ANNUAL FINANCIAL REPORT for 2023

COLT CZ GROUP

CONTENTS

1. ABOUT THE COMPANY

Colt CZ Group SE (“Colt CZ“ or the “Company“), along with its subsidiaries (the “Group“), is one of the world’s leading producers of firearms, tactical accessories and ammunition for military and law enforcement, personal defense, hunting, sport shooting, and other commercial uses. Colt CZ primarily sells its products under the Colt CZ, CZ-USA, Colt Canada, Dan Wesson, Spuhr, swissAA and 4M Systems brands.

After the Group’s listing on the stock exchange in 2020, it underwent significant expansion. In 2021, the Group added the US firearms manufacturer Colt's Manufacturing Company LLC in the USA and its Canadian sister company Colt Canada Corporation (“Colt Canada“) to its existing production in Česká zbrojovka a.s. (“CZUB“ or “Česká zbrojovka“) in the Czech Republic. In 2022, the Company completed acquisition of the Swedish optical mounting solutions manufacturer Spuhr i Dalby AB (“Spuhr“). In 2023, it purchased swissAA Holding AG (“swissAA“), the Swiss producer of small caliber ammunition. It also signed a share purchase agreement that same year for the acquisition of Sellier & Bellot a.s. (“Sellier & Bellot“), a traditional Czech manufacturer of ammunition. Selier & Bellot ranks among the oldest engineering companies in the Czech Republic, as well as worldwide.

The Colt CZ has its registered office in the Czech Republic and manufacturing facilities in the Czech Republic, the United States, Canada, Sweden, Switzerland and Hungary.

As at 31 December 2023, the Group’s average FTE number of employees stood at 2,111. Shares of Colt CZ are traded on the Prague Stock Exchange. As of 31 December 2023, the majority shareholder was Česká zbrojovka Partners SE with a 75.4% stake, with the remaining shares being free float.

2. KEY FINANCIAL INDICATORS IN 2023

Consolidated statement of profit or loss and other comprehensive income (audited)

(CZK '000)	For the year ended 31 December		Change in %
	2023	2022	
Revenues from the sale of own products, goods, and services	14,855,581	14,589,774	1.8%
Operating profit	1,861,966	2,198,682	(15.3%)
EBITDA	2,663,687	3,109,117	(14.3%)
Adjusted EBITDA[1]	3,048,379	3,365,297	(9.4%)
Profit before tax	2,509,562	2,356,170	6.5%
Profit for the period	2,042,538	2,034,192	0.4%
Adjusted profit for the period[2]	2,049,742	2,280,464	(10.1%)
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	58	60	(3.2%)
Diluted	58	59	(3.4%)
Adjusted[2]	58	67	(13.4%)

Consolidated statement of financial position (audited)

(CZK '000)	As at		Change in %
	31 December 2023	31 December 2022	
Total assets	25,976,756	19,503,514	33.2%
Total equity	9,274,846	7,681,371	20.7%
Total liabilities	16,701,910	11,822,143	41.3%
Total liabilities and equity	25,976,756	19,503,514	33.2%

[1] Adjusted EBITDA in 2023 for extraordinary one-time costs associated with realized and unrealized acquisitions in 2023 and share-based payments associated with the employee option plan that are generally unrelated to the current period's results of operation and value creation. In 2022, EBITDA was adjusted for extraordinary one-time costs associated with unrealized acquisitions in 2022 and share-based payments associated with the employee option plan that are generally unrelated to the current period's results of operation and value creation. These one-time items are described in Section 14. Alternative Performance Measures.

[2] In 2023, net income was adjusted for extraordinary one-time costs associated with realized and unrealized acquisitions in 2023, share-based payments associated with the employee option plan, bond issue costs and negative goodwill related to the bargain purchase of swissAA, that are generally unrelated to the current period's results of operation and value creation. In 2022, net income was adjusted for extraordinary one-time costs associated with unrealized acquisitions in 2022, share-based payments associated with the employee option plan, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs that are generally unrelated to the current period's results of operation and value creation. These one-time items are described in Section 14. Alternative Performance Measures.

3. KEY EVENTS IN 2023

MARCH 2023

The Company announced its intention to issue bonds in the Czech capital market.

MAY 2023

Colt CZ issued bonds in the total amount of CZK 1,929,000,000. The bonds are floating rate notes based on 6M PRIBOR plus 1.8% p.a. margin maturing in 2030.

The Company increased its share capital by CZK 36,529 by issue of 365,291 new book-entry shares. The issue price of one new share was set as CZK 585 per share. The increase was related to the settlement of the acquisition of Colt in 2021.

JUNE 2023

The General Meeting of the Company outside its meeting (decision per rollam) decided on the distribution of profits for the year 2022 and dividend payment. The dividend payout for 2022 was CZK 30 per share before tax. For the first time in the Company´s history, shareholders had the choice of whether or not to receive a share of profit in the form of new shares in the Company.

Colt CZ executed a share purchase agreement that resulted in the acquisition of a 100% stake in the Swiss ammunition producer swissAA.

JULY 2023

Mr. David Aguilar and Mr. René Holeček were appointed as members of the Supervisory Board as of 1 July 2023. The General Meeting also appointed Jiří Nekovář as a new member of the Audit committee.

SEPTEMBER 2023

The Company increased its share capital by CZK 32,217 by issue of 322,170 new book-entry shares. The issue price of one new share was set at CZK 526.50. The capital increase and subscription of new shares are related to the dividend payout in the form of new shares.

OCTOBER 2023

The Company confirmed in the Schedule 13D filed with the U.S. Securities and Exchange Commission that, together with other reporting persons, it jointly acquired more than 5% of the share capital and voting rights of Vista Outdoor, Inc.

NOVEMBER 2023

The Company submitted additional filing with the U.S. Securities and Exchange Commission concerning a proposal to combine Colt CZ and Vista Outdoor, Inc. Vista's Board of Directors rejected the proposal.

DECEMBER 2023

Colt CZ executed a share purchase agreement to purchase 100% interest in Sellier & Bellot is a traditional Czech ammunition manufacturer, which ranks among the oldest engineering companies in the Czech Republic, as well as worldwide.

The Company increased its share capital by CZK 36,803 with the issue of 368,038 new book-entry shares. The issue price of one new share was set as CZK 525 per share. The increase was related to settlement of the acquisition of Colt in 2021.

4. LETTER FROM THE PRESIDENT OF COLT CZ

Dear Shareholders,

Last year was the second most successful year in our Group's history, with the fourth quarter standing out as the strongest yet. We significantly increased our share of sales to military and law enforcement customers, solidifying partnerships with many governments. Our role in supplying not only NATO and EU member states, but also Ukraine and other countries, underscores our growth in the military and law enforcement market. This growth is closely tied to the evolving security landscape, where countries are ramping up defense spending, replenishing, and modernizing their armed forces and law enforcement agencies, due to the conflict in Ukraine and escalating tensions elsewhere. We remain committed to prioritizing deliveries to our military and law enforcement customers, thereby contributing to security both in the Euro-Atlantic region and globally.

Photo: Matej Slávik / Economia

Furthermore, we are developing in a fundamental way through acquisitions. In June, we announced the acquisition of a 100% stake in swissAA Holding AG, a Swiss manufacturer of high-quality small-caliber ammunition, with production facilities in Switzerland and Hungary that supplies the Swiss, Belgian, and German armies, as well as other military customers.

The agreement with CBC Europe to acquire 100% of the shares in Sellier & Bellot, one of the world's oldest and most prominent manufacturers of small-caliber ammunition, with production in the Czech Republic, marked a pivotal and transformative event in 2023. The amalgamation of swissAA and Sellier & Bellot positions ammunition as a key second pillar of our business.

Additionally, we acquired intellectual property rights to the Mk 47 automatic grenade launcher from General Dynamics. With the transfer of production to Colt and our European facilities, we are poised to become suppliers of larger and more sophisticated weapon systems beyond small arms. We aim to remain a dependable partner to our existing customers in the US, Australia, Israel, Italy, Oman, and the United Arab Emirates.

Despite all these positive developments, I must admit that in terms of economic results, last year ended well below my expectations and plans. As management, we cannot be satisfied. The prolonged period of slowdown in the US commercial market has had a negative impact on our CZ brand in particular, which after years of growth has lost some market share in this key market. We still have the ambition to grow in this market and, more importantly, to increase the market share of both brands. I am convinced that we have the key ingredients to fulfill these plans, but execution is crucial. We are working to significantly upgrade the portfolio of both brands and we are confident that we are on the right track, and this year's results will affirm it.

We will achieve growth only if we are efficient, focus on synergies between our companies and continuously innovate and improve on a daily basis. Successful integration of Sellier & Bellot and swissAA is paramount. Strengthening collaboration between our brands positions us to be part of a generational technological shift, delivering innovative and high-quality products our customers can rely on in any situation.

Given our emphasis on innovation, quality, and customer-centric approach, we have decided to showcase the capabilities and know-how across our companies in the 2023 Annual Financial Report. Whether it is the superior barrel quality, which allows us to provide lifetime guarantees to our customers in the U.S. for the entire service life of the firearms; the DiFEND® system, which allows us to design and manufacture CZ products to provide the best shooting comfort and ergonomics; thorough testing to NATO standards, including extreme durability, with Colt Canada serving as the Canadian Center of Excellence for small arms; the highest Swiss quality of small-caliber ammunition; the ability to program our machines to increase production quality, while reducing costs; our capability to transfer manufacturing technologies to other countries; unique customer service through the EG-CZ Academy, providing shooting courses for professionals and sport shooters; focusing on the development of ballistic products that provide protection to the military and law enforcement while on duty; flawless revolver timing, where all the unique parts of the revolver come together; timeless artistic engraving on our firearms – all underscoring our commitment to our customers.

Behind these capabilities are our people, to whom I extend gratitude for their skills, dedication, and tireless efforts to enhance our processes and products.

I also want to thank all our business partners and customers. Lastly, let me express my appreciation to you – our shareholders. We are delighted that you have chosen to join us in realizing our vision of becoming the recognized undisputed leader of small arms industry. We are mindful of our commitment to you and are building our Group with the aim of maximizing the value of your investment.

Jan Drahota
President and Chairman of the Board
of Colt CZ Group

5. BUSINESS OVERVIEW

5.1 Product portfolio

The Colt CZ produces a wide range of firearms, including pistols, revolvers, rifles, submachine guns, grenade launchers, sniper rifles, and centrefire rifles. The Group also produces components for firearms, such as sights, triggers, stocks, grips, and various spare parts.

The Group offers a wide portfolio of tactical equipment through its subsidiary 4M SYSTEMS, such as ballistic vests, helmets and other protection, as well as combat uniforms, backpacks, and other firearm accessories, e.g., handgun holsters and magazine pouches. The Group also offers military equipment and materials through its subsidiary Colt CZ Defense Solutions.

Another subsidiary, Spuhr, produces a number of products, such as optical mounts, accessories and upgrade kits for firearms, making it highly complementary to the Group's core business. Spuhr mounts and accessories are used by many military and law enforcement units around the world. Spuhr also offers a popular series of products for hunting.

Since 2023, the Group has been able to offer ammunition and law enforcement technology, specifically 5.56 mm, 7.62 mm, 9 mm, and 12.7 mm, as well as 40 mm grenade launcher ammunition, through its subsidiary swissAA. At the end of 2023, the Group acquired intellectual property rights for the Mk 47 automatic grenade launcher and expanded into the larger, and more sophisticated, weapon systems segment.

Small arms

The Company's small firearms are primarily comprised of pistols and revolvers from the CZ and Colt brands. The bedrock of the Group's production portfolio is pistol production. The Group's main products include the CZ 75 and CZ P-10 pistol series, CZ Shadow 2, CZ P-07/09, and Colt 1911 pistols, together with the Python and Anaconda revolver series.

The Group's most successful pistol models are the CZ 75 and the iconic CZ 1911, which are still being produced in modified forms to this day. Through the American handgun manufacturer Dan Wesson, Colt CZ offers upgrades of popular revolver and pistol models based on the 1911 platform.

Long guns

Long guns include arms for the military and law enforcement (automatic and semi-automatic rifles, sub guns, and sniper rifles), as well as for commercial use (especially rimfire rifles, centerfire rifles, and semi-automatic rifles). The Group covers all the main markets for long guns.

The most sold products include models in the CZ 457 rimfire rifle series and CZ 600 centerfire rifle series, as well as the CZ Scorpion EVO 3 sub gun, the CZ BREN 2, Colt AR15/M4 rifles and the semi-automatic Colt C20 DMR marksman rifle.

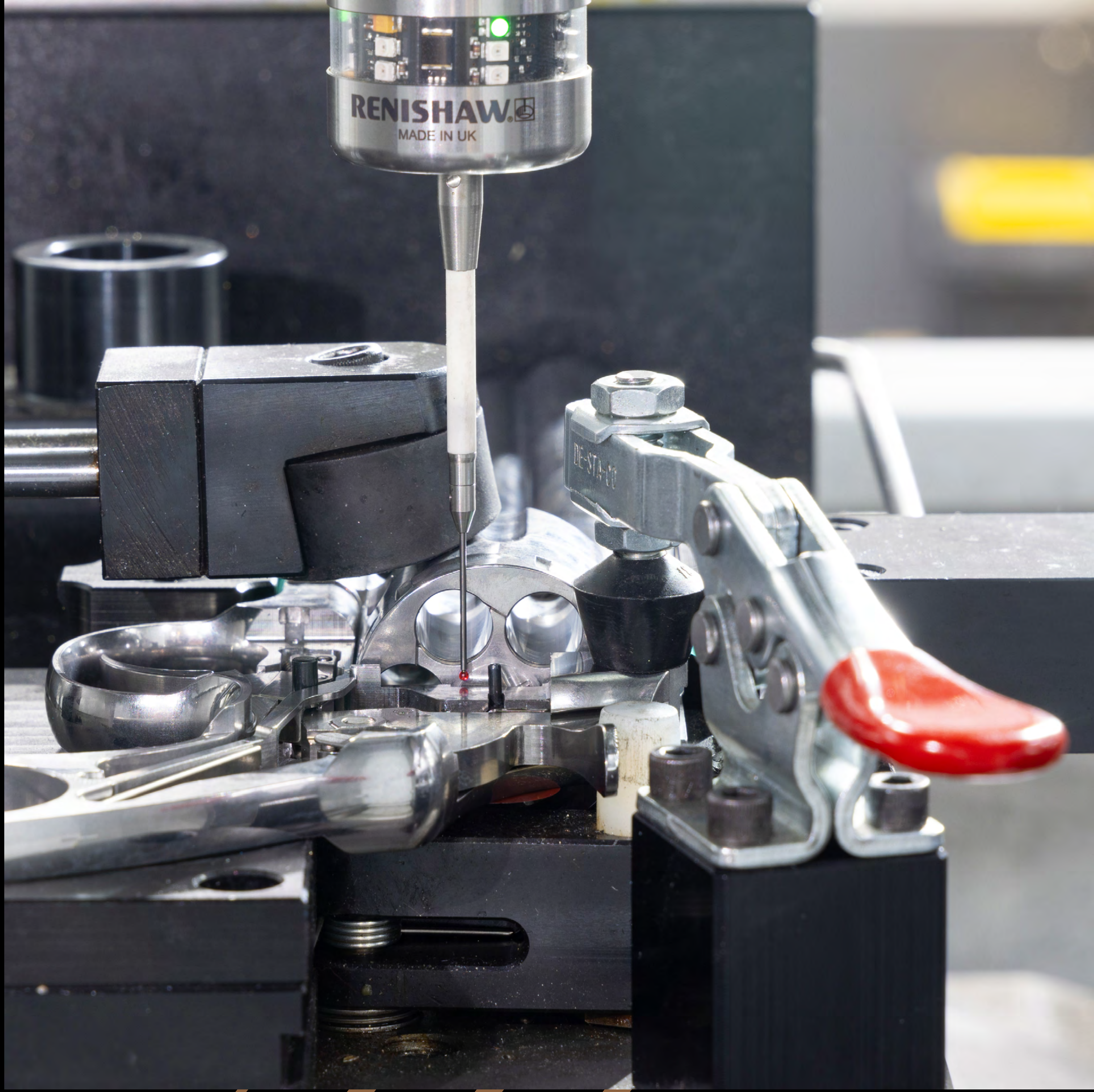
The following table sets forth a breakdown of firearm units by type that were sold in 2023 and 2022 by the Group:

Units	2023	2022	change in %
Long firearms	247,520	289,479	(14.5%)
Short firearms	373,690	403,912	(7.5%)
Total firearms	**621,210**	**693,391**	**(10.4%)**

REVOLVER TIMING

Timing a revolver is the final step in revolver assembly, where all the unique parts of the revolver come together. If done incorrectly, the revolver may not align or lock the cylinder when fired, or may not function at all. For well-over a century, this process was done by hand, even at a large revolver factory like Colt. Ultimately, the very function of a revolver was dependent upon the capability and understanding of the last gunsmith to touch it.

Today, we have pioneered a custom automated process which probes each necessary firearm component in a finished revolver, and then cuts the final puzzle piece individually to fit that revolver. This capability delivers the flexibility and precision necessary in a high-speed production environment, while delivering the consistency that our customers demand.



5.2 Markets and customers

The Group supplies its products to over 90 countries all over the world. The main markets, according to customer categories, are the military and law enforcement market and the commercial market.

5.2.1 Military and law enforcement market

Colt CZ customers in the military and law enforcement market include federal, state, and local governments and government agencies, specifically regular army units and special armed forces, state and municipal police, border guards, prison guards, and units in charge of the protection of constitutional officials.

The main goal of the Group is to increase its worldwide market share, via both organic growth and acquisitions.

The Group's management believes the military and law enforcement market offers greater growth opportunities than the commercial market, due to the current political and security situation. Ensuring global and regional security is also in line with its strategy of sustainable development.

To strengthen its position in the military and law enforcement market, the Group intends to capitalize on its many years of experience and offer comprehensive solutions in the field of firearms, accessories and ammunition.

Key customers in the M/LE market

PROJECTS RELATED TO HELP FOR UKRAINE

The Canadian Department of National Defence
In April 2023, the Canadian Department of National Defence announced the delivery of 21,000 assault rifles to Ukraine with a total value of CAD 59 million. The contract was awarded to Colt Canada and delivery was completed during Q2 and Q3 of 2023. In November 2023, the Canadian government announced that it would provide Ukraine with an additional 11,000 rifles and over 9 million cartridges worth CAD 60 million, supplied by Colt Canada.

Ministry of Defence of the Czech Republic
In 2020, the Czech Ministry of Defence and CZUB entered into a framework agreement for the supply of up to 39,000 small arms. The agreement was signed for CZK 2.35 billion for the period until 2025.

In 2022, the Company signed an amendment to the framework agreement dated April 2020 with the Czech Ministry of Defence for the acquisition of firearms. This amendment will enable the Czech Army to draw on supplies of firearms for up to CZK 1.18 billion more than the originally agreed limit of CZK 2.35 billion. In 2023, delivery continued under this contract.

The Danish Ministry of Defence / DALO
The Danish Defence Acquisition and Logistics Organization DALO signed a framework agreement with Colt Canada in August 2023 enabling the supply of various rifle systems in the upcoming years.

5.2.2 Commercial market

The commercial market includes firearms for personal defense, hunting, sport shooting, and other commercial use. Commercial customers include hunters and outdoor enthusiasts, sport shooters, and hobby shooters, including those competing in competitions held by the IPSC, USPSA and IDPA, as well as other competitions, such as various rimfire and centerfire rifle competitions. The commercial customers category also includes those who buy arms for their personal defense.

Incorporation of Four Horses Apparel

As part of the Colt brand heritage, the Group founded Four Horses Apparel Ltd., which aims to offer exclusive luxury fashion clothing and accessories based on the cultural heritage of Colt, as well as on American and military motifs. This project is led by the well-known designer and brand ambassador Derrick Miller. The company plans to gradually introduce products to the market next year.

Distribution

The Group mainly sells its products through wholesalers and distributors. As for military and law enforcement customers, it usually participates in public tenders. Colt CZ operates two company retail stores (located in the Czech Republic) and an e-shop. The Group regularly participates in major trade fairs aimed at the commercial market and the military and law enforcement, as well as organizes its own activities, with some of them on-line. It has long championed shooting sports via support of competitions, international championships, IPSC and USPSA organizations, and its own shooting team.

Colt CZ operates an on-line firearm configurator, which enables customers to configure the Company’s firearms directly from their phone or computer. The configurator serves customers in seven countries around the world, specifically in the Czech Republic, Slovakia, Poland, France, Austria, Germany and the USA.

5.3 Acquisition strategy

In 2023, Colt CZ entered the ammunition market by completing the acquisition of swissAA Holding AG and by executing an SPA of Sellier & Bellot, thus confirming its strategic intention to expand the Group's portfolio to include small caliber ammunition. At the very end of 2023, Colt CZ acquired the Mk 47 advanced light grenade launcher system and thus entered the field of heavier and more sophisticated weapon systems.

The Group plans to continue its expansion in key segments for the development and production of traditional firearms, weapon systems and ammunition via further acquisitions. Its goal is to extend the Group‘s scope of business from a product and geographic point of view, especially in the area of deliveries to the M/LE segment. The Group continues to look for acquisition opportunities in related areas, especially those with a high degree of modern technologies, such as optics, optoelectronics and other modern firearm accessories. An emerging trend the Group monitors is the introduction of autonomous weapon systems and remotely controlled weapon stations within M/LE units. In the commercial market segment, the Group continues to pursue acquisition opportunities that include non-lethal and less lethal weapons.

Joint venture (“JV”) with the Hungarian government - Colt CZ Hungary Zrt.

In 2018, the Group entered into a framework agreement on the transfer of technology with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state. In December 2022, the Group continued its existing cooperation by signing a joint venture agreement with the Hungarian state company N7 Holding Ltd. under which is the production facility ARZENAL Fegyvergyár Zrt. In May 2023, the JV was incorporated under the legal name Colt CZ Hungary Zrt. Colt CZ owns a 51% stake in the JV and the Hungarian government owns a 49% stake.

The company is structured as a "non full-function Joint Venture", where all products are only sold to companies of both shareholders. Thus, the JV does not directly enter the end market. The JV is responsible for operation of the production facility. The technologies and production premises are leased for a period of ten years, with the possibility of extension. Management of the company is under the responsibility of the Group, with delivery of orders the responsibility of both shareholders. The long-term strategic goal of the joint venture is to boost the Group's sales by producing military long arms and service pistols, and fulfil Hungary’s strategic interest of locating the production of small arms in Hungary.

The production program will focus on CZ Bren 2 rifles and CZ P09/P07 pistols. The production facility will also serve as a supplier of semi-finished products for production facilities in the Czech Republic, the USA and Sweden. Production will gradually ramp-up. The company currently has about 70 employees.

Acquisition of ammunition producer swissAA Holding AG

On 28 June 2023, Colt CZ executed a share purchase agreement that resulted in the acquisition of a 100% stake in the Swiss ammunition producer swissAA Holding AG. The transaction price was not disclosed. The acquisition was financed from the Company’s existing cash resources, including a bond issue.

SwissAA is a producer of ammunition and law enforcement technology, and specializes in small caliber ammunition, specifically 5.56 mm, 7.62 mm, 9 mm, and 12.7 mm, as well as 40 mm grenade launcher ammunition. The holding consists of several 100% owned subsidiaries, located in Switzerland and Hungary, and holds several patents for ammunition. SwissAA produces the highest quality ammunition and is based in Switzerland. Its customers include the Swiss, Belgian, German and other armed forces. This acquisition is part of the Group´s long-term strategy to not only grow in the small arms segment, but also other areas, with ammunition being a natural match with the Group´s core products.

Acquisition of small caliber ammunition manufacturer Sellier & Bellot

On 18 December 2023, Colt CZ executed an agreement with CBC Europe S.à r.l. ("CBC") to purchase 100% interest in Sellier & xBellot.

Colt CZ shall acquire 100% of Sellier & Bellot shares for the combination of cash in the amount of USD 350 million and a new issue of Colt CZ common stock, leading to a 27–28% CBC stake in the share capital of Colt CZ post transaction. The final number of CBC shares in Colt CZ will be determined by the audited financial results of both companies for the year 2023. The acquisition will be financed through a combination of the Company's existing cash resources and debt financing. The transaction is subject to regulatory approval in various countries and is expected to close in the first half of 2024.

Sellier & Bellot is a traditional Czech ammunition manufacturer, which ranks among the oldest engineering companies in the Czech Republic and worldwide. The company's products have been manufactured under its trademark since 1825. The company's product portfolio includes a wide range of hunting and sporting ammunition, together with components for pistols, revolvers, rifles and shotguns, as well as rimfire primers. Sellier & Bellot is also a major supplier of small caliber ammunition to military and law enforcement customers worldwide. The company has approximately 1,600 employees and operates its main production facility in Vlašim, Czech Republic.

Acquisition of Mk 47 system

In December 2023, Colt CZ, through its subsidiary Colt, acquired ownership of the Mk 47 40mm Advanced Lightweight Grenade Launcher system, including the fire control system, from General Dynamics Ordnance and Tactical Systems (GD-OTS). The Mk 47 is a lightweight 40mm automatic grenade launcher with an integrated fire control system, capable of functioning as a standard automatic grenade launcher or as a programable unit with airburst capability at a specified altitude.

The Mk 47 can be tripod, vehicle, air or watercraft mounted. In addition to a range of unguided impact rounds, the Mk 47 can also launch smart 40mm grenades programmable to detonate at a specified altitude via internal or radio frequency (RF) programming.. The Mk 47 fires all standard NATO high velocity 40mm rounds, providing firepower against soft and lightly armored targets. The ownership of Mk 47 technology will complement the efforts of the swissAA subsidiary in the production of 40mm grenades.

5.4 Overview of research and development activities

Technology and innovation are crucial to the Group's business success and drive everything we do. We carry out research and development (R&D) activities at each of our brands, with global coordination and with the aim of creating new products and services for customers who demand innovative and reliable products for the most demanding missions. Advancement of our research and development activities – whether independently or in cooperation with partners – is one of our highest priorities.

The Group actively invests in R&D to expand its product portfolio, while continuously introducing new, innovative products, shortening the innovation cycle and launching products with the most advanced technologies and functions in their respective categories. In 2023, the Group's research and development expenditures amounted to approximately CZK 221 million.

The core of our R&D activities is an experienced team of experts. In 2023, an average of 106 employees worked in research and development and other technical areas related to these activities. These are largely employees of the Group´s production subsidiaries (Uherský Brod, West Hartford, Kitchener). Other R&D teams focus on the development of innovative solutions in the field of ammunition (swissAA in Dulliken) and accessories (Spuhr i Dalby in Löddeköpinge, Sweden). The Colt CZ is also a stakeholder in the research company CARDAM, which is co-owned by the Institute of Physics of the Academy of Sciences of the Czech Republic and provides the Group with access to the cutting edge scientific knowledge, especially in the area of research and development of materials.

The experts in our R&D teams range from designers, material specialists, mathematicians, to experienced project managers and development lab teams. Our goal in the coming years is to further expand the teams and supplement the necessary competencies, while maintaining a healthy ratio of experienced experts and young promising engineers. The activities of our research and development teams are supported by state-of-the-art facilities for both virtual and physical research. The Group intends to continue investing in technology and equipment for R&D as a priority, with the aim of consolidating its position as a technological leader.

The main goal of research and development is to provide customers with a clear argument when making their purchase decision, while constantly improving the reliability, functionality, quality, safety and durability of our products.

The core competencies of the Group's R&D include:

- Product development with an emphasis on added value for the customer. When developing products, we try to make maximum use of synergies in the form of platformization and a high degree of product modularity, enabling the rapid expansion of our product lines with new models.
- Development of procedures and algorithms for mathematical simulations with the aim of optimizing their properties and shortening the development process of new products, including the use of artificial intelligence (AI) resources in the research and development of new technologies and materials.
- Optimizing product design for new technological processes, such as additive manufacturing.
- Elements of the Industry 4.0 concept with a focus on the automatization of the production process. In this area, we share know-how between the Group´s individual companies – for example, the Group's largest manufacturing companies take advantage of the unique experience of Spuhr for advanced automation projects.

5.5 Information on activities related to environmental protection and employment practices

We see engagement with sustainability as an opportunity to transition our business, promote change, accelerate innovation, and encourage cooperation, while addressing climate change and building the trust of our people, customers, and wider society. We aim to balance company growth with environmental responsibility and ensuring the social well-being of our people, including those who work with us or can be impacted by our activities.

ENVIRONMENT

As part of our efforts to protect the planet, we will continue to invest in new technologies and the modernization of our operating and manufacturing capabilities, with the aim of reducing consumption of natural resources, including energy and water, production of CO2 emissions, and other pollutants, such as waste and hazardous substances that are not only used in our production process, but also through the entire life cycle of the product.

The Group supports environmental efficiency of our production processes, with the aim to minimize the environmental impact of our operations by preventing pollution, reducing waste, saving energy, and limiting water consumption. We aim to achieve reduction of GHG emissions, and other hazardous substances used in production, by investing into improvements of energy, water, and waste management.

PEOPLE

Our success has always been primarily based on our people, including those who work with us, such as our suppliers, those we work for, such as our customers, and those we are impacting, such as communities where we carry out our operations. We aim to create conditions that contribute to equality, fairness, and trust in society, including our response to social trends by improving inclusion, diversity, mobility, and welfare, and the creation of a positive, motivating, and rewarding work environment. We are aware of the responsibility we have to communities where our companies operate. We will work towards improving the lives of those who are less fortunate, or in need of aid, through employee volunteerism, charitable contributions, and sponsorships.

Although our companies are steeped in history, a lot has happened over the past 3 years since we acquired Colt and as we came together to form Colt CZ. We added new companies to the Group - Spuhr i Dalby, swissAA and we are finalizing the acquisition of Sellier & Bellot. We are in the process of transforming our organization and workforce for the future, investing in skills and capabilities that will help us to successfully deliver on our strategic imperative to become the world's leading small arms company.
Our employees are embracing this change and driving improvements in performance that allow us to meet our goals. We foster a culture that will help us achieve operational excellence to deliver upon our customers' expectations, adhering to highest standards of quality and integrity, while protecting the health, safety and well-being of our employees.

THE TABLE BELOW SETS FORTH AN OVERVIEW OF THE GROUP'S EMPLOYEES AS AT 31 DECEMBER 2023 AND 2022:

	As at 31 December 2023	**As at 31 December 2022**	**Change in %**
	(Average FTE number of employees)	(Average FTE number of employees)	
Czech Republic	1,421	1,627	(12.66%)
USA	439	431	1.86%
Canada	124	123	0.8%
Sweden	17	17	0%
Switzerland	65	–	–
Hungary	35	–	–
Other	10	7	42.86%
Total	**2,111**	**2,205**	**(4.26%)**

TOP QUALITY CZ BARRELS

Cold-forged barrels are among the best available on the small arms market. We are confident in the superior quality of our barrels, which is why this year we offered our U.S. customers a lifetime warranty on the functionality and accuracy of CZ barrels for the life of the weapon, on all firearms manufactured after 2020.

We stand behind our craftsmanship. We use vanadium-alloyed chrome-molybdenum steel to manufacture our barrels for high tensile strength and resistance to fatigue wear. After the six-metre bars are cut, the hole is deeply drilled and honed with a special tool, the abrasive part of which is made up of artificial diamond grains. This is followed by the operation of forging the bore. The forging machine, using four carbide hammers and a forging mandrel, creates the bore of the barrel, which plays a key role in stabilising the projectile by rotating it on its axis as it passes through the barrel, thus stabilising its path towards the target.

When the barrel is produced by forging, the material is compacted, and the flow of fibres is directed. The forged bore is no longer machined and may remain in this condition in the finished barrel, or it may be chrome plated or nitrided to increase its durability. The reward for the very expensive and demanding bore manufacturing technology is a satisfied customer.

6. OVERVIEW OF FINANCIAL RESULTS

Revenues

Compared to the results achieved in 2022, the Group´s revenues in 2023 increased by 1.8% to CZK 14.9 billion. Negative impacts on revenues during 2023, which were mainly a higher seasonality of military and law enforcement (M/LE) sales, impact of FX translation of USD and EUR into CZK and also the decline of some product segments on the US commercial market, were partially compensated by higher sales in Q4 2023.

Revenues generated in the Czech Republic in 2023 went up y-o-y by 36.1% to CZK 2.6 billion mainly due to deliveries to the Czech Army under the framework contract. Revenues generated in the United States decreased y-o-y by 10.2% to CZK 6.3 billion in 2023, as a result of the slowdown of the US commercial market, mainly in the first half of the year. The revenues in Canada reached CZK 2.2 billion in 2023, up by 25.8% y-o-y. A significant portion of these revenues is related to the Canadian government's support for Ukraine. Revenues generated in Europe (excluding the Czech Republic) increased y-o-y by 22.2% to CZK 1.9 billion in 2023 and were also driven by consolidation of revenues of Swiss ammunition manufacturer swissAA.

Revenues generated in Africa declined by 23.6% to CZK 186 million in 2023. Revenues generated in Asia declined y-o-y by 23.8% to CZK 1.1 billion in 2023, as large sales to the military and law enforcement customers took place the previous year. Revenues from sales to other parts of the world reached CZK 481.2 million in 2023, down by 19.1% y-o-y.

THE GROUP’S REVENUES FOR THE INDICATED PERIODS BY REGION:

CZK ‘000	**For the year ended 31 December 2023**	**For the year ended 31 December 2022**	**Change in %**
Czech Republic	2,621,059	1,926,379	36.1%
U.S.	6,269,821	6,983,933	(10.2%)
Canada	2,231,391	1,773,822	25.8%
Europe (excl. the Czech Republic)	1,935,068	1,584,169	22.2%
Africa	185,994	243,317	(23.6%)
Asia	1,131,068	1,483,412	(23.8%)
Other	481,180	594,742	(19.1%)
Total	**14,855,581**	**14,589,774**	**1.8%**

Adjusted EBITDA, EBITDA[3] and EBIT

In 2023, EBITDA (including extraordinary items) decreased by 14.3% to CZK 2.7 billion, compared with the same period last year, which was primarily due to the decline of operating profit (EBIT). The decrease was driven by the decline of some product segments on the US commercial market and seasonality of sales in the M/LE segment (dependent on the licensing process), as well as by the partial increase of input prices of commodities and materials, increased personnel expenses connected, among others, to regular wage increases based on the newly signed collective agreements in the Czech Republic and USA, and the higher cost of services related to marketing activities in the commercial market in the USA.

The adjusted EBITDA in 2023 amounted to CZK 3.0 billion, down 9.4% y-o-y. In 2023, EBITDA was adjusted by one-off items related to unrealized acquisitions (mainly Vista Outdoor), and payments related to the employee stock option plan, which are not related to operational performance and value creation in the given period. In 2023, the operating profit (EBIT) reached CZK 1.9 bn, which is 15.3% less y-o-y.

Profit (loss) before tax

Profit (loss) before tax in 2023 increased by 6.5% y-o-y to CZK 2.5 billion. This growth relates to the positive results from financial operations and one-off item – profit from the bargain purchase (negative goodwill) in connection with the acquisition of swissAA in the amount of CZK 384 million.

Profit for the period after tax and adjusted profit for the period[4]

Profit after tax in 2023 slightly increased by 0.4% to CZK 2.0 billion, compared to the same period last year, due to positive results from financial operations and on-off item – profit from the bargain purchase in connection with the acquisition of swissAA. Adjusted net profit after tax in 2023 decreased by 10.1% to CZK 2.0 billion, compared to the same period last year.

Investments

The Group's cash capital expenditures were CZK 924 million in 2023, up by 36% y-o-y. This represents a 6.2% share of total revenues, which is slightly higher than the published 2023 forecast (approximately 5% of 2023 total consolidated revenues). The reasons for higher capital expenditures were investment in the production capacity at swissAA in the last quarter of 2023 (swissAA Group has been consolidated since July 1, 2023) and the acquisition of intellectual property rights for the Mk 47 automatic grenade launcher from General Dynamics Ordnance and Tactical Systems, which was signed by Colt USA in December 2023.

[3] The Group's management considers EBITDA a crucial performance measure of the Group's operational results. EBITDA is calculated as profit after tax for the period, plus income tax, less other financial income, plus other financial expenses, less interest income, plus interest. expense, less share of profit of associates, less gain on investments in associated companies (step acquisition), plus depreciation and amortization and adjusted by gains or losses from derivatives transactions. In 2023, EBITDA was adjusted by one-off items related to 2023 unrealized acquisitions and payments related to the employee stock option plan which are not related to operational performance and value creation in the given period. In 2022, EBITDA was adjusted by one-off items related to 2022 unrealized acquisitions and payments related to the employee stock option plan which are not related to operational performance and value creation in the given period

[4] In 2023, net profit was adjusted by one-off items related to 2023 unrealized acquisitions and payments related to the employee stock option plan, financing cost related to bond issue and by the profit from the bargain purchase of swissAA which are not related to operational performance and value creation in the given period. In 2022, net profit was adjusted by one-off items related to 2022 unrealized acquisitions and payments related to the employee stock option plan, cost of revaluation of equity earnout related to the Colt acquisition and by financing cost related to bond issue which are not related to operational performance and value creation in the given period.

