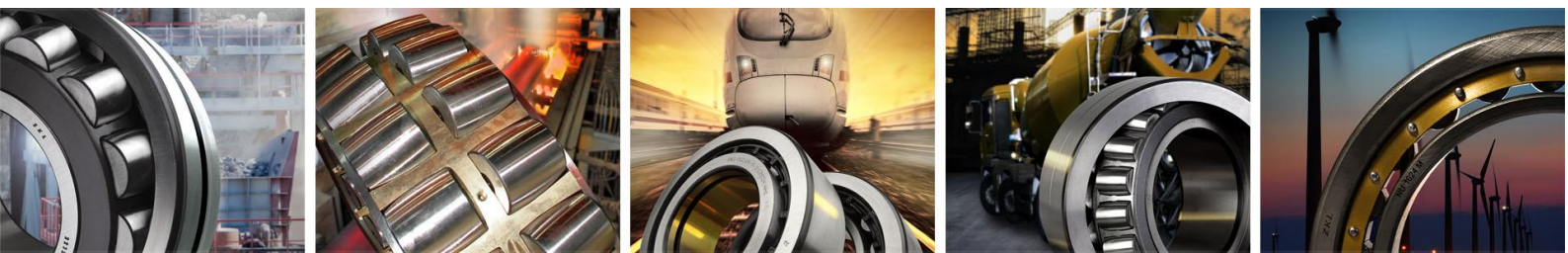




ZKL GROUP



ANNUAL REPORT

ZKL GROUP

2020

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About the company

ZKL Group is a result of the integration of the Czech bearing industry with over a seventy years' tradition providing research, development, manufacturing and sales of ZKL bearings. The establishment of the Group dates back to 1 July, 1999. Today, ZKL Group is the biggest manufacturer of large-scale spherical-roller, special and split bearings in Central Europe.

ZKL Group integrates two manufacturing plants in Brno and Klášterec nad Ohří, and also specialized joint stock companies ZKL - Výzkum a vývoj, a.s. (ZKL - Research and Development), and business company ZKL Bearings CZ, a.s. Thanks to our own research and development, ZKL is able to analyze the internal geometry of roller bearings, perform calculations of contact stress and improve the parameters of roller bearings of all types. Research and development also addresses the innovation process technical development projects and the extension of the product range.

ZKL has been a well-proven and reliable supplier holding certifications for a number of industrial enterprises. The manufactured range of both standard and special bearings of the ZKL brand fulfils the most demanding customer requirements in a wide field of individual industries, such as metallurgy, power engineering, heavy engineering, mining and processing of raw materials, automotive, transport, agriculture and many others.



ZKL Group - Brno

ZKL Bearings CZ, a.s.
ZKL Brno, a.s.
ZKL Výzkum a vývoj, a.s.
ZKL Tech Tools, a.s.
ZKL Reality, s.r.o.

Introductory word of CEO

Dear business partners,

I am glad to be able to present our results for 2020 again after a year and to present the plans for the next three-year period. We have had a challenging year obstructed by restrictions resulting from the Czech government's measures against the COVID-19 epidemic. I am aware that the consequences of various restrictions are unpleasant for us and will not improve our mood. That is why I would like to focus on the positive aspects in my report.

Based on the achieved results of the ZKL Group, it is possible to evaluate the year 2020 positively. As a group, we improved, as shown in the comparison table:



Params	2018 reality	2019 reality	2020 reality	Index 2020/2021	2021 plan
Sales (in thousand CZK)	1 068 895	1 112 304	1 183 304	1,06	1 328 177
Added value (in thousand CZK)	406 353	439 329	434 119	0,99	519 003
EBITDA (in thousand CZK)	131 715	158 642	159 388	1,00	186 345
Productivity (Added value / Personal costs)	1,30	1,41	1,40	0,99	1,54

The reason for the improvement is undoubtedly our growth strategy based on the production of bearings for green energy, such as wind farms and rail transport, as well as the focus of our ZKL Reality division on the development of rental housing in Brno and Klášterec nad Ohří. How to proceed?

In 2021, and the following years, an economic recovery related to the return to normal life can be expected. Self-recovery is expected and desirable. However, it can be reasonably assumed that the rapid recovery will bring difficulties in logistics and production capacity. Ensuring a sufficient and timely supply of materials and supplies for the needs of production companies and trade will not be easy. For this reason, production outages may occur, especially in the second half of 2021. Regarding this situation, we believe that we will overcome these short-term difficulties. In addition, we are ready to invest in the expansion of production capacities for the production of bearings for wind power plants, the production of bearings for railway transport and, of course, in the construction of new flats.

In the field of innovations and technical production development in 2021 we plan:

- To produce prototypes of tapered roller bearings for wind turbines with the diameter of approx. 2,000 mm.
- To obtain the VPI railway bearing supplier registration.
- To automatize the quality check of ring and rolling element raceways.
- To complete the construction of the apartment building in Brno with approximately 50 housing units and many more.

I consider these goals to be rational and I am convinced that they should ensure the stable development of companies in the ZKL Group.

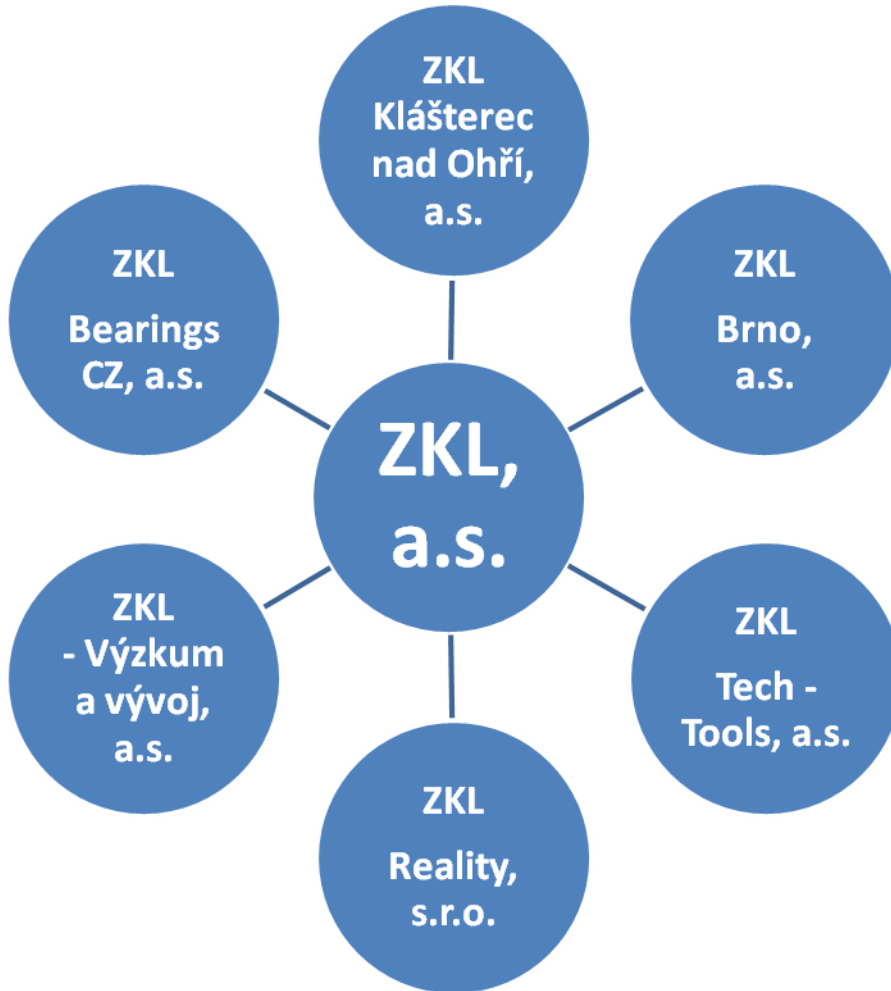
In conclusion, I would like to thank you for your cooperation in 2020, to assure our employees that we value their work and wish you all a quick and satisfied return to normal life in 2021.



