

Report of the Board of Directors of Colt CZ Group SE

drawn up in accordance with the provisions of Section 488(4) of Act No. 90/2012 Coll., on Corporations and Cooperatives (the Corporations Act), as amended (the “**Corporations Act**”), on the reasons for the exclusion of the pre-emptive right of the shareholders of Colt CZ Group SE to subscribe new shares

Dear Shareholders,

The Board of Directors of **Colt CZ Group SE**, with its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, ID No: 291 51 961, registered in the Commercial Register maintained by the Municipal Court in Prague, File No. H 962 (the “**Company**”), submits to the Company’s shareholders this written report of the Board of Directors on the draft resolution of the Company’s General Meeting outside its meeting (a per rollam resolution) – **Resolution to authorise the Board of Directors to increase the Company’s share capital and to exclude the pre-emptive right to subscribe new shares (Draft I)** (the “**Resolution**”), in order to comply with the requirements of Section 488(4) of the Corporations Act, i.e. as an explanation of the reasons and the significant interest substantiating the proposed exclusion of the pre-emptive right to subscribe shares of the Company’s shareholders in this case.

The exclusion of the pre-emptive right to subscribe shares is proposed in connection with the purchase of 100% of the shares of **Sellier & Bellot a.s.**, with its registered office at Lidická 667, 258 01 Vlašim, ID No: 289 82 347, entered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 15674 (“**Sellier & Bellot**”), from the seller and sole shareholder of Sellier & Bellot, **CBC Europe S.à r.l.**, with its registered office at 1616 Luxembourg, Place de la Gare 5, Grand Duchy of Luxembourg, registration number.: B 167046 (“**CBC Europe**”). The buyer of 100% of the shares of Sellier & Bellot is **Vocatus Investment a.s.**, with its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, ID No: 194 17 772, entered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 28195 (“**Vocatus Investment**”), whose sole shareholder is the Company.

On 18 December 2023, a Share Purchase Agreement (the “**Agreement**”) was entered into by and between CBC Europe, as the seller, Vocatus Investment, as the buyer, and the Company, as a party to the Agreement securing partial payment of the purchase price for 100% of the shares of Sellier & Bellot through the issuance of new shares of the Company to be subscribed by CBC Europe as part of the Company’s share capital increase (the “**Transaction**”).

The Transaction and its terms have been further detailed in a presentation entitled “ACQUISITION OF SELLIER & BELLOT – KEY HIGHLIGHTS” available on the Company’s website at <https://www.coltczgroup.com/en/> under the “News and Regulatory Announcement” link in the “Archive” section. The underlying documents are also published on the Company’s website under “Investors” in the “General Meeting” section.

As part of the agreed settlement of the Transaction, the Company expects that CBC Europe will subscribe for up to 15 million new registered book-entry shares of the Company in the nominal value of CZK 0.10 per share (in words: ten hellers) (the “**New Shares**” and the “**Transaction Consideration**”). Upon completion of the subscription for the New Shares, CBC Europe will become a shareholder of the Company with a 27.00% to 29.91% interest in the total increased number of shares of the Company. The actual ownership interest depends on the EBITDA and Net Debt indicators as recorded by Sellier & Bellot and the Company as of 31 December 2023.

The draft Resolution is submitted to the Company’s shareholders for the purpose of issuance of the New Shares in connection with the Transaction Consideration. The New Shares may be subscribed for the sole purpose of the Transaction Consideration and offered for subscription only to a pre-determined purchaser, namely CBC Europe. No one else will be entitled to exercise the right of exclusion of the shareholders’ pre-emptive right to subscribe shares.

The Transaction Consideration is one of the key parameters of the Transaction and also a prerequisite for the due and full settlement of the Transaction ensuring the Agreement has not been breached. In addition, CBC Europe’s acquisition of the share in the Company secures its interest in the future orientation of the Company and its subsidiaries and the future performance of the assets acquired in the Transaction. For the Company’s shareholders, the completion of the Transaction and the acquisition of Sellier & Bellot's assets represents an opportunity to participate in the performance of a larger and more stable group of companies.

The Company’s Board of Directors believes that the exclusion of the pre-emptive right to subscribe shares for the purpose of a comprehensive settlement of the Transaction without breach of the Agreement is in the best interest of the Company and is consistent with the information on the Transaction hitherto provided.

Although the subscription for the New Shares will lead to a partial dilution of the shareholdings held by the existing shareholders of the Company, the Company believes that **there are several important reasons for excluding the pre-emptive right to subscribe shares of the Company’s shareholders.**

The completion of the Transaction will enable further strategic development of the business of the group of companies controlled by the Company (the “**Colt CZ Group**”) in the field of ammunition production and distribution. Following the previous acquisition of ammunition manufacturers controlled by the Swiss company swissAA Holding AG, the acquisition of Sellier & Bellot further significantly expands the Company’s ammunition product portfolio, production capacity and development skills, which will benefit the rest of the Colt CZ Group focused on small arms manufacturing.