Colt CZ – Option Share Program

In December 2021, the Company approved a draft of the Colt CZ Group SE Share Program (the "Share Program"), which was prepared in accordance with the Remuneration Policy approved by the General Meeting of the Company on 22 June 2021. The basic parameters of the Share Program are as follows:

- The total number of share options to be allocated is 3,373,000
- According to the approved framework of the Company's Share Program, the candidates are proposed to the Supervisory Board for approval by the Colt CZ Board of Directors
- The Share Program provides for the issue of new shares
- Options may be vested upon achievement of relevant targets, namely 15% of options in the period from June 2022 to June 2024, 25% of options as of June 2024 upon achievement of Target 1, and 50% of options upon achievement of Target 2

The targets of the Share Program are as follows:

Target 1 Reaching EBITDA of USD 275 million for the period from 2021 to 2023.

Target 2 Achievement of the following targets until 30 December 2025:

- Consolidated revenues of at least EUR 1 billion
- EBITDA of at least EUR 200 million
- Net leverage ratio less than 3.5x

2,870,755 shares were allocated to 82 employees of the Group for the period until 31 December 2023. When allocating share options, each candidate is assigned to one of the allocation levels (i.e., tiers) according to the level of their managerial responsibility.

Impact of the COVID-19 pandemic on the Group in 2023

In general, the impact of the COVID-19 pandemic on the Group's operation in 2023 was negligible and the Company did not record any material restrictions caused by the COVID-19 pandemic.

Impact of the Russian invasion of Ukraine on the Group in 2023

On 24 February 2022, an armed conflict started by Russia invading Ukraine. This invasion is part of the Russian military intervention in Ukraine and an escalation of the Russian-Ukrainian crisis. In response to Russia's military invasion of Ukraine, the EU adopted several measures and sanctions against Russia and Belarus, which have complemented the already existing sanctions and restrictive measures, which the EU had been putting in place since 2014. Revenues from the sale of the Group's products to countries on which the European Union imposed sanctions (Russia and Belarus) by the decision of the European Council have made up less than half a percent of the Group's total revenues over previous years.

As for the impact on the respective enterprises, the Czech Republic was affected in greater measure than the United States, especially due to its dependency on Russian gas supplies. The biggest impact from end-2022 have been the rapidly rising electricity, gas, and fuel prices. Other input commodities have also been affected by shortages and rising prices.

Thanks to the government price cap in the Czech Republic at the beginning of 2023, energy prices were kept under control and they stabilized during the year. Despite government intervention, current energy prices in the Czech Republic are several times higher than pre- war. The Group immediately responded to the situation and mapped the potential risks from embargoes, the growth in prices of energies and commodities, and sometimes input material shortages. However, the war in Ukraine itself did not affect the Group's financial results more than, for example, the slowdown of the commercial market in the USA, which affected the Group's sales during the entire year of 2023

The current security situation and armed conflict in Ukraine have resulted in greater opportunities with the military and law enforcement customers, which are described in detail in chapter 5.2.1. Military and law enforcement market- Projects related to help for Ukraine in this Annual Financial Report. The Group also sees future business opportunities connected with the war in Ukraine for the production and sale of ammunition.

Companies operating in North America, specifically in the USA and Canada, have not been directly affected by the Russian invasion of Ukraine.

HIGHEST SWISS QUALITY OF SMALL-CALIBER AMMUNITION

SwissAA is dedicated to the manufacture of small-caliber ammunition and pyrotechnic products of the highest quality. With a focus on the core Military & Law Enforcement market, swissAA, with its two production plants saltech in Switzerland and haltech in Hungary, complies with the strict requirements of NATO standards.

We have continued to invest in innovative production lines in order to meet increasing customer requirements, keep procurement times short, and continue to serve the markets with top-quality products. Particularly noteworthy is our strong position in production of high-quality 12.7mm ammunition. By integrating a new, ultra-modern cartridge case line at saltech, we are setting new standards in precision and efficiency.

The subsidiary haltech will put two innovative loading machines for tracer bullets into operation in the first half of 2024. This will increase the production capacity to up to 10 million projectiles per machine per year for 12.7mm, 5.56 or 7.62 tracer bullets, in response to the increasing demand for military products.

We have also invested in new, state-of-the-art case and bullet production machines for the 7.62mm and 5.56mm calibers. Each caliber is supported by an additional loading machine to strengthen our position in these popular NATO calibers. These strategic measures enable swissAA to not only meet current requirements, but also to prepare for future requirements. We will continue to focus on precision and highest quality of small caliber ammunition which are already the core of swissAA’s production.

7. INFORMATION ABOUT THE ANTICIPATED DEVELOPMENT AND OUTLOOK FOR 2024

The outlook for the Colt CZ in 2024 will be further influenced by a number of external factors that affected the Group´s financial results last year. These are primarily 1) the development of demand on global markets, in the USA and in the Czech Republic (also in the context of the ongoing conflict in Ukraine), 2) further inflationary pressures on the cost side and 3) impact of FX translation of USD and EUR into CZK. In addition, the outlook for financial results in 2024 will be affected by the anticipated consolidation of the acquisition of Sellier & Bellot that's in progress, for which the Company is now relying solely on data obtained during the due diligence. The outlook will therefore be reviewed in the course of 2024, depending on the development of financial results of today's Group, as well as the new acquisition.

In 000'CZK	Guidance	Y-o-y change in %
Colt CZ standalone		
Revenues	16,200 – 17,800	9.0% – 19.8%
Adjusted EBITDA	3,300 – 3,800	8.3% – 24.7%
Colt CZ with the expected contribution of Sellier & Bellot		
Revenues	20,000 – 22,000	34.6% – 48.1%
Adjusted EBITDA	4,300 – 4,700	41.1% – 54.2%
Colt CZ with Sellier & Bellot pro-forma FY 2024		
Revenues	23,000 – 25,000	54.8% – 68.3%
Adjusted EBITDA	5,200 – 5,600	70.6% – 83.7%

Capital expenditures of the Group in 2024 could reach CZK 1 – 1.2 billion, which corresponds to roughly a 5% share of the 2024 expected revenues and is in line with the medium-term target of the Company.

The acquisition of Sellier & Bellot is developing in accordance with the proposed timetable. The General Meeting of Colt CZ held in February 2024 approved the capital increase via a new issue of ordinary shares of Colt CZ, which will result in the acquisition of approximately 27–28% stake in Colt CZ by the selling shareholder CBC after the closing of the acquisition. The transaction is subject to regulatory approval in various countries. A number of these approvals have already been obtained and the acquisition is expected to be completed during by the end of the first half of 2024.

Proposed Dividend Payment

The Company will propose a dividend payment of CZK 30 per share from its net profit for 2023. The same as last year, shareholders will be able to choose between a cash dividend or stock dividend, based on their discretion. The dividend payout is subject to approval by the General Meeting, which will be held by the end of the first half of 2024. Further information concerning the timetable of dividend distribution will be published during 2024.

8. CORPORATE GOVERNANCE REPORT

BASIC INFORMATION ABOUT THE COMPANY	
Legal name:	Colt CZ Group SE
Legal form:	European Company (Societas Europaea - SE)
Address:	náměstí Republiky 2090/3a, 110 00 Praha 1
Registered at:	Prague Municipal Court, Section H, File 962
Comp. Id.:	291 51 961
VAT Id.:	CZ29151961
LEI:	315700O990GR61YDGF96
Telephone:	+420 222 814 617
Email:	info@coltczgroup.com
Date of incorporation:	2013
Web:	www.coltczgroup.com

According to Article 2 of Colt CZ's Articles of Association, the scope of business of the Company includes: a) management of its own assets, b) manufacturing, trade, and services other than those listed in Annex 1 through 3 of the Act No. 455/1991 Coll., on trade licensing, as amended and c) accounting consulting, bookkeeping, tax accounting.

The Company does not have any branch or other foreign operations or interests.

8.1 Information about compliance with the Company's corporate governance code

The corporate governance structure of the Company complies with applicable laws, including the Corporations Act. Under Czech law, the Company is not required to comply with any corporate governance code.

Since its listing, the Company has subscribed to the Corporate Governance Code CR 2018 (henceforth referred to as the "CG Code")[5] based on a comply-or-explain principle, which means that the Company either complies with the CG Code or explains why it does not comply with certain rules of the CG Code. In 2023, as at the date of this annual financial report, the Company complied with all provisions of the CG Code, with the exception of the following rules:

2.3.2 The Company should not allow shareholders to make decisions outside the General Meeting (per rollam):
Colt CZ: The Articles of Association allow for the per rollam voting at the General Meeting. The Company introduced this manner of voting as one of the measures taken in response to the outbreak of COVID-19. Even when shareholders make decisions outside the General Meeting, the Company will respect shareholders' rights and guarantee full exercise of these rights to all shareholders. General Meetings held in 2023 made decisions outside the meeting (per rollam).

3.2.2. Members of the Company's elected bodies should not serve as members of elected bodies in more than four other business corporations, except in business corporations that form a corporate group with the Company.
Colt CZ: Mr. René Holeček, who is the vice-chairman of the Supervisory Board, acts as a member of elected bodies in more than four business corporations. The Company does not consider such positions conflicting.

Ms. Jana Růžičková, who is a member of the Supervisory Board, acts as a member of elected bodies in more than four business corporations associated with the Company's majority owner. The Company does not consider such positions conflicting.

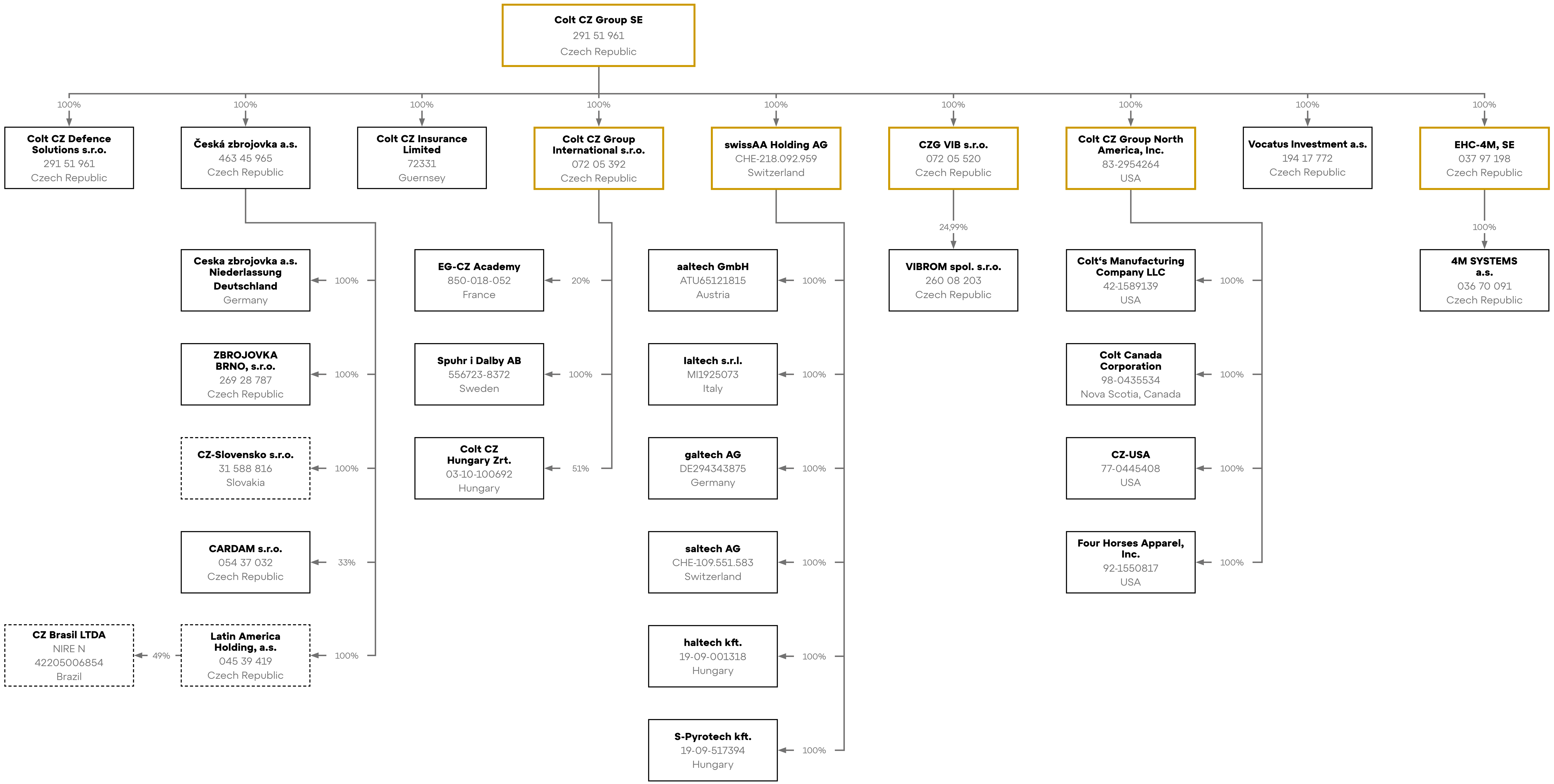
Other members of the executive body do not act in more than four corporations outside the Group.

[5] For download: https://www.mfcr.cz/cs/ministerstvo/kariera-a-vzdelavani/vzdelavani/odborne-studie-a-vyzkumy/2019/kodex-spravy-a-rizeni-spolecnosti-cr-201-34812

ORGANIZATIONAL CHART OF THE GROUP AS OF 31 DECEMBER 2023

HOLDING COMPANIES

NO ASSET COMPANIES



SUPERIOR PRECISION AND DURABILITY

Colt Canada is known worldwide for its precise and accurate weapon systems. Our skilled employees conduct precision testing on all new products, including the C20 semi-automatic sniper weapon, which is the most accurate semi-automatic 7.62 sniper rifle on the market. Prior to leaving the factory, the C20 must achieve 5-shot groups with a mean radius of 1.2 centimeters at 100 meters. We are proud of the fact that Colt Canada customers have reported even better precision during their own independent testing. This accuracy stems from the craftsmanship and dedication of all staff at Colt CZ Group during the design and manufacturing.

Just like accuracy, our customers need firearms to be highly durable on the battlefield. An example of what our products can withstand is the New Canadian Ranger Rifle (NCRR) which is designated by the Canadian Department of National Defence (DND) as the C19. It is reliable, accurate, and durable in extreme weather environments. Operable at temperatures ranging from –51C to +39C with moderate to high humidity, the weapon is resistant to corrosion from long-term exposure to salt-laden air and water and is suitable for transport by foot, wheeled commercial vehicles, skidoos, sleds, small boats, and all-terrain vehicles. The rifle is capable of engaging targets up to 600m and is lighter in weight and shorter than its predecessor, the Lee Enfield No. 4 MK 1.

6.2. The Supervisory Board should have at least three members and a sufficient number of its members should be independent. A member of the Supervisory Board should be considered independent only if he/she has no business, family or other relationships with the Company, its majority shareholder or the Company's management, or/and is not influenced by other circumstances that may create a conflict of interest impairing his/her judgement.
Colt CZ: As at the day of this annual financial report, only David Aguilar and Vladimír Dlouhý meet the definition of independent members of the Supervisory Board. Mr. Holeček is the majority owner of the Company and Mr. Kovařík and Ms. Růžičková act on the elected bodies of companies associated with the Company's majority shareholder.

9.2.1 Non-executive committees should be composed of a majority of non-executive members of the Supervisory Board or the Administrative Board.
Colt CZ: As at the day of this annual financial report, no member of the Audit Committee was a member of the Supervisory Board.

As at the date of this annual financial report, the majority of committees established by the Supervisory Board (i.e., the Remuneration Committee, the Strategic Investments and Acquisitions Committee, and Compliance and Ethics Committee) did not consist of non-executive members of the Supervisory Board.

8.2 Information on internal control policies and procedures and the issuer's and its consolidating entity's approach to risks, in relation to the financial reporting process

The Group uses various technical and governance measures to prepare its financial statements. These measures ensure compliance with the relevant accounting standards and provide users of the financial statements with a true and fair view of its financial position, equity position, cash flows and profitability of the Group.

These measures comprise internal governance, namely the Group's consistent accounting policies and process set-up. This means multi-level checks on transactions being recorded and maximum attention being paid to the automation of booking accounting entries.

Pursuant to Act No. 563/1991 Coll., on accounting, as amended, the Company presents its consolidated financial statements in accordance with IFRS. The Company and the Subsidiaries prepare their separate financial statements in accordance with local accounting standards and are subject to the IFRS consolidation on the Group level.

The subsidiaries use various accounting systems to keep their books, with the main subsidiaries using SAP/ 4HANA, Infor/Syteline, and EPICOR.

Governance and process set-up measures control the circulation of documents supporting the journal entries. As a rule, any accounting record may only be posted on the basis of the multi-level approval process. This rule excludes any possibility of a single employee having more than one role in the hierarchy. Approval is carried out on-line through an approval process.

Only users with appropriate rights have access to the accounting system. Access rights for the system are granted by means of a software application and are subject to approval by the supervisor. Access is provided according to the employee's position and reviewed on a regular basis. Only employees of the relevant department have rights for active operations (postings) in the accounting system. The accounting system maintains an audit trail, which allows for the identification of the user that created, changed, or reversed any accounting record.

The system of monthly reconciliation of the accounts is set up, however this is not formally documented. The quarterly and annual documentation of accounts reconciliation is documented annually. Moreover, the management review of monthly accounts, compared to prior year and budgeted figures, is performed in a thorough way. Further, plan fulfilment is checked monthly, and the expected performance of the individual companies is determined in a relevant year.

Based on stock exchange rules, the Group, as a securities issuer, also publishes its quarterly consolidated financial statements.
In addition, annual financial statements are audited by an external auditor, who carries out the audit of separate and consolidated financial statements as at the balance sheet date, i.e., 31 December of a given year.

8.3 Structure of equity and description of shares

As at 31 December 2023, Colt CZ's share capital was CZK 3,515,741 and was fully paid up. It was divided into 35,157,410 ordinary registered book-entry shares with a nominal value of CZK 0.10 each. The Company has not issued preferred shares, rights, convertible bonds or any other equity or equity-linked securities. All shares bear equal rights. The Company has no authorized unissued shares[6]. The shares of the Company bear no redemption or conversion rights. No capital of any member of the Group is under option, nor is it agreed conditionally or unconditionally to be put under option. Each shareholder of the Company has equal rights, including equal voting rights (one vote per one share), subject to certain exceptions set out in the Corporations Act. According to the Articles of Association, each share of the Company is entitled to one vote at the General Meeting. The Company has not issued any other types of shares than ordinary shares.

In 2023, the Company did not acquire any treasury shares or other equity interests.

Restrictions on transferability of securities
The transferability of Colt CZ's shares is not restricted.

Significant direct and indirect shares in the issuer's rights
As at 31 December 2023, the majority shareholder of the Company was Česká zbrojovka Partners SE, incorporated as a European Company (Societas Europaea) in the Czech Republic, (henceforth referred to as the "Major Shareholder"), which owns 26,509,174 shares representing a 75.4% share in the Company's equity and voting rights. The remaining 24.6% of Colt CZ's shares are free float. The majority shareholder of the Major Shareholder is European Holding Company, SE (henceforth referred "EHC"), holding 87.5% of the share capital and voting rights, while the remaining 12.5% is held by the Holeček Family Foundation. 25% of EHC is owned by Mr. René Holeček; the remaining 75% in share capital is owned by OMNES holdingový nadační fond.

The Company's major shareholders do not have different voting rights. The majority shareholder does not control the Company, other than through the exercise of voting rights at General Meetings.

Information on holders of securities with special rights, including a description of these rights
No special rights are attached to any of Colt CZ's shares.

Information on voting rights restrictions
The voting rights attached to Colt CZ's shares are not restricted.

Information on agreements between shareholders that may result in making transferability more difficult, if known to the issuer
Colt CZ is not aware of any agreements between its shareholders that might restrict or limit the transferability of its shares or voting rights.

Information on special rules governing the election and removal of members of the statutory body and amendments to the issuer's Articles of Association or similar document
The Articles of Association provide that the Board of Directors consists of seven members that are elected and recalled by the Supervisory Board. A member of the Board of Directors is elected for a period of five years and may be re-elected. The Supervisory Board may recall a member of the Board of Directors at any time. The Board of Directors appoints its Chairman and two Vice Chairs from amongst its members. The Articles of Association may be amended by a decision of the General Meeting. Apart from standard legal provisions, no special rules are in place for the appointment of, and recalling of, members of the Board of Directors and for adoption of the amendments of the Articles of Association.

Information on the special powers of the statutory body or the administrative board under the Corporations Act
The Company's Board of Directors has no special powers.

[6] With the exception of the approved Share Program

The Company has not entered into significant contracts that will become effective, change, or expire, if control over the Company changes as a result of a takeover bid
The Company has not entered into significant contracts that will become effective, change, or expire, if control over the Company changes as a result of a takeover bid.

Information on contracts between the issuer and members of its managing body or employees in which the Company would undertake to provide a performance, in case their service or employment is terminated in relation to a takeover bid
The Company has not entered into any contracts with members of its Board, or its employees, in which the Company would undertake to provide a performance in case their service or employment is terminated in relation to a takeover bid.

Control system of the program under which members of the managing body or employees acquire the Company's participating securities, options over these securities or other rights to them unless they themselves exercise such rights
In December 2021, the Company's Supervisory Board approved the Share Program draft of Colt CZ Group SE (henceforth referred to as the "Share Program"), which was prepared in accordance with the Remuneration Policy approved by the General Meeting of the Company on 22.6.2021. The total number of share options to be allocated is 3,373,000. Based on the Share Program, co-workers will be allocated options – rights to purchase a predetermined number of Colt CZ Group SE registered book-entry shares with a nominal value of CZK 0.10 per share.

As at 31 December 2023, 82 program participants were allocated 85% of options under the signed contracts.

The control mechanisms for the Share Program in 2023 were the conclusion of contracts between the Company and each individual participant on the one hand, and the approval of candidates by the Company's managing body, on the other. The Share Program participants are proposed by the Board of Directors and approved by the Supervisory Board.

As at the date of this annual financial report, no shares have been allocated based on the allocated options. The first option may be provided as of 2 July 2024, under the terms and conditions of the Share Program.

8.4 Description of decision-making processes and the composition of the Group's managing body and its committees

The Company has a dual management system consisting of the Board of Directors (the managing body) and the Supervisory Board (supervision body). The Board of Directors represents the Company in all matters and is charged with its day-to-day business management, while the Supervisory Board is responsible for the supervision of the Company's activities and of the Board of Directors and resolves matters defined in the Corporations Act and the Articles of Association, particularly matters with material impact on the value of the Company shares. Under the Corporations Act, the Supervisory Board may not manage the Company's business. A description of the decision-making procedures, and the composition of the Board of Directors is set out in the Company's Articles of Association, Section 13: Board of Directors and its powers. A description of the decision-making procedures and the composition of the Supervisory Board is set out in the Company's Articles of Association, Section 19: The Supervisory Board and its powers. Information on the Supervisory Board Committees, including the Audit Committee, is set out in the Company's Articles of Association, Section 26: Meetings and decision-making of the Audit Committee. The current Articles of Association of the Company are available on the Company's website https://www.coltczgroup.com/en/investors-corporate-affairs.

Board of Directors
The Board of Directors is the statutory body of the Company. The Board of Directors shall be in charge of the management of the Company's business and shall act on the Company's behalf. Matters falling within the powers of the Board of Directors include those that are not entrusted to other bodies of the Company by virtue of the Articles of Association or law.

Matters falling within the powers of the Board of Directors primarily include:

a) Management of the company's business and ensuring the operational affairs of the Company
b) Ensuring proper maintenance of accounts, books of accounts and other corporate documents required by law
c) Submitting the annual, extraordinary, and consolidated financial statements to the General Meeting for approval, including interim financial statements if necessary, and a proposal to distribute profits and other resources of the Company or to cover losses
d) Submitting the annual financial report to the General Meeting, including the Report on the Company's business and state of assets
e) Convening the General Meeting and submitting to it matters falling within its powers for discussions and approval
f) Decisions on the use of funds, where the use is for a purpose to be decided by the General Meeting
g) Increasing the Company's share capital, in accordance with the Articles of Association
h) Granting of proxy
i) Informing the Supervisory Board about changes in the Company's organizational structure and in legal entities controlled by the Company
j) Informing the Supervisory Board at least once every 3 months about the progress and expected development of the Company's business, strategy, economic performance, risks, and internal control system

The Board of Directors of the Company may establish committees and subcommittees as its advisory bodies.

The Board of Directors shall consist of 5 (in words five) members. A member of the Board of Directors may be a legal person or an individual. Members of the Board of Directors shall be appointed and removed by the Supervisory Board. The term of office of the members of the Board of Directors shall be 5 years. A member of the Board of Directors may be re-elected.

The Board of Directors meets once a month, usually at the Company´s office. Ordinary meetings shall be convened by the Chair or Vice-Chair of the Board of Directors or, in their absence, by any member of the Board of Directors by written invitation.

A quorum of the Board of Directors shall be present if an absolute majority of its members are present at the meeting. A member of the Board of Directors who participates in a meeting by technical means shall be deemed to be present at the meeting. An absolute majority of all members of the Board of Directors, not just those present, shall be required to take a decision on all matters discussed at a meeting of the Board of Directors. Each member of the Board of Directors shall have one vote. In the event of a tie, the vote of the Chair of the Board shall always prevail.

Two members of the Board of Directors shall act jointly on behalf of the Company, at least one of whom must be the Chair or Vice-Chair of the Board of Directors.

Supervisory Board
The Supervisory Board is the supervision body of the Company and shall supervise the exercising of powers by the Board of Directors and the Company's activities.

Matters falling under the powers of the Supervisory Board include those entrusted to it by law and the Articles of Association. It especially grants prior approval for matters under Article 13.6 of the Company's Articles of Association or its view on matters under Article 13.7 of the Company's Articles of Association.

The Supervisory Board shall be governed by the principles approved by the General Meeting, unless they conflict with the law or the Articles of Association.

The Supervisory Board may establish committees and subcommittees as its advisory bodies (e.g., the Remuneration Committee, the Compliance and Ethics Committee, and the Strategic Investments and Acquisitions Committee).

The Supervisory Board has five members. Members of the Supervisory Board are elected and dismissed by the General Meeting. The Supervisory Board elects and recalls its Chairman from among its members. The term of office of the members of the Supervisory Board is 5 years. A member of the Supervisory Board may be re-elected.

The Supervisory Board shall meet as necessary, but at least twice a year. Ordinary meetings shall be convened by the Chairman by written invitation. The Supervisory Board shall take decisions at its meetings. Meetings of the Supervisory Board shall be chaired by its Chairman. A quorum of the Supervisory Board shall be present if an absolute majority of its members are present at the meeting. The affirmative vote of an absolute majority of all members of the Supervisory Board, not just those present, is required for the adoption of resolutions on all matters discussed by the Supervisory Board. Each member of the Supervisory Board shall have one vote. In the event of a tie, the vote of the Chair of the Board shall always prevail. If all members of the Supervisory Board agree, the Supervisory Board may also adopt a decision in writing outside the Supervisory Board meeting (per rollam voting), based on a proposal by the Chair of the Supervisory Board.

Audit Committee and its powers

The Audit Committee shall take decisions at its meetings. A quorum of the Audit Committee shall be present if an absolute majority of its members are present at the meeting. The Audit Committee decides by an absolute majority of votes of its members. Each member of the Audit Committee shall have one vote. In the event of a tie, the vote of the Chair of the Audit Committee shall prevail. If all members of the Audit Committee agree, the Audit Committee may also adopt a decision in writing outside the Audit Committee meeting (per rollam voting), based on a proposal by the Chair of the Audit Committee. Meetings of the Audit Committee shall be held as necessary. The frequency of meetings may be determined in the Rules of Procedure of the Audit Committee.

A detailed description of the Audit Committee and a description of other committees established by the Company are given below in this section.

PROGRAMMING FOR QUALITY

Within the shooting community, Spuhr i Dalby is known for the top-notch quality of our machining. This is the result of the strive for excellence of the company's founder, Mr. Håkan Spuhr, and his dislike for any sharp edges or burrs that otherwise will make themselves known when you are wet and cold on the range or in the field.

Håkan Spuhr's focus has always been on minimizing the amount of manual labor needed in the manufacturing process. To this end, our Production Manager has spearheaded the automatization of our production – beyond the mere machining – to the point that every CNC machine at Spuhr is paired with a robot, keeping production running 24/7 with a single manned shift.

As Spuhr has grown over the years, we have remained devoted to the idea that every second of CNC machining should be useful and not wasteful. Any unnecessary movement of the cutting tools or the part, and any tool changes between different operations should be kept to a minimum, as to limit the total machining time and the need for costly manual labor – something we continue to instill in our production staff. This also influences the design of our components, allowing them to be machined fully, with as few setups and operations as possible.

This approach to programming – minimizing both machining time and manual operations – promotes quality and limits cost, while still allowing for round-the-clock production.

COMPOSITION OF THE COMPANY'S MANAGING BODY:

BOARD OF DIRECTORS

The following table sets out the name and principal position of each member of the Board of Directors.

Name	Position on the Board of Directors / Position in senior management	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Jan Drahota	Chairman of the Board of Directors / CEO	17 January 2020	17 January 2025
Josef Adam	Vice-Chairman of the Board of Directors / Legal, Compliance and Risk Management Director	1 November 2021	1 November 2026
Jan Zajíc	Member of the Board of Directors / CEO of CZUB	24 November 2020	24 January 2025
Jan Holeček	Member of the Board of Directors / Group Sales Director	1 July 2021	1 July 2026
Dennis Veilleux	Member of the Board of Directors / President of Colt	1 July 2021	1 July 2026
David Aguilar	*Member of the Board of Directors / independent*	*17 January 2020*	*30 June 2023*

The business address of each member of the Board of Directors is at náměstí Republiky 2090/3a, 110 00 Prague 1, the Czech Republic.

JAN DRAHOTA

President and Chairman of the Board of the Company

Mr. Drahota studied Finance at the University of Economics in Prague and holds a Master of Business Administration degree from the University of Chicago's Booth School of Business. Before joining the Group at the level of a major shareholder in 2014, Mr. Drahota worked for about 15 years in the financial markets and investment banking field, spending most of his career at the Société Générale Group, most recently as its Managing Director, Head of Central and Eastern Europe, based in Paris. From 2014 to 2015, he served as a senior advisor to the Deputy Minister of Finance of the Czech Republic. He also served as an advisor to the Minister for Health with regards to corporate governance of publicly held hospitals and institutions.

Mr. Drahota has broad non-executive director experience and was acting, inter alia, as a representative of the Ministry of Finance on the Supervisory Board of ČEPS, a.s. (the sole Czech energy transmission grid owner and operator).

JOSEF ADAM

Vice-Chairman of the Board of Directors

Mr. Adam is a graduate of the Faculty of Law of Charles University in Prague and the joint LL.M. program of Nottingham Trent University and the Faculty of Law of Masaryk University in Brno. Before joining Colt CZ in July 2022, Mr. Adam worked for two years as an attorney and subsequently a partner at HAVEL & PARTNERS, law firm. He worked for eleven years in various managerial positions at the Prague Airport, Czech Aeroholding and Czech Airlines, including nine years as a member of the Board of Directors. In addition to the legal department, he also managed the finance, HR and IT departments. In Colt CZ, Mr. Adam is responsible for legal affairs, compliance and risk management.

JAN ZAJÍC

Member of the Board of Directors

Jan Zajíc graduated in Economics and Management from the Faculty of Business and Economics of Mendel University in Brno. Prior to joining CZUB, he held various managerial positions in industrial companies in the Czech Republic and abroad. He started his career in Fatra, a plastic producer based in Napajedla, then in the Continental Barum plants in Otrokovice and Púchov, Slovakia. In the Continental Group, he held various positions in financial management and controlling at the production plant in Kuala Lumpur, Malaysia, and subsequently at the company's headquarters in Hannover, Germany. Mr. Zajíc has been working at CZUB as its Chief Financial Officer since 2019. Since November 2020, he has served as Chief Executive Officer and Chairman of the Board of Directors of CZUB. Mr. Zajíc represents CZUB, the key operating entity, on the Board of Directors in the Czech Republic.

DENNIS VEILLEUX
Member of the Board of Directors

Dennis Veilleux is a graduate of Vermont Technical College. With 35 years of experience in the arms industry, Mr. Veilleux has deep expertise in firearms design, engineering, and manufacturing. He started his career at GE Armament, where he participated in the development and manufacture of military weapon systems.

He also worked for Sturm, Ruger and U. S. Repeating Arms Company. Dennis has been working for Colt Holding Company LLC since 2006, holding positions of Executive Director of Engineering, Vice President of Manufacturing, and Chief Operating Officer. As the holding's CEO as of 2013, he played a crucial role in its restructuring and transformation, which culminated in it being acquired by Colt CZ Group.

JAN HOLEČEK
Member of the Board of Directors

Jan Holeček studied economics and finance at Bentley University, USA. In 2016, he started his career at Siemens as a market analyst, and later as a business development specialist. From 2017, he worked at Česká zbrojovka, a. s., first in the position of analyst, then as Marketing Director. From the end of 2019 to December 2021, he was a member of Česká zbrojovka's Board of Directors, responsible for business. Since July 2021, he has been a member of Colt CZ Group's Board of Directors, responsible for business.

Changes in the Board of Directors in 2023

As of 1 July 2023, Mr. David Aguilar was elected to the Supervisory Board, and his tenure on the Company's Board of Directors ended on 30 June 2023.

LIST OF COMPANIES IN WHICH MEMBERS OF THE BOARD OF DIRECTORS HAVE BEEN MEMBERS OF ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR SHAREHOLDERS/MEMBERS AT ANY TIME IN THE PRIOR FIVE YEARS, INDICATING WHETHER THAT PERSON IS STILL A MEMBER OF THE ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR A SHAREHOLDER/MEMBER OF THOSE COMPANIES:

Jan Drahota

Past positions:

THERMAL-F, a.s. – Vice-Chairman of the Supervisory Board .... (from October 2014 to March 2018)
Česká exportní banka, a.s. – Member of the Supervisory Board .... (from June 2017 to June 2019)
CZ-AUTO SYSTEMS a.s. – Member of the Supervisory Board .... (from September 2019 to November 2019)
Zero Emissions Debt Finance, a.s. – Statutory Director .... (from September 2015 to January 2021)
Česká zbrojovka Partners SE – Member of the Board of Directors ... (from February 2018 to October 2021)
ČEPS, a.s. – Member of the Supervisory Board .... (from February 2015 to November 2022)

Current positions:

DCF Partners, s.r.o. – Statutory Representative .... (from January 2012 to date)
Zero Emissions Debt Finance, a.s. – Chairman of the Administrative Board .... (from September 2015 to date)
hypo360.cz, SE – Member of the Board of Directors .... (from October 2016 to date)
Česká zbrojovka Defence SE – Member of the Board of Directors .. (from November 2021 – to date)

Jan Zajíc

Past positions:

None

Current positions:

Iteuro, a.s. – Chairman of the Supervisory Board .... (from October 2020 to date)
Sdružení pro rozvoj Zlínského kraje – Member of Management .... (from September 2021 to date)

Josef Adam

Past positions:

České aerolinie a.s. – Member of the Board of Directors .... (from April 2014 to October 2018)
ellipse aero s.r.o. – Member of the Supervisory Board .... (from December 2020 to January 2022)
KOVACO Electric, a.s. – Member of the Supervisory Board .... (from January 2020 to April 2021)

Current positions:

European Holding Company – Member of the Supervisory Board .... (from November 2021 to date)

Dennis Veilleux

None

Jan Holeček

None

UNIQUE SERVICE TO CUSTOMERS

Since 2019, Eric Grauffel has been a valued member of the CZ Shooting Team and currently competes in the IPSC PRODUCTION, OPEN and STANDARD divisions. Considered one of the best pistol shooters of all time, Eric Grauffel is a nine-time IPSC World Champion. In 2021, Eric and CZ joined forces to establish the EG-CZ Academy in Quimper, France.

The EG-CZ Academy offers shooters full access to some of the world's best training tools, instructors, products, and services that will advance their shooting skills to the next level and beyond. Designed to be among the most prestigious and well-equipped shooting facilities in Europe, the Academy features a multi-functional indoor shooting range, three IPSC stages, and an onsite gunsmith. In addition to sport and target shooting, the Academy also serves as a highly effective and realistic training center for the Military and Law Enforcement customers.

All elements of the multi-functional range have been personally designed by Eric to ensure effective interaction and improving the skills of all shooters – from novice to advanced. The EG-CZ Academy provides exceptional one-on-one and group lessons onsite within the Academy. Individuals and groups can also request fully customized courses that match their exact requirements to be delivered in their home countries.

COMPOSITION OF THE COMPANY'S MANAGING BODY: SUPERVISORY BOARD

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
David Aguilar	Chair of the Supervisory Board, independent	1 July 2023	1 July 2028
René Holeček	Vice-chair of the Supervisory Board	1 July 2023	1 July 2028
Lubomír Kovařík	Vice-chair of the Supervisory Board (from 1 July 2023) Chair of the Supervisory Board (till 30 June 2023)	1 July 2021	1 July 2026
Vladimír Dlouhý	Member of the Supervisory Board, independent	17 January 2020	17 January 2025
Jana Růžičková	Member of the Supervisory Board	1 November 2021	1 November 2026

The business address of each member of the Supervisory Board is at náměstí Republiky 2090/3a, 110 00 Prague 1, the Czech Republic.