Ing. Jiří Prášil, CSc.
CEO ZKL, a.s.

FOR IDENTIFICATION PURPOSES
BDO Audit s.r.o.
IDN: 45314381
Auditor Certificate No. 018

Current organisational scheme



BOARD OF DIRECTORS

Chairman: Ing. Jiří Prášil, CSc.
 Board of members: Ing. Jiří Prášil
 Ing. Jan Otoupalík

ZKL, a.s.

Jedovnická 8, Brno
 IČ: 25568353

Book value: CZK 1 107 310 thousand
 Annual turnover: CZK 26 621 thousand

ZKL Brno, a.s.

Trnkova 2969/123, Brno
 IČ: 25507851

Principal activity:
 Manufacture of spherical roller, cylindrical roller, tapered and special bearings.
 Book value: CZK 996 353 thousand
 Annual turnover: CZK 600 824 thousand

ZKL Klášterec nad Ohří, a.s.

Nádražní 214, Klášterec nad Ohří
 IČ: 00152552

Principal activity:
 Manufacture of ball, tapered and cylindrical roller bearings up to 400 mm diameter.
 Book value: CZK 413 648 thousand
 Annual turnover: CZK 300 508 thousand

ZKL-Výzkum a vývoj, a.s.

Jedovnická 8, Brno
 IČ: 25558480

Principal activity:
 Development of rolling bearings and special rotary mountings of machines.
 Book value: CZK 24 200 thousand
 Annual turnover: CZK 19 555 thousand

ZKL Bearings CZ, a.s.

Líšeňská 2828/45, Brno
 IČ: 25088637

Principal activity:
 Purchase and sale of rolling bearings.
 Book value: CZK 578 618 thousand
 Annual turnover: CZK 968 114 thousand

ZKL Tech-Tools, a.s.

Osvobozená 215, Klášterec nad Ohří
 IČ: 25400240

Principal activity:
 Manufacture of utensils and tools.
 Book value: CZK 39 662 thousand
 Annual turnover: CZK 36 144 thousand

ZKL Reality, s.r.o.

Jedovnická 8, Brno
 IČ: 25507729

Principal activity:
 Rentals and administrative of own or rented estate.
 Book value: CZK 655 681 thousand
 Annual turnover: CZK 83 138 thousand

Significant investments

The ZKL Group has long and continuously invested in new machine technologies and has intensively committed to improving the production processes. With the purchase of new machines, the existing technologies were again strengthened and supplemented in 2020, and the technology set in both production plants, ZKL Brno, a.s. and ZKL Klášterec nad Ohří, a.s. was significantly expanded.

Among the important investments of 2020 in the production plant of ZKL Brno, a.s., the purchase of the new **JOTES SAB 1100ST CNC** machine should be mentioned, which is designed for grinding rolling elements in the segment of large-size bearings.

In 2020, the **BS 212** super-finishing machine from the German producer Thielenhaus was also purchased for the Brno production plant. Its technology of super-finishing shaft rings brings a significant improvement of the whole production process of spherical roller thrust bearings up to an outer diameter of 200 mm.



JOTES SAB 1100ST CNC machine



Thielenhaus BS 212 machine

In connection with the introduction of elements of Industry 4.0 into production, in 2020, the **MES** system was implemented in the division of large-size bearings of the production plant ZKL Brno. The system is used to digitize production and monitor production capacity. Its primary goal is to optimize the production process towards the greatest possible use of machines.



In 2020, the company ZKL Klášterec nad Ohří, a.s. expanded its product range with axial deep groove ball bearings with an outer diameter of up to 500 mm. The expansion was possible thanks to the establishment of the “**Centrum průmyslového vývoje a inovací axiálních ložisek**” (Centre for Industrial Development and Innovation of Thrust Bearings), the basis of which was the acquisition of three new machines - the CNC grinding machine for precision grinding of raceways **BELZ 420**, the CNC grinding machine for precision grinding of internal diameters **SIW 5C** and the CNC super-finishing machine for finishing raceway operation **KM 500**.

Thanks to the mentioned investments, suitable conditions were created at the production plant for further development of this assortment. We can expect a drastic improvement in the quality parameters of the bearing raceways, a reduction in rolling resistance and thus at the same time energy consumption during operation and an extension of its service life.



BELZ 420 machine



A look at the “Centrum průmyslového vývoje a inovací axiálních ložisek” (Centre for Industrial Development and Innovation of Thrust Bearings)



