 2019.

COMPANY OBJECTIVES AND STRATEGY

Objectives of individual fields of activity are described in the chapter **Main fields of activity**.

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 in order to stabilize employees. Efforts to supplement the motivational components for employees and gain the position of a sought-after employer in the region.

Fulfillment of the approved strategy for 2014–2018 to respond more flexibly to possible positive and negative market effects. The Strategy for 2019–2022 is under preparation.

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 Mncpl. Court in Prague, Section B, Entry 9113

Represented by a statutory director Luboš Novák, PhD

(Hereinafter the controlled person)

Controlling Person

Luboš Novák, PhD

Born 6. 9. 1947

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

OOO MEGA ProfilLine

Registered office: Dzeržinskovo 158, 355 003 Stavropol, Russian Federation

Reg. number: 1072635016277

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

OOO MEGA-UKRAINA

Registered office: Mechanizatorov 2, 03035 Kyjev, Ukrajina

ID 38419553

Structure relations

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

The controlled person owns a 66 % interest in MEGA-TEC s.r.o.

The controlling person owns a 43 % interest in OOO MEGA ProfiLine and the controlled person owns a 57 % 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 OOO MEGA-UKRAINA.

Control is carried out exclusively by means of 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 2018 to 31 December 2018.

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

In the reference period, a contract was concluded between the controlling person and the controlled person, on 3 June 2018, on the discharge of the function of the Board of Directors

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 in accordance with 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 28 March 2019

Luboš Novák, PhD

Statutory Director of MEGA a.s.

CONTACT INFORMATION

Company Name	MEGA a.s.
Registration	in the Commercial Register at the Mncpl. Court in Prague, Section B, Entry 9113
Headquarters	Drahobejlova 1452/54, 190 00 Praha 9 – Vysočany
Statutory representative	Luboš Novák, Csc., Chairman of the Board, statutory director
Phone	+420 487 888 111
Fax	+420 487 888 102
E-mail	info@mega.cz
ID / VAT	44567146 / Cz44567146
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 OFFICES OF MEGA

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

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

OOO MEGA ProfiLine, ul. Dzerzhinskogo, 158, 355.003 Stavropol, Ruská federace,
tel.: +7 8652 316 644, 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

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