DAVID AGUILAR

Chair of the Supervisory Board

On 31 March 2013, Mr. Aguilar abandoned his career in U.S. government services, where he had served for 35 years with the U.S. Customs and Border Protection and the United States Border Patrol. There, he acquired extensive knowledge and expertise in law enforcement, administration, domestic and international policing, strategy, tactics, and policy development. He served the last three and a half years of his career as the Acting Commissioner of U.S. Customs and Border Protection, the highest-ranking career officer in the largest U.S. federal law enforcement organization.

Mr. Aguilar's leadership, professional integrity and commitment to excellence have earned him numerous awards, including the Presidential Rank Award in 2008, the President's Excellence Award in 2005, the Department of Homeland Security Distinguished Service Medal, the Washington Homeland Security Roundtable Lifetime Achievement Award, and the Institute for Defense and Government Advancement Lifetime Achievement Award. Currently, besides his role in the Group, David is a Principal at Global Security and Innovative Strategies, where he advises clients on a broad range of national homeland and international security matters, including border security and logistics, global trade and commerce, supply chain management and security, risk management, viability assessments, and strategic planning and implementation. Mr. Aguilar focuses on tailoring global risk management solutions related to supply chain security, customs compliance, and all issues related to border protection at and between international ports of entry. Till 30 June 2023, Mr. Aguilar acted as an independent, non-executive member of the Board of Directors.

LUBOMÍR KOVAŘÍK

Vice-Chair of the Supervisory Board

Mr. Kovařík graduated from the Military Air Force University and earned a Master of Business Administration degree at Sheffield University. He began his career as a pilot in the Army of the Czech Republic, where he reached the rank of major before he retired from the military in the mid-1990's. He began his civilian career in 1995 as manager of Aulis. After a year, he joined Škoda Praha as Production Director, where he worked his way up to the position of Chief Executive Officer. He later worked for Eltodo EG and Mavel. From 2006 to 2017, he served as the Managing Director of CZUB. From 2018 to 2021, he was the President and the Chairman of the Board of Directors of the Company.

In his post as the Chairman of the Supervisory Board, Mr. Kovařík supervises the strategic development of the Group and its sustainable development activities.

RENÉ HOLEČEK

Vice-Chair of the Supervisory Board

Mr. Holeček graduated from Department of Economics and Management in metallurgy at the Technical University in Ostrava. In 1990, he started his career in banking, working at Komerční banka and Pragobanka in various executive positions. Since 1994, Mr. Holeček has been an entrepreneur and industrialist investor. He was part of the landmark privatization of Třinecké železárny, and since then, has built an outstanding industrial track record. Together with his business partner at the time, he bought CZUB when it was on the verge of bankruptcy and managed to turn it around to become one of the leading small arms manufacturers worldwide. Since 2014, he has been the majority owner of the Company.

JANA RŮŽIČKOVÁ

Member of the Supervisory Board

Ms. Růžičková graduated from the University of Economics in Prague. Since 1997, she has been working for several companies belonging to the Group. She acts as the key economics expert and is responsible for audit, accounting, tax, and legal matters of the Group. She specializes in corporate restructuring and M&A transactions. She is a member of the Supervisory Boards and Boards of Directors of several companies within the Group. She was co-opted into the Company's Supervisory Board effective from 1 November 2021. Before that, she was Secretary and Vice-Chair of the Board of Directors of Colt CZ.

VLADIMÍR DLOUHÝ
Member of the Supervisory Board

Mr. Dlouhý is a graduate of the University of Economics in Prague. He subsequently earned a Master of Business Administration degree from the Catholic University of Louvain, Belgium in 1978 and pursued postgraduate studies in mathematical statistics and probability at Charles University in Prague.

Mr. Dlouhý began his professional career as a lecturer. In 1983, he moved to the Czechoslovak Academy of Sciences as a researcher and later became Deputy Director of the Forecasting Institute. In 1989, Mr. Dlouhý was invited by Václav Havel to join the first post-communist government, and until 1992, served as the Minister of Economy of Czechoslovakia. After the split of the country, he served as Minister of Industry and Trade of the Czech Republic until June 1997. At the same time, he was a member of Czech Parliament and Vice-Chairman of the Civic Democratic Alliance, which was part of the governing coalition.

In 1997, he announced his departure from politics and currently serves as an International Advisor for Central and Eastern Europe at Goldman Sachs. From 2014 till 2023, he has been the president of the Czech Chamber of Commerce. Mr. Dlouhý is also an Associate Professor of Macroeconomics and Economic Policy at Charles University in Prague. Between 2000 and 2011, he was a member of the Board of International Overseers at the Illinois Institute of Technology, Chicago, USA. He is also a member of the Trilateral Commission, and in the past, was a Deputy Chairman of its European Group. From 2009 to 2012, he was a member of the European Advisory Group to the Managing Director of the International Monetary Fund.

LIST OF COMPANIES IN WHICH MEMBERS OF THE BOARD OF DIRECTORS HAVE BEEN MEMBERS OF ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR SHAREHOLDERS/MEMBERS AT ANY TIME IN THE PRIOR FIVE YEARS, INDICATING WHETHER THAT PERSON IS STILL A MEMBER OF THE ADMINISTRATIVE, MANAGING OR SUPERVISORY BODY OR A SHAREHOLDER/MEMBER OF THOSE COMPANIES:

David Aguilar

Past positions:

Global Security and Innovative Strategies – Principal	(from April 2014 – to May 2022)
Drone Aviation Holding Corp – Member of the Board of Directors	(from May 2019 to April 2021)
University of Houston – Borders, Trade, and Immigration Institute External Advisory Board Member	(term expired in 2022)
SAP NS2 Advisory Board Member	(from April 2014 to April 2022)

Current positions:

U.S. Border Patrol Foundation – Member of the Board of Directors	(from 2013 – to date)
Spectredge Wireless Inc. (Non-publicly held): Member of the Board	(from 2013 – to date)

René Holeček

Past positions:

Minezit Property Investments a.s. – Member of the Supervisory Board and sole shareholder	(from June 2014 to October 2022)
Minezit SE – Member of the Supervisory Board	(from September 2015 to May 2022)

Current positions:

TRX, s.r.o. – Executive	(from September 2015 to date)
Silesia Invests SE – Member of the Supervisory Board	(from September 2016 to date)
Česká zbrojovka Partners SE – Member of the Supervisory Board	(from February 2017 to date)
Česká zbrojovka Defence SE – Member of the Supervisory Board	(from August 2017 to date)
BAZADO s.r.o. – Associate	(from December 2020 to date)
European Holding Company, SE – Chair of the Supervisory Board	(from November 2021 to date)
M&H Management a.s. – Member of the Supervisory Board	(from October 2021 to date)
and sole shareholder	(from September 2022 to date)
CELLINI spol. s r.o.– Associate	(from September 2022 to date)
Nadace rodiny Holečkových – Founder	(from December 2021 to date)
Kykulin Trade a.s. – Sole shareholder	(from September 2022 to date)
OMNES Holding Foundation – Member of the Administrative Board	(from May 2022 to date)
C-EDUCA Foundation – Founder	(from November 2023 to date)

Lubomír Kovařík

Past positions:

Česká zbrojovka Partners SE – Chairman of the Board of Directors .... (February 2018 – October 2021)
CZ-SKD Solutions a.s. – Member of the Board of Directors .... (January 2019 – September 2020)

Current positions:

Česká zbrojovka Defence SE – Chairman of the Board of Directors ... (November 2021 to date)
Holeček Family Foundation – Vice-Chairman of the Administrative Board .... (from December 2021 to date)
CEVRO Institut, z.ú. – Member of the Management Board .... (from July 2023 to date)
PRIMARY Capital a.s. - Member of the Management Board .... (from August 2023 to date)
BIOINVESTIMED a.s. – Member of the Management Board .... (from November 2023 to date)
PRIMARY Capital Services s.r.o. – Executive .... (10/2023 to date)

Vladimír Dlouhý

Past positions:

National Committee of the International Chamber of Commerce in the Czech Republic – Chairman .... (from January 2015 to December 2018)
Výzkumný ústav pro podnikání a inovace, z.ú. – Chairman of the Administrative Board .... (from July 2017 to November 2023)
Czech Chamber of Commerce – President .... (from June 2014 to October 2023)

Current positions:

BOHEMIAE Foundation, in liquidation – Vice-Chairman .... (from March 1999 to date)
Academia Medica Pragensis Foundation – Auditor .... (from July 2002 to date)
Tatra Aerospace, a.s., "in liquidation" – Member of the Board of Directors .... (from October 2003 to date)
Kooperativa pojišťovna, Vienna Insurance Group – Supervisory Board member .... (from January 2019 to date)
Meridiam Infrastructure – Advisory Board Member .... to date
Goldman Sachs – International Advisory Board Member .... to date

Jana Růžičková

Past positions:

CZ AGRO Servis a.s. – Member of the Supervisory Board .... (from June 2014 to June 2019)
V.F.H EKONOMICKÝ SERVIS a.s. – Member of the Supervisory Board .. (from January 2011 to December 2020)
RAIL CARGO a.s. – Member of the Board of Directors .... (from February 2008 to June 2020)
CZ-SKD Solutions a.s. – Member of the Supervisory Board .... (from January 2017 to September 2020)
M&H Management a.s. – Statutory Director and Chair of the Administrative Board .... (from February 2014 to January 2021)
Minezit SE– Member of the Board of Directors .... (from July 2013 to November 2021)
Kykulin Trade a.s. – Chair of the Administrative Board and Statutory Director .... (from April 2015 to November 2021)
Minezit Property Investments a.s. – Member of the Board of Directors .... (from February 2008 to October 2022)
CZ-AUTO SYSTEMS a.s. – Member of the Supervisory Board .... (from December 2022 to August 2023)

Current positions:

IT eCompany Management a.s. – Member of the Supervisory Board .... (from November 2014 to date)
Silesia Invest SE – Member of the Board of Directors .... (from September 2016 to date)
CZ AGRO Servis a.s. – Member of the Supervisory Board .... (from June 2019 to date)
AIT Group – Advanced Industrial Technology Group a.s. – Member of the Supervisory Board .... (from September 2019 to date)
Česká zbrojovka Partners SE – Member of the Board of Directors ... (from October 2021 to date)
M&H Management a.s. – Member of the Board of Directors .... (from October 2021 to date)
European Holding Company, SE – Member of the Board of Directors .... (from November 2021 to date)
Kykulin Trade a.s. – Member of the Administrative Board .... (from November 2021 to date)
Minezit SE – Member of the Board of Directors .... (from November 2021 to date)
Holeček Family Foundation – Member of the Supervisory Board .... (from December 2021 to date)
Lundmonte s.r.o. – Statutory Representative .... (from January 2022 to date)
Minezit Property Investments a.s. – Member of the Supervisory Board .... (from October 2022 to date)
Leima Equity Three a.s. – Chair of the Administrative Board .... (from November 2023 to date)
Sequoia, family foundation – Controller .... (from August 2023 to date)

SHOOTING COMFORT – DIFEND METHODOLOGY

What the user expects from a perfect weapon is accuracy, reliability, safety and great ergonomics. Advanced ergonomics is not necessarily something we "see", it is something we "feel".

In 2015, Česká zbrojovka joined forces with the Regional Technical Institute, which is part of the Faculty of Mechanical Engineering at the prestigious University of West Bohemia in Pilsen. Together, we developed a unique, highly advanced methodology for the ergonomic design of new firearms. The core of the Digital Firearm Ergonomic Design (DiFEND) methodology is the use of highly advanced ergonomic software tools that were originally developed for use by NASA.

The biomechanically accurate virtual human model used to test and validate the design is fully parametric - one can change gender, anthropometric parameters such as height, weight, body part dimensions, etc. The model can be adjusted according to the proportions of different populations (e.g. North American, European, Asian, etc.) to ensure perfectly accurate firearm designs for specific target groups such as the armed forces, sport shooters, etc. By implementing biometrics and anthropometrics into the design process along with full virtual reality testing, CZ is able to create firearms that are optimized for a wide range of users in different regions of the world.

The CZ P-10 family of pistols is the first product line to be designed using the DiFEND method. The frame shape, grip, position and shape of the controls, and the sophisticated checkering provide the best shooting comfort.

AUDIT COMMITTEE

The majority of members of the Audit Committee are required to be independent and professionally qualified pursuant to applicable provisions of the Czech Act No. 93/2009 Coll., on Auditors, as amended, and at least one member of the Audit Committee is required to be a current or former statutory auditor or a person whose knowledge and previous experience in the area of accounting entail the presumption and proper performance of the functions of a member of the Audit Committee, with respect to the business of the Company. The chairman of the Audit Committee is required to be independent pursuant to applicable provisions of the Czech Act on Auditors. The business address of each member of the Audit Committee is at náměstí Republiky 2090/3a, 110 00 Prague 1, Czech Republic.

The Articles of Association provide that the Audit Committee consists of three members that are appointed for a period of five years. A member of the Audit Committee may be reappointed. No member of the Audit Committee may be a member of the Board of Directors. The powers, responsibilities and decision-making process of the Audit Committee are defined by the Articles of Association, the Czech Act on Auditors, and the rules of procedure of the Audit Committee.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE AUDIT COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Jiří Nekovář	Chairman of the Audit Committee	1 July 2023	1 July 2028
Věslava Piegzová	Member of the Audit Committee	17 January 2020	17 January 2025
David Ondroušek	Member of the Audit Committee	17 January 2020	17 January 2025
Tomáš Machuča	*Member of the Audit Committee*	*17 January 2020*	*30 June 2023*

Key responsibilities and powers of the Audit Committee include, inter alia, monitoring the effectiveness of the Company's internal control and risk management system, the effectiveness of the Company's internal audit and ensuring its functional independence; the process of preparation of the Company's consolidated and non-consolidated financial statements; and the statutory audit process.

JIŘÍ NEKOVÁŘ
Chairman of the Audit Committee

Mr. Nekovář served as President of the Czech Tax Advisers Chamber between 1996 and 2011. He was elected vice-president of Confédération Fiscale Européenne in 2006, and served as its president in 2013 and 2014. Jiří Nekovář is a member of the Czech Finance Minister's Coordination Committee on Taxes. In December 2010, he was appointed a member of the Government's National Economic Council (NERV), and has been a member of the Government Legislative Council's Working Committee for regulation impact assessment (RIA) since 2011. He served as a member of the management board of the General Health Insurance Company from 2000 - 2006. He is a chairman of the Management Board of the University of Economics in Prague and a vice-chairman of the Management Board of Brno University of Technology. He acts as an arbitrator of the Arbitration Court of the Economic Chamber of the Czech Republic. From August 2013 to May 2017, Jiří Nekovář served as President of the Public Audit Oversight Board. He was named Honorary Tax Advisor of AOTCA in November 2015. He is a founding member of the Global Tax Advisory Platform, and was elected Executive Board Director of CFE in September 2020.

VĚSLAVA PIEGZOVÁ
Member of the Audit Committee

In 1978, Ms. Piegzová graduated from VŠB, the Technical University in Ostrava, Faculty of Economics. From 1978 to 1996, she was employed at Třinecké železárny, a. s. in Třinec, initially as a member of the accounting and reporting department. She later led the team responsible for the implementation of financial and controlling systems. In 1996, she was appointed Chief Financial Officer of Vesuvius CR, a producer of isostatic pressed refractory for the steel industry. At the same time, she began an MBA program at the Ostrava branch of the Open University of London and eventually completed her degree at Newport International University. In 2001, she returned to Třinecké železárny, a. s. as the Director for Strategy of Moravia Steel and a member of the Management Board. From 2005 to 2006, she served as the Managing Director of Barrandov Studios. From 2007 to 2010, Ms. Piegzová was the Chief Financial Officer and the Chair of the Board of Directors of České loděnice a.s., a ship-building company based in Děčín. In 2010, she became the Chief Financial Officer of Barkmet a.s. In 2013, Ms. Piegzová joined CZUB as its Chief Financial Officer and later became the Vice-Chair of its Board of Directors. From 2020 to 2021, Ms. Piegzová was a member of the Supervisory Board of Colt CZ.

DAVID ONDROUŠEK
Member of the Audit Committee

Mr. Ondroušek worked for more than ten years in Deloitte's Audit Department, followed by 10 months in the WOOD & Company Finance Department. He is currently working with Staněk, Tomíček & Partners tax offices. Mr. Ondroušek is a licensed auditor of the Chamber of Auditors of the Czech Republic and a member of the Association of Chartered Certified Accountants, an international professional organization. In addition to providing audit services, he focuses primarily on IFRS and transfer pricing advice.

REMUNERATION COMMITTEE

The key function of the Remuneration Committee is to ensure the integrity and fairness of the remuneration system in the Company and companies directly or indirectly controlled by the Company.

The Remuneration Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to remuneration in the Group, covering the following areas:

(a) executive service agreements for members of the Board of Directors;
(b) setting and evaluating the achievement of annual targets and key performance indicators (KPIs) for members of the Board of Directors;
(c) extraordinary remuneration (salary) for members of the Board of Directors;
(d) parameters and conditions of the Group's Share Program for members of statutory and supervisory bodies, or, if applicable, for key employees of the Group;
(e) strategies for human resources management;
(f) appointing members of the statutory and supervisory bodies in the Group.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Committee. The Chairman of the Supervisory Board is a mandatory member of the Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Committee. The Chairman of the Board, and the member of the Board responsible for human resources management, are permanent guests of the Committee.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approval that have been recommended by the Committee to the Company's Supervisory Board.

DAVID AGUILAR
Chairman of the Remuneration Committee

Mr. Aguilar's CV is provided earlier in this section.

LUBOMÍR KOVAŘÍK
Member of the Remuneration Committee

Mr. Kovařík's CV is provided earlier in this section.

RENÉ HOLEČEK
Member of the Remuneration Committee

Mr. Holeček's CV is provided earlier in this section.

HANA BALOUNOVÁ
Member of the Remuneration Committee

Ms. Balounová has been working for over 20 years in various holding companies owned by the Company's majority shareholder. Her specialization includes business, audit, tax advisory, and legal matters. She graduated from a business college.

In December 2023, the Supervisory Board of the Company approved the following changes in its committees at its meeting:

Mr. Lubomír Kovařík moved from the position of Chairman of all established committees of the Supervisory Board to the position of member of these committees. Mr. David Aguilar was elected Chairman of all established committees of the Supervisory Board. Mrs. Hana Balounová resigned as a member of the Remuneration Committee as of 12 December 2023, with the Supervisory Board accepting the resignation.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE REMUNERATION COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chairman of the Remuneration Committee (till 11 December 2023) Member of the Remuneration Committee (from 12 December 2023)	2 September 2021	2 September 2026
David Aguilar	Chairman of the Remuneration Committee	12 December 2023	12 December 2028
René Holeček	Member of the Remuneration Committee	2 September 2021	2 September 2026
Hana Balounová	*Member of the Remuneration Committee*	*2 September 2021*	*12 December 2023*

TIMELESS ENGRAVING

Firearm engraving has been a core part of the Colt brand since the founding of the company in 1836. Some of the earliest Colt revolvers featured memorialized engravings of early Naval Battles wrapped around the cylinder to embellish and celebrate these tools as works of art. Today, firearms are engraved for the same reason, to personalize and celebrate the artistry that goes both into the firearm itself, as well as the engraving which adorns them. The Colt Custom Shop employs a Master Engraver, allowing customers to pour their own personal story out onto the firearm as a canvas of expression. Engravings can be inlayed with Gold and other precious metals, pressing those metals by hand into the tiny grooves that are cut into the base firearm. This Master Engraving capability makes Colt unique within the Group, and a rarity in the firearms industry.

STRATEGIC INVESTMENTS AND ACQUISITIONS COMMITTEE

The goal of the Committee is to ensure that the Company and companies directly or indirectly controlled by the Company only undertake investments contributing to the development and growth of Group value.

The Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to the Company's strategic and conceptual plans requiring the consent of the Company's General Meeting or Supervisory Board, in particular:

(a) acquiring or increasing interest in a business corporation or a company that is a member of the Group

(b) the Company's acquisition strategies and concepts of growth.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Remuneration Committee. The Chairman of the Supervisory Board is a mandatory member of the Remuneration Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Remuneration Committee. The Chairman of the Board of Directors is a permanent guest of the Committee.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE STRATEGIC INVESTMENTS AND ACQUISITIONS COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chairman of the Strategic Investments and Acquisitions Committee (till 11 December 2023) Member of the Committee for Strategic Investments and Acquisitions (from 12 December 2023)	2 September 2021	2 September 2026
David Aguilar	Chairman of the Strategic Investments and Acquisitions Committee	12 December 2023	12 December 2028
René Holeček	Member of the Committee for Strategic Investments and Acquisitions	2 September 2021	2 September 2026
Peter Stračár	Member of the Committee for Strategic Investments and Acquisitions	2 September 2021	2 September 2026

Mr. Aguilar, Mr. Kovařík's and Mr. Holeček's CVs are provided earlier in this section.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approval that have been recommended by the Committee to the Company's Supervisor.

PETER STRAČÁR
Member of the Strategic Investments and Acquisitions Committee

Peter Stračár was the President and Managing Director of GE in Europe from 2018 to 2019. Prior to this post, from 2013, Mr. Stračár worked as the Managing Director for Central and Eastern Europe. Before that, he was the President of Hilti Asia Pacific, based in Hong Kong.

Mr. Stračár obtained his Master's Degree from the Faculty of Electrical Engineering and Informatics of the Technical University in Košice and began his career at IBM Eastern Europe.

In December 2023, the Supervisory Board of the Company approved the following changes in its committees at its meeting:

Mr. Lubomír Kovařík moved from the position of Chairman of all established committees of the Supervisory Board to the position of member of these committees. Mr. David Aguilar was elected Chairman of all established committees of the Supervisory Board.

COMPLIANCE AND ETHICS COMMITTEE

The goal of the Committee is to review and offer suggestions for the development and enhancement of the risk management system, internal control system, legislation compliance management, industry standards, and the Company's values in the Company and companies directly or indirectly controlled by the Company.

The Compliance and Ethics Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to the Colt CZ in the following areas:

(a) Code of Ethics
(b) Anti-Corruption Policy
(c) Prevention of criminal liability of a legal entity
(d) Internal audit reports
(e) Remedial actions and measures to improve compliance, risk management, internal control system, and building a responsible employee value system
(f) Ethics hotline and whistleblower protection
(g) Measures responding to legislative changes, especially in defense, arms regulation, consumer protection, competition, public procurement, etc.
(h) Activities in CSR, sponsorship, donation, and philanthropy with respect to the business areas of the Group companies.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Committee. The Chairman of the Supervisory Board is a mandatory member of the Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Committee. The member of the Board responsible for compliance management is a permanent guest of the Committee.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approvals that have been recommended by the Committee to the Company's Supervisory Board.

GEN. GEORGE W. CASEY (RET.),
Member of the Compliance and Ethics Committee

General Casey (Ret.) has been a member of the Board of Directors of Colt CZ Group North America, a Colt CZ subsidiary, since 2021. He is a published author and currently lectures at the SC Johnson College of Business of Cornell University and is the Rice Family Professor of Practice at the Korbel School of the University of Denver. Before joining Colt CZ, Gen. Casey served 41 years in the U.S. Army, including as the 36th Army Chief of Staff from 2007 to 2011. From 2004 to 2007 he commanded the Multi-National Force – Iraq.

Gen. Casey also serves as the Chairman of the Board of Governors of the United Service Organizations, the premier support organization for U.S. service personnel, as the Director of Leonardo DRS, a leading defense technology innovator, and the Director of the Center for Global Development, a research institute focused on promoting economic growth and development around the world. In addition, he serves as a member of several advisory boards for companies engaged in robotics, resilience, and supporting veterans.

Gen. Casey graduated from the Georgetown University School of Foreign Service and holds a Master's Degree in international relations from Denver University.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE COMPLIANCE AND ETHICS COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
David Aguilar	Chairman of the Compliance and Ethics Committee	12 December 2023	12 December 2028
Lubomír Kovařík	Chairman of the Compliance and Ethics Committee(till 11 December 2023) Member of the Compliance and Ethics Committee(from 12 December 2023)	2 September 2021	2 September 2026
gen. George W. Casey	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026
Jillair Kubish	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026
Petr Kolář	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026

Mr. Aguilar and Mr. Kovařík's CV are provided earlier in this section.

JILLAIR KUBISH
Member of the Compliance and Ethics Committee

Jillair Kubish is the Executive Vice-President for global military and law enforcement business operations at Colt's Manufacturing Company LLC / Colt Defense. Prior to working for Colt, Ms. Kubish was the President of Orchid Advisors, an advisory company for strategic management focusing on transformations in audit and compliance in the defense industry.

Ms. Kubish began her career at the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) within the US Department of Justice. Ms. Kubish has been one of the nation's leading experts in federal and state firearms and explosives for over a decade. Jillair graduated from Temple University.

PETR KOLÁŘ
Member of the Compliance and Ethics Committee

Petr Kolář is a former Czech diplomat and a public figure. He earned his doctoral degree in information technology, library science and ethnography in 1986. He served as the Czech Ambassador to Russia, the United States, Ireland, and Sweden. Mr. Kolář has held several posts at the Czech Ministry of Foreign Affairs and has been collaborating with Czech President Petr Pavel as an advisor.

In December 2023, the Supervisory Board of the Company approved the following changes in its committees at its meeting:

Mr. Lubomír Kovařík moved from the position of Chairman of all established committees of the Supervisory Board to the position of member of these committees. Mr. David Aguilar was elected Chairman of all established committees of the Supervisory Board.

Other information concerning members of the Board of Directors, Supervisory Board, Audit Committee, and other senior managers of the Company

In the last five years, none of the members of the Board of Directors, Supervisory Board, Audit Committee, and other senior managers of the Company:

- have been convicted of criminal fraud
- have been officially publicly accused or penalized by a statutory or regulatory body (including designated professional bodies) and have not been legally disqualified from exercising an office of a member of an administrative, management or supervisory body of any issuer or a management position, or from carrying out the activity of any other issuer
- have been associated with bankruptcy, administration, or liquidation proceedings, or with companies that have been placed under receivership in the last five years, except for companies listed above in this chapter.

Conflicts of interest

There are no conflicts of interest between the duties of the members of the Board of Directors, Supervisory Board, Audit Committee and other senior managers of the Company and their private interests or other duties.

8.5 Description of the decision-making procedures and powers of the General Meeting

A description of the decision-making procedures and powers of the General Meeting is set out in the Company's Articles of Association in Section 7. The General Meeting, its status, and powers, are available on the Company's website at https://www.coltczgroup.com/en/investors-corporate-affairs/

The General Meeting is the highest corporate body of the Company. The powers of the General Meeting under the Corporations Act and the Articles of Association include among others:

- **a)** Decisions to amend the Articles of Association, unless they are an amendment resulting from an increase of the share capital by a duly authorized Board of Directors or an amendment occurring on the basis of other legal facts
- **b)** Decisions to change the amount of share capital and to authorize the Board of Directors to increase the share capital
- **c)** Decisions to allow the possibility to set off a monetary receivable towards the company against a receivable from the payment of the issue price
- **d)** Decisions to increase the share capital by non-monetary contributions
- **e)** Decisions on the issue of convertible or preference bonds under Section 286 of the Corporations Act
- **f)** Decisions on the exclusion or limitation of the pre-emptive right to acquire convertible or preference bonds under Section 286 of the Corporations Act or on the exclusion or limitation of the shareholders' pre-emptive right to subscribe for new shares in the event of a share capital increase
- **g)** Decisions on a change in the type or form of shares, on a change in the rights attached to shares and on a split or merger of shares
- **h)** Decisions on the acquisition of treasury shares by the Company, if a decision of the General Meeting is required by law
- **i)** Appointment and removal of Supervisory Board members, decisions on their remuneration and on the provision of benefits to Supervisory Board members within the meaning of Section 61 of the Corporations Act; approval of contracts for the performance of the functions of Supervisory Board members
- **j)** Appointment and removal of Audit Committee members, decisions on their remuneration and on the provision of benefits to the Audit Committee members within the meaning of Section 61 of the Corporations Act; approval of contracts for the performance of the functions of Audit Committee members
- **k)** Approval of the annual, extraordinary, and consolidated financial statements and, in the cases provided for by law, the interim financial statements
- **l)** Decisions to distribute profit or the Company's other resources, or to cover the loss
- **m)** Decisions to file an application to have the Company's participating securities admitted for trading on a European regulated market or to exclude such securities from trading on a European regulated market
- **n)** Decisions to dissolve the Company with liquidation
- **o)** Appointment and removal of the liquidator (including the determination of their remuneration)
- **p)** Decisions on the approval of the final report on the course of the liquidation and on the approval of the proposal for the use of the liquidation balance
- **q)** Approval of the transfer, lease or pledge of the plant or such part of the assets as would involve a material change in the Company's actual business or activities
- **r)** Decisions on a merger, division, transfer of assets to shareholders, change of the Company's legal form, foreign relocation of the registered office or other transformation of the Company
- **s)** Approval of a silent partnership agreement, establishing the right to share in the profits or the Company's other resources, including its amendments and termination
- **t)** Approval of the rules of procedure of the General Meeting, the rules of voting at the General Meeting, and other organizational measures related to the General Meeting
- **u)** Approval of the rules of procedure of the Audit Committee
- **v)** Approval of the acquisition or disposal of assets, if required by law
- **w)** Establishment of reserve funds and/or other funds, as well as the manner in which such funds are to be created and supplemented (in particular for other capital funds), or their cancellation
- **x)** Discussion of measures proposed by the Board of Directors pursuant to the provisions of Section 403 of the Corporations Act
- **y)** Discussion of the results of the Supervisory Board's review activities pursuant to the provisions of Section 83(1) and Section 449 of the Corporations Act
- **z)** Appointment and removal of the Company's auditor
- **aa)** The issue of other resolutions entrusted to the General Meeting by the legislation. The General Meeting may not reserve the decision-making authority in matters that do not fall under its powers under legal regulations or the Articles of Association.

Convening the General Meeting

The General Meeting shall be held as necessary, but at least once every accounting period, namely always no later than 6 months after the last day of the preceding accounting period. The General Meeting shall also be convened at the request of a qualified shareholder under the terms stipulated by the Articles of Associations and the Corporations Act. The General Meeting shall be convened by the Board of Directors or its member. In the event that the Company has not elected a Board of Directors, or the Board of Directors permanently fails to fulfil their duties and none of its members convenes the General Meeting, the General Meeting shall be convened by the Supervisory Board. The Supervisory Board may also convene the General Meeting where required in the interest of the Company.

At least 30 days prior to the date of the General Meeting, the convener shall post an invitation to the General Meeting on the Company's website, i.e., https://www.coltczgroup.com/, and in the Commercial Bulletin. Sending the invitation to the addressees of the respective shareholders in the meaning of Section 406 (1) of the Corporations Act is replaced by publishing the invitation in the Commercial Bulletin.

If a qualified shareholder requests the Board of Directors to convene the General Meeting, the General Meeting will be convened within 50 days after the delivery date of the request to convene the General Meeting to the Board of Directors. The announcement of the General Meeting shall be published no later than 21 days before the date of the General Meeting.

Matters which are not on the proposed agenda of the General Meeting may only be discussed or approved with the consent of all shareholders. The General Meeting shall be cancelled or postponed only in accordance with the Corporations Act. If the General Meeting is convened at the request of the Qualified Shareholder, then it may only be cancelled or postponed with the consent of the respective Qualified Shareholder.

Meetings and decision-making of the General Meeting

The General Meeting shall have a quorum if the present shareholders hold shares whose nominal value exceeds 50% of the Company's share capital as at the relevant date for participation in the General Meeting.

Unless provided otherwise in law or the Articles of Association, the General Meeting adopts a decision by a majority of votes of the present shareholders.

Decisions taken outside of the general meeting (per rollam decisions) are allowed, while the person authorized to convene the General Meeting shall announce all shareholders a proposal of a decision in the manner provided for in the Articles of Association.

8.6 Description of diversity policy applied to the issuer's managing body

Colt CZ pursues a diversity policy that results in a balanced set of persons in the Company's managing bodies, with respect to a balance of male and female representatives, nationality, age, education, professional experience and expertise. The Group evaluates candidates for open positions, whether in the Board of Directors, Supervisory Board or in a broader management group, considering diversity principles in order to get the most benefits from the mixed background in respect to age, education, and gender for the Group.

As at 31 December 2023, women were not represented in the Company's Board of Directors. As at 31 December 2023, women made up 20% of the Supervisory Board.

The Company's managing body includes representatives of different nationalities and countries, reflecting the Group's global orientation. As at the date of the annual financial report, the youngest member on the Board of Directors was 30 and the oldest member was 68 years old. The members of the Board of Directors have had a variety of professional experience and expertise ranging from defense, industry, arms and accessories, and manufacturing, to finance, business, law, administration, and politics.

The diversity policy is part of the agenda of the Remuneration Committee. The activities of the Remuneration Committee include, inter alia, ensuring and regularly reviewing the structure and composition of the managing bodies in order to reflect professional experience, technical knowledge, managerial skills, and other requirements. The Company ensures that the CEO´s of its largest subsidiaries are represented on the Group's Board of Directors.

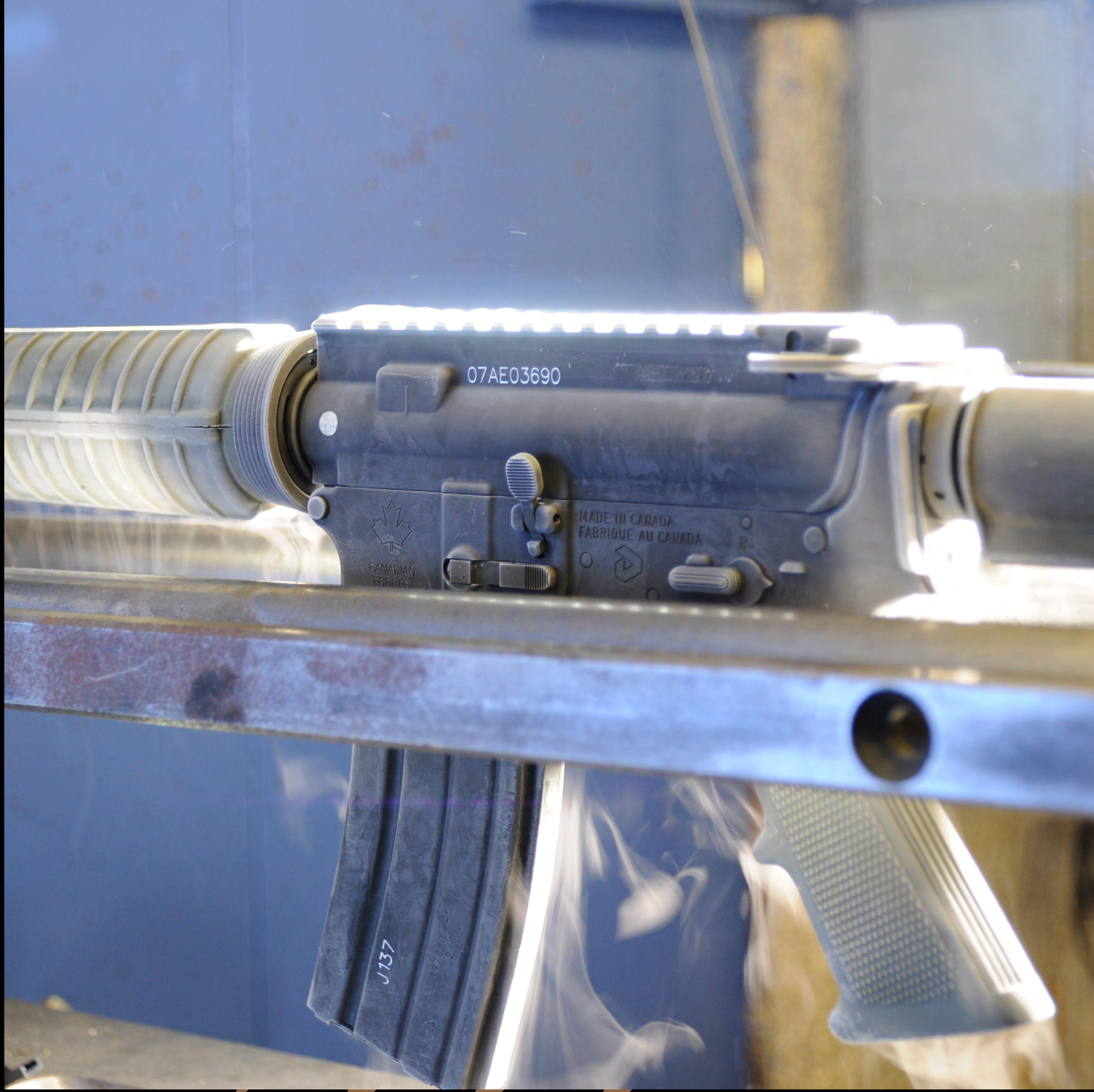
The diversity policy is described in the Group's Ethics Code[7], which is subject to approval by the Company's managing body. The Code of Ethics defines the corporate and ethical values of conduct in Colt CZ. By implementing this Code of Ethics, Colt CZ commits to respecting the defined values and principles that form the basic framework for its business and social actions, conduct and behavior. Key ethical values of the diversity policy stipulated in the Code of Ethics include equal opportunities, equal treatment, non-discrimination, respect for personal dignity, privacy, and creating conditions for good interpersonal relationships. At Colt CZ, we do not tolerate unacceptable treatment of employees and strive to support a culture of interpersonal relationships based on respect.