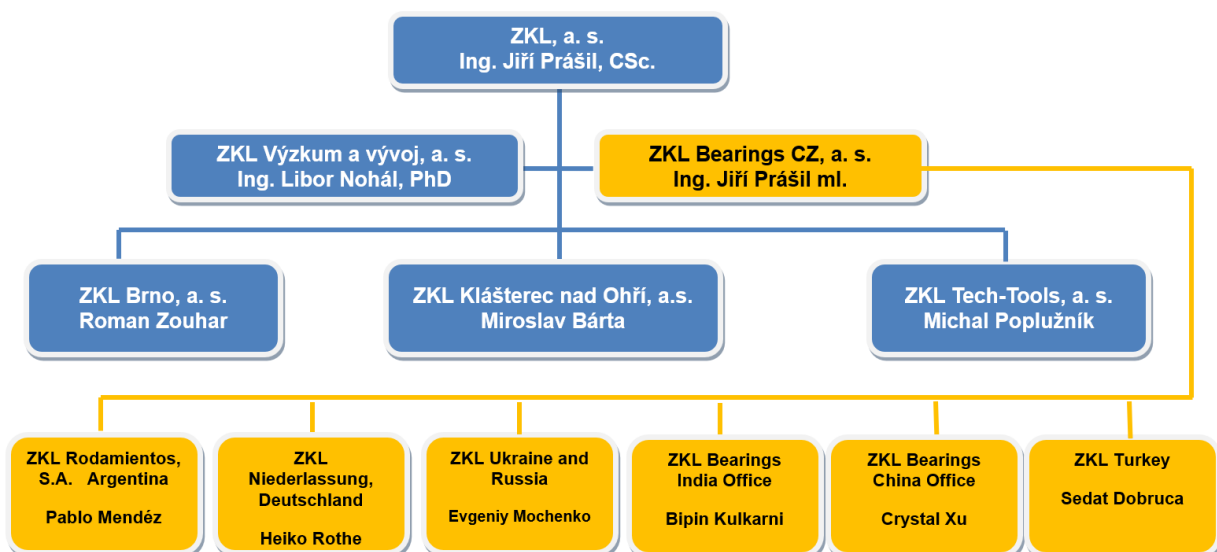
SIW 500 machine

Sales

We evaluate the past year in terms of trade positively as the company's business plan was fulfilled despite the complicated situation associated with the COVID-19 pandemic. Year-on-year, the sales of bearings were increased by 11% in terms of CZK. We can positively evaluate the development of sales to the territory of Western Europe, where cooperation with OEM in Germany and Spain is expanding, as well as the development of sales and contracting to Russia, Ukraine and China, where we apply a business strategy focused on cooperation with the OEM sector. The development of sales to South America, Southern Europe and the Middle East can be evaluated negatively. In our opinion, these countries were hit the hardest by pandemics.

By changing the business strategy and a partial personnel change in the sales department, we achieved an increase in customer orders by 15% between the end of 2019 and the end of 2020. This trend gives us a promising start to 2021. The change in business strategy means that, as a producer, we mainly take care of the development and subsequent promotion of special bearings developed for a specific application, and then finding further business potential in the world. One of the successes is higher contracting in the energy and railway industries, as well as in primary producers of gearboxes and heavy machinery.

However, we also do not forget the distribution network of our bearings where we focus more on creating a higher value for the ZKL brand. By opening new offices around the world, we try to continuously improve services and sales support to our distributors directly in the region in which they operate. Since 2020, the ZKL Group has established sales offices in six countries around the world: Argentina, China, India, Germany, Ukraine and Turkey.



Organizational chart of the ZKL Group, including representation in the world

Business activities in 2020

OS 41 - LATIN AMERICA

The main market is Argentina which accounted for about 65% of ZKL's total exports to Latin America in 2020. Argentina thus remains dominant in this region. Unfortunately, the economic situation in Latin America was not good for business activities in 2020, and the pandemic essentially quarantined the whole country, and it was not possible to find new customers. However, in 4Q 2020 we managed to increase the contracting to a level sufficient to fulfil the plan for 2021 in the amount of CZK 65 million.

OS 42 - SOUTH ASIA

Changing the strategy to multi-channel sales to India was probably a good choice and we achieved increased sales by 6% in this territory. In 2020, we also increased the share of customers from the OEM / MRO segment and thus built a more stable customer base in the territory. For 2021, we plan to maintain sales to India due to the announced strategy in India: "Make in India". We consider Thailand, Sri Lanka and South Korea as development territories in the given area.

OS 43 - NORTHERN EUROPE, THE MIDDLE EAST AND AFRICA

Unfortunately, the Group's results in 2020 were most affected by COVID-19. In 2Q 2020, the sales were virtually stopped in Turkey, the Middle East and also in parts of northern Europe. In 2020, we established an office to increase the sales in Turkey, and already in 4Q 2020 we managed to increase the contracting to the level of securing the plan of CZK 50 million in 2021.

OS 44 - USA, CANADA, FAR EAST

We have succeeded in the given territory mainly thanks to the qualified work of our office in China. The sales in China increased by 66% year-on-year and we plan further sales growth by 2021.

OS 45 - CZECH REPUBLIC AND SLOVAKIA

In the Czech Republic and Slovakia, we recorded higher sales than in 2019 and overall we fulfilled the business plan in this territory. An important aspect for fulfilling business plans is success in the railway segment. In 2021, we expect a small increase in sales by 5%. If we manage to improve cooperation with the OEM sector in the Czech Republic and Slovakia, the given goal should be met.

OS 46 - SOUTHERN AND EASTERN EUROPE

In the given business territory, the sales were also reduced, especially to Italy, which was severely affected by the pandemic in 2Q 2020. Due to the insufficient results in the following period, the Group was changed in terms of personnel and the results at the end of 2020 and in 1Q 2021 already show a stable growth in contracting and invoicing. In 2021, we expect growth to CZK 65 million.

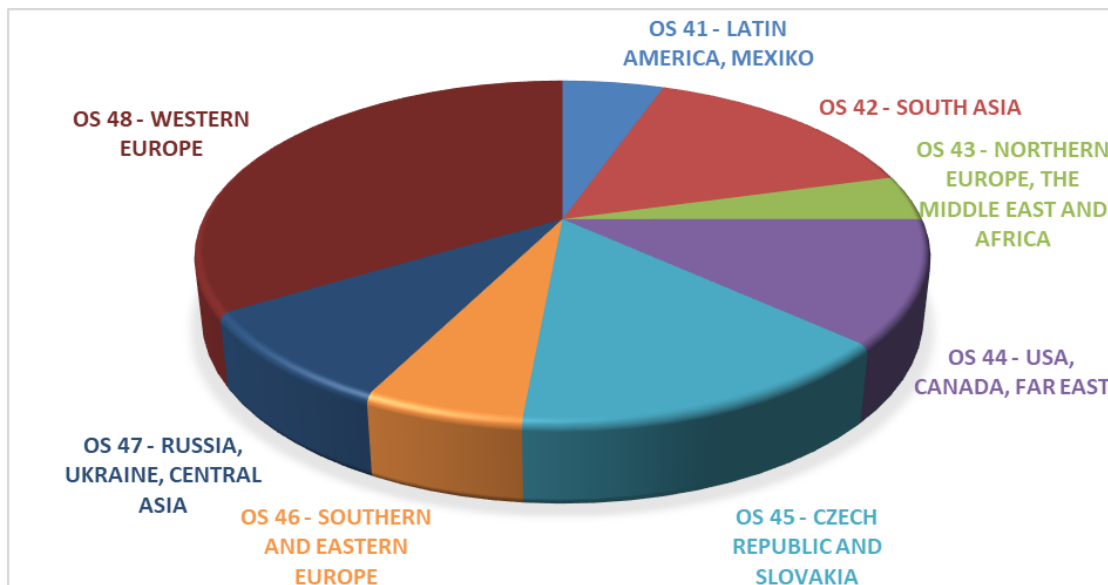
OS 47 - RUSSIA, UKRAINE, CENTRAL ASIA

The sales in the given territory increased by 11% year-on-year. This was mainly due to the penetration into Russian railways and companies producing mining equipment. In 2021, we plan a further increase due to contracting into the steel industry and other OEM customers in the field of rolling stock and heavy industry.