Under the terms of the Agreement, the Transaction can only be settled by CBC Europe’s acquisition of shares in the Company. The acquisition of the ownership interest in the Company by subscription for New Shares is a prerequisite for the completion of the Transaction by CBC Europe, without which the Transaction would not be implemented, and a method of funding such a significantly large Transaction. **Therefore, interference with all shareholders’ pre-emptive right is indeed a necessary and the only possible method of implementation of the Transaction.**

In addition to the foregoing justification of the benefits of the Transaction, the proposed exclusion of pre-emptive rights to subscribe for New Shares is, as the Company’s Board of Directors believes, a reasonable interference with the rights of existing shareholders since, given the size of the Transaction and the financial resources to be paid by the Company,

it will also keep the Company's overall debt ratio, as measured by EBITDA, below 3.5. The company will thus be able to make other necessary strategic investments in the development of the Colt CZ Group's product portfolio and will not be significantly restricted in its ability to pay a share of profits (dividend) to its shareholders. Moreover, the Transaction has increased the overall value of the Company (see also the value of the shares traded on the Prime Market of the Prague Stock Exchange at the time of this report) and therefore improved the position of the Company's shareholders. The Company's Board of Directors believes that the Transaction will also have a positive impact on the value of the Company's shares in the future.

With regard to the business of Sellier & Bellot, a manufacturer of small calibre ammunition, whose former sole shareholder – CBC Europe – is to be “bought out” by the share subscription, the merger between Sellier & Bellot and the Company, as a weapons manufacturer, is not only a significant strategic but also a “personnel” cooperation from which the Colt CZ Group will also benefit in the future.

The Company has a realistic reason to expect that CBC Europe, as a subscriber and a new significant shareholder of the Company with experience obtained in an international environment, will bring to the Company significant additional skills and know-how and can also assist in the further development of the Company and, indirectly, also the entire Colt CZ Group.

At the same time, the proposed exclusion of the pre-emptive right applies to all Company shareholders to the same extent, i.e. all shareholders are treated equally and without discrimination in relation to the interference with pre-emptive rights.

In view of the foregoing, the Company's Board of Directors summarises that there is a significant interest in the proposed exclusion of the pre-emptive right to subscribe the New Shares. At the same time, this interference with the shareholders' pre-emptive rights is indeed necessary and proportionate. The exclusion of the pre-emptive right to subscribe shares is therefore in accordance with the law.

Accordingly, in order for the Transaction Consideration be settled through the subscription of the New Shares in favour of CBC Europe and for the Transaction to be settled in accordance with the terms of the Agreement, the Company's General Meeting, in accordance with the provisions of Section 475(g) of the Corporations Act in conjunction with Section 488 of the Corporations Act, is proposed to exclude the pre-emptive right of the existing shareholders of the Company to subscribe for New Shares of the Company, which may be issued upon fulfilment of the conditions for the Transaction Consideration under a decision of the Board of Directors authorised by the General Meeting, subject to the following conditions:

- ▶ upon the authorisation of the Board of Directors, the share capital of the Company may be increased by a maximum of CZK 1,500,000 (in words: one million five hundred thousand Czech crowns);
- ▶ as part of the share capital increase on the basis of the authorisation of the Board of Directors, a maximum of 15,000,000 (in words: fifteen million) registered book-entry shares with a par value of CZK 0.10 (in words: ten hellers) per share will be issued, while the rights attached to the new shares will be the same as the rights attached to the existing shares of the Company;
- ▶ during the increase in the Company's share capital by the decision of the Board of Directors on the basis of this authorisation, the issue price of the shares may only be paid by monetary contributions;

- ▶ the Board of Directors may increase the share capital several times under the authorisation as long as the total amount does not exceed the set limit;
- ▶ the authorisation is granted for a period of 1 (in words: one) year from the day the General Meeting decided to grant the authorisation;
- ▶ the New Shares to be subscribed as part of the share capital increase pursuant to the authorisation of the Company's Board of Directors may only be offered for subscription to a pre-determined prospective buyer – i.e. without exercising pre-emptive rights – namely to CBC Europe.
- ▶ the lowest price at which CBC Europe may acquire the newly subscribed New Shares of the Company is CZK 200 (in words: two hundred Czech crowns) for 1 (in words: one) book-entry share in registered form with a par value of CZK 0.10 (in words: ten hellers); the highest price at which CBC Europe may acquire the newly subscribed New Shares of the Company is CZK 950 (in words: nine hundred and fifty Czech crowns) for 1 (in words: one) book-entry share in registered form with a par value of CZK 0.10 (in words: ten hellers); the amount by which the price exceeds the par value of the newly subscribed New Share will constitute the share premium.
- ▶ a prospectus of the New Shares approved by the Czech National Bank will be drawn up for the admission of the New Shares to trading on a European regulated market, if required by law in view of the scope of the increase.

Place: Prague

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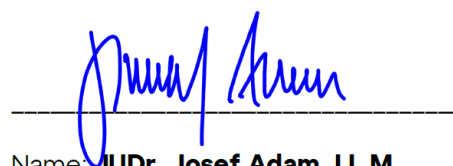
Date: 30 January 2024

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Name: **Jan Drahota**

Title: Chairman of the Board of Directors



Name: **JUDr. Josef Adam, LL.M.**

Title: Vice-chairman of the Board of Directors