[7] https://www.coltczgroup.com/file/926

RIGOROUS TESTING

Colt Canada is the Canadian Small Arms Centre of Excellence, the sole source provider of small arms to the Canadian Armed Forces, and an industry leader in testing and evaluation of small arms weapon systems and accessories. We are a world leader in terms of our capability in NATO testing standards geared toward meeting the highest expectations of the world's most demanding customers.

We perform these rigorous tests at our advanced facility testing center, including FLIR thermography, sound pressure, endurance testing using digital targets and ballistic systems, NATO mud testing, and extreme cold and heat weapons testing. All these tests provide highly accurate data on our weapons, enabling Colt Canada to provide the most reliable and durable systems to our customers.



9. SHARE TRADING AND DIVIDEND POLICY

With effect from 1 June 2020, the shares of the Company have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares. During September 2020, the Group finalized its IPO and as of 2 October 2020, its shares are traded on the Prime Market of the Prague Stock Exchange.

INFORMATION ABOUT SHARES

Market	BCPP, Prime Market
No. of issued shares (pieces)	35,157,410
Market capitalization (as at 31 December 2023, price of CZK 531)	CZK 18.67 billion
Ticker	CZG
BIC	BAACZGCE
ISIN	CZ0009008942
Bloomberg ticker	CZG CP Equity
Reuters ticker	CZG PR
Indices	PX, PX-GLOB, PX-TR, PX-TRnet, CECE (Vienna)

CHART – TRADING OF COLT CZ´S SHARES IN THE PSE IN 2023

Source: Bloomberg

In the period since the IPO, Colt CZ has focused on developing research coverage for the Company, developing relationships with analysts, and setting up investor relations communications according to the best market standards. At present, the Company has around 5 sell-side analysts who publish research on the Company, and a number of other commenting analysts. Colt CZ is dedicated to open and pro-active communication with its shareholders and has implemented a schedule of investor communications events, all of which are fully compliant with market standards for listed companies.

Dividend policy

On 17 September 2020, the Board of Directors of Colt CZ adopted a dividend policy pursuant to which, subject to (i) the availability of sufficient distributable cash and (ii) shareholder approval, the Company intends to target a minimum annual distribution of 33% of its consolidated net profit for the year, based on its consolidated annual financial statements. In 2022, the Company paid out a dividend of CZK 25 per share before tax, which was comprised of approximately 72% of adjusted net income for 2021. The Company subsequently communicated this change in its dividend policy and its intention to pay out at least 50% of net income in dividends in future periods. No official dividend policy had been adopted as at the date of the annual financial report.

Dividend paid in 2023

The dividend payout for 2022 was CZK 30 per share before tax. The record date for exercising the right to a share in the profit was 19 June 2023.

For the first time in the Company´s history, shareholders had the choice of whether or not to elect to receive a share of profit in the form of new shares in the Company. The right to receive a share of profit in the form of the Company's shares could be exercised by the Company's shareholders who hold at least 27 shares in the Company and at the same time have the right to a share of profit as of 19 June 2023. If shareholders of the Company do not choose to receive a distribution in the form of new shares, the shareholders do not need to take any action and will automatically receive a cash dividend.

If a shareholder of the Company chose to receive a dividend in the form of shares, he/she will receive 1 new share for every 27 shares. This one new share corresponded to a payment of CZK 526.50 where each 1 share to which the right to a share of profit is attached, was subject to set-off in the amount of CZK 19.50. The remaining portion of the share of profit attributable to 1 share of the Company, after deduction of applicable withholding taxes, was paid to the shareholder of the Company in cash. The shareholders of the Company may only exercise the right to choose a share of profits in the form of shares in the Company in respect of a whole new share.

Dividend in 2024

The Company will propose a dividend payment of CZK 30 per share from its net profit for 2023. Same as last year, shareholders will be able to choose between a cash dividend or stock dividend, based on their discretion. The dividend payout is subject to the approval by the General Meeting, which will be held by the end of the first half of 2024. Further information concerning the timetable of dividend distribution will be published during 2024.

10. NON-FINANCIAL INFORMATION ACCORDING TO SECTION 32g OF THE ACCOUNTING ACT

Non-financial information to the extent required by Section 32g of the Accounting Act, especially relating to a) environmental issues, b) social and employee issues c) issues of respecting human rights, and d) issues of fighting corruption and bribery, including information to be disclosed in accordance with Article 8 of the Taxonomy Regulation, will be published by the Company in a separate report outside of this annual financial report (henceforth referred to as the "Sustainable Development Report").

The Sustainable Development Report will be published at the end of June 2024 on the webpage https://www.coltczgroup.com/ and reported to the Czech National Bank via SDAT.

11. SUBSEQUENT EVENTS

An overview of subsequent events is set out in the consolidated financial statements in the note 47.

TRANSFER OF TECHNOLOGY CAPABILITY

Colt CZ Hungary is the result of a long-term partnership with the Hungarian government. It is also one of the examples of our ability to transfer our technology to other countries. Over the past ten years, Colt CZ Group has successfully implemented Transfer of Technology (ToT) projects in the USA, Hungary, and South Korea. We are also working on a ToT project in Ukraine.

Although each ToT case is unique, the Group has developed a comprehensive ToT process to ensure the receiving party a quick implementation and high efficiency. In the case of Hungary, the technology transfer process began in 2018 with the sale of licenses for four rifle and pistol products from Česká zbrojovka, enabling Hungary to equip its Military and Law Enforcement with small arms assembled and manufactured on the Hungarian territory, by Hungarian employees, under the direction of Hungarian engineers. In this way, the Group has helped Hungary to fulfil its strategic objective of acquiring know-how and self-sufficiency in the production of small arms and to contribute to European security with its own production capacity. Over the years, the partnership has evolved into a Joint Venture agreement that will provide the host party with continuous production readiness and Colt CZ Group with the additional production capacity needed. The Joint Venture is thus the culmination of a ToT process that has the potential for further development, for instance through joint product development or through wider participation of local supply chain.

12. REPORT ON RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY, AND BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY FOR 2023

Colt CZ Group SE, with its registered office at náměstí Republiky 2090/3a, 110 00 Prague 1, company ID: 291 51 961, registered in the Commercial Register of the Municipal Court in Prague under File No. H 962 (the "Controlled Entity" or "Colt CZ"), is obligated to prepare a report of the Board of Directors for the 2023 reporting period (i.e., from 1 January until 31 December 2023, the "Reporting Period"), on relations between the Controlling Entity and the Controlled Entity, and between the Controlled Entity and entities controlled by the same Controlling Entity (the "Report on Relations") in compliance with Section 82 et seq. of Act No. 90/2021 Coll., on Business Corporations and Cooperatives (the "Business Corporations Act").

Controlling Entity

The entity directly controlling the Controlled Entity is Česká zbrojovka Partners SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 058 51 777, registered in the Commercial Register of the Municipal Court in Prague under File No. H 1879 (the "Controlling Entity").

Česká zbrojovka Partners SE owns 75.4% of shares in the Controlled Entity.

Česká zbrojovka Partners SE controls the Controlled Entity by exercising voting rights at the Controlled Entity's General Meeting.

The direct controlling entity of Česká zbrojovka Partners SE is European Holding Company, SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Identification No.: 241 96 975, registered in the Commercial Register of the Municipal Court in Prague under File No. H 499. The ultimate beneficial owner of European Holding Company, SE is Ing. René Holeček.

Role of the Controlled Entity within the Business Group

The Controlled Entity is part of a business group focused on the production and sale of firearms and tactical accessories for military and law enforcement units, personal defense, hunting, sport shooting and other commercial uses. The group is one of the major global producers in this segment.

The role of the Controlled Entity is primarily comprised of overseeing the activities of the subsidiaries within the group. Control over the subsidiaries is exercised through voting at the companies' General Meeting.

Manners and Means of Control

As a majority shareholder, Česká zbrojovka Partners SE exercises its control of the Controlled Entity through voting at the General Meeting and electing members of the Supervisory Board, who then elect members of the Board of Directors.

Control is exercised through decisions of the Supervisory Board and General Meeting as stated in the articles of association of the Controlled Entity.

Overview of Actions Pursuant to Section 82 (2)(d) of the Business Corporations Act

In the 2023 Reporting Period, no actions were performed by the Controlled Entity in the interest, or at the initiative, of the Controlling Entity, or the entities controlled by the Controlling Entity involving assets exceeding 10% of the Controlled Entity's equity as determined based on the most recent set of financial statements.

Overview of Mutual Contractual Relationships

In the 2023 Reporting Period, the following agreements existed, or were concluded between, the Controlled Entity and the Controlling Entity or entities controlled by the same Controlling Entity:

Entity	Mutual Relationship	Concluded on	Effective date
Česká zbrojovka a.s.	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Česká zbrojovka a.s.	Personal Data Processing Agreement	18. 05. 2022	From 18. 05. 2022
Česká zbrojovka a.s.	Long-term loan agreement	26. 01. 2022	26. 01. 2022 – 22. 01. 2029
Česká zbrojovka a.s.	Agreement for the provision of IT services - consultancy	26. 08. 2021	From 26. 08. 2021
Česká zbrojovka a.s.	Loan agreement	03. 04. 2023	03. 04. 2023 – 31. 12. 2024
Česká zbrojovka a.s.	Agreement for the provision of services	18. 04. 2023	01. 01. 2023 – 31. 12. 2025
Česká zbrojovka a.s.	Car sublease agreement	02. 01. 2023	02. 01. 2023 – 31. 03. 2023
Česká zbrojovka a.s.	Car sublease agreement	02. 01. 2023	02. 01. 2023 – 31. 05. 2026
Česká zbrojovka a.s.	Intercompany Trademark License Agreement	19. 03. 2024	From 01. 09. 2022

Entity	Mutual Relationship	Concluded on	Effective date
Česká zbrojovka a.s.	Intercompany sales service agreement	01. 02. 2023	01. 02. 2023 – 31. 12. 2023
Česká zbrojovka a.s.	Intercompany sales service agreement	01. 09. 2023	From 01. 09. 2023
Colt CZ Defence Solutions s.r.o.	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Colt CZ Defence Solutions s.r.o.	Intercompany sales service agreement	01. 01. 2022	01. 01. 2022 – 31. 01. 2023
Colt CZ Defence Solutions s.r.o.	Intercompany Trademark License Agreement	05. 04. 2023	05. 04. 2023 – 31. 10. 2027
Colt CZ Defence Solutions s.r.o.	Agreement for the provision of services	01. 01. 2023	01. 01. 2023 – 31. 12. 2025
Colt CZ Defence Solutions s.r.o.	Accession agreement to the Vodafone OneNet Framework Agreement for the sale of goods and provision of services	02. 12. 2022	From 02. 12. 2022
EHC-4M, SE	Agreement for the provision of services - bookkeeping	31. 01. 2020	From 01. 02. 2020

Entity	Mutual Relationship	Concluded on	Effective date
EHC-4M, SE	Loan agreement	29. 07. 2020	29. 07. 2020 – 31. 12. 2025
EHC-4M, SE	Loan agreement	31. 08. 2020	31. 08. 2020 – 31. 12. 2025
EHC-4M, SE	Loan agreement	14. 09. 2020	14. 09. 2020 – 31. 12. 2025
EHC-4M, SE	Loan agreement	19. 10. 2020	19. 10. 2020 – 31. 12. 2025
CZG VIB s.r.o.	Agreement for the provision of services - accounting	31. 01. 2020	From 31. 01. 2020
Colt CZ Group International s.r.o.	Contract for the provision of services - accounting	31. 01. 2020	From 01. 02. 2020
Colt CZ Group International s.r.o.	Loan agreement	31. 12. 2020	31. 12. 2020 – 31. 12. 2025
Colt CZ Group North America	Loan agreement	12. 08. 2019	12. 08. 2019 – 31. 12. 2024
Colt CZ Group North America	Loan agreement	09. 03. 2020	09. 03. 2020 – 31. 12. 2025
Colt CZ Group North America	Loan agreement	07. 12. 2020	07. 12. 2020 – 31. 12. 2025

Entity	Mutual Relationship	Concluded on	Effective date
Colt CZ Group North America	Loan agreement	29. 12. 2020	29. 12. 2020 – 31. 12. 2025
Colt CZ Group North America	Loan agreement	21. 05. 2021	21. 05. 2021 – 31. 12. 2026
Colt CZ Group North America	Loan agreement	21. 05. 2021	21. 05. 2021 – 31. 12. 2026
Colt CZ Group North America	Consolidation Loan made pursuant to the Amendment Agreement relating to the loans dated 9 March 2021 and the two loans dated 21 May 2021	01. 06. 2021	09. 03. 2021 – 31. 12. 2026
Colt CZ Group North America	Loan agreement	14. 12. 2023	15. 12. 2023 – 31. 12. 2023
Colt CZ Group North America	Agreement to assume the shareholder's obligation to provide a premium outside the company's share capital	15. 12. 2023	15. 12. 2023
Colt CZ Group North America	Loan agreement	10. 05. 2023	10. 05. 2023 – 31. 07. 2023
Colt CZ Group North America	Agreement to assume the shareholder's obligation to provide a premium outside the company's share capital	28. 06. 2023	28. 06. 2023

Entity	Mutual Relationship	Concluded on	Effective date
4M SYSTEMS a.s.	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
4M SYSTEMS a.s.	Contract for the provision of services - accounting	31. 01. 2020	From 01. 02. 2020
4M SYSTEMS a.s..	Agreement for the provision of services	01. 01. 2023	01. 01. 2023 – 31. 12. 2025
Colt Manufacturing Company	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Zbrojovka Brno, s.r.o.	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Four Horses Apparel, Inc.	Loan agreement	05. 06. 2023	05.06.2023 – 22.12.2023
CZ-USA	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Colt Canada Corporation	Intercompany service agre-ement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Colt's Manufacturing Company LLC	Intercompany service agreement	15. 12. 2022	01. 01. 2021 – 01. 01. 2025
Colt's Manufacturing Company LLC	Loan agreement	28. 12. 2023	28. 12. 2023 – 02. 01. 2024

Entity	Mutual Relationship	Concluded on	Effective date
Colt CZ Hungary Zrt.	Trademark License Agreement	21. 08. 2023	From 21. 08. 2023
saltech AG	Framework Loan Agreement	11. 10. 2023	11. 10. 2023 – 30. 06. 2024
saltech AG	Intercompany service agreement	01. 07. 2023	01. 07. 2023 – 31. 12. 2024
OMNES holdingový nadační Fond	Loan agreement	25. 09. 2023	25. 09. 2023 – 29. 09. 2023
Spuhr and Dalby AB	Intercompany service agreement	15. 12. 2022	12. 10. 2022 – 12. 10. 2024
Vocatus Investment a.s.	Loan agreement	18. 12. 2023	From 18. 12. 2023
Vocatus Investment a.s.	Loan agreement	29. 12. 2023	From 29. 12. 2023

From the point of view of the Controlled Entity, performances under the above agreements corresponded to the arm's length principle, i.e., corresponding to normal commercial relations for performances provided on the market to third parties, or by third parties. No other acts or performances pursuant to Section 82 (2)(e) of the Business Corporations Act occurred in the Reporting Period.

Assessment of whether the Controlled Entity Incurred Damage and Assessment of its Compensation under Sections 71 and 72 of the Business Corporations Act

Upon evaluation, the Board of Directors of the Controlled Entity states that:

(a) no acts described in this Report on Relations resulted in a loss to the Controlled Entity in the Reporting Period

(b) it is not aware of any other measures, acts or other performances in the Reporting Period that would result in a loss to the Controlled Entity.

Advantages and disadvantages of the Relationships within the Business Group

The Board of Directors of the Controlled Entity evaluated the acts realized between the Controlled Entity, controlling entities, and entities controlled by them in the Reporting Period and states that they were concluded under conditions corresponding with the arm's length principle and no advantages or disadvantages related to the control arose. The Controlled Entity did not incur any harm to be settled in accordance with Sections 71 and 72 of the Business Corporations Act.

The relationships between the Controlled Entity, the controlling entities and the entities controlled by them do not present any risks in the future.

Conclusion

This Report on Relations has been discussed and approved at the regular meeting of the Board of Directors of the Controlled Entity. The Board of Directors of the Controlled Entity declares that it expended all due effort when collecting and verifying the information included in this Report on Relations, and that its conclusions were formulated following thorough consideration, and that all data in this Report on Relations is considered correct and complete.

This Report on Relations will be submitted to the Supervisory Board of the Controlled Entity for review pursuant to Section 83 (1) of the Business Corporations Act and submitted to the auditor performing the audit of the financial statements of the Controlled Entity pursuant to a special act. As the Controlled Entity prepares an annual financial report, this Report on Relations will be appended to it within the meaning of Section 84 of the Business Corporations Act and will be filed in the Collection of Instruments of the Commercial Register held by the Municipal Court in Prague as an inherent part of the annual financial report.

In Prague, on 28 March 2024

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

PRODUCT DEVELOPMENT

Our mission is to increase the effectiveness and safety of those who put their lives on the line to protect our nations and our way of life. Therefore, at 4M SYSTEMS, we focus on finding new and innovative solutions for tactical equipment that helps the military and law enforcement perform their duties.

Our development workshop combines industrial know-how with the needs of modern armed forces. Every project starts with the analysis of our customers' needs. We focus on finding new materials and technologies that can revolutionize textile accessories and ballistic protection, from the development of special and durable fabrics to advanced construction and comfort systems. This collaboration allows us to offer solutions that meet the wide range of needs and requirements of our demanding clients in the Czech Republic and internationally, such as the Czech Customs Administration, Rapid Response Unit of the Czech Police (URNA), Czech Prison Guard, Royal Malaysia Police, UK Special Police, Kenya Wildlife Service, and many others.

Every product, be it uniforms, weapon accessories, or other tactical products that leaves our workshop has undergone rigorous testing and quality checks – very often by the end users themselves – to ensure its reliability and safety.

We also participate in applied research projects together with research institutions. 4M SYSTEMS is currently engaged in the study of the effects of small arms on the human body and methods of effective protection. This research helps us to develop products with a higher degree of protection, area of coverage, comfort of carrying and at the same time lower weight in a given class of protection level.

13. DECLARATION OF AUTHORIZED PERSONS

To the best of our knowledge, these consolidated financial statements prepared in accordance with the applicable set of accounting standards, gives a true and fair view of assets, liabilities, financial position, and profit of the Group and entities included in the consolidated group, and the consolidated annual financial report contains a true overview of the development and results of Colt CZ Group SE and the position of Colt CZ Group SE and entities included in the consolidated group, together with a description of major risks and uncertainties it is facing.

In Prague, on 23 April 2024

Signed on behalf of the Board of Directors:

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

14. ALTERNATIVE PERFORMANCE MEASURES

This Report contains certain financial measures that are not defined or recognized under IFRS, and which are considered to be "alternative performance measures," as defined in the "ESMA Guidelines on Alternative Performance Measures," issued by the European Securities and Markets Authority on 5 October 2015 (the "Alternative Performance Measures"). This report includes the following alternative Performance Measures: EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income margin, adjusted earnings per share, net financial debt, and net leverage ratio. The Company has included the Alternative Performance Measures because they represent key measures used by management to evaluate the Group's operating performance. Further, management believes that the presentation of the Alternative Performance Measures is helpful to prospective investors, because these and other similar measures and related ratios are widely used by certain investors, securities analysts and other interested parties, as supplemental measures of performance and liquidity to evaluate the efficiency of a company's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. The management also believes that the presentation of Alternative Performance Measures facilitates operating performance comparisons on a period-to-period basis, to exclude the impact of items, which management does not consider being indicative of the Group's core operating performance.

The Alternative Performance Measures are not sourced directly from the Audited Financial Statements but are derived from the financial information contained therein. These measures have not been audited or reviewed by an independent auditor. The Alternative Performance Measures are not defined in the IFRS and should neither be treated as metrics of financial performance or operating cash flows, nor deemed an alternative to profit. Those performance measures should only be read as additional information to, and not as a substitute for or superior to, the financial information prepared in accordance with the IFRS, as adopted by the EU. The Alternative Performance Measures should not be given more prominence than measures sourced directly from the Audited Financial Statements. The Alternative Performance Measures should be read in conjunction with the Audited Financial Statements. There are no generally accepted principles governing the calculation of the Alternative Performance Measures and the criteria upon which the Alternative Performance Measures are based can vary from company to company, limiting the usefulness of such measures as comparative measures. Even though the Alternative Performance Measures are used by management to assess the Group's financial results, and these types of measures are commonly used by investors, they have important limitations as analytical tools and, by themselves, do not provide a sufficient basis to compare the Company's performance with that of other companies and should not be considered in isolation, or as a substitute to, the revenue, profit before tax or cash flows, from operations calculated in accordance with IFRS for analysis of the Group's position or result.

The Alternative Performance Measures have limitations as analytical tools, such as:

- they do not reflect the Group's cash expenditures or future requirements for capital expenditures or contractual commitments.
- they do not reflect changes in, or cash requirements for, the Group's working capital needs.
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on the Group's debt.
- although depreciation and amortization are non-monetary charges, the assets being depreciated and amortized will often need to be replaced in the future and the Alternative Performance Measures do not reflect any cash requirements that would be required for such replacements.
- some of the exceptional items the Company eliminates in calculating the Alternative Performance Measures reflect cash payments that were made, or will be made in the future; and
- the fact that other companies in the Group's industry may calculate the Alternative Performance Measures differently than the Company does, which limits their usefulness as comparative measures.
- the terms used for alternative measures may not have the same or similar meaning as other terms, that may be defined in other documentation for other financial liabilities of the Group.
- alternative measures presented in this annual financial report may differ from alternative measures in annual financial reports of prior periods. To assess the Group's financial performance, the Company uses such Alternative Performance Measures that it deems relevant and indicative of its financial position in a given year.

THE FOLLOWING TABLE GIVES A DESCRIPTION OF THE RESPECTIVE ALTERNATIVE MEASURES IN RELATION TO THE COMPANY'S FINANCIAL STATEMENTS

(in thousands of CZK, unless stated otherwise)	For the year ended 31 December	
	2023	**2022**
EBITDA[1]	2,663,687	3,109,117
EBITDA margin[2]	17.9%	21.3%
Adjusted EBITDA[3]	3,048,379	3,365,297
Adjusted EBITDA margin[4]	20.5%	23.1%
Net income margin[5]	13.7%	13.9%
Adjusted income margin[6]	2,049,742	2,280,464
Adjusted net income margin[7]	13.8%	15.6%
Adjusted earnings per share[8]	58	67
Net financial debt at the end of the period[9]	7,464,691	3,669,615
Net leverage ratio (x)[10]	2.80 x	1.18 x

(1) The Group's management considers EBITDA a crucial performance measure in assessing the Group's business. As described above, EBITDA is not a measure described or acknowledged under IFRS. The Group calculates EBITDA based on the figures included in the Audited Financial Statements. EBITDA is calculated as profit after tax for the period, plus income tax, less other financial income, plus other financial expenses, less interest income, plus interest expense, less share of profit of associates and profit from investments in associated companies, adjusted by gains or losses from derivatives operations, plus depreciation and amortization minus gain on investments in associated companies and profit from bargain purchase of swissAA. All items of the EBITDA calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(2) EBITDA margin is defined as a percentage of EBITDA and revenues from the sale of the Company's own products, goods, and services. EBITDA margin allows for a comparison of one company's performance relative to others in its industry. All items of the EBITDA margin calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(3) In 2023, EBITDA was adjusted by one-off items related to 2023 unrealized acquisitions and payments related to the employee stock option plan, which are not related to operational performance and value creation in the given period. In 2022, adjusted EBITDA was calculated as EBITDA less extraordinary one-time costs associated with unrealized acquisitions and share-based payments associated with the employee option plan. Expenses on professional advisors and expenses associated with acquisitions are presented under Services in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements. Share-based payments are presented under Personnel expenses and Other operating expenses in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements.

(4) Adjusted EBITDA margin is defined as a percentage of adjusted EBITDA and revenues from the sale of the Group's own products, goods, and services. All items of the adjusted EBITDA margin calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(5) Net income margin is defined as a percentage of profit for the period and revenues from the sale of the Group's own products, goods, and services. Both items of the percentage are taken over from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements. Net income margin is used in ratio analysis to determine the proportional profitability of a business.

(6) In 2023, net profit was adjusted by one-off items related to 2023 unrealized acquisitions and payments related to the employee stock option plan, financing cost related to bond issue and by the profit from the bargain purchase of swissAA, which are not related to operational performance and value creation in the given period. Adjusted net income in 2022 was calculated as net income less extraordinary one-time costs associated with unrealized acquisitions in 2022, share-based payments associated with the employee option plan, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs that are generally unrelated to the current period's results of operation and value creation. The cost of the bond issue and the revaluation of contingent consideration for the acquisition of Colt to a market price are presented under Other financial expenses in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements. Negative goodwill is presented as profit from bargain purchase in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements.

(7) Adjusted net income margin is defined as a percentage of profit for the period and revenues from the sale of the Group's own products, goods, and services. Both items of the percentage are taken over from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(8) The Company calculates adjusted net earnings per share as adjusted net income for the period divided by the average number of shares issued by the Company. All items of the adjusted net earnings per share calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(9) The Group defines net financial debt as long-term and short-term bank loans and borrowings and lease payables (non-current and current), less cash and cash equivalents as reported in the consolidated statement of financial position in the Audited Financial Statements. Net financial debt is used by the Group to assess its indebtedness to financial institutions, including banks, leasing companies and bond investors.

(10) Net leverage ratio is defined as the ratio of net financial debt at the end of the period to EBITDA for the period.

THE FOLLOWING TABLE SETS FORTH THE GROUP'S NET FINANCIAL DEBT FOR THE PERIODS INDICATED.

(CZK '000)	For the year ended 31 December	
	2023	**2022**
Bank loans and borrowings (long-term and short-term)	11,614,284	7,181,495
Lease payables (current and non-current)	87,671	70,735
Less: Cash and cash equivalents and other financial assets	4,237,264	3,582,615
Net financial debt at the end of the period	**7,464,691**	**3,669,615**

THE FOLLOWING TABLE PROVIDES A COMPARISON OF PROFIT OR LOSS AFTER TAX AND EBITDA FOR THE PERIODS.

(CZK '000)	For the year ended 31 December	
	2023	**2022**
Profit for the period	2,042,538	2,034,192
Income tax	467,024	321,978
Interest income	756,541	440,453
Interest expense	894,604	612,056
Depreciation and amortization	801,721	910,435
Other financial income	251,596	172,833
Other financial expenses	72,120	133,802
Gains or losses from derivative transactions	221,019	236,826
Share in the profit of associates	682	14,302
Gain on investments in associated companies (step acquisition)	384,482	38,932
EBITDA	**2,663,687**	**3,109,117**
Costs of acquisition-related services	71,237	47,474
Share-based payments associated with the employee option plan	313,455	208,706
Adjusted EBITDA	**3,048,379**	**3,365,297**

THE FOLLOWING TABLE PROVIDES THE CALCULATION OF ADJUSTED NET INCOME AND ADJUSTER NET EARNINGS PER SHARE.

(CZK '000)	For the year ended 31 December	
	2023	**2022**
Profit attributable to the owner of the parent company	2,042,538	2,034,192
Share-based payments relating to employee option plan	313,455	208,706
Costs of acquisition-related services	71,237	47,474
One-time financial expenses associated with the bond issue	8,641	7,402
Elimination of the revaluation of contingent consideration for the Colt acquisition to market value (earn-out)	–	21,671
Profit from the bargain purchase – negative goodwill	(384,482)	–
Effective tax rate	18.6%	13.7%
Tax effect on the adjustment	(1,647)	(38,981)
Numerator		
Adjusted net income	**2,049,742**	**2,280,464**
Denominator		
Average number of shares	35,458	34,172
Adjusted net earnings per share (CZK/share) attributable to the owner of the parent company	**58**	**67**

15. GLOSSARY

CARDAM s.r.o.
CARDAM is a partially-owned subsidiary of CZUB based in Dolní Břežany, Czech Republic, with CZUB owning 33% of CARDAM's share capital. The shareholding grants the Group access to research conducted at the Institute of Physics of the Czech Academy of Sciences, as well as an in-house research and development platform. CARDAM serves as the Group's center of research and development for additive manufacturing and advanced surface treatment.

Colt Canada Corporation
Colt Canada Corporation is Colt's manufacturing plant in Canada. Colt Canada manufactures and supplies firearms, including sub guns, assault rifles, sniper rifles, carbines, and grenade launchers to the Canadian government and European defense corps. Colt Canada Corporation is a member of the Canadian Munitions Supply Program and has a Strategic Source Agreement with the Canadian government as a key supplier of handguns, spare parts, and accessories to the Canadian government.

Colt CZ Group SE
Colt CZ Group SE is a holding and parent company of all Group subsidiaries, with a registered address at náměstí Republiky 2090/3a, 110 01 Prague 1, Czech Republic.

Colt's Manufacturing Company LLC
Colt's Manufacturing Company LLC is the operating company of Colt in the US. Colt's Manufacturing Company LLC is a 100% owner of Colt's Manufacturing IP Holding Company LLC, a company holding intellectual property rights. Colt Manufacturing Company LLC manufactures and supplies firearms to the US commercial market, the US government, foreign military forces, and global defense corps, and security agencies. Colt offers a wide range of quality firearms, including rifles, carbines, pistols, and other hand firearms to US and international military and law enforcement customers. Colt also offers a wide range of rifles, pistols and revolvers to the US and international commercial market customers for sport shooting and self-defense, as well as for collectors.

Colt CZ Group North America Inc.
Colt CZ Group North America is a fully-owned subsidiary of the Group based in Kansas City, Kansas, United States. The company is a holding company that does not conduct any business operations of its own and has no employees. The main asset of the company is its direct shareholdings in companies in the USA and Canada.

CZ-USA Inc.
CZ-USA is a fully-owned subsidiary of Colt CZ Group North America based in Kansas City, Kansas, United States. CZ-USA mainly imports its products from the Group's production facility in the Czech Republic, but also imports shotguns from Turkey. Due to United States regulations, CZ-USA does not sell directly to end customers, but rather sells its product through wholesalers and other merchants.

Colt CZ Defence Solutions s.r.o.
Colt CZ Defence Solutions s.r.o. is a fully-owned subsidiary of the Company based in the Czech Republic. The company specializes in the international sale of military equipment and material. It also provides services in the field of financing, training, and support throughout the entire lifecycle of the delivered products and technologies.

Colt CZ Group International s.r.o.
Colt CZ Group International s.r.o. is a fully-owned subsidiary of the Company based in Prague, Czech Republic. Colt CZ Group International does not conduct any business operations of its own and has no employees. The main asset of the company is its direct 20% shareholding in EG-CZ Academy, a 100% stake in Spurh I Dalby, and from 2023, a 51% stake in Colt CZ Hungary Zrt.

Colt CZ Hungary Zrt.
Colt CZ Hungary Zrt. is a joint-venture between Colt CZ Group (51%) and a Hungarian state-owned company N7 Holding Ltd (49%). Its main purpose is to create reliable production capacities meeting the needs of both shareholders. The production facility is located in Kiskunfélegyháza, Hungary.

Colt CZ Insurance Limited
Colt CZ Insurance Limited is a wholly owned subsidiary based in Guernsey. It is a captive reinsurance company, which contributes to more effective risk management.

CZG VIB s.r.o.
CZG VIB is a fully-owned subsidiary of the Company based in Prague, Czech Republic. The company does not conduct any business operations of its own and has no employees. The main asset of CZG VIB is its approximately 24.99% direct shareholding in VIBROM spol. s r.o.

Česká zbrojovka a.s.
CZUB is the main operating company of the Group. It is based in Uherský Brod, Czech Republic. The Group owns 100% of the share capital of CZUB.

Česká zbrojovka Partners SE
The majority shareholder of the Company. An 87.5% stake is held and controlled by EHC. The remaining 12.5% stake is held by the Holeček Family Foundation.

EG-CZ Academy
EG-CZ Academy is a partially-owned subsidiary of CZG-Česká zbrojovka Group International s.r.o. based in Quimper, France. The Group owns a 20% stake in EG-CZ Academy.

EHC-4M, SE
EHC-4M is a fully-owned subsidiary of the Company based in Prague, Czech Republic. The company does not conduct any business operations of its own and has no employees. The main asset of the company is its 100% shareholding in 4M SYSTEMS a.s.

European Holding Company, SE
The majority shareholder of Česká zbrojovka Partners SE, which holds 87.5% of the share capital and voting rights in Česká zbrojovka Partners SE. 25% of EHC is owned by Mr. René Holeček; the remaining 75% in share capital is owned by OMNES holdingový nadační fond.

Four Horses Apparel Ltd.
Four Horses Apparel Ltd. is a company founded to sell luxury clothing and apparel reflecting the history of Colt, USA and military motifs.

Spuhr i Dalby AB
SPUHR is a renowned Swedish manufacturer of class leading optical mounting solutions for firearms and is wholly-owned by the Group.

swissAA Holding AG
swissAA Holding AG is a 100% owned subsidiary based in Switzerland and a producer of ammunition and technologies for the M/LE segment, specializing in small caliber ammunition. It consists of several fully-owned subsidiaries based in Switzerland and Hungary.

VIBROM spol. s r.o.
VIBROM is a strategic equity investment of the Group and is based in Třebechovice pod Orebem, Czech Republic. It specializes in powder injection molding (PIM), which is a modern technology that combines plastics and a conventional powder method, allowing for the cost-effective series production of durable precision MIM (metal) and ceramic powder injection molding (CIM) parts.

Vocatus Investment a.s.
Vocatus Investment a.s. is a fully-owned subsidiary based in the Czech Republic and founded in June 2023. The Company was founded for the purpose of the acquisition of Sellier & Bellot and has no employees.

ZBROJOVKA BRNO, s.r.o.
Zbrojovka Brno is a fully-owned subsidiary of CZUB based in Brno, Czech Republic. Zbrojovka Brno used to be an independent firearm producer with its own rich production history. It was acquired by the Group in 2004.

4M SYSTEMS a.s.
4M SYSTEMS is a fully-owned subsidiary of EHC-4M, SE based in Prague, Czech Republic. 4M SYSTEMS operations include the development, production, and sale of tactical equipment for the armed forces, such as the military, police, customs, prison service, border guards, etc.

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this Report in connection with the Group and the Group's business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

Striker-fired
One of the most common pistol firing mechanisms that eliminates the use of a hammer. Striker-fired pistols use a spring, which provides energy to the firing pin that strikes the cartridge primer.

Long guns
All firearms, except pistols and revolvers.

Small arms
Pistols and revolvers.

MIM
Metal injection molding is a metalworking process, in which finely powdered metal is mixed with binder material to create a "feedstock" that is then shaped and solidified using injection molding. The molding process allows high volume, complex parts to be shaped in a single step.

Bolt-action
A type of firearm action where the handling of cartridges into and out of the barrel chamber is operated by manually manipulating the bolt directly via a handle.

Rimfire rifle
A rifle in which the firing pin strikes the rim of the cartridge case to ignite the primer.

Break-action
A type of firearm action in which the barrel is hinged and rotates perpendicular to the bore axis to expose the breech and allow loading and unloading of cartridges.

Centerfire rifle
A rifle that has a primer located in the center of the cartridge case head.

Sub gun
A self-loading automatic or semi-automatic firearm with a detachable magazine that is commonly chambered in pistol cartridges. It’s primarily designed for military and law enforcement use. Depending on region-specific legislation, semi-automatic versions are available for commercial use.

Tactical accessories
Firearm accessories, tactical and ballistic equipment, and apparel.

Assault rifle
Any type of the self-loading automatic or semi-automatic rifle with detachable magazine chambered in intermediate cartridges. Primarily designed for military or commercial use, depending on the region-specific legislation (in Czech: útočná puška).

Locked breech
One of the wide-spread firearm mechanism designs used to slow down the opening of the breech to ensure flawless operation.

Magazine-fed
A design feature of a firearm in which ammunition is drawn from a magazine.

GLOSSARY OF OTHER TERMS

DALO
The Danish Ministry of Defence Acquisition and Logistics Organisation is responsible for the procurement, supply, maintenance, development and decommission of material capabilities, IT and services for the armed Danish forces and Emergency Agency.

ESG
Environmental, Social and Corporate Governance, which refers to environmental, social and governance issues. It means responsible behavior of companies in relation to the environment, society/people and corporate governance.

IDPA
The International Defensive Pistol Association (IDPA), based in Texas, USA.

IFRS
International Financial Reporting Standards are accounting standards that are issued by the IFRS Foundation and the International Accounting Standards Board.

IPSC
International Practical Shooting Confederation is a shooting association that originated in the US from advanced shooting practiced by the police and the military.

ESMA
European Securities and Markets Authority is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

Prime Market
Prime Market is a market intended for trading shares of the largest and most profitable (blue chip) Czech and foreign companies that have been accepted for trading on the Prague Stock Exchange.