OS 48 - WESTERN EUROPE

We recorded the highest increase in the sales in Western Europe where we manage to increase contracting for the wind industry. A further increase is also evident in German, where our local office is successfully cooperating to acquire OEM and EDU customers.

The distribution of sales by business groups in 2020 is shown in the following chart:



Ing. Jiří Prášil
CEO - ZKL Bearings CZ, a.s.

Technological Development, Innovation, Research & Development

The positive economic development of the ZKL Group in 2020, despite the complicated market situation and the COVID-19 pandemic, is the result of targeted investments, modernization of production units and technical development in strategic production segments - green energy, rail transport and technologically demanding customer solutions. In 2020, the role of the Technology centre of the ZKL Group was strengthened, which is an independent subsidiary of ZKL - Výzkum a vývoj, a.s.

The main focus of the company is the management of research and development activities, innovations and technical development in the Group. The Technology centre also oversees all key processes related to technology and quality: it represents a design organization for the entire Group, performs the activities of chief metallurgist and a metrologist, and provides supervision at the Group level within the management of an integrated quality, safety and environment system. It performs tasks within applied research and experimental development, validates new products and technologies, and provides application, expert and professional activities. In cooperation with highly professional and experienced workers of the production plants, the ZKL Group is thus able to develop bearings with high utility properties and to optimize the production processes so that the produced bearings fully satisfy the needs of customers even in the most demanding applications.

Innovation management is implemented through a technical and production development plan which is integrated into the Group's financial plan.



The costs that the ZKL Group invests in technical development in the year-on-year comparison are shown in the following table (values in thousands of CZK):

	2012	2013	2014	2015	2016	2017	2018	2019	2020
ZKL Brno ¹⁾	59,442	35,116	33,095	13,551	4,549	28,612	54,555	44,486	37,361
ZKL Klášterec nad Ohří ¹⁾	11,142	10,254	8,116	8,866	12,270	12,576	11,517	11,159	6,816
ZKL – Research and development ¹⁾	31,780	26,462	21,438	21,223	17,638	20,583	21,481	21,601	22,410
ZKL Tech-Tools ²⁾	–	6,248	1,760	4,171	4,171	7,330	7,825	5,505	3,374
TOTAL	102,364	78,080	64,409	47,811	38,628	69,101	95,378	82,751	69,961

¹⁾ Costs of research and development, ²⁾ Costs of special tools

In the development and design of new types of bearings, the ZKL Group uses a combination of long-term company know-how, modern IT technologies and cooperation with top workplaces at Brno University of Technology, CEITEC, COMTES-FHT, SVÚM, etc. Product design and optimization is software supported by MSC products: PATRAN/MENTAT/MARC, APEX and Adams for analysis of complex structures, kinematic problems and co-simulations. Further calculations are performed with the support of the MathCAD software, or with the use of own software created on the basis of company know-how. The development process control and the design data management take place in the PTC Windchill system and the PTC Creo software is used to create drawing documentation.

In 2020, innovations continued both in the area of the common catalogue assortment and in the area of customer bearings. At the same time, the necessary technologies were developed to achieve the required product quality. The innovations were focused mainly on the following strategic areas:

- radial spherical roller bearings for main rotors of wind turbines,
- radial and axial spherical roller bearings for power engineering,
- bearings for rail vehicles (axles, drives, gearboxes),
- thrust ball bearings with full complement of balls,
- customer solutions for OEM producers of machines for steel mills,
- customer solutions for producers of OEM gearboxes.

The result of the above-mentioned activities in 2020 is innovations implemented at the production plants of the ZKL Group; the most significant product innovations are listed in the following tables:

Innovations in ZKL Brno, a.s.

Tprm	Tprm	Tprm
294/600EM NF	294/750EM NF	294/950EM NF
294/1000EM NF	C2213V NF	C4024V NF
C5915V NF	22230W33M C3S3	PLC 62-14-12
PLC 59-10.25	PLC 62-09-11.2	240/900EW33MH W46A TPF 11547-17
22338EKW33MH C3 TPF 11568-19	240/630EW33MH W45A TPF 11579-19	239/850EW33MH W45A TPF 11579-19

Innovations in ZKL Klášterec nad Ohří, a.s.

Tprm	Tprm	Tprm
51211V TPF 11534-16	51318V TPF 11534-16	51320V TPF 11534-16
B2-2210-2RSN TMF9 NF	51206XTNG NF	PLC 410-14.01=2
PLC 410-14.00=2	PLC 410-14.02=2	PLC 410-13.00=2
PLC 410-13.01=2		

In 2020, the activities of research and development in the ZKL Group focused, in addition to the catalogue assortment and customer applications of bearings, also on long-term research and development projects of new types of bearings and technological processes of bearing production. These are often addressed in support of research and development of various grant programs.

In the field of development of new types of bearings, research and development projects were implemented, for example:

- toroidal bearings,
- new generations of axial spherical roller bearings,
- railway bearings with an extended service interval,
- bearings for main rotors of wind turbines.

In the field of technology and digitalization of production, the following projects were implemented, for example:

- Automation of production of sheet metal cages for spherical roller bearings.
- Research and development of the influence of machining technology on surface layers.
- Research and development of advanced methods of grinding functional surfaces.

Ing. Libor Nohál, Ph.D.

Executive Director of ZKL – Výzkum a vývoj, a.s.

Quality Management System & Environmental Protection

The ZKL Group, profiling itself as a reliable supplier for the most demanding customers, including customers from the energy and railway industries, is constantly improving and developing its quality management system certified according to EN ISO 9001, extended by elements of the international standard ISO/TS 22163.

The Group management pays great attention to the quality management system and the related learning processes. The implementation of new projects that aim to increase the level of work environment in terms of achieving the maximum thermal stability of the workplaces and their high degree of cleanliness, and the installation of the most modern production and measurement equipment, significantly moves forward the ZKL options, as well as the quality level of products. The system has been constantly improved on the basis of principles formulated in the quality policy and verified by internal, certification and customer audits.

Policy of quality, product safety, environment and work safety of the ZKL Group

In accordance with the strategy of the ZKL Group and the requirements of the ISO 9001, ISO 14001, ISO 45001 and ISO/TS 22163 standards, the top management has adopted a policy of quality, product safety, environment and occupational safety.

To fulfil this policy, the companies of the ZKL Group have committed themselves to implement the following rules and principles:

1. Focus on the customer and other interested parties

- To plan, provide for and use resources to meet the requirements, needs and expectations of customers and other interested parties in the areas of quality, product safety, environment and occupational safety.
- To achieve stable quality, functional safety, operational reliability and environmental friendliness of products.
- To monitor and evaluate the level of customer satisfaction with products and services provided.
- To fulfil legislative obligations and customer requirements.
- To inform customers and relevant interested parties about the system of environmental management and health and safety management in the ZKL Group.
- In cooperation with suppliers, to develop and constantly improve the delivered products and services.
- To involve key suppliers in the process of continuous improvement.
- To initiate the application of environmental management principles by suppliers.

2. Leadership and employee involvement

- To develop the professional competence of employees and motivate them to use their knowledge, abilities and skills to ensure the quality, safety and reliability of produced products and services and to continuously improve the established processes.
- To improve the work and social environment, to reduce environmental impacts and health and safety risks, and to prevent injuries and damage to health.
- To fulfil the policy, to set SMART goals and to meet target values at all levels of the company.
- Through managers and their personal examples, to lead all employees to common goals, teamwork, to increase their awareness, ability and knowledge, and to support their ideas for improvement.
- To work responsibly and flawlessly with consistent self-control of the results of one's own work.

3. Process approach to management

- To implement and apply an effective and efficient system of quality, environment and occupational safety through process management with consideration and risk minimization.
- To determine the policy and goals of all systems in accordance with the strategic intentions of the ZKL Group
- To apply the policy at all levels of the ZKL Group, to specify and evaluate it annually on the basis of setting SMART goals.
- To support the introduction of the best possible technologies that will lead to improved process performance, increased customer satisfaction and reduced risks of environmental and occupational safety impacts.

4. Decision-making based on facts and continuous improvement

- To monitor, measure and analyse qualitative parameters and features of products and performance parameters of the ZKL Group processes. To use the results to set specific goals and measures to ensure continuous improvement of the established quality, environmental and occupational safety systems.
- The quality of the products is based on the awareness of the importance of quality work performed by each employee in the sense of the principle of - "Zero defects".
- To prevent the possibility of emergencies or accidents, the consequences of which could have a negative impact on the environment and the health of employees, by preventing and using relevant opportunities.
- To prioritize the use of materials and processes that contribute to minimizing, eliminating or mitigating the negative impacts on the environment and the work environment.

The state of the ZKL Group's quality management system in 2020

Company	Certificate
ZKL, a.s.	EN ISO 9001:2015
ZKL-Výzkum a vývoj, a.s.	EN ISO 9001:2015
	CTLA
	ISO/TS 22163:2017
ZKL Bearings CZ, a.s.	EN ISO 9001:2015
	ISO/TS 22163:2017
ZKL Brno, a.s.	EN ISO 9001:2015
ZKL Klášterec nad Ohří, a.s.	EN ISO 9001:2015
	EN ISO 14001:2015
	ISO/TS 22163:2017
ZKL Tech-Tools, a.s.	EN ISO 9001:2015

Environmental Protection

The ZKL Group pays considerable attention to environmental protection, and the criteria are the requirements of the international ISO 14001 standard. The company ZKL Klášterec nad Ohří, a.s. is certified according to the international ISO 14001 standard. The principles of environmental management have already become a natural part of all activities aimed at improving the environmental profile of companies.

Strict compliance with the legislative requirements for safeguarding the environment is a matter of course for us. The environmental profile includes all effects arising from the business activities of the companies that have an impact on the environment. Environmental impacts relate not only to pollution but also to consumption of resources - materials, energies and water. The overall consumption of energy, production of waste and packaging materials are carefully monitored and evaluated. The aim of these continuous processes is saving the input resources and savings of the aggregate financial costs depending on the economic performance of the companies.

As part of the product innovations, and in the acquisition of new technologies, we strive for efficient use of energy, protection of the environment and preserving natural resources.

As part of the development of the ZKL Group in the field of the environment, the Group management decided on certification according to EN ISO 14001:2015 for ZKL Bearings CZ, a.s. and ZKL - Výzkum a vývoj, a.s.

Safety at work

The ZKL Group provides a safe and healthy workplace for its employees and contractual partners by implementing and enforcing a risk prevention system in all our activities. By respecting the company regulations and procedures as well as all relevant laws,

ZKL creates a safe environment. The ZKL Group provides the necessary resources for teaching, training and control in order to maintain employees' health and safety at work.

We plan, control and evaluate results in health and safety within internal health and safety audits. The non-conformities from audits are actively eliminated and corrective measures are established in order to eliminate the possible risk of hazardous situations.

Everyone who works for ZKL is responsible for themselves and others for safe behaviour and reporting of possible risks. Managers are responsible for meeting the requirements for health and safety by clearly defining responsibilities and obligations, providing appropriate resources and continuous improvement of performance in health and safety at ZKL.

As part of the development of the ZKL Group in the field of occupational safety and health, the Group management decided on certification according to EN ISO 14001:2015 for ZKL Bearings CZ, a.s. and ZKL - Výzkum a vývoj, a.s.

Tomáš Popek

Quality and EMS Manager of the ZKL Group

Human resources

In the area of human resources and personnel policy management, the ZKL Group still places great emphasis on the long-term stabilization of qualified employees in the company. The key objective of the HR policy of ZKL Group is taking advantage of the knowledge and performance potential of own employees. The company strongly encourages all age groups of employees and their personal development and promotes the Group's attractiveness as a generational employer with a long tradition.

We have been trying to fulfil this main motive of personnel policy of the ZKL Group for several years. The year 2020 was a turning point in the field of human resources and education. The epidemiological situation and the development of the COVID-19 epidemic caused by the new coronavirus SARS-CoV-2 affected the lives of every person as well as employees and employers. This year was marked by frequent work from home, distance learning and employers also had to adapt to these. It was necessary to use more digital tools necessary for remote communication, as well as to use forms of online training of employees. We would continue in the trend of introducing electronic tools within individual processes (not only personnel) at the ZKL Group.

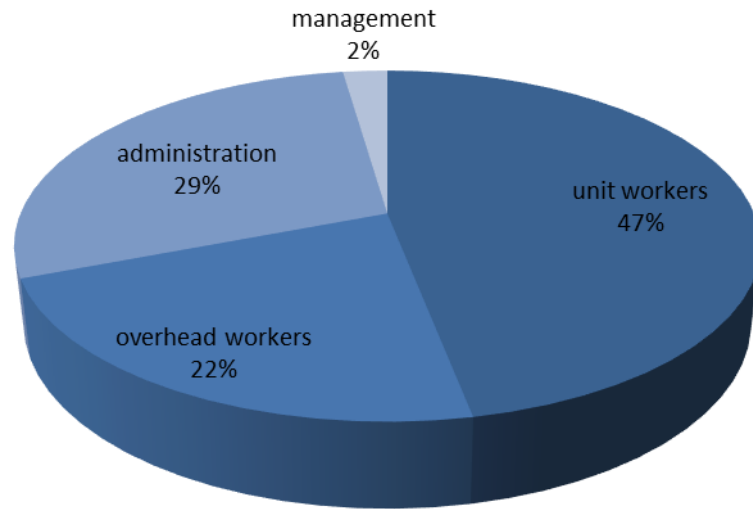
Personnel development

In the last 3 years, there have been no large fluctuations in the development of the number of employees. There is a constant optimization of activities, the introduction of new technologies or multi-machine operation, which increases work productivity and gradually reduces the number of employees.