PSE
Prague Stock Exchange (PSE) is the main organizer of the securities market in the Czech Republic.

USPSA
United States Practical Shooting Association (USPSA) is the national governing body of practical shooting in the United States under the International Practical Shooting Confederation (IPSC).

SEPARATE FINANCIAL STATEMENTS

for the Year Ended 31 December 2023
prepared in accordance with IFRS Accounting Standards
as adopted by the European Union

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 December 2023

		2023	2022
	Note	**CZK '000**	**CZK '000**
Revenues from the sale of own services	5	161,246	133,427
Other operating income	6	679	689
Share in profit of subsidiaries	7	700,200	952,025
Raw materials and consumables used	8	-1,769	-1,255
Personnel expenses	9	-193,211	-153,438
Depreciation and amortisation	12	-11,911	-5,790
Services	11	-153,107	-99,663
Other operating expenses	13	-11,100	-5,808
Change in allowances		212	-212
Operating profit or loss		**491,239**	**819,975**
Interest income	15	1,026,436	700,810
Other financial income	15	210,077	60,098
Interest expense	15	-887,176	-609,849
Other financial expenses	15	-10,841	-95,840
Gains or losses from derivative transactions	16	-114,989	78,058
Profit before tax		**714,746**	**953,252**
Income tax	17, 18	-60,090	-26,628
Profit for the period		**654,656**	**926,624**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments	19	-370,413	525,914
Other comprehensive income		**-370,413**	**525,914**
Total comprehensive income for the period		**284,243**	**1,452,538**

These notes are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	31 Dec 2023 CZK '000	31 Dec 2022 CZK '000
Assets			
Non-current assets			
Intangible assets	20	55,057	14,111
Property, plant and equipment	20	38,051	20,312
Investments in subsidiaries	21	5,616,892	4,281,021
Provided loans	22	6,487,035	6,258,822
Financial derivatives	36	521,740	748,614
Other receivables	26	–	3,748
Total non-current assets		**12,718,775**	**11,326,628**
Current assets			
Trade and other receivables	25	93,842	77,973
Provided loans	22	1,332,461	309,651
Other financial assets	24	908,580	756,834
Financial derivatives	36	21,123	24,581
Other receivables	26	4,610	12,699
Cash and cash equivalents	27	1,211,901	1,550,408
Total current assets		**3,572,517**	**2,732,146**
Total assets		**16,291,292**	**14,058,774**
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	28	3,516	3,410
Share premium	28	1,942,818	1,366,386
Capital funds	29	1,712,111	1,712,111
Cash flow hedge reserve	29	205,908	576,320
Accumulated profits		2,893,010	2,979,306
Total equity		**6,757,363**	**6,637,533**
Non-current liabilities			
Bonds, bank loans and borrowings	30	8,892,625	6,964,157
Deferred tax liabilities	18	45,389	128,330
Lease liabilities	33	15,814	7,548
Provisions	14	15,186	5,391
Financial derivatives	36	219,106	–
Total non-current liabilities		**9,188,120**	**7,105,426**
Current liabilities			
Bonds, bank loans and borrowings	30	215,660	202,445
Trade and other payables	31	38,777	45,107
Lease liabilities	33	5,003	4,743
Other payables	32	29,447	35,470
Tax liabilities	17	48,441	28,050
Financial derivatives		8,481	–
Total current liabilities		**345,809**	**315,815**
Total liabilities		**9,533,929**	**7,421,241**
Total equity and liabilities		**16,291,292**	**14,058,774**

These notes are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 December 2023

	Registered capital (Note 28)	Share premium (Note 28 and 29)	Other capital funds (Note 29)	Cash flow hedge reserve (Note 29)	Accumulated profits	Total equity
	CZK '000	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**
Balance at 31 Dec 2021	**3,374**	**1,139,211**	**1,528,735**	**50,406**	**2,706,869**	**5,428,595**
Profit for the period	–	–	–	–	926,624	926,624
Other comprehensive income	–	–	–	525,914	–	525,914
Total comprehensive income for the period	**–**	**–**	**–**	**525,914**	**926,624**	**1,452,538**
Issue of shares	36	227,175	–	–	–	227,211
Dividends	–	–	–	–	-852,548	-852,548
Effect of demerger by spin-off associated with acquisition	–	–	183,377	–	–	183,377
Share-based payments	–	–	–	–	198,360	198,360
Rounding	–	–	-1	–	1	–
Balance at 31 Dec 2022	**3,410**	**1,366,386**	**1,712,111**	**576,320**	**2,979,306**	**6,637,533**
Profit for the period	–	–	–	–	654,656	654,656
Other comprehensive income	–	–	–	-370,413	–	-370,413
Total comprehensive income for the period	**–**	**–**	**–**	**-370,413**	**654,656**	**284,243**
Issue of shares	106	576,432	–	–	–	576,537
Dividends	–	–	–	–	-1,034,016	-1,034,016
Share-based payments	–	–	–	–	293,068	293,065
Rounding	–	–	–	1	-4	1
Balance at 31 Dec 2023	**3,516**	**1,942,818**	**1,712,111**	**205,908**	**2,893,010**	**6,757,363**

These notes are an integral part of these financial statements.

SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
		CZK '000	**CZK '000**
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		**714,746**	**953,252**
Adjustments for non-cash transactions			
Depreciation/amortisation of non-current assets	12, 20	11,911	5,790
Change in allowances and provisions	14	9,583	5,603
Revenues from profit shares	7	-700,220	-952,025
Interest expense and interest income	15	-139,260	-90,961
Effect of unrealised foreign exchange gains and losses		14,924	-125,111
Partial settlement of contingent consideration	28	406,915	227,211
Remeasurement of other financial assets	24	-160,692	–
Cash flow hedges – remeasurement of effective portion of hedging instruments	36	-370,413	525,914
Share-based payments	10	108,828	79,762
Adjustments for other non-cash transactions		9,268	6,938
Net operating cash flows before changes in working capital		**-94,410**	**636,373**
Change in working capital			
Change in receivables and deferrals	25, 26	205,567	-693,850
Change in liabilities and accruals	31, 32	145,684	148,883
Net cash flow from operating activities		**256,841**	**91,406**
Paid interest		-874,001	-449,604
Interest received		961,271	592,037
Income tax paid for ordinary activity	17	-47,718	-1,841
Dividends received	7	700,220	952,025
Net cash flow from operating activities		**996,613**	**1,184,023**
Cash flows from investing activities			
Acquisition of non-current assets	20	-63,642	-20,691
Acquisition of investments in subsidiaries	21	-742,316	–
Acquisition of other financial assets	24	–	-756,834
Provided loans	22	-2,238,971	-2,333,272
Repayments of provided loans	22	659,468	659,612
Net cash flow from investing activities		**-2,385,461**	**-2,451,185**
Cash flows from financing activities			
Proceeds from issue of bonds	30	1,917,756	1,984,796
Proceeds from drawdown of loans	33	2,584	–
Dividends paid to owners	28	-864,393	-852,548
Repayment of loans	28	–	-42,200
Repayment of leases	30	-5,674	–
Net cash flow from financing activities		**1,050,273**	**1,090,048**
Net change in cash and cash equivalents		**-338,575**	**-177,114**
Opening balance of cash and cash equivalents	**27**	**1,550,408**	**1,727,564**
Effect of exchange rate on cash and cash equivalents		68	-42
Closing balance of cash and cash equivalents	**27**	**1,211,901**	**1,550,408**

These notes are an integral part of these financial statements.

COLT CZ GROUP SE

Separate Financial Statements
for the Year Ended 31 December 2023
prepared in accordance with IFRS Accounting Standards
as adopted by the European Union

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1. GENERAL INFORMATION ABOUT THE COMPANY

Colt CZ Group SE (the "Company") is a societas Europaea recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961. The principal activities are the manufacture, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act. The Company is a holding company established to hold interests in subsidiaries and to provide management services to related parties.

The following table shows individuals and legal entities with an equity interest greater than 10 percent:

Shareholder	Ownership percentage as at	
	31 December 2023	31 December 2022
Česká zbrojovka Partners SE	75.40%	76.86%

Since 2017, the majority owner of the Company has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1 Czech Republic.

The Company is part of a larger consolidation group of the ultimate parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1 Czech Republic. The ultimate majority owner of the Company is Mr. René Holeček.

Members of the Board of Directors and Supervisory Board as of the balance sheet date:

Board of Directors	
Chair:	Jan Drahota
Vice-chair:	Josef Adam
Member:	Jan Holeček
Member:	Dennis Veilleux
Member:	Jan Zajíc
Supervisory Board	
Chair:	David Aguilar
Vice-chair:	René Holeček
Vice-chair:	Lubomír Kovařík
Member:	Jana Růžičková
Member:	Vladimír Dlouhý

On 16 May 2023, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 1 July 2023, Mr. David Aguilar and Mr. René Holeček were appointed members of the Supervisory Board. Subsequently, the Supervisory Board appointed Mr. David Aguilar as its chair and Mr. René Holeček and Mr Lubomír Kovařík as its vice-chairs.

On 1 July 2023, the Company's registered office address changed to náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1.

On 20 September 2023, the registered capital was increased through the issue of 322,170 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 15 December 2023, the registered capital was increased through the issue of 368,038 shares in book-entry form with a nominal value of CZK 0.1 per share.

All amounts in these financial statements and the related notes are reported in thousands of Czech crowns, which are also the functional currency.

2. MATERIAL EVENTS IN THE CURRENT PERIOD

On 18 May 2023, the Company issued bonds with a nominal value of CZK 1,929,000 thousand. The proceeds from the issue will be used for capital expenditures, working capital, financing acquisition plans and for general purposes of the Company.

On 15 June 2023, the Company decided to pay a dividend of CZK 1,034,016 thousand (CZK 30 per share). Part of the dividend was paid out in form of an off-set with newly issued shares, in particular 322,170 shares with a total value of CZK 169,623 thousand. The newly issued shares were subscribed on 20 September 2023. The remaining part of the dividend of CZK 864,393 thousand was paid out to shareholders.

On 28 June 2023, the Company acquired a 100% share in swissAA Holding AG. The swissAA Holding AG group is an ammunition manufacturer with production facilities in Switzerland and Hungary.

On 17 October 2023, Colt CZ Insurance Limited was established as a subsidiary of Colt CZ Group SE. It is a captive reinsurance company with a single owner, which will contribute to more efficient risk management.

On 18 December 2023, the Company entered into an agreement to acquire a 100% share in Sellier & Bellot a.s. The acquisition will be financed through a combination of the Company's existing cash resources and debt financing. The transaction is subject to regulatory approvals in various countries, which are expected to take place in the first half of 2024.

3. NEWLY APPLIED STANDARDS AND INTERPRETATIONS

In the current year, the Company has applied a new standard and a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective for the reporting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standard	Title
IFRS 17	New standard IFRS 17 Insurance Contracts including the June 2020 and December 2021 amendments to IFRS 17
Amendments to IAS 1	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

New and revised IFRS Accounting Standards in issue and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following revised IFRS Accounting Standards that have been issued by IASB and adopted by EU but are not yet effective:

Standard	Title	Effective date
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current - Deferral of Effective Date	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024

New and revised IFRS Accounting Standards in issue but not adopted by the EU

At present, IFRS accounting standards as adopted by the EU do not significantly differ from IFRS accounting standards adopted by the International Accounting Standards Board (IASB) except for the following amendments to the existing standards, which were not adopted by the EU:

Standard	Title	EU adoption status
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred by IASB indefinitely but earlier application permitted)	Endorsement process postponed indefinitely until the research project on the equity method has been concluded
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements (IASB effective date: 1 January 2024)	Not yet adopted by the EU
Amendments to IAS 21	Lack of Exchangeability (IASB effective date: 1 January 2025)	Not yet adopted by the EU

The Company does not expect that the adoption of the amendments to standards listed above will have a material impact on the financial statements of the Company in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union ("IFRS").

4.2. Basis of preparation

a) Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b) Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants took those characteristics into account in pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- **Level 1** – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** – inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** – inputs are unobservable inputs for the asset or liability.

The Company applies Level 2 to financial instruments – derivatives.

c) Going concern

The Company has, at the time of approving the financial statements, a reasonable expectation that Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

d) Functional and presentation currency

The functional currency of the Company is the Czech crown (CZK).

The presentation currency of the Company is the Czech crown (CZK). All financial information presented in these financial statements has been rounded to the nearest thousand ("CZK '000") unless stated otherwise.

4.3. Provision of services

Services primarily include accounting and other advisory services provided to related parties. Services are provided based on contracts or confirmed orders. For provided services, performance obligations are agreed in contracts.

For the supply of services, the performance obligation is fulfilled when the customer acquires control of the service. This point in time is usually specified in the contract.

The costs of obtaining a contract are directly expensed if they are insignificant or if the depreciation period of the asset consisting of the costs of obtaining the contract is less than one year.

4.4. Dividends and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is recognised over the relevant period for each financial asset. Interest income is calculated by applying the effective interest rate, the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the gross carrying amount of the financial asset.

4.5. Leases

The Company as a lessee

For short-term and low-value asset leases (office technology and equipment), costs are accounted for on a straight-line basis over the lease term.

For other leases, the Group recognises right-of-use assets and lease liabilities as of the lease commencement date.

As of the lease commencement date, the lease liability is measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease (or the incremental borrowing rate in case the interest rate implicit in the lease is not readily available). Lease payments may include both fixed and variable payments. As of the lease commencement, the variable element of rent depending on the development of a price index or rate is determined according to the index or rate value as of the lease commencement date. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payment made. If any changes (resulting mainly from the change in the lease term or in future lease payments) occur after the lease commencement date, the Company remeasures the lease liability with the corresponding adjustment to the right to use asset.

The short-term and long-term portions of the lease liability are presented on separate lines of the separate statement of financial position.

As of the lease commencement date, the right-of-use asset is measured at cost. The cost is comprised of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day less any lease incentives received and any initial direct cost incurred. Subsequently, the right-of-use asset is measured at cost less accumulated depreciation or impairment losses, if any. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets in the separate statement of financial position are presented in the line Property, plant and equipment.

The Company applies IAS 36 to determine whether the right-of-use asset has been impaired and any impairment losses identified are recognised in accordance with the policy described in Note 4.12.

If there is a change in the expected payments included in the lease liability valuation, the Group adjusts the lease liability value to reflect the newly expected payments and adjusts the value of the right-of-use asset at the same time.

4.6. Foreign currencies

During the course of the reporting period, assets and liabilities denominated in foreign currencies are translated by the Company using the exchange rate promulgated by the Czech National Bank on the previous business day; as of the end of the reporting period, the exchange rate promulgated by the Czech National Bank as of 31 December is used.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange rate differences on monetary items are recognised in the profit or loss for the period in which they occurred, except for exchange rate differences on transactions designated to hedge certain monetary risks (see Notes 4.19.).

4.7. Share-based payments

The fair value of agreements on equity-settled share-based payments granted to an entity's own employees is usually recognised as an expense as at the grant date with a corresponding increase in equity over the vesting period.

The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term/function term and the non-market performance condition so that the amount finally recognised is based on the number of cases meeting the condition of the employment term/function term and the non-market performance condition on the vesting date.

The fair value of agreements on equity-settled share-based payments granted to other employees of the Colt CZ Group SE group is usually recognised as an increase in investments in subsidiaries as at the grant date with a corresponding increase in equity over the vesting period. The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term/function term and the non-market performance condition so that the amount finally recognised is based on the number of cases meeting the condition of the employment term/function term and the non-market performance condition on the vesting date.

As for remuneration in the form of share-based payments with non-vesting conditions, the grant date fair value of share-based payments is determined considering those conditions and no adjustments are made to reflect differences between the expected and actual result.

4.8. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

4.8.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the separate statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.8.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4.8.3. Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

4.9. Property, plant and equipment – tangible non-current assets

Property, plant and equipment is recognised at acquisition cost net of accumulated depreciation and accumulated impairment losses.

Purchased property, plant and equipment is carried at cost upon acquisition. The cost includes the direct costs of acquisition, transportation costs, customs duty and other costs related to acquisition.

Subsequent costs incurred on a replacement part for property, plant and equipment or major inspections or overhauls are recognized in the carrying amount of the affected item of property plant and equipment. Costs of day-to-day servicing, repair or maintenance are expensed when incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation is calculated based on the acquisition cost and estimated useful life of the respective assets. Estimated useful lives are estimated as follows:

	Number of years (from – to)
Machinery, devices and equipment	2–5
Office equipment	2–3
Right of use	3–4
Furniture and fixtures	2–4

Right of use assets are depreciated from the lease commencement date to the earlier of the end of the useful life of the right to use asset and the end of the lease term, unless the lease transfers the ownership of the underlying asset to the Company term. If this is the case, the right to use asset is depreciated from the lease commencement date to the end of the useful life of the underlying asset.

An item of property plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4.10. Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Depreciation is calculated based on the acquisition cost and estimated useful life of the respective assets. Estimated useful lives are estimated as follows:

	Number of years (from – to)
Software	3–5
Other intellectual property rights	4–8
Trademarks	8–15

4.11. Investments in subsidiaries

Subsidiaries are entities in which the Company exercises control.

Control is established if the Company:

- has power over the investee,
- is exposed to, or has the right to, variable returns by virtue of its involvement with the investee,
- has the ability to use its power over the investee to influence the level of their returns.

The Company is deemed to control subsidiaries by meeting the requirements under IFRS 10 – Consolidated Financial Statements. This also includes the Company holding more than 50 per cent of the voting rights of another entity and no other factors precluding control.

Investments in new subsidiaries are measured at cost less any impairment.

If there is an objective indication of impairment, any impairment loss on an investment in a subsidiary is calculated by comparing the recoverable amount with the carrying amount. In assessing the existence of such an indication, the Company primarily considers the subsidiary's current and potential financial difficulties, breaches of contracts, default, possible bankruptcy, decline in market value, failure to implement the plan, and dividends paid. The recoverable amount is determined as the higher of the value in use and the fair value of the asset less costs to sell. The value in use is determined based on estimated future cash flows discounted to their present value.

4.12. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.13. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. The Company considers as short-term investments with an initial maturity of three months or less.

4.14. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Company primarily establishes provisions for share-based payments.

4.15. Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instruments.

All ordinary purchases and sales of financial assets are recognised or derecognised based on the transaction date. Ordinary purchases and sales refer to purchases or sales of financial assets, which require the assets to be delivered in a timeframe determined by a regulation or market convention.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4.16. Financial assets

Under IFRS 9, financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), financial assets 'at fair value through other comprehensive income' (FVTOCI), and financial assets 'at amortised cost'. Equity instrument except for shares in subsidiaries and associates are subsequently measured at fair value. The Company does not use the option to measure selected equity instruments through other comprehensive income; all equity instruments are measured at fair value through profit or loss (FVTPL).

Shares in subsidiaries and associates are measured at cost less any impairment losses.

The classification and subsequent measurement of debt financial assets depends on the business model and cash flow characteristics of the respective asset. Debt financial assets held to collect contractual cash flows representing solely the payment of interest and principal are measured at amortised cost. Debt financial assets held to collect contractual cash flows representing the payment of interest and principal with the possible objective of selling them (the so-called mixed business model) are measured at fair value through other comprehensive income.

4.16.1. Impairment of financial assets

For trade receivables, the Company determines an impairment loss by means of the simplified model. Therefore, the impairment loss for short-term receivables is determined in an amount corresponding to expected losses for the entire duration of the receivable. To determine the impairment loss, the Company divides short-term receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of expected losses for each class of receivables is based on historical experience and information about the future that is available without unreasonable cost or effort. The amount of the expected losses for each class of receivables is assessed annually by the Company's management.

For long-term receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant deterioration in the credit risk of the receivable. In that case, the losses are determined in the amount of the expected losses for the entire remaining period to maturity. Indicators of increased credit risk are mainly breaches of contractual conditions.

Financial assets write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

4.16.2. Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised using the effective interest method for financial assets other than those financial assets classified as at FVTPL.

4.17. Financial liabilities and equity instruments

4.17.1. Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

4.17.2. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4.17.2.1. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- Upon initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking;
- It is a derivative that is not designated as an effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- It forms part of a group of financial assets or financial liabilities or both which are managed and their performance is assessed in line with the entity's documented risk strategy or investment strategy based on fair value and information on this group is disclosed internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other financial income/expenses' line item in the separate statement of other comprehensive income/ statement of profit or loss.

4.17.2.2. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

4.17.3. Bonds

The Company issued book-entry bearer bonds in 2021 and 2022. The bonds are listed on the regulated market of the Prague Stock Exchange. Issued bonds are recognised at fair value. Unpaid interest on bonds is recognized in the Current bonds, bank loans and borrowings position. Transaction costs are accrued and recognised in Long-term or Short-term bonds, bank loans and borrowings.

4.17.4. Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are extinguished, i.e. they are discharged, cancelled or have expired. If the existing obligation is modified substantially, it is accounted for as an extinguishment of the original liability and recognition of a new liability. The modification is deemed to be substantial if the cash flows under the new liability are at least 10% different from the net present value of the remaining cash flows of the existing liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4.18. Financial derivatives

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks by means of interest rate swaps and currency swaps. The Company arranges hedging derivatives to hedge cash flows.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of hedging derivatives are also recognised under financial expenses, or financial income, along with the respective change in the fair value of the hedged asset or liability relating to the hedged risk. The portion of the gain or loss on the derivatives determined to be an effective cash flow hedge is recognised through other comprehensive income. Any remaining gain or loss is recognised in the statement of profit or loss and other comprehensive income and presented as Gains/losses from derivative transactions.

4.19. Hedge accounting

The Company used the option to continue applying January IAS 39 to assess and maintain hedge accounting after 1 January 2018.

The Company designates certain hedging instruments containing derivatives in respect of foreign currency and credit risk as either fair value hedges or cash flow hedges.

For a derivative to be classified as hedging, changes in the fair value or in cash flows arising from derivative instruments must compensate, entirely or in part, changes in the fair value of the hedged item or changes in cash flows arising from the hedged item and the Company must document and demonstrate the existence of a hedge relationship as well as high effectiveness of the hedge.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The Company uses financial derivative instruments to hedge currency and interest rate risks which it is exposed to as a result of its operations.

Hedging derivatives meet the following hedge accounting criteria:

(a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.;
(b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.;
(c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss; and
(d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
(e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. Effectiveness is assessed, at a minimum, at the time the Company prepares its financial statements.

The Company classified the transaction as a cash flow hedge. Hedging derivative instruments are measured at fair value as at the end of the reporting period and the fair value is reported under Cash flow hedge reserve in the Company's equity.

4.19.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income under Cash Flow Hedges – remeasure of effective portion of hedging instruments, the cumulative balance is recognised in the Consolidated statement of financial position in Capital funds. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the Gains or losses from derivative transactions.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

4.20. Use of estimates

The presentation of financial statements in line with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and presentation of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates on the basis of all the relevant information available to it. Nevertheless, the actual results and outcomes in the future may differ from these estimates. Key sources of uncertainty in making estimates at the end of the reporting period include:

- Impairment and useful lives of non-current assets, including the right of use based on the expected useful life of these assets and their ability to generate cash inflows in the future (Notes 4.12. and 20);
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 4.16. and 22);
- The valuation of investments in subsidiaries is based on market parameters existing as at 31 December 2023 (Note 4.11., Note 21).
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as at 31 December 2023 (Notes 4.18, 4.19, 29, 34, and 35).
- The use of estimates is also applied to the creation of provisions (Note 14) and the recognition of share-based payments (Note 10).

4.21. Sources of uncertainty and risk factors

The Company's business may be negatively affected in the future by the following factors beyond the Company's control:

- Bad acquisition failing to meet expected performance.
- Loss of key employees.
- Political risks: Political developments may lead to a reduction in the subsidiaries' ability to supply weapons to selected areas. Such developments could adversely affect the financial performance of the Company's subsidiaries and thus the Company's business.
- Exchange rate and interest rate movements, including a change in the risk-free reference rate: The Company is active in different markets and its financial performance may be affected by unexpected changes in exchange rates; The Company is partially funded by variable interest-bearing bonds; interest expenses may be impacted by unexpected changes in reference rates, including changes in the method of benchmark market rate determination.

The Company continuously analyses and assesses factors that may influence the Company's financial results and adopts measures (such as using hedging financial instruments) to reduce the impact of possible negative development in the above-described areas on the Company.

5. REVENUES FROM THE SALE OF OWN SERVICES

The table below shows a breakdown of the Company's revenues by type (in CZK '000):

	2023	2022
Revenues from provision of services	161,246	133,427
Total	**161,246**	**133,427**

Revenues from provision of services primarily include accounting and advisory services. All revenues generated in 2023 and 2022 were within the scope of IFRS 15 Revenue from Contracts with Customers. All contractual obligations were satisfied and revenues were thus recognized at a certain point in time. Invoicing was also performed at the same point in time. It was not customary for the Company to require payment in advance for its services. The Company did not provide any discounts either. Revenues were not sub-categorised as they were all generated by one type of revenue.

No revenue was recognised in 2023 or 2022 related to a contractual obligation that was satisfied or partially satisfied in prior periods.

The Company has not recognized any contractual asset or contractual liability; trade receivables arising from contracts with customers are recognised in Trade and other receivables. The Company has not incurred any costs to obtain or perform the contract, therefore no asset has been recognized in respect of the contract.

The Company used the option not to recognise information on revenues arising from the existing contracts agreed for less than a year.

6. OTHER OPERATING INCOME

The table below shows a breakdown of the Company's other operating income in individual years (CZK '000):

	2023	2022
Profit/loss from the sale of non-current assets	568	649
Other operating income	111	40
Total	**679**	**689**

7. SHARE IN PROFIT OF SUBSIDIARIES

The table below shows a share in profit of subsidiaries in individual years (CZK '000):

	2023	2022
Česká zbrojovka, a.s.	600,000	952,025
Colt CZ Defence Solutions, s.r.o.	40,000	–
EHC-4M, SE	40,200	–
Colt CZ Group International s.r.o.	20,000	–
Total	**700,200**	**952,025**

The share in profit of subsidiaries for 2023 includes a dividend received from Česká zbrojovka, a.s. of CZK 600,000 thousand (2022 – CZK 952,025 thousand), a dividend received from Colt CZ Defence Solutions, s.r.o. of CZK 40,000 thousand (2022 – CZK 0 thousand), a dividend received from Colt CZ Group International, s.r.o. of CZK 20,000 thousand (2022 – CZK 0 thousand), and an advance dividend received from EHC-4M, SE of CZK 40,200 thousand (2022 – CZK 0 thousand).

8. RAW MATERIALS AND CONSUMABLES USED

The table below shows the breakdown of consumption in individual years (CZK '000):

	2023	2022
Consumed material	1,076	711
Costs of energy and other supplies	693	544
Total	**1,769**	**1,255**

9. PERSONNEL EXPENSES

Breakdown of personnel expenses for employees excluding executives (CZK '000):

	2023	2022
Average FTE number of employees	22	17
Wages and salaries	43,056	23,828
Social security and health insurance	11,859	6,396
Other personnel expenses	1,348	831
Employee bonuses	-5,053	16,185
Share-based payments	7,196	890
Total	**58,406**	**48,130**

Breakdown of personnel expenses of executives (CZK '000):

	2023	2022
Average FTE number of executives	10	9
Wages and salaries	28,885	14,677
Social security and health insurance	5,705	3,137
Other personnel expenses	345	120
Management bonuses	-1,762	8,502
Share-based payments	101,632	78,872
Total	**134,805**	**105,308**

In 2023, the key management personnel included all Board of Directors and Supervisory Board members. The Company did not provide any additional benefits to its key management personnel in 2023 and 2022 that are not included in the table above (e.g., post-employment or termination benefits).

10. SHARE-BASED PAYMENT ARRANGEMENTS

10.1. Description of share-based payment arrangements – stock option plans (equity-settled)
On 27 December 2021, the Company's Supervisory Board approved an employee stock option plan (the "Stock Option Plan").

The Stock Option Plan entitles the Company's key executives and employees (option holders) to purchase the Company's shares. The plan is currently only available to executives and senior employees.

The basic principles of the Stock Option Plan are as follows:

- to the extent, at the times and subject to the conditions of the Stock Option Plan, the participant will acquire the following options by way of vesting by the Company.
  a) 15% of the allocated stock options in the period from June 2022 to June 2024
  b) 35% of the allocated stock options in July 2024 if Target 1 is met
  c) 50% of the allocated share options in July 2026 if Target 2 is met

- Target 1 – achieving consolidated EBITDA for the 2021 to 2023 period of USD 275,000,000
- Target 2 – achieving the following performance parameters at the consolidated level as at 31 December 2025:

  i) a turnover of EUR 1,000,000,000
  ii) EBITDA of EUR 200,000,000, and
  iii) net liabilities to EBITDA ratio below 3.5x, in compliance with the Group's strategy.

Shares designated for the Stock Option Plan will be newly issued. The maximum number of shares issued will be 3,373 thousand.

The Stock Option Plan comprises five tranches:

- Tranche 1–3: conditional only on employment term/function term
- Tranche 4: employment term/function term condition and a non-vesting condition (EBITDA related Target 1)
- Tranche 5: employment term/function term condition and vesting non-market performance condition (EBITDA related Target 2).

The participants in share-based payment arrangements must not sell or transfer the options.

Employees terminating their employment are divided into two groups:
- Leaving on good terms (over the entire term of 10 years): the provided options are not forfeited.
- Leaving on bad terms (over the entire term of 10 years): the provided options are forfeited.

Grant date/entitlement date	Number of instruments	Vesting conditions	Contractual maturity of the option
Granted options			
Tranche 1			
May 2022	44,500	employment term / function term from the grant date to 1 June 2022	The option may be exercised until 30 September 2029.
December 2022	4,350	ditto	ditto
Tranche 2			
May 2022	44,500	employment term / function term from the grant date to 1 June 2023	The option may be exercised until 30 June 2029.
December 2022	4,350	ditto	ditto
July 2023	1,300	ditto	ditto
Tranche 3			
May 2022	44,500	employment term / function term from the grant date to 1 June 2024	The option may be exercised until 30 June 2029.
December 2022	4,350	ditto	ditto
July 2023	650	ditto	ditto
Tranche 4			
May 2022	311,500	employment term / function term from the grant date to 1 July 2024 and non-vesting condition (EBITDA-related Target 1)	The option may be exercised until 30 June 2029.
December 2022	30,450	ditto	ditto
July 2023	4,550	ditto	ditto
Tranche 5			
May 2022	445,000	employment term / function term from the grant date to 1 July 2026 and vesting non-market performance condition (EBITDA-related Target 2)	The option may be exercised until 30 June 2031.
December 2022	43,500	ditto	ditto
July 2023	6,500	ditto	ditto
Total stock options	**990,000**		

10.2. Fair value measurement

To determine the fair values of equity-settled share-based payments (share option plans settled with equity instruments) as at the grant date, the following input information was used:

Stock option plan (equity-settled)					
Key executives	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**	**Tranche 5**
Fair value at the grant date (in CZK) (average)	494.24	494.24	494.24	395.39	456.19
Share price at the grant date (in CZK) (average)	581.67	581.67	581.67	581.67	581.67
Exercise price of the option (in CZK)	0.10	0.10	0.10	0.10	0.10
Expected volatility (weighted average)	22.33%	22.33%	22.33%	22.33%	22.33%
Expected maturity of the option (weighted average) in years	3.0	3.0	3.0	3.0	5.0
Dividend income	4.00%	4.00%	4.00%	4.00%	4.00%
Risk-free interest rate (based on the CZK IRS* rate)	4.61%	4.61%	4.61%	4.61%	4.31%

* Interest rate swaps in CZK with corresponding maturity

The expected volatility was based on an assessment of the historical volatility of the Company's share price for the historical period corresponding to the expected maturity.

10.3. Reconciliation of stock options

The following table shows the number and weighted average exercise price of stock options in the Stock Option Plan.

	2023		2022	
Total options	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Not settled at 1 January	977,000	0.10	–	–
Granted during the period	13,000	0.10	977,000	0.10
Not settled at 31 December	**990,000**	**–**	**977,000**	**–**

10.4. Expenses recorded in the statement of profit or loss

More detailed information about expenses for the Stock Option Plan is shown in Notes 9 and 14.

10.5. Items recorded in the statement of financial position

As at 31 December 2023, the total fair value of 2,870,755 stock options (2022 – 2,807,300 stock options) from share-based payments was CZK 491,428 thousand (2022 – CZK 198,360 thousand).

As at 31 December 2023, the fair value of 990,000 stock options (2022 – 977,000 stock options) allocated to the Company's employees was CZK 188,590 thousand (2022 – CZK 79,762 thousand) and was reported in retained earnings from previous years with a corresponding double entry in the statement of profit or loss (see Note 9).

As at 31 December 2023, the fair value of 1,880,755 stock options (2022 – 1,830,300 stock options) allocated to other employees of Colt CZ Group SE was CZK 302,838 thousand (2022 – CZK 118,598 thousand) and was reported in retained earnings from previous years with corresponding double entry in investments in subsidiaries (see Note 21).

At 31 December 2023, the related social security and health insurance liabilities amounted to CZK 15,186 thousand (2022 – CZK 5,391 thousand) and were reported in long-term provisions with a corresponding double entry in the statement of profit or loss (see Note 14). The Company also recorded deferred tax relating to these liabilities, totalling CZK 3,189 thousand (2022 – CZK 1,024 thousand) (see Note 18).

11. SERVICES

The breakdown of the Company's services in individual years is as follows (CZK '000):

	2023	2022
Advisory services and other external expenses	125,793	77,244
Transportation and travel	7,457	7,145
IT costs, connectivity, SW license	5,755	2,075
Marketing costs	8,602	7,004
Variable lease costs	263	276
Costs of short-term leases	–	151
Costs relating to low-value assets not included in the short-term leases above	33	23
Other services	5,204	5,745
Total	**153,107**	**99,663**

12. DEPRECIATION AND AMORTISATION

The table shows the composition of the Company's expenses in individual years (CZK '000):

	2023	2022
Depreciation of non-current intangible assets (Note 20)	1,337	386
Depreciation of non-current tangible assets (Note 20)	5,042	460
Depreciation of right of use of assets (Note 20)	5,532	4,944
Total	**11,911**	**5,790**

13. OTHER OPERATING EXPENSES

The table shows the composition of other operating expenses of the Company in individual years (CZK '000):

	2023	2022
Taxes and levies	405	61
Insurance	546	346
Gifts	142	–
Write-off of financial assets	212	–
Additions to, utilisation and release of provisions - share-based payments	9,795	5,391
Other operating expenses	–	10
Total	**11,100**	**5,808**

14. PROVISIONS

The table below shows changes in long-term provisions (CZK '000):

Provisions	Balance at 31 Dec 2021	Additions to provisions	Balance at 31 Dec 2022	Additions to provisions	Utilisation of provisions	Balance at 31 Dec 2023
Provisions for share-based payments – long-term	–	5,391	5,391	9,795	–	15,186
Total	**–**	**5,391**	**5,391**	**9,795**	**–**	**15,186**

15. INTEREST AND OTHER FINANCIAL INCOME AND EXPENSES

Financial income in individual years (CZK '000):

	2023	2022
Interest income	1,026,436	700,810
Total interest income	**1,026,436**	**700,810**
FX gains	257,557	225,039
FX losses	-208,172	-164,941
Other financial income	160,692	–
Total other financial income	**210,077**	**60,098**

Financial expenses in individual years (CZK '000):

	2023	2022
Interest expense	887,176	609,849
Total interest expense	**887,176**	**609,849**
Other financial expenses	10,841	95,840
Total other financial expenses	**10,841**	**95,840**

Other financial income of CZK 160,692 thousand comprise the remeasurement of Other financial assets (31 December 2022 – CZK 86,110 thousand reported in Other financial expenses). See Note 24.

16. GAINS/LOSSES FROM DERIVATIVE TRANSACTIONS

Income and expenses from derivative transactions in individual years (CZK '000):

	2023	2022
Income from derivative transactions	57,152	103,247
Expenses for derivative transactions	-172,141	-25,189
Total	**-114,989**	**78,058**

17. INCOME TAX

Income tax in individual years was as follows (CZK '000):

	2023	2022
Current income tax	62,580	28,784
Deferred tax	-2,490	-2,156
Total (expense + / income -)	**60,090**	**26,628**

The difference between the actual tax for 2022 and the tax stated in the financial statements for the year ended 31 December 2022 recognised in 2023 amounted to CZK 530 thousand. The difference between the actual tax for 2021 and the tax stated in the financial statements for the year ended 31 December 2021 recognised in 2022 amounted to CZK 0 thousand.

The current income tax liability of CZK 48,441 thousand as at 31 December 2023 comprises the income tax prepayments paid in 2023 of CZK 14,669 thousand and the tax liability for 2023 of CZK 62,580 thousand (31 December 2022 – current income tax liability of CZK 28,050 thousand comprising the income tax prepayments paid of CZK 734 thousand and the tax liability for 2022 of CZK 28,784 thousand).