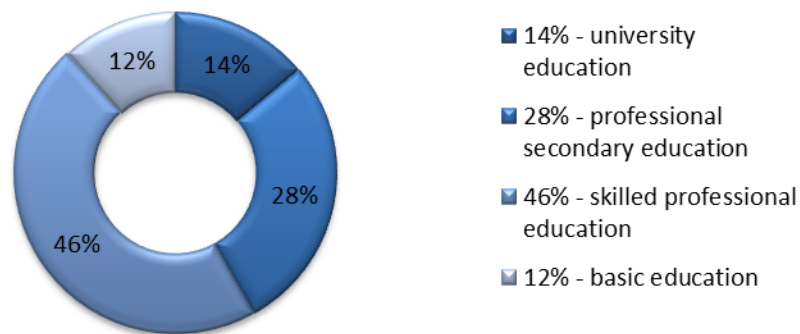
Recalculated number of employees as of 31 December 2020						
Year	2015	2016	2017	2018	2019	2020
Total ZKL Group	802	749	633	578	579	553

Employee structure remains almost identical to the previous period. The total number of employees in the Group accounts for almost 3/4 of employees working directly in production.

ZKL Group employee structure in 2020



Qualification structure of regular ZKL Group employees in 2020

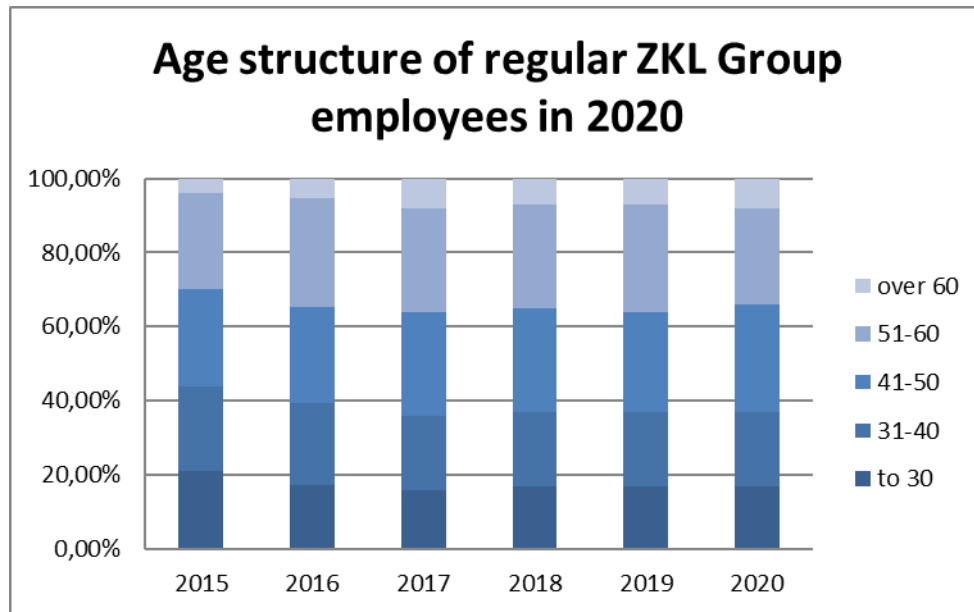


The educational structure of the Group’s employees has remained very similar for several years. It reflects the trend of reducing the percentage of employees who have only basic education.

The ZKL Group is a traditional Czech generation employer, which also builds on a number of long-term experienced employees who share their experience to new young and promising employees.

The age structure of employees has been quite stable over the last 5 years. The employees under the age of 50 make up two thirds of the total number of employees. There

is an effort to stabilise employees and it is therefore necessary to take into account the increasing trend in the proportion of employees over 50 years due to natural aging. The effort remains that younger employees who joined ZKL Group subsequently and gradually move onto the level of today's senior experienced employees.



Education and development of the ZKL Group employees

As mentioned above, personnel training and development has been largely influenced by measures related to the COVID-19 pandemic. Many educational courses were cancelled and traditional events such as Family Day or Christmas Party unfortunately could not take place.

Language courses are an integral part of the education of ZKL Group employees. In 2020, they were taught English, Spanish and German. Most of these courses have been switched to online teaching so that we do not have to cancel courses and that foreign language education can continue in 2020.



Evropská unie
Evropský sociální fond
Operační program Zaměstnanost

At the beginning of 2020, a project called "Vzděláváním k rozvoji" (Education for Development) was approved with the registration number CZ.03.1.52/0.0/0.0/19_097/0012837, which is co-financed by the European Union in the amount of 85% of the total eligible expenditure. The project is focused on the education of regular employees of ZKL Brno, a.s. to improve the company's competitiveness and to

increase the professional level of knowledge, skills and competencies of selected employees.

Thanks to this project, we expect changes in the form of improving the level of knowledge, skills and key competencies of the employees involved. The training will take place mainly in soft and managerial skills and technical knowledge. Furthermore, the employees will be trained in the management of general IT and accounting, economic and legal courses will take place too. The project also includes internal courses in which our employees themselves will be the trainers.

Project training started in May 2020 and the expected completion date is December 2021. In 2020, more than 70 training days were held.



In June, thanks to the improvement of the epidemiological situation, the traditional Cycle Trip for the Group's employees could take place, which was unfortunately influenced by unfavourable weather. The route for cyclists and pedestrians was chosen in 2020 in Moravský Kras with the possibility of visiting stalactite caves. Despite the bad weather, the event was a success, and we received a lot of positive feedback.



Ing. Lada Serreli
Head of HR Department of ZKL, a.s.

Consolidated financial data

CONSOLIDATED BALANCE SHEET

(Figures in CZK thousand)

date 31.12.2020

Year	Month	ID	Company name
2020	12	25568353	ZKL, a. s.

Item a	ASSETS b	Line No. c	Current period	Previous period
			Netto 3	Netto 4
	TOTAL ASSETS (02+03+40+77)	01	2 275 995	2 158 448
A.	Receivables for subscribed capital	02		
B.	Fixed assets (04+14+27+37+38+39)	03	1 366 071	1 184 727
B. I.	Intangible fixed assets (05+06+09+10+11)	04	9 724	11 213
B. I. 1.	Intangible results of research and development	05		
2.	Valuable rights (07+08)	06	9 724	10 457
2.1.	Software	07	9 724	10 415
2.2.	Other valuable rights	08	0	42
3.	Goodwill	09		
4.	Other intangible fixed assets	10	0	0
5.	Advances for intangible fixed assets and unfinished intangible assets under construction (12+13)	11	0	756
5.1.	Advances for intangible fixed assets	12		
5.2.	Intangible assets under construction	13	0	756
B. II.	Tangible fixed assets (15+18+19+20+24)	14	1 353 798	1 168 058
B. II. 1.	Lands and constructions (16+17)	15	731 774	707 729
1.1.	Lands	16	110 031	110 030
1.2.	Constructions	17	621 743	597 699
2.	Individual movables and groups of movables	18	526 809	344 382
3.	Valuation differences to acquired assets	19		
4.	Other tangible fixed assets (21+22+23)	20	136	136
4.1.	Perennial crops	21		
4.2.	Breeding herds and draught animals	22		
4.3.	Other tangible fixed assets	23	136	136
5.	Advances for tangible fixed asset and tangible fixed assets under construction (25+26)	24	95 079	115 811
5.1.	Advances for tangible fixed assets	25	290	43 981
5.2.	Tangible fixed assets under construction	26	94 789	71 830
B. III.	Long-term financial assets (28+29+30+31+32+33+34)	27	2 549	5 456
B. III. 1.	Investments in subsidiaries	28	2 549	5 456
2.	Loans and borrowings to subsidiaries	29		
3.	Investment in associates	30		
4.	Loans and borrowings to associates	31		
5.	Other securities and investments	32		
6.	Other loans and borrowings	33		