Reconciliation of effective tax rate

The table below shows the reconciliation of the profit before tax with current tax in individual years (CZK '000):

	2023	%	2022	%
Profit before tax	714,746	–	953,252	–
Income tax calculated using the Company's tax rate (19%)	135,802	19.00%	181,118	19.00%
Change in opening balance of deferred tax resulting from change of tax rate	-890	-0.12%	–	–
Tax non-deductible expenses (permanent)	63,248	8.85%	27,007	2.83%
Share in profit of subsidiaries recorded after tax	-135,827	-19.00%	-180,886	-18.98%
Other	-1,713	-0.24%	-611	-0.06%
Changes in estimates relating to prior years	-530	-0.07%	–	–
Income tax (expense +/ - income) / effective tax rate	**60,090**	**8.41%**	**26,628**	**2.79%**

18. DEFERRED TAX

In accordance with the accounting policies described in Note 4.8., the applicable tax rate in the Czech Republic of 21% was used to calculate deferred tax.

The Company has quantified the deferred tax and its year-on-year change for 2023 as follows (CZK '000):

2023	Balance at 1 Jan 2023		Change in 2023	Balance at 31 Dec2023
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Recognised in profit or loss**	**Recognised in OCI**	**Deferred tax asset (+) / liability (-)**
Difference between carrying and tax value of non-current assets	31	1,016	–	1,047
Other temporary differences:				
Provisions	1,024	2,165	–	3,189
Other payables – current	5,801	-691	–	5,110
Derivative instruments (impact on equity)	-135,186	–	80,451	-54,735
Total	-128,330	2,490	80,451	-45,389
Deferred tax asset (+) / liability (-)	**-128,330**	**2,490**	**80,451**	**-45,389**

The Company has quantified the deferred tax and its year-on-year change for 2022 as follows (CZK '000):

2022	Balance at 1 Jan 2022		Change in 2022	Balance at 31 Dec 2022
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Recognised in profit or loss**	**Recognised in OCI**	**Deferred tax asset (+) / liability (-)**
Difference between carrying and tax value of non-current assets	9	22	–	31
Other temporary differences:				
Provisions	–	1,024	–	1,024
Other payables – current	4,691	1,110	–	5,803
Derivative instruments (impact on equity)	-11,824	–	-123,362	-135,186
Total	-7,124	2,156	-123,362	-128,330
Deferred tax asset (+) / liability (-)	**-7,124**	**2,156**	**-123,362**	**-128,330**

19. OTHER COMPREHENSIVE INCOME

	2023	2022
Change in fair value of hedging instruments before tax	-450,864	649,276
Change in fair value of hedging instruments – deferred tax	80,451	-123,362
Change in fair value of hedging instruments after tax	**-370,413**	**525,914**
Total other comprehensive income	**-370,413**	**525,914**

20. NON-CURRENT ASSETS

20.1. INTANGIBLE ASSETS

COST

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Additions	Disposals	Transfers	Closing balance
Software	5,321	–	–	–	5,321
Intangible assets under construction or being acquired	–	1,498	–	–	1,498
Trademarks and logos	–	40,785	–	–	40,785
Other intellectual property rights	9,184	–	–	–	9,184
Total	**14,505**	**42,283**	**–**	**–**	**56,788**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000

GROUP	Opening balance	Effect of demerger by spin-off associated with acquisition	Opening balance as at 1 Jan 2022	Additions	Disposals	Transfers	Closing balance
Software	229	–	229	4,720	–	372	5,321
Intangible assets under construction or being acquired	372	–	372	–	–	-372	–
Other intellectual property rights	–	8,334	8,334	850	–	–	9,184
Total	**601**	**8,334**	**8,935**	**5,570**	**–**	**–**	**14,505**

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Software	-292	-1,110	–	-1,402	3,919
Intangible assets under construction or being acquired	–	–	–	–	1,498
Trademarks and logos	–	–	–	–	40,785
Other intellectual property rights	-102	-227	–	-329	8,855
Total	**-394**	**-1,337**	**–**	**-1,731**	**55,057**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Effect of demerger by spin-off associated with acquisition	Opening balance as at 1 Jan 2022	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Software	-8	–	-8	-284	–	-292	5,029
Intangible assets under construction or being acquired	–	–	–	–	–	–	–
Other intellectual property rights	–	–	–	-102	–	-102	9,082
Total	**-8**	**–**	**-8**	**-386**	**–**	**-394**	**14,111**

20.2. PROPERTY, PLANT AND EQUIPMENT

COST

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Additions	Disposals	Transfers	Closing balance
Buildings	–	6,482	–	–	6,482
Machinery, devices and equipment	8,350	8,736	-976	134	16,244
Tangible assets under construction	134	–	–	-134	–
Total	**8,484**	**15,218**	**-976**	**–**	**22,726**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Additions	Disposals	Transfers	Closing balance
Machinery, devices and equipment	471	7,969	-90	–	8,350
Tangible assets under construction	–	134	–	–	134
Total	**471**	**8,103**	**-90**	**–**	**8,484**

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Closing balance	Carrying amount
Buildings	–	-1,667	–	-1,667	4,815
Machinery, devices and equipment	-416	-3,375	155	-3,635	12,609
Tangible assets under construction	–	–	–	–	–
Total	**-416**	**-5,042**	**155**	**-5,302**	**17,424**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Closing balance	Carrying amount
Machinery, devices and equipment	-46	-460	90	-416	7,934
Tangible assets under construction	–	–	–	–	134
Total	**-46**	**-460**	**90**	**-416**	**8,068**

20.3. RIGHT OF USE

COST

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Additions	Disposals	Transfers	Closing balance
Right of use of buildings	10,485	11,539	-3,225	–	18,799
Right of use of machinery, devices and equipment	4,932	2,376	–	–	7,308
Total	**15,417**	**13,915**	**-3,225**	**–**	**26,107**

Right-of-use assets primarily comprise leases relating to office space and cars.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Additions	Disposals	Transfers	Closing balance
Right of use of buildings	4,872	12,428	-6,815	–	10,485
Right of use of machinery, devices and equipment	3,182	1,750	–	–	4,932
Total	**8,054**	**14,178**	**-6,815**	**–**	**15,417**

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings	-806	-3,558	3,225	-1,139	17,660
Right of use of machinery, devices and equipment	-2,367	-1,974	–	-4,341	2,967
Total	**-3,173**	**-5,532**	**3,225**	**-5,480**	**20,627**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings	-3,897	-3,724	6,815	-806	9,679
Right of use of machinery, devices and equipment	-1,147	-1,220	–	-2,367	2,565
Total	**-5,044**	**-4,944**	**6,815**	**-3,173**	**12,244**

21. INVESTMENTS IN SUBSIDIARIES

Investments owned by the Company during the accounting period ended 31 December 2023. Amounts in the table are presented in CZK '000.

ENTITY	Country	Principal activity	Equity investment in %	Cost of investment in subsidiary	Accumulated impairment loss	Carrying amount
			31 Dec 2023	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	100	2,535,060	–	2,535,060
EHC-4M, SE	Czech Republic	Holding company	100	2,700	–	2,700
Colt CZ Group North America, Inc.	USA	Holding company	100	1,854,838	–	1,854,838
Colt CZ Defence Solutions s.r.o.	Czech Republic	Purchase and sale of firearms and ammunition	100	190,505	–	190,505
Colt CZ Group International s.r.o.	Czech Republic	Holding company	100	269,935	–	269,935
CZG VIB s.r.o.	Czech Republic	Holding company	100	21,538	–	21,538
swissAA Holding AG	Switzerland	Holding company	100	728,687	–	728,687
Vocatus Investment a.s.	Czech Republic	Holding company	100	7,566	–	7,566
Colt CZ Insurance Limited	Guernsey	Captive reinsurance company	100	6,063	–	6,063
Total				**5,616,892**	**–**	**5,616,892**

Investments owned by the Company during the accounting period ended 31 December 2022. Amounts in the table are presented in CZK '000.

ENTITY	Country	Principal activity	Equity investment in %	Cost of investment in subsidiary	Accumulated impairment loss	Carrying amount
			31 Dec 2022	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	100	2,433,588	–	2,433,588
EHC-4M, SE	Czech Republic	Holding company	100	2,700	–	2,700
Colt CZ Group North America, Inc.	USA	Holding company	100	1,365,843	–	1,365,843
Colt CZ Defence Solutions, s.r.o.	Czech Republic	Purchase and sale of firearms and ammunition	100	187,417	–	187,417
Colt CZ Group International s.r.o.	Czech Republic	Holding company	100	269,935	–	269,935
CZG VIB s.r.o.	Czech Republic	Holding company	100	21,538	–	21,538
Total				**4,281,021**	**–**	**4,281,021**

The development of investments in subsidiaries in 2023 and 2022 was as follows (CZK '000):

	2023	2022
Opening balance as at 1 January	**4,281,021**	**3,561,866**
Investment acquisition	742,316	–
Effect of demerger by spin-off associated with acquisition	–	175,043
Additional capital contribution	409,313	425,740
Employee bonuses – share-based payment arrangements	184,240	118,598
Impairment loss	–	–
Other	2	-226
Closing balance as at 31 December	**5,616,892**	**4,281,021**

Investment acquisition totalling CZK 724,316 thousand comprises the acquisition of swissAA Holding AG for CZK 728,687 thousand, the acquisition of Vocatus Investment a.s. for CZK 7,566 thousand, and the acquisition of Colt CZ Insurance Limited for CZK 6,063 thousand.

In 2023, the Company made an additional contribution in equity outside the registered capital of Colt CZ Group North America, Inc., totalling CZK 409,313 thousand. The additional contribution outside the registered capital represents the capitalisation of the previously granted loan.

As a result of the spin-off associated with acquisition of own shares from Česká zbrojovka a.s. amounting to CZK 175,043 thousand, the Company acquired a 100% ownership interest in this company on 1 January 2022.

In 2022, the Company made an additional contribution in equity outside the registered capital of Colt CZ Group North America, Inc., amounting to CZK 229,713 thousand, and of Colt CZ Group International s.r.o., amounting to CZK 196,134 thousand. Both additional contributions outside the registered capital represent capitalisation of previously granted loans.

Aggregate financial information as at 31 December 2023 is presented in CZK '000.

	Česká zbrojovka a.s.	EHC-4M, SE	Colt CZ Group North America, Inc.	Colt CZ Defence Solutions, s.r.o.	Colt CZ Insurance Limited	Colt CZ Group International s.r.o	CZG VIB s.r.o.	Vocatus Investments a.s.	swissAA Holding AG
	31 Dec 2023	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**	**31 Dec 2023**
	1)	**2)**	**2)**	**1)**	**2)**	**2)**	**2)**	**1)**	**2)**
Aggregate statement of financial position									
Non-current assets	2,787,781	31,527	5,419,701	7,805	–	341,949	15,000	2,685,120	1,208,139
Current assets incl. cash	3,458,563	685	5,324,817	292,782	30,051	80,567	946	2,074	1,044,755
Non-current liabilities	-1,867,913	–	-4,948,251	-7,451	–	-44,483	–	-451,286	-302,135
Current liabilities	-1,498,065	-5	-2,958,823	-209,488	-25,486	-3,014	-6	-2,259,223	-787,778
Total net assets / (liabilities)	**2,880,366**	**32,207**	**2,837,444**	**83,648**	**4,565**	**375,019**	**15,940**	**-23,315**	**1,162,981**
Aggregate statement of comprehensive income									
Revenues	5,850,101	–	9,287,445	421,371	–	–	–	–	430,022
Profit / (loss) before tax	1,167,261	70,390	669,344	85,112	-467	76,731	406	-20,395	-39,155
Income tax	-254,341	–	-72,382	-16,117	–	–	–	–	-2,363
Profit / (loss) for the period	**912,920**	**70,390**	**596,962**	**68,995**	**-467**	**76,731**	**406**	**-20,395**	**-41,518**

1) financial information based on audited separate financial statements as at 31 December 2023
2) financial information based on unaudited financial statements as at 31 December 2023

Aggregate financial information as at 31 December 2022 is presented in CZK '000.

	Česká zbrojovka a.s.	EHC-4M, SE	Colt CZ Group North America, Inc.	Colt CZ Defence Solutions, s.r.o.	Colt CZ Group International s.r.o.	CZG VIB s.r.o.
	31 Dec 2022	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**
	1)	**2)**	**2)**	**1)**	**2)**	**2)**
Aggregate statement of financial position						
Non-current assets	2,750,036	31,527	6,111,205	3,082	298,680	15,000
Current assets incl. cash	3,172,119	294	523,900	147,630	22,793	540
Non-current liabilities	-1,762,519	-29,800	-4,920,608	-177	-1,000	–
Current liabilities	-1,710,495	-5	-531,702	-95,882	-2,184	-6
Total net assets / (liabilities)	**2,449,141**	**2,016**	**1,182,795**	**54,653**	**318,289**	**15,534**
Aggregate statement of comprehensive income						
Revenues	6,328,164	–	–	127,176	–	–
Profit / (loss) before tax	1,635,081	-83	-121,215	35,468	22,385	-106
Income tax	-302,565	–	-33,078	-6,822	–	–
Profit / (loss) for the period	**1,332,516**	**-83**	**-154,293**	**28,647**	**22,385**	**-106**

1) financial information based on audited separate financial statements as at 31 December 2022
2) financial information based on unaudited financial statements as at 31 December 2022

The Company reviews the carrying amounts at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Impairment losses are recognised in the statement of profit or loss.

22. PROVIDED LOANS

The structure of other provided loans in individual years was as follows (CZK '000):

			31 Dec 2023	31 Dec 2022
	Due date (expiry)	**Aggregate limit as at 31 December 2023 (CZK '000)**	**CZK '000**	**CZK '000**
EHC-4M, SE	31 Dec 2025	29,800	–	29,800
Česká zbrojovka a.s.	22 Jan 2029	1,516,065	1,516,065	1,495,605
Česká zbrojovka a.s.	31 Dec 2024	800,000	520,850	–
Colt CZ Group International s.r.o.	31 Oct 2024	45,329	45,329	1,000
saltech AG	30 June 2024	351,130	351,130	–
Vocatus Investment a.s.	indefinite	452,727	452,727	–
Four Horses Apparel, Inc.	indefinite	14,545	14,545	–
Colt's Manufacturing Company LLC	2 Jan 2024	155,673	155,673	–
Colt CZ Group North America, Inc.	31 Dec 2026	5,143,994	4,763,177	5,042,068
Total			**7,819,496**	**6,568,473**

Long-term	6,487,035	6,258,822
Short-term	1,332,461	309,651
Total	**7,819,496**	**6,568,473**

The table below shows the reconciliation of movements in the balance of other provided loans in individual years (CZK '000):

	2023	2022
Opening balance as at 1 January	**6,568,472**	**5,174,794**
Loan provision	2,238,971	2,333,272
Loan repayment	-659,468	-659,612
Unpaid interest income	86,110	20,605
Loan capitalisation	-409,313	-425,740
Impairment loss	–	–
Impact of FX rate differences	-5,276	125,153
Closing balance as at 31 December	**7,819,496**	**6,568,472**

The loans provided in 2023 of CZK 2,238,971 thousand represent mainly loans to subsidiary Česká zbrojovka a.s. totalling CZK 800,000 thousand used for operational financing of its business activities. Part of the loan of CZK 300,000 thousand was repaid in 2023.

In addition, the Company provided subsidiary Colt CZ Group International s.r.o. with CZK 43,460 thousand for operational financing of its business activities, subsidiary saltech AG with CZK 362,541 thousand for operational financing of its business activities, subsidiary Vocatus Investments a.s. with CZK 453,566 thousand for the purposes of a planned acquisition, subsidiary Colt's Manufacturing Company LLC with CZK 155,673 thousand to acquire fixed assets, and subsidiary Four Horses Apparel, Inc. with CZK 14,418 thousand for operational financing of its business activities.

Subsidiary Colt CZ Group North America, Inc. was also granted a loan of CZK 409,313 thousand for partial settlement of the acquisition of Colt. This loan was capitalised in 2023.

The loans provided in 2022 of CZK 2,333,272 thousand represent mainly loans to subsidiary Česká zbrojovka a.s. totalling CZK 1,900,000 thousand, of which CZK 1,500,000 thousand was used to pay for bonds. The remaining CZK 400,000 thousand was repaid in 2022.

Moreover, the Company provided CZK 203,558 thousand to subsidiary Colt CZ Group International s.r.o. for the purchase of the remaining part of a share in Spuhr i Dalby AB and CZK 229,713 thousand to subsidiary Colt CZ Group North America, Inc. for the partial settlement of acquisition of Colt. These provided loans were capitalised in 2022.

The credit quality of other provided loans is discussed in Note 35 Credit risk management.

23. RECEIVABLES AND LIABILITIES FROM FINANCIAL DERIVATIVES

CZK '000	31 Dec 2023	31 Dec 2022
Non-current receivables from derivative financial instruments		
Non-current receivables from hedging derivatives	419,483	684,057
Non-current receivables from trading derivatives	102,257	64,557
Total non-current receivables from derivative financial instruments	**521,740**	**748,614**
Current receivables from derivative financial instruments		
Current receivables from hedging derivatives	–	–
Current receivables from trading derivatives	21,123	24,581
Total current receivables from derivative financial instruments	**21,123**	**24,581**

CZK '000	31 Dec 2023	31 Dec 2022
Non-current liabilities from derivative financial instruments		
Non-current liabilities from hedging derivatives	106,927	–
Non-current liabilities from trading derivatives	112,179	–
Total non-current liabilities from derivative financial instruments	**219,106**	**–**
Current liabilities from derivative financial instruments		
Current liabilities from hedging derivatives	–	–
Current liabilities from trading derivatives	8,481	–
Total current liabilities from derivative financial instruments	**8,481**	**–**

24. OTHER FINANCIAL ASSETS

CZK '000	31 Dec 2023	31 Dec 2022
Other financial assets at fair value through profit or loss	908,580	756,834
Total	**908,580**	**756,834**

Other financial assets represent the Company's short-term investment in listed shares held for trading. The Company completed this investment through an intermediary, i.e., a securities dealer. The fair values of these shareholdings are determined based on prices quoted in an active market - see Note 34.

25. TRADE AND OTHER RECEIVABLES

The structure of trade and other receivables in individual years was as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Trade receivables	89,470	65,539
Estimated receivables	1,250	3,552
Other receivables	854	8,354
Accrued income	2,268	528
Total	**93,842**	**77,973**
Non-current	–	–
Current	93,842	77,973
Total	**93,842**	**77,973**

Overdue current trade receivables as at 31 December 2023 amounted to CZK 66,543 thousand (31 December 2022 – CZK 55,735 thousand). As at 31 December 2023, the Company created an allowance for trade receivables and other receivables of CZK 0 thousand (31 December 2022 – CZK 212 thousand). The credit quality of these receivables is discussed in Note 35 Credit risk.

26. OTHER RECEIVABLES

The structure of other receivables in individual years is as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Prepayments made	2,079	1,400
Deferred expenses	2,404	11,428
Value added tax	–	2,871
Other taxes	127	748
Total	**4,610**	**16,447**
Non-current	–	3,748
Current	4,610	12,699
Total	**4,610**	**16,447**

27. CASH AND CASH EQUIVALENTS

The structure of cash and cash equivalents is as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Cash on hand	–	14
Cash at bank	1,211,901	1,550,394
Total	**1,211,901**	**1,550,408**

The credit quality is discussed in Note 35 Credit risk management.

28. REGISTERED CAPITAL AND SHARE PREMIUM

On 16 May 2023, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. at a price of CZK 585 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 01 June 2023, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 213,659 thousand was recorded as a share premium.

On 20 September 2023, the registered capital was increased through the issue of 322,170 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group SE at a price of CZK 526.5 per share in connection with the payment of a dividend. On 2 October 2023, a total of 322,170 shares of the Company were handed over to the subscribing shareholders. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 169,590 thousand was recorded as a share premium.

On 15 December 2023, the registered capital was increased through the issue of 368,038 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. at a price of CZK 525 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 28 December 2023, a total of 368,038 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 193,183 thousand was recorded as a share premium.
As at 31 December 2023, the Company's registered capital comprises 35,157 ordinary registered shares totalling CZK 3,516 thousand.

On 30 May 2022, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. at a price of CZK 622 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 15 July 2022, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 227,175 thousand was recorded as a share premium. As at 31 December 2022, the Company's registered capital comprised 34,102 ordinary registered shares totalling CZK 3,410 thousand.

29. OTHER COMPONENTS OF EQUITY

The structure of other equity components in individual years is as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Other capital funds	1,712,111	1,712,111
Share premium	1,942,818	1,366,386
Revaluation of derivatives	205,908	576,320
Total	**3,860,837**	**3,654,817**

Other capital funds represent additional capital contributions relating to the acquisition of a 50% share in Česká zbrojovka a.s. in 2013 of CZK 1,528,735 thousand (31 December 2022 – CZK 1,528,735 thousand), the effect of demerger by spin-off associated with the acquisition of own shares of CZK 175,043 thousand, and other valuable rights at the net book value of CZK 8,334 thousand from Česká zbrojovka a.s.

30. BONDS, BANK LOANS AND BORROWINGS

As at 31 December 2023, the Company used the following external financing in the form of issued bonds (CZK '000):

				31 Dec 2023	31 Dec 2022
	Terms	**Interest rate %**	**Aggregate limit as at 31 Dec 2023 (CZK '000)**	**CZK '000**	**CZK '000**
Issued bonds	23 March 2027	6M PRIBOR + margin % p.a.	5,000,000	5,000,000	5,000,000
Issued bonds – outstanding interest				120,811	124,839
Issued bonds - costs of issue				-16,882	-22,118
Issued bonds	27 Jan 2029	6M PRIBOR + margin % p.a.	1,998,000	1,998,000	1,998,000
Issued bonds – outstanding interest				74,361	77,606
Issued bonds – costs of issue				-9,795	-11,725
Issued bonds	18 May 2030	6M PRIBOR + margin % p.a.	1,929,000	1,929,000	–
Issued bonds – outstanding interest				20,448	–
Issued bonds - costs of issue				-10,242	–
Other bank loans				2,584	–
Total				**9,108,285**	**7,166,602**
Repayments in the following year				215,660	202,445
Repayments in future years				8,892,625	6,964,157

In 2023, the Company issued bonds totalling CZK 1,929,000 thousand and maturing in 2030. In 2022, the Company issued bonds totalling CZK 1,998,000 thousand and maturing in 2029. The Company does not expect to call the bonds in 2024.

As at 31 December 2023, interest expense amounted to CZK 738,434 thousand (31 December 2022 – CZK 474,209 thousand), of which unsettled interest expense was CZK 215,660 thousand (31 December 2022 – CZK 202,445 thousand).

Costs related to the issue of bonds in 2023 of CZK 11,244 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining part of these costs as at 31 December 2023 is CZK 10,242 thousand (31 December 2022 – CZK 0 thousand). Costs related to the issue of bonds in 2022 of CZK 13,508 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining part of these costs as at 31 December 2023 is CZK 9,795 thousand (31 December 2022 – CZK 11,725 thousand). Costs related to the issue of bonds in 2021 of CZK 31,412 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining part of these costs as at 31 December 2023 is CZK 16,882 thousand (31 December 2022 – CZK 22,118 thousand).

The issued bonds bear variable interest and their fair value did not differ significantly from their carrying amount as at 31 December 2023.

31. TRADE AND OTHER PAYABLES

The structure of trade and other payables in individual years is as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Trade and other payables	14,881	31,056
Accrued expenses	330	18
Estimated payables	18,502	4,221
Other payables	5,064	9,812
Total	**38,777**	**45,107**
Non-current	–	–
Current	38,777	45,107
Total	**38,777**	**45,107**

Overdue current trade receivables as at 31 December 2023 amounted to CZK 3,392 thousand (31 December 2022 – CZK 174 thousand).

As at 31 December 2023 and 31 December 2022, the Company neither recorded any liabilities with maturities greater than five years nor pledged liabilities.

32. OTHER PAYABLES

The structure of other current payables in individual years is as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Employee liabilities - current	3,018	3,241
Untaken holiday - current	1,216	605
Social security and health insurance	1,115	1,087
Value added tax	322	–
Other taxes	656	602
Liabilities arising from employee bonuses – current	23,120	29,935
Total	**29,447**	**35,470**

33. LEASE LIABILITIES

The Company as a lessee
In line with its common practice, the Company holds e.g. office space and cars under leases.

Interest expense arising from lease contracts, depreciation of rights-of-use assets and expenses related to short-term contracts and contracts for low-value assets are disclosed in Notes 15, 12, and 11. Total cash outflows arising from lease contracts amounted to CZK 5,970 thousand in 2023 (2022 – CZK 5,507 thousand).

The Company does not lease any leased property to other persons.

The table below shows liabilities arising from lease contracts (CZK '000):

	31 Dec 2023	31 Dec 2022
Lease liabilities – non-current	15,814	7,548
Lease liabilities – current	5,003	4,743
Total	**20,817**	**12,291**

The table below shows terms and due dates of lease liabilities (CZK '000):

			31 Dec 2023		31 Dec 2022	
	Currency	Nominal interest rate	Nominal value	Carrying amount	Nominal value	Carrying amount
Liabilities from building leases	CZK	2% p. a.	18,524	17,827	9,986	9,702
Liabilities from car leases	CZK	2% p. a.	3,041	2,990	2,637	2,589
Total			**21,565**	**20,817**	**12,623**	**12,291**

Reconciliation of movements of lease liabilities with cash flows:

	2023	2022
Opening balance of lease liability as at 1 January	**12,291**	**3,053**
Lease payments	-5,674	-5,057
Total cash flows	**-5,674**	**-5,057**
Interest expense	297	126
Lease additions and modifications	13,903	14,169
Closing balance as at 31 December	**20,817**	**12,291**

As at 31 December 2023, the Company recorded the following in the statement of profit or loss in connection with leases:

	2023	2022
Depreciation of right-of-use assets	5,532	4,944
Interest expense relating to lease liability (included in financial expenses)	297	126
Costs of short-term leases (included in service costs)	–	151
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	33	23
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	263	276
Total	**6,125**	**5,520**

The table below shows the ageing structure of lease liabilities (CZK '000):

	2023	2022
Within 3 months	1,251	1,181
3 months to 1 year	3,752	3,562
1 to 2 years	4,662	3,942
2 to 3 years	3,479	3,580
3 to 4 years	3,521	26
4 to 5 years	3,592	–
5 years and more	560	–
Total	**20,817**	**12,291**

34. FINANCIAL ASSETS AND LIABILITIES

The table below provides an overview of financial assets and liabilities in the accounting records (CZK '000):

Financial assets	31 Dec 2023	31 Dec 2022
Short-term portion		
Trade and other receivables	93,842	77,973
Provided loans	1,332,461	309,651
Other financial assets	908,580	756,834
Financial derivatives	21,123	24,581
Cash and cash equivalents	1,211,901	1,550,408
Total	**3,567,907**	**2,719,447**
Long-term portion		
Provided loans	6,487,035	6,258,822
Financial derivatives	521,740	748,614
Total	**7,008,775**	**7,007,436**

Financial liabilities	31 Dec 2023	31 Dec 2022
Short-term portion		
Trade and other payables	38,777	45,107
Lease liabilities	5,003	4,743
Financial derivatives	8,481	–
Bonds, bank loans and borrowings	215,660	202,445
Total	**267,921**	**252,295**
Long-term portion		
Lease liabilities	15,814	7,548
Financial derivatives	219,106	–
Bonds, bank loans and borrowings	8,892,625	6,964,157
Total	**9,127,545**	**6,971,705**

34.1. Fair value

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

		Carrying amount			Fair value		
2023	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	36	–	120,981	120,981	–	120,981	120,981
Currency swaps held for trading	36	–	2,399	2,399	–	2,399	2,399
Financial derivatives used for hedge accounting							
Cross currency interest rate swaps for hedging	36	361,465	–	361,465	–	361,465	361,465
Interest rate swaps used for hedging	36	58,018	–	58,018	–	58,018	58,018
Other financial assets							
Other financial assets	24	–	908,580	908,580	908,580	–	908,580
Total		**419,483**	**1,031,960**	**1,451,443**	**908,580**	**542,863**	**1,451,443**

		Carrying amount			Fair value		
2023	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial liabilities measured at fair value							
Financial derivatives held for trading							
Currency swaps held for trading	36	–	8,481	8,481	–	8,481	8,481
Cross currency interest rate swaps held for trading	36	–	112,179	112,179	–	112,179	112,179
Financial derivatives used for hedge accounting							
Interest rate swaps used for hedging	36	106,927	–	106,927	–	106,927	106,927
Total		**106,927**	**120,660**	**227,587**	**–**	**227,587**	**227,587**

		Carrying amount			Fair value		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	36	–	64,557	64,557	–	64,557	64,557
Currency swaps held for trading	36	–	24,581	24,581	–	24,581	24,581
Financial derivatives used for hedge accounting							
Cross currency interest rate swaps for hedging	36	585,796	–	585,796	–	585,796	585,796
Interest rate swaps used for hedging	36	98,261	–	98,261	–	98,261	98,261
Other financial assets							
Other financial assets	24	–	756,834	756,834	756,834	–	756,834
Total		**684,057**	**845,972**	**1,530,029**	**756,834**	**773,195**	**1,530,029**

In 2023 and 2022, the Company did not record any financial assets or financial liabilities measured at fair value for which their carrying amount did not approximate their fair value.

There were no transfers between levels during the period.

34.2. Fair value measurement

The table below shows the valuation techniques used for fair value measurement at Level 1 and 2 for financial instruments in the statement of financial position as well as significant unobservable inputs used.

Type of instrument	Valuation techniques	Significant unobservable inputs
Cross currency interest rate swaps	Fair value is determined as the present value of future cash flows. The estimate of future variable cash flows is based on quoted swap rates and interbank deposit rates. The estimated future cash flows are discounted using a yield curve constructed from the above sources.	None
Interest rate swaps	The fair value of interest rate swaps is determined based on the present value of future cash flows based on market data such as yield curves of referential interest rate swaps, spot foreign exchange rates and forward points.	None
Currency forwards and swaps	The fair value of currency forwards and swaps is determined based on the present value of future cash flows based on market data such as yield curves of referential interest rate swaps, spot foreign exchange rates and forward points.	None
Share-based payment arrangements	The fair value of employee stock options is determined using the Black--Scholes measurement model. The options are subject to the employment term/function term and non-market performance condition which were not considered in fair value determination.	None
Other financial assets	The fair value is determined based on the quoted bid price in an active market.	None

35. RISK MANAGEMENT PROCEDURES

This section details the financial risks the Company is exposed to and how these risks are managed. Risk management is a fundamental part of the Company's management. The main emphasis is on identifying the risks the Company is exposed to in the market (risk of changes in exchange rates and interest rates). The risk management strategy focuses on the minimisation of potential negative impact on the Company's financial performance.

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk. Details are provided in Note 36.

35.1. Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty in a transaction fails to meet its contractual obligations, such as payment, acceptance of a service at the agreed price, or failure to deliver an agreed service.

The overall credit risk of the business portfolio is continuously monitored. The Company primarily conducts transaction with companies in the consolidated group. As the subsidiaries are fully controlled and financed by the parent company, the Company has full control over credit risk management and therefore has not identified any significant credit risk for these companies.

No concentration of credit risk occurs.

Impairment losses on financial assets recognised in the statement of profit or loss were as follows (CZK '000):

	2023	2022
Impairment losses on trade receivables	-212	212

Credit risk by territory (counterparty seat)

31 Dec 2023 CZK '000	Czech Republic	USA	Canada	Sweden	Switzerland	Hungary	Total
Provided loans	2,534,972	4,933,394	–	–	351,130	–	7,819,496
Trade and other receivables	16,953	70,832	1,171	150	–	4,736	93,842
Other financial assets	–	908,580	–	–	–	–	908,580
Financial derivatives	542,863	–	–	–	–	–	542,863
Cash and cash equivalents	1,211,901	–	–	–	–	–	1,211,901
Total	**4,306,688**	**5,912,806**	**1,171**	**150**	**351,130**	**4,736**	**10,576,682**

31 Dec 2022 CZK '000	Czech Republic	USA	Canada	Sweden	Total
Provided loans	1,526,405	5,042,068	–	–	6,568,473
Trade and other receivables	20,243	54,904	1,957	869	77,973
Other financial assets	–	756,834	–	–	756,834
Financial derivatives	773,195	–	–	–	773,195
Cash and cash equivalents	1,550,408	–	–	–	1,550,408
Total	**3,870,251**	**5,853,806**	**1,957**	**869**	**9,726,883**

Provided loans, trade and other receivables

The Company records provided loans and trade and other receivables only due from subsidiaries or related parties. Based on the above, the Company has not identified any significant credit risk that would result in expected credit losses and should be covered by an allowance.

The table below shows information on credit risk exposure and the expected credit loss rate for provided loans and trade and other receivables.

31 Dec 2023 CZK '000	External credit rating equivalent	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Grade 1–6: Low risk	BBB- to AAA	–	8,821,918	–	8,821,918	No
Grade 7-9: Reasonable risk	BB- to BB+	–	–	–	–	No
Grade 10: Non-standard	B- to CCC-	–	–	–	–	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	–	–	–	–	Yes
Total			**8,821,918**	**–**	**8,821,918**	

31 Dec 2023 CZK '000	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Within due date	–	8,755,375	–	8,755,375	No
1–90 days overdue	–	66,543	–	66,543	No
90–180 days overdue	–	–	–	–	No
180–360 days overdue	–	–	–	–	No
More than 360 days overdue	–	–	–	–	Yes
Total		**8,821,918**	**–**	**8,821,918**	

31 Dec 2022 CZK '000	**External credit rating equivalent**	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit losses**	**Net carrying amount**	**Credit-impaired**
Grade 1–6: Low risk	BBB- to AAA	–	7,403,492	-212	7,403,280	No
Grade 7-9: Reasonable risk	BB- to BB+	–	–	–	–	No
Grade 10: Non-standard	B- to CCC-	–	–	–	–	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	–	–	–	–	Yes
Total			**7,403,492**	**-212**	**7,403,280**	

31 Dec 2022 CZK '000	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit losses**	**Net carrying amount**	**Credit-impaired**
Within due date	–	7,347,545	–	7,347,545	No
1–90 days overdue	–	19,190	–	19,190	No
90–180 days overdue	–	17,905	–	17,905	No
180–360 days overdue	–	18,451	–	18,451	No
More than 360 days overdue	52.9%	401	-212	189	Yes
Total		**7,403,492**	**-212**	**7,403,280**	

Cash and cash equivalents

As at 31 December 2023, the Company held cash and cash equivalents of CZK 1,211,901 thousand (31 December 2022 – CZK 1,550,408 thousand).

The impairment of cash and cash equivalents was measured based on a 12-month expected loss and reflects the short maturity of the exposures. The Company believes that its cash and cash equivalents have low credit risk based on the external credit ratings of counterparties. The potential impact of IFRS 9 is insignificant.

35.2. Liquidity risk management

The Company manages liquidity risk by retaining banking sources and loan instruments, ongoing monitoring of anticipated and actual cash flows and adapting the maturity of financial assets and financial liabilities.

35.2.1. Liquidity risk

Liquidity risk is the possibility that the Company will not have sufficient available resources to meet its payables arising from financial contracts.

The Company continuously monitors the risk of shortage of funds by managing liquidity and monitoring the maturity of debts and financial investments, other assets, and expected cash flows from its operations.

The Company holds unrestricted liquid resources, i.e., cash, cash equivalents and short-term financial assets in currencies in which future cash requirements are expected to be denominated.

The Company also monitors the level of expected cash flows from trade and other receivables together with the expected cash flows from trade and other payables.

As at 31 December 2023, the quick liquidity ratio, which is calculated as the ratio of current financial assets to current financial liabilities, is 13.32 (31 December 2022 – 10.78).

The remaining contractual maturities of financial liabilities at the balance sheet date are shown below. Amounts are gross and undiscounted, include contractual interest payments, and exclude the impact of netting arrangements. Liabilities past their due dates are included in the 'Within 3 months' column.

31 Dec 2023 CZK '000	Carrying amount	Contractual cash flows Total	Within 3 months	3–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Trade and other payables	38,777	38,777	28,906	6,045	–	–	–
Lease liabilities	20,817	20,817	1,251	3,752	4,662	10,592	560
Bonds, bank loans and borrowings	9,108,285	10,986,987	331,222	414,172	419,260	5,771,620	4,050,713
Total non-derivative financial liabilities	**9,167,879**	**11,042,755**	**361,379**	**423,969**	**423,922**	**5,782,212**	**4,051,273**
Derivative financial liabilities							
Currency swaps held for trading	8,481	8,481	–	8,481	–	–	–
Cross currency interest rate swaps held for trading	112,179	112,179	–	–	–	–	112,179
Interest rate swaps used for hedging	106,927	106,927	–	–	–	–	106,927
Total derivative financial liabilities	**227,587**	**227,587**	**–**	**8,481**	**–**	**–**	**219,106**
Total	**9,395,466**	**11,270,342**	**361,379**	**432,450**	**423,922**	**5,782,212**	**4,270,379**

31 Dec 2022 CZK '000	Carrying amount	Contractual cash flows Total	Within 3 months	3–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabi-lities							
Trade and other payables	45,107	45,107	45,107	–	–	–	–
Lease liabilities	12,291	12,291	1,181	3,562	3,942	3,606	–
Bonds, bank loans and borrowings	7,166,602	9,335,397	361,301	471,471	501,005	5,899,291	2,102,329
Total non-derivative financial liabilities	**7,224,000**	**9,392,795**	**407,589**	**475,033**	**504,947**	**5,902,897**	**2,102,329**
Total	**7,224,000**	**9,392,795**	**407,589**	**475,033**	**504,947**	**5,902,897**	**2,102,329**

35.3. Market risk management

Market risk is the risk of changes in the value of assets, liabilities, and cash flows denominated in foreign currencies due to changes of exchange rates and interest rates. The Company has implemented policies and methods to monitor and hedge the risks to which it is exposed. Exposure to market risk is measured using sensitivity analyses.