7.	Other financial assets		34	0	0
7.1.	Other financial assets		35		
7.2.	Advances for investments		36		
B.IV	Positive consolidation difference		37	0	0
B.V	(-) Negative consolidation difference		38	0	0
B.VI	Securities in equivalence		39		
C.	Current assets	(41+49+71+74)	40	903 473	963 080
C. I.	Inventories	(42+43+44+47+48)	41	496 127	549 241
C. I.	1. Raw material		42	97 385	101 560
	2. Work-in-progress and semi-finished products		43	76 645	76 742
	3. Finished products and goods		44	321 299	370 423
	3.1. Finished products		45	310 530	358 029
	3.2. Goods		46	10 769	12 394
	4. Animals		47		
	5. Prepayment on inventories		48	798	516
C. II.	Receivables	(50+60)	49	368 778	388 323
C. II.	1. Long-term receivables	(51+52+53+54+55)	50	0	0
	1.1. Trade receivables		51	0	0
	1.2. Receivables from controlling entities		52		
	1.3. Receivables from associates		53		
	1.4. Deferred tax receivable		54		
	1.5. Other receivables	(56+57+58+59)	55	0	0
	1.5.1. Receivables from partners, cooperative member and association members		56		
	1.5.2. Long-term advances		57		
	1.5.3. Estimated receivables		58		
	1.5.4. Other receivables		59		
	2. Short-term receivables	(61+62+63+64)	60	368 778	388 323
	2.1. Trade receivables		61	268 329	265 315
	2.2. Receivables from controlling entities		62		
	2.3. Receivables from associates		63		
	2.4. Other receivables	(65+66+67+68+69+70)	64	100 449	123 008
	2.4.1. Receivables from partners, cooperative member and association members		65		
	2.4.2. Social security and health insurance		66		
	2.4.3. Government - tax receivables		67	26 584	25 071
	2.4.4. Short-term advances		68	17 327	20 255
	2.4.5. Estimated accrued revenues		69	11 202	8 823
	2.4.6. Other receivables		70	45 336	68 859
C. III.	Current financial assets	(72+73)	71	0	0
C. III.	1. Investments in subsidiaries		72		
	2. Other short-term financial assets		73		
C. IV.	Cash and bank accounts	(75+76)	74	38 568	25 516
C. IV.	1. Cash		75	262	229
	2. Bank accounts		76	38 306	25 287
D.	Prepayments and accrued income	(78+79+80)	77	6 451	10 641
D.	1. Prepaid expenses		78	6 206	8 200
	2. Complex prepaid expenses		79		
	3. Accrued income		80	245	2 441

Item	LIABILITIES	Line No.	Current period	Previous period
a	b	c	5	6
	TOTAL LIABILITIES AND EQUITY (82+107+147+150)	81	2 275 995	2 158 448
A.	Equity (83+87+95+98+102+105+106)	82	1 001 344	992 168
A. I.	Subscribed capital (84+85+86)	83	734 530	734 530
A. I. 1.	Subscribed capital	84	734 530	734 530
	2. Treasury shares	85		
	3. Changes in subscribed capital	86		
A. II.	Share premium and capital reserves (88+89)	87	-42 067	-30 409
A. II. 1.	Share premium	88	1 236	1 236
	2. Capital reserves (90+91+92+93+94)	89	-43 303	-31 645
	2.1. Other capital reserves	90		
	2.2. Valuation differences from revaluation of assets and liabilities (+/-)	91	-43 303	-31 645
	2.3. Valuation differences from revaluation by transformation (+/-)	92		
	2.4. Differences in company transformation (+/-)	93		
	2.5. Differences from valuation company transformation by (+/-)	94		
A. III.	Revenue reserves (96+97)	95	5 455	5 455
A. III. 1.	Other reserve fund	96	5 455	5 455
	2. Statutory and other reserve	97		
A. IV.	Retained earnings (+/-) (99+100+101)	98	282 533	259 741
A. IV. 1.	Retained earnings from previous years	99	282 533	259 741
	2. Accumulated losses of previous years (-)	100		
	3. Other retained earnings (+/-)	101		
A. V.	Profit/loss of current accounting period without minority shares (+/-)	102	20 893	22 851
	1. Profit/loss of current accounting period	103	20 893	22 851
	2. Share in economic result in equivalence	104	0	0
A. VI.	Consolidation reserve fund	105		
A. VII.	Decided on advanced payment for dividends (-)	106		
B. + C.	Liabilities (108+113)	107	1 136 255	1 039 129
B.	Provisions (109+110+111+112)	108	4 302	2 262
B. 1.	Provisions for pensions and similar obligations	109		
	2. Provision for income tax	110	656	
	3. Provision according to special legal regulations	111		
	4. Other provisions	112	3 646	2 262
C.	Payables (114+129)	113	1 131 953	1 036 867
C. I.	Long-term liabilities (115+118+119+120+121+122+123+124+125)	114	321 758	199 053
C. I. 1.	Bonds issued (116+117)	115	0	0
	1.1. Exchangable bonds	116		
	1.2. Other bonds	117		
	2. Payables to banks	118	211 611	85 779
	3. Long-term advances received	119		
	4. Trade payables	120	0	0
	5. Long-term promissory notes payable	121		
	6. Payables - controlling or controlled entity	122		
	7. Payables to associates	123		
	8. Deferred tax liabilities	124	41 062	38 925
	9. Other payables (126+127+128)	125	69 085	74 349
	9.1. Payables to partners	126		
	9.2. Estimated payables	127		
	9.3. Other payables	128	69 085	72 029

C. II.	SHORT-TERM LIABILITIES (130+133+134+135+136+137+138+139)	129	810 195	837 814
C. II.	1. Bonds issued (131+132)	130	0	0
	1.1. Exchangable bonds	131		
	1.2. Other bonds	132		
	2. Payables to banks	133	369 642	296 277
	3. Short-term advances received	134	4 275	4 759
	4. Trade payables	135	232 710	303 690
	5. Short-term notes payable	136		
	6. Payables - controlling or controlled entity	137	0	0
	7. Payables to associates	138		
	8. Other payables (140+141+142+143+144+145+146)	139	203 568	233 088
	8.1. Payables to partners	140	19 306	17 159
	8.2. Short-term borrowings	141		
	8.3. Payables to employees	142	13 460	14 095
	8.4. Payables to social security and health insurance	143	7 667	7 965
	8.5. Government - tax payables and subsidies	144	3 244	10 392
	8.6. Estimated accrued items	145	40 275	6 921
	8.7. Other payables	146	119 616	176 556
D.	Accruals and deferred income (148+149)	147	3 675	912
D.	1. Accrued expenses	148	3 601	274
	2. Deferred income	149	74	638
E.	1. Minority equity (151+152+153+154)	150	134 721	126 238
	2. Minority basic capital	151	49 528	49 528
	3. Minority capital funds	152	-925	
	4. Minority profit funds incl. undistributed profit / unpaid loss of last years	153	75 337	67 638
	5. Minority economic result of current accounting period	154	10 781	9 073

PROFIT AND LOSS STATEMENT

(Figures in CZK thousand)

 date 31.12.2020

Year	Month	ID	Company name
2020	12	25568353	ZKL, a. s.