35.3.1. Currency risk management

The Company's exposure to currency risk primarily arises from its purchases and sales in currencies other than the Company's functional currency. Exposure to currency risks is governed by parameters approved based on cross currency forwards, swaps, and cross currency interest rate swaps. The Company's objective is to minimize the impact of foreign currency rates changes on the value of profit.

The carrying amount of the Company's financial assets and financial liabilities denominated in foreign currencies at the end of the reporting period:

31 Dec 2023 CZK '000	CZK	EUR	USD	CHF	Other	Total
Financial assets						
Provided loans	541,496	1,633,737	5,403,907	240,356	–	**7,819,496**
Trade and other receivables	21,659	25	72,003		155	**93,842**
Other financial assets	–	–	908,580	–	–	**908,580**
Cash and cash equivalents	1,206,959	3,094	1,739	109	–	**1,211,901**
Total financial assets	**1,770,114**	**1,636,856**	**6,386,229**	**240,465**	**155**	**10,033,819**
Financial liabilities						
Trade and other payables	18,929	6,873	6,033	6,942	–	**38,777**
Lease liabilities	20,817	–	–	–	–	**20,817**
Bonds, bank loans and borrowings	9,108,285	–	–	–	–	**9,108,285**
Total financial liabilities	**9,148,031**	**6,873**	**6,033**	**6,942**	**–**	**9,167,879**
Effect of currency derivative instruments – nominal value	**–**	**1,516,065**	**5,665,603**	**230,930**	**–**	**7,412,598**
Total currency risk exposure	**-7,371,546**	**113,918**	**714,593**	**2,593**	**155**	**-6,546,658**

31 Dec 2022 CZK '000	CZK	EUR	USD	CHF	Other	Total
Financial assets						
Provided loans	30,800	1,495,605	5,042,068	–	–	**6,568,473**
Trade and other receivables	73,022	4,612	339	–	–	**77,973**
Other financial assets	–	–	756,834	–	–	**756,834**
Cash and cash equivalents	1,544,952	3,358	2,098	–	–	**1,550,408**
Total financial assets	**1,648,774**	**1,503,575**	**5,801,339**	**–**	**–**	**8,953,688**
Financial liabilities						
Trade and other payables	34,842	4,098	4,621	1,546	–	**45,107**
Lease liabilities	11,798	493	–	–	–	**12,291**
Bonds, bank loans and borrowings	7,166,602	–	–	–	–	**7,166,602**
Total financial liabilities	**7,213,242**	**4,591**	**4,621**	**1,546**	**–**	**7,224,000**
Effect of currency derivative instruments – nominal value	**–**	**1,478,662**	**5,579,367**	**–**	**–**	**7,058,029**
Total currency risk exposure	**-5,564,468**	**20,322**	**217,351**	**-1,546**	**–**	**-5,328,341**

35.3.2. Sensitivity to exchange rate fluctuations

The Company is exposed to currency risk, especially in relation to EUR and USD.

The Company used the following most important exchange rates:

	Average exchange rate		Exchange rate at the end of the period	
In CZK	**2023**	**2022**	**2023**	**2022**
EUR	24.007	24.565	24.725	24.115
USD	22.21	23.36	22.376	22.616

The following table shows the Company's sensitivity to a 10% appreciation and depreciation of the Czech crown towards the respective foreign currencies. The sensitivity analysis only includes outstanding monetary items denominated in a foreign currency, adjusting their translation at the end of the reporting period by a 10% change in exchange rates. The positive value indicates an increase in profits or equity due to a potential appreciation of the Czech crown by 10% with respect to the respective currency.

	Impact on profit before tax 2023		Impact on profit before tax 2022	
in CZK '000	**Foreign currency appreciation by 10%**	**Foreign currency depreciation of 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	11,392	-11,392	2,032	-2,032
USD	71,459	-71,459	21,735	-21,735

	Impact on equity 2023		Impact on equity 2022	
in CZK '000	**Foreign currency appreciation by 10%**	**Foreign currency depreciation of 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	-45,158	55,523	-66,932	28,340
USD	-189,053	111,443	-153,292	111,995

35.3.3. Interest rate risk management

The Company is exposed to the risk of interest rates changes as it borrows funds with variable interest rates. Interest expense from issued bonds, which represent the most important portion of interest-bearing liabilities, are based on 6M PRIBOR + margin. Amount of interest paying liabilities using other reference rates is not significant (Note 33). The Company has managed interest rate risk using cross currency interest rate swap agreements since 2021 and an interest rate swap agreement since 2022. This ensures the utilisation of hedging strategies which are economically most effective.

Interest rate risk exposure was as follows:

31 Dec 2023 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	7,819,496	8,807,893	–	8,807,893
Total interest-bearing financial assets	**7,819,496**	**8,807,893**	**–**	**8,807,893**
Bonds, bank loans and borrowings	9,108,285	10,986,987	10,986,987	–
Lease liabilities	20,817	20,817	–	20,817
Total interest-bearing financial liabilities	**9,129,102**	**11,007,804**	**10,986,987**	**20,817**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	**–**	**–**	**7,141,700**	**–**
Total interest rate risk exposure	**-1,309,606**	**-2,199,911**	**-3,845,287**	**8,787,076**

31 Dec 2022 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	6,568,473	7,638,568	–	7,638,568
Total interest-bearing financial assets	**6,568,473**	**7,638,568**	**–**	**7,638,568**
Bonds, bank loans and borrowings	7,166,602	9,335,397	9,335,397	–
Lease liabilities	12,291	12,291	–	12,291
Total interest-bearing financial liabilities	**7,178,893**	**9,347,688**	**9,335,397**	**12,291**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	**–**	**–**	**5,212,700**	–
Total interest rate risk exposure	**-610,420**	**-1,709,120**	**-4,122,697**	**7,626,277**

35.3.4. Interest rate sensitivity analysis

The below interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative and non-derivative instruments at the end of the reporting period. Payables with a floating interest rate are subject to the analysis provided that the value of principal remains unchanged throughout the reporting period based on a calculation of the average annual principal.

If interest rates were one percentage point higher/lower and all other variables remained constant, the profit or loss and equity would change based on the values specified below.

	Impact on profit before tax 2023		Impact on profit before tax 2022	
CZK '000	Increase of 1 percentage point	Decrease of 1 percentage point	Increase of 1 percentage point	Decrease of 1 percentage point
Issued bonds with variable interest rate	-83,169	83,169	-69,509	69,509
Cross currency interest rate swaps	47,127	-47,127	46,210	-46,210
Interest rate swaps	17,217	-17,217	4,514	-4,514
Cash and cash equivalents	13,812	-13,812	16,390	-16,390
Sensitivity of interest rates changes	**-5,013**	**5,013**	**-2,395**	**2,395**

*In 2023, the structure of the above table was adjusted, and for the sake of comparability the Company also adjusted the information for 2022.

	Impact on equity 2023		Impact on equity 2022	
CZK '000	Increase of 1 percentage point	Decrease of 1 percentage point	Increase of 1 percentage point	Decrease of 1 percentage point
Cross currency interest rate swaps	175,078	-175,078	206,474	-206,474
Interest rate swaps	125,534	-125,534	17,875	-17,875
Sensitivity of interest rates changes	**300,612**	**-300,612**	**224,349**	**-224,349**

36. DERIVATIVE INSTRUMENTS

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks. To manage these risks, the Company uses the following derivative instruments:

- Cross currency interest rate swaps;
- Interest rate swaps;
- Currency forwards; and
- Currency swaps.

Derivative instruments are classified as trading or hedging.

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk of a portion of highly probable forecasted cash flows in USD and EUR (cash flow hedge). The effective portion of changes in the fair value of derivatives that are designated as hedging instruments and qualify as cash flow hedges is recognized in other comprehensive income under cash flow hedges – remeasurement of effective portion of hedging instruments; the cumulative balance is recognized in the statement of financial position in cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss and is included in the Gains or losses from derivative transactions. Fair value of derivative contracts is presented as financial derivative assets or liabilities in the statement of financial position. Accounting for hedging derivatives is described in detail in Note 4.19. The Company expects to continue its hedging activities in the future.

36.1. Hedging derivatives

36.1.1. Cross currency interest rate swaps

The Company has entered into cross currency interest rate swaps in which it is the payer of fixed interest derived from the nominal value in USD or EUR and the payee of variable interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD or EUR and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD or EUR-denominated loan with a fixed interest rate)
- to hedge the interest rate risk arising from variable interest payments on the bonds issued (bonds issued in CZK with a variable interest rate of 6M PRIBOR).

For hedge accounting purposes, the negotiated cross currency interest rate swaps are divided into the following derivatives, which are defined as hedging instruments in a combined hedging relationship:

- The cross currency interest rate swap in which the Company is the payer of fixed interest derived from the nominal value in USD or EUR and the payee of fixed interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD or EUR and CZK. This cross currency interest rate swap is used to hedge the currency risk on the provided USD or EUR loan, whereby the exchange rate differences on the hedged portion of the loan (equal to the nominal value of the cross currency interest rate swap - the hedge ratio is 1:1) are offset by the revaluation of the cross currency interest rate swap.
- An interest rate swap in which the Company is the payer of a fixed interest rate derived from the nominal value in CZK and payee of variable interest rate derived from the nominal value in CZK. This interest rate swap is used to hedge the interest rate risk on the bonds issued where the interest paid on the hedged portion of the bonds (equal to the nominal value of the interest rate swap - the hedge ratio is 1:1) derived from the variable interest rate is offset by the revaluation of the interest rate swap (in which the Company is the payee of interest payments derived from the same variable interest rate).

The combined hedging relationship is considered effective and qualifies for hedge accounting (see Note 4.19.) only if the two separate derivatives (the hedging relationships in which the derivatives are defined as hedges) meet the hedge accounting requirements. In the following tables, separate hedging derivatives are always listed separately in the relevant section based on the hedged risk.

The Company began applying hedge accounting on 21 May 2021 for USD/CZK interest rate swaps and on 27 January 2022 for EUR/CZK interest rate swaps. Until the initial application of hedge accounting, the cross currency interest rate swaps negotiated were classified as trading derivatives.

The Company assesses the effectiveness of hedges and the existence of an economic relationship between the hedging instruments and the hedged items based on a comparison of their parameters and sensitivity analysis. The Company determines the ineffective portion of the hedge based on the hypothetical derivative method and a comparison of changes in the cumulative fair values of the hedging instruments and hedged items represented by the hypothetical derivative.

The sources of ineffectiveness are mainly the credit risk of the counterparty to the hedging instruments and the Company, which the Company considers to be minimal given that the hedging instruments are negotiated with banks with high credit ratings, and the risk of prepayment of the provided loan (for currency hedges) and bonds issued (for interest rate hedges) is very low.

36.1.2. Interest rate swaps

In connection with the newly issued bonds amounting to CZK 1,929,000 thousand, on 18 May 2023, the Company entered into an interest rate swap with Česká spořitelna, which exactly replicates the volume and maturity of the bond. The fair value as at 31 December 2023 was CZK 106,927 thousand.

On 9 February 2022, the Company purchased an interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2023 is CZK 58,018 thousand (31 December 2022 – CZK 98,261 thousand).

These interest rate swap contracts oblige the Company for the exchange of the difference between the fixed and variable interest calculated on the agreed principal. The interest rate swaps are contracted until May 2030 and 27 January 2027, respectively. These contracts partially eliminate the risk of the impact of the future increase of market interest rates on the value of issued debt instruments with a floating reference rate. The fair value of the interest rate swaps at the end of the reporting period is determined by discounting future cash flows. These interest rate swaps are classified by the Company as held for trading.

The hedge ratio is set as 1:1, or 1:0.996, due to a mismatch of 0.04% between the principal amounts of the hedging derivative and the hedged item, which the Company does not consider significant. The sources of hedge ineffectiveness are mainly the credit risk of the counterparty to the hedging instrument, which the Company considers to be minimal due to the fact that the hedging instruments have been negotiated with a bank with a high credit rating, and the risk of early repayment of the issued bonds.

As at 31 December 2023, the Company held the following instruments to hedge its exposure to changes in foreign exchange rates and interest rates.

2023	Due date		
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure – USD	–	–	3,356,400
Net exposure – EUR	–	–	1,516,065
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Interest rate risk			
Net exposure – split USD/CZK interest rate swap	–	–	3,212,700
Net exposure – split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure – interest rate swap	–	–	2,429,000
Average fixed interest rate – split USD/CZK interest rate swap	–	–	3.524%
Average fixed interest rate – split EUR/CZK interest rate swap	–	–	5.179%
Average fixed interest rate – interest rate swap	–	–	3.746%

2022		Due date	
CZK '000	1–6 months	6–12 months	More than 1 year
Currency risk			
Net exposure – USD	–	–	3,392,400
Net exposure – EUR	–	–	1,478,662
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Interest rate risk			
Net exposure – split USD/CZK interest rate swap	–	–	3,212,700
Net exposure – split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure – interest rate swap	–	–	500,000
Average fixed interest rate – split USD/CZK interest rate swap	–	–	3.524%
Average fixed interest rate – split EUR/CZK interest rate swap	–	–	5.179%
Average fixed interest rate – interest rate swap	–	–	0.740%

As at the reporting date, the amounts relating to the hedged items were as follows:

		31 Dec 2023	
CZK '000	Change in value used to calculate hedge ineffectiveness	Cash flow hedge reserve	Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Currency risk			
Provided loan in USD	-149,743	143,162	–
Provided loan in EUR	38,518	116,947	–
Interest rate risk			
Issued bonds with variable interest rate	489,857	-39,971	–
Effect of change of tax rate	–	-14,230	–
Total	**378,632**	**205,908**	**–**

		31 Dec 2022	
CZK '000	Change in value used to calculate hedge ineffectiveness	Cash flow hedge reserve	Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Currency risk			
Provided loan in USD	112,593	47,860	–
Provided loan in EUR	207,373	134,664	–
Interest rate risk			
Issued bonds with variable interest rate	272,673	393,796	–
Total	**592,639**	**576,320**	**–**

Amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

31 Dec 2023					
CZK '000	**Nominal value**	**Receivable (+) / liability (-)**	**Changes in value of hedging instrument recognised in Other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Amount reclassified from cash flow hedge reserve to profit or loss**
Currency risk					
Cross currency interest rate swaps	4,872,465	86,099	-118,313	701	20,104
Interest rate risk					
Interest rate swap*	2,429,000	-48,909	127,350	–	19,274
Cross currency interest rate swaps	4,712,700	275,366	333,895	–	68,554
Deferred tax effect	–	–	-94,681	–	–
Effect of change of tax rate	–	–	14,230	–	–
Total	**–**	**312,556**	**262,481**	**701**	**107,932**

In 2022, the Company purchased an interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. Its fair value as at 31 December 2023 is CZK 58,018 thousand (31 December 2022 – CZK 98,261). The change in the value of the hedging instrument recognised in Other comprehensive income is CZK 40,243 thousand.

31 Dec 2022					
CZK '000	**Nominal value**	**Receivable (+) / liability (-)**	**Changes in value of hedging instrument recognised in Other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Amount reclassified from cash flow hedge reserve to profit or loss**
Currency risk					
Cross currency interest rate swaps	4,871,062	-25,827	-328,767	8,888	-58,943
Interest rate risk					
Interest rate swap*	500,000	98,261	-45,152	249	14,632
Cross currency interest rate swaps	4,712,700	611,623	-304,584	–	73,537
Deferred tax effect	–	–	123,362	–	–
Total	**–**	**684,057**	**-555,140**	**9,137**	**29,226**

* The Company purchased the interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2022 is CZK 98,261 thousand and the change in the value of the hedging instrument recognised in Other comprehensive income is CZK 31,912 thousand.

Receivables from hedging derivatives of CZK 419,483 thousand (31 December 2022 – CZK 684,057 thousand) are recognised in Non-current financial derivatives. Liabilities from hedging derivatives of CZK 106,927 thousand (31 December 2022 – CZK 0 thousand) are recognised in Non-current financial derivatives. Hedge ineffectiveness of CZK 701 thousand (31 December 2022 – CZK 9,137 thousand) is recognised in Gains/losses from derivative transactions. The amount reclassified from the cash flow hedge reserve to profit or loss of CZK 87,828 thousand (31 December 2022 – CZK 88,169 thousand) is recognised in Interest income and CZK 20,104 thousand in Other financial income (31 December 2022 – CZK 58,943 thousand in Other financial expenses).

The following table provides a reconciliation of equity components by risk category and an analysis of the items in other comprehensive income, net of tax, arising from hedge accounting.

	Cash flow hedge reserve	
CZK ‘000	**2023**	**2022**
Opening balance as at 1 January	**576,320**	**50,406**
Cash flow hedges		
Change in fair value:		
– Currency risk	118,313	328,767
– Interest rate risk	-461,245	349,736
Values reclassified to the statement of profit or loss:		
– Currency risk - other items	-20,104	58,943
– Interest rate risk	-87,827	-88,169
Tax on movements in reserve funds during the year	94,681	-123,362
Effect of change of tax rate	-14,230	-123,362
Closing balance as at 31 December	**205,908**	**576,320**

36.2. Derivatives held for trading

36.2.1. Currency contracts

The following table provides an overview of nominal values and positive or negative fair values of open derivatives held for trading as at 31 December 2023 and 31 December 2022 (CZK ‘000):

	31 Dec 2023			31 Dec 2022		
		Fair value			Fair value	
CZK ‘000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Currency swaps	1,134,651	2,399	8,481	830,007	24,581	–
Cross currency interest rate swaps	724,200	–	112,179	–	–	–
Currency forwards	1,413,277	120,981	–	1,356,960	64,557	–
Total	**3,272,128**	**123,380**	**120,660**	**2,186,967**	**89,138**	**–**

Valuation techniques are described in Note 34.2.

The fair values determined by the Company are verified in view of the valuation of transactions regularly obtained from individual counterparties on an individual basis. Interest rate risks relating to derivative transactions are considered immaterial.

The fair values of derivative transactions are classified as level 2, whereby the market data used in models originate from active markets. For other financial instruments, the fair value approximates the carrying amount.

The Company has concluded a master agreement with the bank for mutual offsetting of receivables, however, the receivables and payables from derivatives are reported separately since the Company does not plan to offset these derivatives in the future.

The tables below show open FX forwards and swaps at the end of the reporting period:

Open currency forwards	Average exchange rate		Foreign currency		Nominal value		Fair value	
	2023	2022	2023	2022	2023	2022	2023	2022
USD	24.291	24.234	60,000	60,000	1,342,560	1,356,960	120,981	64,557
CHF	26.445	–	2,651	–	70,717	–	-2,061	–

Open currency swaps	Average exchange rate		Foreign currency		Nominal value		Fair value	
	2023	2022	2023	2022	2023	2022	2023	2022
USD	22.438	23.250	49,498	36,700	966,643	830,007	2,399	24,581
CHF	24.837	–	36,298	–	892,208	–	-118,599	–

The tables below show the maturity of individual financial derivatives held for trading as at 31 December 2023 and 31 December 2022 according to their fair and nominal values in CZK ‘000.

	31 Dec 2023		31 Dec 2022	
Ageing structure	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**
Within 3 months	21,124	1,190,403	–	–
3-6 months	-8,481	238,725	24,581	830,007
6-12 months	–	–	–	–
1-2 years	22,081	223,760	12,111	226,160
2-3 years	20,101	223,760	14,409	226,160
3-4 years	60,075	671,280	10,675	226,160
4-5 years	–	–	27,362	678,480
6-7 years	-112,179	724,200	–	–
Total	**2,720**	**3,272,128**	**89,138**	**2,186,967**

37. RELATED PARTIES

In 2023, the Company had the following transactions with related parties:

		Purchases for the period		Sales for the period	
			2022	2023	2022
Česká zbrojovka Partners SE	parent company	–	14	–	–
Česká zbrojovka a.s.	company under ultimate control	10,856	519	46,669	52,241
EHC-4M, SE	company under ultimate control	–	–	48	48
ZBROJOVKA BRNO, s.r.o.	company under ultimate control	–	–	–	308
CZ-USA	company under ultimate control	–	–	16,699	15,602
Colt Canada Corporation	company under ultimate control	1,583	–	16,365	9,057
Colt's Manufacturing Company LLC	company under ultimate control	–	2,241	45,223	49,307
Colt CZ Defence Solutions s.r.o.	company under ultimate control	500	6,254	3,158	421
Colt CZ Group International s.r.o.	company under ultimate control	–	–	65	65
CZG VIB s.r.o.	company under ultimate control	–	–	65	65
Spuhr i Dalby AB	company under ultimate control	–	–	1,959	869
saltech AG	company under ultimate control	–	–	4,103	–
4M SYSTEMS a.s.	company under ultimate control	–	–	2,704	3,012
CZ-AUTO SYSTEMS a.s.	subsidiary of the parent company	–	72	–	–
Keriani a.s.	associated company of the parent company	22	3,443	–	30
M&H Management a.s.	company of the ultimate owner's corporate group	–	–	43	792
Total		**12,961**	**12,543**	**137,101**	**131,817**

In addition to the above, in 2023 the Company recorded revenues from shares of profit received from Česká zbrojovka a.s. of CZK 600,000 thousand (2022 – CZK 952,025 thousand), Colt CZ Defence Solutions s.r.o. of CZK 40,000 thousand (2022 – CZK 0 thousand), Colt CZ Group International s.r.o. of CZK 20,000 thousand (2022 – CZK 0 thousand), and EHC-4M, SE of CZK 40,200 thousand (2022 – CZK 0 thousand).

Interest income from loans provided to subsidiaries, totalling CZK 295,631 thousand (2022 – CZK 290,103 thousand), is not shown in the table.

		Trade and other receivables		Trade and other payables	
		31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Česká zbrojovka a.s.	company under ultimate control	6,863	5,500	3,869	197
EHC-4M, SE	company under ultimate control	5	5	–	–
Colt CZ Group North America, Inc.	company under ultimate control	6,713	–	–	–
CZ-USA	company under ultimate control	16,703	18,048	–	–
Colt Canada Corporation	company under ultimate control	1,171	1,957	–	–
Colt's Manufacturing Company LLC	company under ultimate control	47,416	36,856	–	2,241
Colt CZ Defence Solutions s.r.o.	company under ultimate control	325	139	–	7,655
Colt CZ Group International s.r.o.	company under ultimate control	1,855	2,184	–	–
CZG VIB s.r.o.	company under ultimate control	7	7	–	–
4M SYSTEMS a.s.	company under ultimate control	1,222	1,023	–	–
Spuhr i Dalby AB	company under ultimate control	150	869	4	–
Keriani, a.s.	associated company of the parent company	–	–	–	60
M&H Management a.s.	company of the ultimate owner's corporate group	–	17	–	–
swissAA holding	company under ultimate control	–	–	1,588	–
Colt CZ Hungary Zrt.	associated company of the parent company	4,736	–	–	–
ZBROJOVKA BRNO, s.r.o.	company under ultimate control	–	39	–	–
Total		**87,166**	**66,644**	**5,461**	**10,153**

The Company has also provided loans to related parties in the total amount of CZK 7,819,496 thousand as at 31 December 2023. (31 December 2022 – CZK 6,568,473 thousand). The Company has not identified any impairment of the above loans to related parties.

The Company also paid a dividend of CZK 786,314 thousand (2022 – CZK 652,262 thousand) to Česká zbrojovka Partners SE.

38. OFF-BALANCES SHEET COMMITMENTS

As at 31 December 2023 and 31 December 2022, the Company issued no guarantees in respect of third-party liabilities.

As at 31 December 2023, the Company records no significant legal disputes where the Company acts as a defendant or investment, environmental and other off-balance sheet commitments.

39. AUDITOR'S FEE

The statutory auditor's fee is disclosed in the notes to the consolidated financial statements prepared for the consolidated group in which the Company is included.

40. SUBSEQUENT MATERIAL EVENTS

On 26 February 2024, the General Meeting of the Company decided to increase the Company's share capital by a maximum of CZK 1,500 thousand through the issue of book-entry shares in the maximum amount of 15,000,000 units. The newly issued shares will be offered for subscription to CBC Europe S.à r.l. in connection with the acquisition of a 100% share in Sellier & Bellot a.s.

On 18 December 2023, the Company entered into an agreement to acquire 100% of the shares of Sellier & Bellot a.s. The transaction is subject to regulatory approvals in various countries. As at the reporting date, the Company has not received all regulatory approvals. A number of regulatory approvals have been obtained and the acquisition is expected to be completed during the second quarter of 2024.

During the first quarter of 2024, the Company sold Other financial assets representing the Company's short-term investment in listed shares. The Company realized a gain on these sales.

On 18 April 2024, the Company's Board of Directors approved an increase in the volume of the existing COLTCZ VAR/30 bond issue in the amount of CZK 1,071,000 thousand. The increase in the volume of the existing bond issue is in accordance with the prospectus issued on 18 May 2023, which allows for an increase in the volume of the bond issue up to a maximum of CZK 3,000,000 thousand.

No other subsequent events have occurred up to the reporting date that would have any material impact on the financial statements as at 31 December 2023.

On 18 April 2024, the separate financial statements were approved by the Board of Directors of the Company.

Jan Drahota
Chair of the Board of Directors

Josef Adam
Vice-Chair of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

for the Year Ended 31 December 2023
prepared in accordance with IFRS Accounting Standards as adopted by the European Union

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 December 2023

	Note	2023 CZK '000	2022 CZK '000
Revenues from the sale of own products, goods and services	4,5	14,855,581	14,589,774
Other operating income	6	89,789	133,270
Change in inventories developed internally		887,593	521,050
Own work capitalised		172,976	151,781
Raw materials and consumables used	7	-8,065,419	-7,326,333
Services	8	-1,959,627	-1,769,028
Personnel expenses	9	-3,083,096	-2,888,813
Depreciation and amortisation	11	-801,721	-910,435
Other operating expenses	12	-210,225	-238,086
Allowances	13	-23,885	-64,498
Operating profit or loss		**1,861,966**	**2,198,682**
Interest income	16	756,541	440,453
Interest expense	17	-894,604	-612,056
Other financial income	16	251,596	172,833
Other financial expenses	17	-72,120	-133,802
Gains or losses from derivative transactions	18	221,019	236,826
Share in profit of associates after tax	26	682	14,302
Profit from investments in associates (successive acquisition)	26	–	38,932
Bargain purchase gain	22	384,482	–
Profit before tax		**2,509,562**	**2,356,170**
Income tax	19	-467,024	-321,978
Profit for the period		**2,042,538**	**2,034,192**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments		-468,398	948,231
Foreign currency translation of foreign operations	21	183,745	-125,035
Other comprehensive income		**-284,653**	**823,196**
Comprehensive income for the period		**1,757,885**	**2,857,388**
Profit for the period attributable to:			
Owner of the parent company		2,042,538	2,034,192
Comprehensive income for the period attributable to:			
Owner of the parent company		1,757,885	2,857,388
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	46	58	60
Diluted	46	58	59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2023

	Note	31 Dec 2023 CZK '000	31 Dec 2022 CZK '000
ASSETS			
Non-current assets			
Intangible assets	25	3,413,881	3,462,131
Goodwill	25	2,547,480	2,457,416
Property, plant and equipment	25	4,281,449	3,066,251
Advance for acquisition of financial investment	23	2,690,040	–
Equity-accounted securities and investments	26	40,795	39,401
Financial derivatives	42	1,013,168	1,181,097
Trade and other receivables	30	61,891	35,515
Other receivables	31	2,556	6,560
Deferred tax assets	20	21,245	–
Total non-current assets		**14,072,505**	**10,248,371**
Current assets			
Inventories	27	5,298,077	3,797,557
Trade and other receivables	30	1,774,947	1,346,143
Provided loans	28	–	7,700
Other financial assets	29	908,580	756,834
Financial derivatives	42	149,047	217,123
Other receivables	31	351,165	304,005
Tax receivables	19	93,751	–
Cash and cash equivalents	32	3,328,684	2,825,781
Total current assets		**11,904,251**	**9,255,143**
Total assets		**25,976,756**	**19,503,514**
EQUITY AND LIABILITIES			
Capital and reserves			
Registered capital	33	3,516	3,410
Share premium	33	1,942,818	1,366,386
Capital funds	34	1,641,512	1,641,512
Cash flow hedge reserve	34	599,816	1,068,214
Foreign exchange translation reserve	34	-142,688	-326,433
Accumulated profits		5,229,872	3,928,282
Equity attributable to the owner of the Company		**9,274,846**	**7,681,371**
Non-controlling interests		–	–
Total equity		**9,274,846**	**7,681,371**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2023

	Note	31 Dec 2023 CZK '000	31 Dec 2022 CZK '000
Non-current liabilities			
Bonds, bank loans and borrowings	35	9,040,540	6,972,898
Financial derivatives	42	244,169	28,684
Lease liabilities	39	62,052	46,796
Other financial liabilities	38	–	240,468
Trade and other payables	36	42,022	7,825
Other payables	37	14,569	21,169
Provisions	14	76,188	23,654
Deferred tax liability	20	722,783	731,308
Employee benefit liabilities	15	255,721	265,280
Total non-current liabilities		**10,458,044**	**8,338,082**
Current liabilities			
Bonds, bank loans and borrowings	35	2,573,744	208,597
Financial derivatives	42	11,038	38,610
Lease liabilities	39	25,619	23,939
Other financial liabilities	38	44,580	238,593
Trade and other payables	36	1,746,796	1,154,955
Other payables	37	1,655,094	1,479,267
Provisions	14	30,084	51,371
Tax liabilities	19	142,084	269,096
Employee benefit liabilities	15	14,827	19,633
Total current liabilities		**6,243,866**	**3,484,061**
Total liabilities		**16,701,910**	**11,822,143**
Total equity and liabilities		**25,976,756**	**19,503,514**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 December 2023

CZK '000	Registered capital (Note 33)	Share premium (Note 33)	Capital funds (Note 34)	Cash flow hedge reserve (Note 34)	Foreign exchange translation reserve (Note 34)	Accumulated profits	Equity attributable to the owner of the parent company	Non-controlling interests	Total equity
Balance at 31 December 2021	**3,374**	**1,139,211**	**1,641,512**	**119,983**	**-201,398**	**2,539,146**	**5,241,828**	**–**	**5,241,828**
Profit for the period	–	–	–	–	–	2,034,192	2,034,192	–	2,034,192
Other comprehensive income	–	–	–	948,231	-125,035	–	823,196	–	823,196
Total comprehensive income for the period	**–**	**–**	**–**	**948,231**	**-125,035**	**2,034,192**	**2,857,388**	**–**	**2,857,388**
Dividends	–	–	–	–	–	-843,416	-843,416	–	-843,416
Issue of shares	36	227,175	–	–	–	–	227,211	–	227,211
Share-based payments	–	–	–	–	–	198,360	198,360	–	198,360
Balance at 31 December 2022	**3,410**	**1,366,386**	**1,641,512**	**1,068,214**	**-326,433**	**3,928,282**	**7,681,371**	**–**	**7,681,371**
Profit for the period	–	–	–	–	–	2,042,538	2,042,538	–	2,042,538
Other comprehensive income	–	–	–	-468,398	183,745	–	-284,653	–	-284,653
Total comprehensive income for the period	**–**	**–**	**–**	**-468,398**	**183,745**	**2,042,538**	**1,757,885**	**–**	**1,757,885**
Dividends	–	–	–	–	–	-1,034,016	-1,034,016	–	-1,034,016
Issue of shares	106	576,432	–	–	–	–	576,538	–	576,538
Share-based payments	–	–	–	–	–	293,068	293,068	–	293,068
Balance at 31 December 2023	**3,516**	**1,942,818**	**1,641,512**	**599,816**	**-142,688**	**5,229,872**	**9,274,846**	**–**	**9,274,846**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 December 2023

	Note	2023 CZK '000	2022 CZK '000
Cash flows from principal economic activity (ordinary activity)			
Profit from ordinary activity before tax		**2,509,562**	**2,356,170**
Depreciation/amortisation of non-current assets	11, 25	801,721	910,435
Change in allowances and provisions	13, 14	22,276	20,024
Profit from the sale of non-current assets	6	-2,659	-12
Interest expense and interest income	16, 17	138,063	171,603
Share in the profit of associates	26	-682	-14,302
Unrealised foreign exchange gains and losses		14,988	-229,330
Contingent consideration – remeasurement	17	–	21,671
Partial settlement of contingent consideration	34	406,915	227,211
Remeasurement of other financial assets	29	-160,692	–
Profit from the investments in associates (successive acquisition)	26	–	-38,932
Bargain purchase gain	22	-384,482	–
Cash flow hedges – remeasurement of effective portion of hedging instruments	42	-468,398	948,231
Share-based payments	10	293,068	198,360
Adjustments for other non-cash transactions		52,921	25,616
Net operating cash flows before changes in working capital		**3,222,601**	**4,596,745**
Change in working capital			
Change in receivables and deferrals	30, 31	-162,505	-1,408,655
Change in liabilities and accruals	36, 37	244,040	143,517
Change in inventories	27	-1,008,033	-850,259
Net cash flow from operating activities		**2,296,103**	**2,481,348**
Paid interest		-880,196	-480,233
Interest received		756,881	353,258
Income tax paid for ordinary activity	19	-759,473	-454,197
Net cash flow from operating activities		**1,413,315**	**1,900,176**
Cash flows from investing activities			
Acquisition of non-current assets	25	-924,156	-679,725
Income from the sale of non-current assets		2,964	–
Acquisition of subsidiaries – opening balance	22	-723,902	-226,189
Acquisition of subsidiaries – cash and cash equivalents	22	150,863	28,674
Advance for acquisition of financial investment	23	-2,690,040	–
Acquisition of equity-accounted securities and investments	26	-1,212	–
Acquisition of other financial assets	29	–	-756,834
Repayments of provided loans	28	7,700	190,000
Employee benefit liabilities	15	-27,014	-39,679
Net cash flow from investing activities		**-4,204,797**	**-1,483,753**
Cash flows from financing activities			
Proceeds from issue of bonds	35	1,917,756	1,984,796
Proceeds from drawdown of loan	35	2,295,085	–
Dividends paid to owners	43	-864,393	-843,416
Repayment of loans	35	-22,333	-2,319,825
Repayment of leases	39	-32,762	–
Net cash flow from financing activities		**3,293,353**	**-1,178,445**
Net change in cash and cash equivalents		**501,871**	**-762,022**
Opening balance of cash and cash equivalents		**2,825,781**	**3,573,467**
Effect of exchange rate on cash and cash equivalents		1,032	14,336
Closing balance of cash and cash equivalents		**3,328,684**	**2,825,781**

These notes are an integral part of these consolidated financial statements.

COLT CZ GROUP SE

Consolidated Financial Statements
for the Year Ended 31 December 2023 prepared
in accordance with IFRS Accounting Standards
as adopted by the European Union

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1. PARENT COMPANY

Colt CZ Group SE (the "Consolidating Entity" or "Company") is a societas Europaea recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961. The Company together with its subsidiaries is one of the world's leading manufacturers of small arms and ammunition for the armed forces, personal defence, hunting, sport shooting and other commercial uses. It sells its products mainly under the Colt, CZ (Česká zbrojovka), Colt Canada, CZ-USA, Dan Wesson, Spuhr, swissAA, and 4M Systems brands.

The following table shows individuals and legal entities with an equity interest greater than 10 percent:

Shareholder	Ownership percentage as at	
	31 Dec 2023	**31 Dec 2022**
Česká zbrojovka Partners SE	75.40%	76.86%

Since 2017, the majority owner of the Company has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1 Czech Republic.

The Consolidating Entity and consolidated entities are part of a larger consolidated group of ultimate parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic. The ultimate owner of the Company is Mr. René Holeček.

Members of the Board of Directors and Supervisory Board as of the balance sheet date:

Board of Directors	
Chair:	Jan Drahota
Vice-chair:	Josef Adam
Member:	Jan Holeček
Member:	Dennis Veilleux
Member:	Jan Zajíc
Supervisory Board	
Chair:	David Aguilar
Vice-chair:	René Holeček
Vice-chair:	Lubomír Kovařík
Member:	Jana Růžičková
Member:	Vladimír Dlouhý

On 16 May 2023, the Company's registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 1 July 2023, Mr. David Aguilar and Mr. René Holeček were appointed members of the Supervisory Board. Subsequently, the Supervisory Board appointed Mr. David Aguilar as its chair and Mr. René Holeček and Mr. Lubomír Kovařík as its vice-chairs.

On 1 July 2023, the Company's registered office address changed to náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1.

On 20 September 2023, the Company's registered capital was increased through the issue of 322,170 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 15 December 2023, the Company's registered capital was increased through the issue of 368,038 shares in book-entry form with a nominal value of CZK 0.1 per share.

The consolidated group (the "Group") comprises the Company and the consolidated entities of the Group (subsidiaries). The consolidated group includes the Company and entities controlled by the Company, i.e., entities in which the Company holds more than 50% of voting rights.