Item a	TEXT b	Line No. c	Values in accounting period	
			current period 1	previous period 2
I.	Sales of goods and services	01	1 151 008	1 075 890
II.	Sales of goods	02	32 296	36 414
A.	Consumption from production (04+05+06)	03	726 989	686 332
A.	1. Costs of goods sold	04	20 086	22 723
	2. Consumption of material and energy	05	596 404	549 295
	3. Services	06	110 499	114 314
B.	Increase/decrease in finished goods and in work-in-progress (+/-)	07	26 596	-6 644
C.	Own work capitalized (-)	08	-4 400	-8 971
D.	Staff costs (10+11)	09	309 987	312 247
D.	1. Wages and salaries	10	229 569	229 276
	2. Social security and health insurance costs and other costs (12+13)	11	80 418	82 971
	2.1. Social security and health insurance costs	12	72 427	75 618
	2.2. Other social costs	13	7 991	7 353
E.	Adjustment of values in operating activities (15+18+19)	14	99 069	94 075
E.	1. Adjustment of values of intangible and tangible assets (16+17)	15	88 171	83 030
	1.1. Adjustment of values of intangible and tangible assets - permanent	16	88 171	83 030
	1.2. Adjustment of values of intangible and tangible assets - temporary	17		
	2. Adjustment of values of inventories	18	7 663	1 213
	3. Adjustment of values of receivables	19	3 235	9 832
III.	Other operating income (21+22+23)	20	104 318	61 104
III.	1. Proceeds on sale of fixed assets	21	26 780	2 407
	2. Proceeds on sale of material	22	9 061	10 381
	3. Other operating income	23	68 477	48 316
F.	Other operating expenses (25+26+27+28+29)	24	43 007	33 543
F.	1. Net book value of fixed assets sold	25	0	2 268
	2. Net book value of material sold	26	8 826	10 212
	3. Taxes and fees relating to operating activities	27	4 272	4 597
	4. Provisions and adjustments relating to operating activities and complex deferred expenses	28	3 026	-68
	5. Other operating expenses	29	26 883	16 534
	Clearing (depreciation) of the negative consolidation difference	30	0	0
	Clearing (depreciation) of the positive consolidation difference	31	0	-6 068
*	Profit/loss from operating activities (+/-) (+/-)(01+02+20-03-07-08-09-14-24+30-31)	32	86 374	56 758

IV.	Revenues from long-term investments	(34+35)	33	0	0
IV. 1.	Revenues from investments in subsidiaries		34		
IV. 2.	Other revenues from investments		35		
G.	Expenses spend on investments sold		36		
V.	Revenues from other long-term investments	(38+39)	37	0	0
V. 1.	Revenues from other long-term investments in subsidiaries		38		
V. 2.	Other revenues from long-term investments		39		
H.	Expenses related to other long-term financial assets		40		
VI.	Interest income and similar income	(42+43)	41	43	5
VI. 1.	Interest income and similar income in subsidiaries		42		
VI. 2.	Other interest income and similar income		43	43	5
I.	Adjustment relating to financial activities		44	-19	2
J.	Interest expense and similar expenses	(46+47)	45	16 100	15 189
J. 1.	Interest expense and similar expenses in subsidiaries		46	0	0
J. 2.	Other interest expense and similar expenses		47	16 100	15 189
VII.	Other financial revenues		48	94 768	24 705
K.	Other financial expenses		49	121 110	25 726
*	Profit/loss from financial activities (+/-)	(33+37+41+48-36-40-44-45-49)	50	-42 380	-16 207
**	Profit/loss before tax (+/-)	(32+50)	51	43 994	40 551
L.	Income tax	(53+54)	52	12 321	8 627
L. 1.	.- due		53	9 395	7 082
L. 2.	.- deferred (+/-)		54	2 926	1 545
**	Profit/loss after tax	(51-52)	55	31 673	31 924
M.	Transfer of profit to partners (+/-)		56		
	Profit/loss for the period without Equivalence		57	31 673	31 924
	of it: .- Economic result of current accounting period without minority shares		58	20 893	22 851
	.- Minority economic result of current accounting period		59	10 781	9 073
	Share in economic result in equivalence		60		
****	Profit/loss for the period (+/-)	(57-56)	61	31 673	31 924
*	Net turnover for the period = I. + II. + III. + IV. + V. + VI. + VII.		62	1 382 433	1 198 118

FOR IDENTIFICATION PURPOSES
BDO Audit s.r.o.
IDN: 45314381
Auditor Certificate No. 018





This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding. It is different from the Czech version in that it does not include notes to the financial statements.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of ZKL, a.s.

Opinion

We have audited the accompanying consolidated financial statements of ZKL, a.s., with its headquarters at Jedovnická 2346/8, Brno, Czech Republic, IC (Registration Number) 25568353, (hereafter the Company) prepared in accordance with Czech accounting regulations, which comprise the balance sheet as at 31. 12. 2020, the income statement for the period from 1. 1. 2020 to 31. 12. 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities and equity of ZKL, a.s. as at 31. 12. 2020 and of the costs, revenues and its profit or loss for the period from 1. 1. 2020 to 31. 12. 2020, in accordance with Czech accounting regulations.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under these regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Annual Report

In compliance with Section 2 (b) of the Act on Auditors, the other information comprises the information included in consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. The Board of Directors is responsible for this other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge of the company obtained from the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with the applicable laws and regulations, in particular, whether the other information complies with the laws and regulations in terms of formal requirements and procedures for preparing the other information in the context of

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materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that

- the other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information is prepared in compliance with the applicable laws and regulations.

In addition, our responsibility is to report, based on our knowledge and understanding of the Company obtained from the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors and Supervisory Board for the consolidated Financial Statements

Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Czech accounting regulations, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Brno, on 24 May 2021

Audit firm:

BDO Audit s.r.o.

BDO Audit s. r. o.
Certificate No. 018

Partner:



Oldřich Bartušek
Certificate No. 2256