All amounts in these financial statements and the related notes are reported in thousands of Czech crowns, which are also the functional currency.

2. IDENTIFICATION OF THE GROUP AND MATERIAL EVENTS IN THE PERIOD

2.1. Identification of the Group

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group	
				31 Dec 2023	31 Dec 2022
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%
Česká zbrojovka a.s. Niederlassung Deutschland	Production, purchase and sale of firearms and ammunition	Regensburg, Germany	full	100%	100%
Latin America Holding, a.s.	Holding company	Uherský Brod, Czech Republic	full	100%	100%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	100%	100%
CZ – Slovensko s.r.o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	100%	100%
Colt CZ Group North America, Inc.	Holding company	Kansas City, USA	full	100%	100%
CZ-USA, LLC	Purchase and sale of firearms and ammunition	Kansas City, USA	full	100%	100%
Colt Holding Company LLC**	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	–	100%
CDH II Holdco Inc**	Holding company	West Hartford, Connecticut, USA	full	–	100%
Colt Defence LLC**	Holding company	West Hartford, Connecticut, USA	full	–	100%
New Colt Holding Corp.**	Holding company	West Hartford, Connecticut, USA	full	–	100%
Colt´s Manufacturing Company LLC	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100%	100%
Manufacturing IP Holding Company LLC**	Holds, maintains, and licenses Colt USA trademarks	West Hartford, Connecticut, USA	full	–	100%
Four Horses Apparel, Inc.	Production and sale of clothing and fashion accessories	West Hartford, Connecticut, USA	full	100%	100%
Colt Canada Corporation	Production, purchase and sale of firearms	Kitchener, Ontario, Canada	full	100%	100%
Colt International Cooperatief U.A. **	Holding company	Amsterdam, the Netherlands	full	–	100%
Colt CZ Defence Solutions, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%
EHC-4M, SE	Holding company	Prague, Czech Republic	full	100%	100%
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	100%	100%
Colt CZ Group International s.r.o.	Holding company	Prague, Czech Republic	full	100%	100%
Spuhr i Dalby AB	Production of optical assembly solutions	Löddeköpinge, Sweden	full	100%	100%
CZG VIB s.r.o.	Holding company	Prague, Czech Republic	full	100%	100%
Vocatus Investment, a.s.	Holding company	Prague, Czech Republic	full	100%	–
Colt CZ Insurance Limited	Captive reinsurance company	Saint Peter Port, Guernsey	full	100%	–
swissAA Holding AG*	Holding company	Däniken, Switzerland	full	100%	–
aaltech GmbH*	Purchase and sale of ammunition	Sollenau, Austria	full	100%	–
laltech s.r.l.*	Purchase and sale of ammunition	Bad Krozingen, Germany	full	100%	–
galtech AG*	Purchase and sale of ammunition	Bad Krozingen, Germany	full	100%	–
saltech AG*	Production and sale of ammunition	Däniken, Switzerland	full	100%	–
haltech kft.*	Production and sale of ammunition	Balatonfüzfö, Hungary	full	100%	–
S-Pyrotech kft.*	Lease of buildings and equipment	Balatonfüzfö, Hungary	full	100%	–

* On 28 June 2023, the Company acquired the swissAA Holding AG group. For more detailed description, see Note 22.
** A restructuring within the Colt Group took place during 2023. The assets and liabilities of the designated companies were transferred to other companies within the Colt Group.

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group	
				31. 12. 2023	31. 12. 2022
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49%	49%
CARDAM s.r.o.	Research and development	Dolní Břežany, Czech Republic	equity	33%	33%
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%
VIBROM spol. s r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25%	25%
Colt CZ Hungary Zrt.***	Production of firearms	Hungary	equity	51%	–

*** The Group holds a 51% equity interest and a 50% non-controlling interest in Colt CZ Hungary Zrt.

Česká zbrojovka a.s. and the companies of the Colt Group are the most significant entities in the Group. In the text below, the term 'Group' refers to the consolidated group.

2.2. Material events in the period

On 20 January 2023, the principal of the loan of CZK 7,000 thousand was repaid by EHC zdravotní s.r.o.

In response to increasing labour productivity and fluctuating demand in some markets, particularly in the US, Česká zbrojovka a.s. took action and adjusted the production schedule and product mix, optimising the number of employees and other measures, all this to enhance compatibility and cost effectiveness on world markets. The management of Česká zbrojovka a.s. informed its employees about these initiatives in detail. The shutdown of part of the production took place between 29 March 2023 and 10 April 2023.

On 16 May 2023, the Company's registered capital was increased by CZK 36,529 through the issue of 365,291 shares in book-entry form. The issue rate was set at CZK 585 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc., solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt Holding Company LLC in 2021.

On 18 May 2023, the Company issued bonds with a nominal value of CZK 1,929,000 thousand. The proceeds from the issue will be used for capital expenditures, working capital, financing acquisition plans and for general purposes of the Group.

On 15 June 2023, the Company decided to pay a dividend of CZK 1,034,016 thousand (CZK 30 per share). Part of the dividend was paid out in form of an off-set with newly issued shares, in particular 322,170 shares with a total value of CZK 169,623 thousand. The newly issued shares were subscribed on 20 September 2023.

On 28 June 2023, the Company acquired a 100% share in swissAA Holding AG. The swissAA Holding AG group is an ammunition manufacturer with production facilities in Switzerland and Hungary. For more detailed description of the transaction, see Note 22.

On 17 October 2023, Colt CZ Insurance Limited was established as a subsidiary of Colt CZ Group SE. It is a captive reinsurance company with a single owner, which will contribute to more efficient risk management.

On 15 December 2023, the Company's registered capital was increased by CZK 36,804 through the issue of 368,038 shares in book-entry form. The issue rate was set at CZK 525 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc., solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt Holding Company LLC in 2021.

On 18 December 2023, the Company entered into an agreement to purchase a 100% share in Sellier & Bellot a.s. The acquisition will be financed through a combination of the Company's existing cash resources and debt financing. The transaction is subject to regulatory approvals in various countries, which are expected to take place in the first half of 2024. A detailed description of the transaction is given in note 23.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Newly adopted standards and interpretations

In the current year, the Group has applied a new standard and a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective for the reporting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standard	Title
IFRS 17	New standard IFRS 17 Insurance Contracts including the June 2020 and December 2021 amendments to IFRS 17
Amendments to IAS 1	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

New and revised IFRS Accounting Standards in issue and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following revised IFRS Accounting Standards that have been issued by IASB and adopted by EU but are not yet effective:

Standard	Title	Effective date
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current - Deferral of Effective Date	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024

New and revised IFRS Accounting Standards in issue but not adopted by the EU

At present, IFRS accounting standards as adopted by the EU do not significantly differ from IFRS accounting standards adopted by the International Accounting Standards Board (IASB) except for the following amendments to the existing standards, which were not adopted by the EU:

Standard	Title	EU adoption status
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred by IASB indefinitely but earlier application permitted)	Endorsement process postponed indefinitely until the research project on the equity method has been concluded
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements (IASB effective date: 1 January 2024)	Not yet adopted by the EU
Amendments to IAS 21	Lack of Exchangeability (IASB effective date: 1 January 2025)	Not yet adopted by the EU

The Group does not expect that the adoption of the amendments to standards listed above will have a material impact on the financial statements of the Group in future periods.

3.2. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union (“IFRS”).

3.3. Basis of preparation

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

b) Basis of measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants took those characteristics into account in pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- **Level 1** – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** – inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** – Level 3 inputs are unobservable inputs for the asset or liability

The Company applies Level 2 to financial instruments – derivatives.

c) Going concern

The Group has, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

d) Basis of consolidation

The consolidated financial statements incorporate assets and liabilities of companies and entities (including structured entities and their subsidiaries) controlled by the Group. Control is achieved when the Group:

- has power over the investee,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to influence the level of their returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group holds less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and distribution of holdings of the other vote holders,
- Potential voting rights held by the Group, other vote holders or other parties,
- Rights arising from other contractual arrangements, and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owner of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owner of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intracompany assets and liabilities, equity, income (including any unrealised profit in inventories), expenses, and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

3.3.1. Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's controlling interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owner of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassify the gain or loss from equity to profit or loss or transfer directly to retained earnings if required by other IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost upon initial recognition of an investment in an associate or a joint venture.

3.4. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively,
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date, and
- Assets (or disposal groups) that are classified as held for sale or held for distribution to owners in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and equity interests held so far (if any), and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at either fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration, which is classified as an asset or liability, is remeasured to fair value at subsequent reporting dates, in accordance with IFRS 9, Contingent Liabilities and Contingent Assets, with the relating gain or loss recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The Group did not use the exception allowing not to apply IFRS 3 to business combinations implemented before the transition to IFRS.

The Group does not apply business combination accounting to combinations with entities or business under common control. In common control transactions, the Group recognises any difference between consideration provided and carrying value of acquired net assets to retained earnings.

3.5. Investments in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Profit or loss, assets and liabilities of associates are accounted for in these financial statements using the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

An impairment loss for investments in associates is calculated by comparing the recoverable amount with the carrying amount if there is objective evidence of impairment. In assessing whether objective evidence exists, the Group primarily considers the associate's current or potential financial difficulties, breach of contract, default or, possible bankruptcy. Realisable value is determined based on estimated future cash flows discounted to their present value. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3.6. Recognition of revenue from contracts with customers
Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognises revenue from contracts with customers as follows:

- Contract with customer is identified
- Performance obligation is identified.
- Transaction price is determined.
- Transaction prices are allocated to individual performance obligations.
- Revenue is recognised upon meeting the performance obligation.

Revenues are recognised when the Group meets its performance obligation with respect to a client. If a contract contains multiple partial performance obligations the total contractual price is distributed to individual performance obligations and the Group recognises revenue when each partial performance obligation is met. Payments received before a performance obligation is satisfied are reported as liabilities. Expenses incurred before the performance obligation is satisfied are recognised as assets under IFRS.

3.7. Sale of products, goods and related additional services
Products, goods and services are delivered based on orders following master sales agreements or based on individual sales contracts. In respect of sales of products and goods, a performance obligation is the obligation to deliver its products or goods to a customer in the agreed upon amount at the agreed place. Individual orders are always considered to be separate performance obligations because a customer may use the products and goods delivered separately. At the delivery of products and goods, a performance obligation is satisfied at the moment when the customer takes control over the products or goods. The price is determined in a framework contract, orders or individual purchase contracts. The price for products or goods delivery is always fixed, the Group provides no significant bulk discounts or any similar price adjustments linked to the volume of purchases for a specified period.

The Company has identified each individual delivery as a separate performance obligation. The revenue is recognised at the moment of its satisfaction occurs, which is when the customer takes control over the products or goods. This moment is determined mainly by the agreed delivery parity. For goods and products delivered from consignment stock, the revenue is recognised when goods or products are dispatched.

The delivery of goods may be combined with the provision of additional services (such as transportation or insurance). In such case, the performance obligations of all combined transactions are considered to be satisfied at the same point of time.

The Group only provides standard warranties to the products delivered in line with laws of a specific country.

Expenses for contract satisfaction in case of own production are recognised in compliance with IAS 2.

The remuneration for obtaining a contract, in particular the remuneration provided to intermediaries, is usually linked to the customer's payment and is, therefore, directly expensed. Similarly, the costs of obtaining contracts are directly expensed if they are insignificant or if the depreciation period of the asset resulting from the costs of obtaining the contract is shorter than one year.

The sale of material (in particular metal waste and scrap) is recognised in a similar way to the sale of products and goods.

3.8. Provision of services and licences

Services primarily include work (machining, grinding) on supplied tools or material. Services are provided based on contracts or confirmed orders. For provided services, performance obligations are agreed in contracts. Services usually relate to material or tools of a customer and the Group's performance obligation is to apply the agreed service to the delivered material.

For the supply of services, the performance obligation is fulfilled when the customer acquires control of the service. This moment is usually determined in a contract; depending on the nature of the service, it may be, and usually it is, a moment when the material or tools to which the service related are delivered to a customer.

The costs of obtaining a contract are directly expensed if they are insignificant or if the depreciation period of the asset consisting of the costs of obtaining the contract is less than one year.

Licences are provided under licence agreements. In respect of provided licences, the performance obligation is to allow other entities to use the trademark or any other copyright of the Group. The price is determined as a combination of one time fixed price for the provision of a licence and a share on sales achieved based on the granted licence (a fixed amount per unit sold or a share on sales). If the Group does not undertake to further develop the subject of the licence or allow the licensee to access further modifications, the performance obligation is satisfied at the moment from which the licensee can use the licence. Revenue from the sale of rights to access licenses (license fees) is accounted for an ongoing basis and is not recognised as revenue as it is not generated in the ordinary course of the Group's business.

3.9. Dividends and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is recognised over the relevant period for each financial asset. Interest income is calculated by applying the effective interest rate, the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the gross carrying amount of the financial asset.

3.10. Leases

Group as a lessor

Income from lease contracts in which the Group acts as a lessor is recognised on a straight-line basis over the term of the contract.

Group as a lessee

For short-term and low-value asset leases (office technology and equipment), costs are accounted for on a straight-line basis over the lease term.

For other leases, the Group recognises right-of-use assets and lease liabilities as of the lease commencement date.

As of the lease commencement date, the lease liability is measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease (or the incremental borrowing rate in case the interest rate implicit in the lease is not readily available). Lease payments may include both fixed and variable payments. As of the lease commencement, the variable element of rent depending on the development of a price index or rate is determined according to the index or rate value as of the lease commencement date. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payment made. If any changes (resulting mainly from the change in the lease term or in future lease payments) occur after the lease commencement date, the Group remeasures the lease liability with the corresponding adjustment to the right to use asset.

The short-term and long-term portions of the lease liability are presented on separate lines of the consolidated statement of financial position.

As of the lease commencement date, the right-of-use asset is measured at cost. The cost is comprised of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day less any lease incentives received and any initial direct cost incurred. Subsequently, the right-of-use asset is measured at cost less accumulated depreciation or impairment losses, if any. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets in the consolidated statement of financial position are presented on the line Property, plant and equipment.

The Company applies IAS 36 to determine whether the right-of-use asset has been impaired and any impairment losses identified are recognised in accordance with the policy described in Note 3.19.

If there is a change in the expected payments included in the lease liability valuation, the Group adjusts the lease liability value to reflect the newly expected payments and adjusts the value of the right-of-use asset at the same time.

3.11. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. The functional currencies in the US subsidiaries are US and Canadian dollars, in the Czech subsidiaries Czech crowns, in the Swiss subsidiaries Swiss francs, in the Hungarian subsidiaries Hungarian forints and in the Swedish subsidiaries Swedish kronor.

During the course of the reporting period, assets and liabilities denominated in foreign currencies are translated by the Group using the exchange rate promulgated by the Czech National Bank on the previous business day; as of the end of the reporting period, the exchange rate promulgated by the Czech National Bank as of 31 December is used.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange rate differences on monetary items are recognised in the profit or loss for the period in which they occurred, except for exchange rate differences on transactions designated to hedge certain monetary risks (see Notes 3.27.).

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Czech crowns using exchange rates promulgated by the Czech National Bank at the end of each reporting period.

Revenue and expense items are translated using the average exchange rate for the period. If exchange rates have fluctuated significantly during the period, the exchange rate at the date of the transaction shall be used.

Exchange differences from translating the functional currency of foreign entities into Czech crowns are recognised in other comprehensive income and accumulated in capital funds as part of equity (and attributed to non-controlling interests as appropriate).

3.12. Borrowing costs

Borrowing costs of the Group directly attributable to the asset are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

Borrowing costs relate to those assets for which more than 180 days have passed between the date of their initial recognition (date of invoice) and the date of their readiness for intended use (date of capitalisation in assets).

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.13. Government grants and investment incentives

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

3.14. Employee benefits

The Group does not operate its own private pension and post-retirement benefit plans in the Czech Republic. In the Czech Republic, similar plans can only by operated by licensed pension funds. Therefore, it does not have any performance or constructive obligations to make such contributions to funds. The Group provides bonuses in relation to life jubilees and retirement for the work performed. Bonuses are differentiated based on the length of employment at the Company and recognised as a payable to employees using the projected unit credit method. The value of the bonuses did not exceed CZK 1,000 thousand in any period.

The Group has a pension plan in the US, which covers salaried employees and employees covered by a Collective Bargaining Agreement. Pension benefits for both salaried employees and employees covered by the Collective Bargaining Agreement were frozen at various dates prior to 1 January 2015. Accordingly, participants will retain pension benefits that have already been generated. However, no further benefits will be generated from the effective date of the freeze. In accordance with IAS 19, the pension plan liability is accounted for on a net basis.

The Group also provides certain post-retirement healthcare benefits and life insurance coverage to certain retired US employees who were covered by its Collective Bargaining Agreement at the time of retirement. The cost of these post-retirement benefits is determined actuarially and is recognised in the Group's consolidated financial statements over the active working lives of the employees. In USA, the Group also operates a so called NQDC Plan (A Non-Qualified Deferred Compensation Plan) enabling key employees to defer compensation that they have a legally binding right to receive. NQDC plans are not covered under the Employee Retirement Income Security Act (ERISA).

3.15. Share-based payments

The fair value of agreements on equity-settled share-based payments granted to an entity's employees is usually recognised as an expense as at the grant date with a corresponding increase in equity over the vesting period.

The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term / function term and the non-market performance condition so that the amount finally recognised is based on the number of cases meeting the condition of the employment term / function term and the non-market performance condition on the vesting date.

As for remuneration in the form of share-based payments with non-vesting conditions, the grant date fair value of share-based payments is determined considering those conditions and no adjustments are made to reflect differences between the expected and actual result.

3.16. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.16.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the separate statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated individually for each Group entity under tax legislation of the country in which the entity is domiciled.

3.16.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.16.3. Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

3.17. Property, plant and equipment – tangible non-current assets

Property, plant and equipment is recognised at acquisition cost net of accumulated depreciation and accumulated impairment losses.

Purchased property, plant and equipment is carried at cost upon acquisition. The cost includes the direct costs of acquisition, transportation costs, customs duty and other costs related to acquisition.

Non-current tangible assets manufactured by the Group are measured at internal cost including direct material and payroll expenses and production overheads.

Subsequent costs incurred on a replacement part for property, plant and equipment or major inspections or overhauls are recognised in the carrying amount of the affected item of property plant and equipment.

Costs of day-to-day servicing, repair or maintenance are expensed when incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation is calculated based on the acquisition cost and estimated useful life of the respective assets. Estimated useful lives are estimated as follows:

	Number of years (from – to)
Buildings	16–50
Machinery, devices and equipment	4–52
Furnaces, cranes and conveyors	16–50
Tools	2–4
Vehicles	5–10
Office equipment	4
Furniture and fixtures	2–20

Land owned by the Group, non-current tangible assets under construction and a collection of firearms are not depreciated.

An item of property plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Rights of use are depreciated from the commencement of the lease over the shorter of the lease term or the life of the asset. If the Group expects to exercise the option to purchase the leased asset at the end of the lease term, the right to use is depreciated over the period of expected use. The table below summarises the useful lives by lease item.

Lease item	Number of years (from – to)
Warehouses, offices and other spaces	2–10
Machinery, devices and equipment	2–5
Vehicles	2–7

3.18. Intangible assets

3.18.1. Intangible assets acquired separately

Intangible assets acquired separately and assets acquired within business combinations with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives as follows:

	Number of years (from – to)
Development	4–20
Software	2–4
Licenses, patents and other intellectual property rights	2–15
Contractual customer relations	3–25
Other intangible assets	2–6

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets acquired separately and assets acquired within business combinations with indefinite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

3.18.2. Internally developed intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- The intention to complete the intangible asset and use or sell it,
- The entity's ability to use or sell the intangible asset,
- How the intangible asset will generate probable future economic benefits,
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset, and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets arising from successful development activities are assessed as of the date of the meeting of the external examination board for the prototype as it is presumed that the above-listed criteria will be met.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date (mostly the date of the external examination board meeting) when the intangible asset first meets the recognition criteria listed above. Assets with the aggregate expenditure exceeding CZK 100,000 are recognised. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.18.3. Emission allowances

Intangible assets include emission allowances for greenhouse allowances. An initial free-of-charge acquisition of the allowances is measured at its market price with a grant being recognised as a deferred income. Where such asset is used, sold or disposed of in another manner, the corresponding amount credited to the grant account will be reported through the relevant revenue accounts to match the relating expenses on the accrual basis.

The use of emission allowances is accounted for at the end of the reporting period, depending upon the level of emissions produced by the Group in the calendar year. A provision is created for produced emissions for which the Group has no emission allowances.

3.18.4. Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.19. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units,

or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Intangible assets with indefinite useful lives, intangible assets that have not yet been used and goodwill are tested for impairment every year regardless of whether any indication of impairment exists.

3.20. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. The Group considers as short-term investments with an initial maturity of three months or less.

3.21. Inventories

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories includes any purchase costs, transfer costs, and other costs incurred in bringing the inventories to their present condition and location. The cost of purchased inventories includes the purchase cost and relating acquisition costs (freight costs, custom fees, commissions etc.).

Purchased inventories of unit material are stated at cost using the method of fixed costs and valuation variances.

Purchased inventories of overhead material are stated at cost. Individual items are issued out of stock at cost determined using the weighted arithmetic average method.

Internally developed inventories and work in progress are valued at actual purchase cost (material) and the transformation cost including direct payroll costs and part of production overheads corresponding to regular production capacity net of interest.

Inventories encompass goods purchased and held for resale and also encompass finished products, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process.

The net realisable value is the estimated selling price of inventory less all estimated costs of completion and costs necessary to make the sale.

3.22. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Group creates mainly provisions for warranty repairs, share-based payments, and insurance claims and benefits.

3.22.1. Warranty repairs

Provisions for the expected cost of warranty obligations under local sale of goods legislation or business rules are recognised at the date of sale of the relevant products at the directors' best estimate of the expenditure, based on historical data, required to settle the Group's obligation.

3.22.2. Provisions for insurance claims and benefits

Provisions for outstanding claims and benefits are calculated using actuarial valuations extrapolated based on the experience with claims over time. These provisions include claims that are classified as ‚incurred but not reported', the status of which is reviewed periodically by management in conjunction with appropriately qualified consultants.

3.23. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instruments.

All ordinary purchases and sales of financial assets are recognised or derecognised based on the transaction date. Ordinary purchases and sales refer to purchases or sales of financial assets, which require the assets to be delivered in a timeframe determined by a regulation or market convention.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.24. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), financial assets 'at fair value through other comprehensive income' (FVTOCI), and financial assets 'at amortised cost'. The Group does not use the option to measure selected equity instruments through other comprehensive income; all equity instruments are measured at fair value through profit or loss (FVTPL).

The classification and subsequent measurement of debt financial assets depends on the business model and cash flow characteristics of the respective asset. Debt financial assets held to collect contractual cash flows representing solely the payment of interest and principal are measured at amortised cost. Debt financial assets held to collect contractual cash flows representing the payment of interest and principal with the possible objective of selling them (the so-called mixed business model) are measured at fair value through other comprehensive income.

In 2023 and 2022, the Group's business model for all debt financial assets was to hold them and to collect contractual cash flows.

3.24.1. Impairment of financial assets

For trade receivables, the Group determines an impairment loss by means of the simplified model. Therefore, the impairment loss for short-term receivables is determined in an amount corresponding to expected losses for the entire duration of the receivable.

To determine the impairment loss, the Group divides current receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of expected losses for each class of receivables is based on historical experience and information about the future that is available without unreasonable cost or effort. The amount of the expected losses for each class of receivables is assessed annually by the Group's management.

For long-term receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant deterioration in the credit risk of the receivable. In that case, the losses are determined in the amount of the expected losses for the entire remaining period to maturity. Indicators of increased credit risk are mainly breaches of contractual conditions.

Financial assets write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

3.24.2. Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised using the effective interest method for financial assets other than those financial assets classified as at FVTPL.

3.25. Financial liabilities and equity instruments

3.25.1. Classification as debt or equity

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.25.2. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.25.3. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- Upon initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking;
- It is a derivative that is not designated as an effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- It forms part of a group of financial assets or financial liabilities or both which are managed and their performance is assessed in line with the entity's documented risk strategy or investment strategy based on fair value and information on this group is disclosed internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other financial income/ Other financial expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

3.25.3.1. Other financial liabilities
Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost.

3.25.3.2. Effective interest rate method
The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, as the case may be, over a shorter period to their net carrying amount at the time of initial recognition.

3.25.3.3. Bonds
The bonds are publicly traded and listed on the regulated market of the Prague Stock Exchange. Issued bonds are recognised at fair value. Unpaid interest on bonds is recognized in the Current bonds, bank loans and borrowings position. Transaction costs are accrued and recognised in Long-term or Short-term bonds, bank loans and borrowings.

3.25.3.4. Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- Loss allowance determined in accordance with IFRS 9, and
- Initial recognition decreased by revenues recognised in line with IFRS 15.

The Group provided no financial guarantees in 2023 and 2022.

3.25.3.5. Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are extinguished, i.e. they are discharged, cancelled or have expired. If the existing obligation is modified substantially, it is accounted for as an extinguishment of the original liability and recognition of a new liability. The modification is deemed to be substantial if the cash flows under the new liability are at least 10% different from the net present value of the remaining cash flows of the existing liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.26. Financial derivatives
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and currency swaps and options. Derivative instruments are classified as trading or hedging. Hedging derivatives are arranged by the Group for the purpose of cash flow hedges.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair values of trading derivatives are recognised to financial expenses, or financial income as appropriate.

Changes in the fair value of derivative instruments classified as fair value hedges are also recognised under financial expenses, or financial income, along with the respective change in the fair value of the hedged asset or liability relating to the hedged risk. The portion of the gain or loss on the derivatives determined to be an effective cash flow hedges is recognised through other comprehensive income. Any remaining gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income and presented as Gains/losses from derivative transactions.

3.27. Hedge accounting

The Group used the option to continue applying IAS 39 to assess and maintain hedge accounting after 1 January 2018.

The Group designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

For a derivative to be classified as hedging, changes in the fair value or in cash flows arising from derivative instruments must compensate, entirely or in part, changes in the fair value of the hedged item or changes in cash flows arising from the hedged item and the Company must document and demonstrate the existence of a hedge relationship as well as high effectiveness of the hedge. Derivative instruments that do not meet the above criteria are classified as held for trading.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The Group uses financial derivative instruments to hedge currency and interest rate risks which it is exposed to as a result of its operations.

Hedging derivatives meet the following hedge accounting criteria:

(a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.;

(b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.;

(c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss; and

(d) The effectiveness of the hedge can be reliably measured, i.e., the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;

(e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. Effectiveness is assessed, at a minimum, at the time the Group prepares its financial statements.

The Group classified the transaction as a cash flow hedge. Hedging derivative instruments are measured at fair value as at the end of the reporting period and the fair value is reported under Cash flow hedge reserve in the Group's equity.

3.27.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income under Cash Flow Hedges – remeasure of effective portion of hedging instruments, the cumulative balance is recognised in the Consolidated statement of financial position in Capital funds. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the Gains or losses from derivative transactions line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3.28. Use of estimates

The presentation of financial statements in line with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and presentation of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates on the basis of all the relevant information available to it. Nevertheless, the actual results and outcomes in the future may differ from these estimates. Key sources of uncertainty in making estimates at the end of the reporting period include:

- Impairment and useful lives of non-current assets, including the right of use based on the expected useful life of these assets and their ability to generate cash inflows in the future (Notes 3.18., 3.19, and 25),
- Impairment of inventory is based on the expected production and price development (Notes 3.21. and 27),
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 3.24. and 30),
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as at 31 December 2023 (Notes 3.23, 3.24., 3.25., 3.26.,3.27., and 42),
- Impairment of intangible assets with an indeterminable useful life and goodwill is based on the value in use determined based on the expected development of sales and interest rates existing as of the date of the consolidated financial statements (Notes 3.19., 25.1, and 25.2),
- The use of estimates is also applied to the creation of provisions (Note 14), the recognition of employee benefits (Note 15) and the recognition of share-based payments (Note 10).

3.29. Sources of uncertainty and risk factors

The Group's future business may be adversely impacted by the following factors out of the Group's control:

- Regulation of firearm trading: Stricter regulation of firearm sales may negatively affect the Group's performance in the future.
- Entry of new competitors: Establishment of new competitors or expansion of the existing capacities may have a negative effect on revenues and profitability of the Group.
- Research and development: Innovation is a key success factor but this factor is linked to the need for continuous investment. If investments cannot be used successfully in commerce, the Group's financial performance would be adversely impacted.
- Potential expansion: Bad acquisition failing to meet expected performance.
- Loss of key employees.
- Political risks: Political developments may lead to a reduction in the possibility of supplying weapons to selected areas. Such development could have an adverse impact on the Group's financial performance.
- Exchange rate and interest rate movements, including a change in the risk-free reference rate: The Group is active in different markets and its financial performance may be affected by unexpected changes in exchange rates. The Group is partially funded by variable interest-bearing loans and bonds, interest expenses may be impacted by unexpected changes in reference rates, including changes in the method of benchmark market rate determination.

The Group continuously analyses and assesses factors that may influence the Group's financial results and adopts measures (such as using hedging financial instruments) to reduce the impact of possible negative development in the above-described areas on the Group.

3.30 Risks and uncertainties arising from climate change

Group recognized that sustainability needs to be interlinked with the ways we operate and that we need to minimize our environmental footprint where possible, but without compromising the quality and safety of our products and people.

As part of our efforts to protect the planet, we will continue to invest in new technologies and the modernization of our operating and manufacturing capabilities, with the aim of reducing consumption of natural resources, including energy and water, production of CO_2 emissions, and other pollutants, such as waste and hazardous substances that are not only used in our production, but through the entire product life cycle.

Topic	Goal	Actions
Energy & Emissions	Reduction of GHG emissions	Increase usage of renewable energy Energy saving measures
Water & Pollution	Reduction of chemical and hazardous substance consumption	Reduce or replace usage of hazardous chemicals or materials
Waste and Circular	Reduction of waste	Analysis of waste management and identifying areas for potential improvements

We will be training our employees on ESG to increase their awareness of environmental topics and the Group's commitments.

The Group regularly monitors and assesses the risks associated with climate change. Based on these analyses, the Group has not identified any risks that would have a material adverse effect on the Group's operations and performance or that would result in a material adjustment to the carrying amounts of assets and liabilities or a material impact on the key estimates used for the preparation of the financial statements.

4. OPERATING SEGMENTS

Segment reporting is prepared in accordance with IFRS 8 Operating Segments defining requirements for the disclosure of financial information on the Group's operating segments. As at 31 December 2023 and 2022, the production, purchase and sale of firearms and accessories represents the Group's primary business activity. The Group's other activities are considered insignificant as none of the Group's other activities account for more than 10% of revenue from sales to external customers.

4.1. Geographical information

The table below specifies income from the sale of own products, goods and services by the most significant regions (CZK '000):

Sales to external customers		
	2023	**2022**
Czech Republic (home country)	2,621,059	1,926,379
USA	6,269,821	6,983,933
Canada	2,231,391	1,773,822
Europe (excluding the Czech Republic)	1,935,068	1,584,169
Africa	185,994	243,317
Asia	1,131,068	1,483,412
Other	481,180	594,742
Total	**14,855,581**	**14,589,774**

The Group has production facilities in the Czech Republic, USA, Canada, Sweden, Switzerland, and Hungary.

Carrying amount of property, plant and equipment		
	2023	**2022**
Czech Republic (home country)	2,258,750	2,305,509
USA	644,651	524,576
Canada	205,190	186,851
Sweden	39,846	49,315
Switzerland	1,036,484	–
Hungary	96,528	–
Total	**4,281,449**	**3,066,251**

Carrying amount of intangible assets		
	2023	**2022**
Czech Republic (home country)	587,763	601,244
USA	1,898,353	1,942,710
Canada	532,597	570,177
Sweden	329,194	348,000
Switzerland	65,974	–
Hungary	–	–
Total	**3,413,881**	**3,462,131**

Goodwill		
	2023	**2022**
Czech Republic (home country)	280,686	280,686
USA	2,008,590	1,925,741
Canada	191,603	183,700
Sweden	66,601	67,289
Total	**2,547,480**	**2,457,416**

5. REVENUES FROM THE SALE OF OWN PRODUCTS, GOODS AND SERVICES

The table below shows a breakdown of the Group's revenues by type (in CZK '000):

	2023	2022
Revenues from the sale of own products	11,904,806	12,319,610
Revenues from goods	2,664,540	2,105,124
Revenues from provision of services	286,235	165,040
Total	**14,855,581**	**14,589,774**

The sale of own products includes the sales of firearms, ammunition and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting, and other civilian uses. The sale of goods includes the sales of firearms, ammunition and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting, and other civilian uses.

Customers with a share on consolidated revenues exceeding 10% threshold are as follows (in CZK '000):

	2023	2022
Ministry of Defence of the Czech Republic	1,859,455	1,466,873
Total	**1,859,455**	**1,466,873**

As at 31 December 2023, the Group has agreed to contracts relating to the delivery of products and services in which contractual obligations will be satisfied after that date. The Group used the option not to recognise information on revenues arising from the existing contracts agreed for less than a year.

No revenue was recognised in 2023 or 2022 related to a contractual obligation that was satisfied or partially satisfied in prior periods.

The Company has not recognised any contractual asset or contractual liability; trade receivables arising from contracts with customers are recognised in Trade and other receivables. The Company has not incurred any costs to obtain or perform the contract, therefore no asset has been recognized in respect of the contract.

6. OTHER OPERATING INCOME

The table below shows a breakdown of the Group's other operating income in individual years (CZK '000):

	2023	2022
Profit from the sale of non-current assets	2,659	12
Profit from the sale of material	19,425	16,025
Charge, utilisation and release of provisions	1,610	44,474
Insurance claims	958	593
Other income from leases and subleases	9,147	8,384
Other income from the sale of licences	12,613	19,110
Other	43,377	44,672
Total	**89,789**	**133,270**

7. RAW MATERIALS AND CONSUMABLES USED

The table below shows a breakdown of consumption and costs of goods sold in individual years (CZK '000):

	2023	2022
Consumed material	6,185,164	5,866,527
Costs of goods sold	1,632,744	1,161,579
Consumed energy	247,511	298,227
Total	**8,065,419**	**7,326,333**

8. SERVICES

The breakdown of the Group's services in individual years is as follows (CZK '000):

	2023	2022
Outsourcing costs and other external costs	425,477	438,158
Services of manufacturing nature and sub-supplies	201,417	276,459
Transportation and travel	452,468	455,881
IT costs, connectivity, SW license	133,376	117,021
Repairs and maintenance	145,405	114,755
Variable lease costs	11,041	10,746
Costs of short-term leases	21,463	23,993
Costs relating to low-value assets not included in the short-term leases above	3,987	2,468
Commission costs	270,458	144,314
Marketing costs	205,788	144,578
Other services	88,747	40,655
Total	**1,959,627**	**1,769,028**

9. PERSONNEL EXPENSES

Breakdown of personnel expenses for employees excluding executives (CZK '000):

	2023	2022
Average FTE number of employees	2,087	2,181
Wages and salaries	2,005,749	1,965,708
Social security and health insurance	559,138	480,129
Other personnel expenses	35,925	62,677
Employee bonuses	60,643	70,053
Employee bonuses – Equity-settled share-based payments	160,743	75,218
Total	**2,822,198**	**2,653,785**

Breakdown of personnel expenses of executives (CZK '000):

	2023	2022
Average FTE number of executives	24	23
Wages and salaries	89,661	68,226
Social security and health insurance	15,737	12,641
Other personnel expenses	2,679	620
Employee bonuses	20,496	30,400
Employee bonuses – Equity-settled share-based payments	132,325	123,141
Total	**260,898**	**235,028**

In 2023 and 2022, the key management personnel included all members of the Board of Directors and Supervisory Boards of the respective companies. The Group did not provide any additional benefits to its key management personnel in 2023 and 2022 that are not included in the table above (e.g., post-employment benefits, termination benefits).

10. SHARE-BASED PAYMENT ARRANGEMENTS

10.1. Description of share-based payment arrangements – stock option plans (equity-settled)
On 27 December 2021, the Company's Supervisory Board approved an employee stock option plan (the "Stock Option Plan").

The Stock Option Plan entitles the Company's key executives and employees (option holders) to purchase the Company's shares. The plan is currently only available to executives and senior employees.

The basic principles of the Stock Option Plan are as follows:
- to the extent, at the times and subject to the conditions of the Stock Option Plan, the participant will acquire the following options by way of vesting by the Company.

a) 15% of the allocated stock options in the period from June 2022 to June 2024
b) 35% of the allocated stock options in July 2024 if Target 1 is met
c) 50% of the allocated share options in July 2026 if Target 2 is met

- Target 1 – achieving consolidated EBITDA for the 2021 to 2023 period of USD 275,000,000
- Target 2 – achieving the following performance parameters at the consolidated level as at 31 December 2025:

i) a turnover of EUR 1,000,000,000
ii) EBITDA of EUR 200,000,000, and
iii) net liabilities to EBITDA ratio below 3.5, in compliance with the Group's strategy.

Shares designated for the Stock Option Plan will be newly issued. The maximum number of shares issued will be 3,373 thousand.

The Stock Option Plan comprises five tranches:
- Tranche 1–3: conditional only on employment term/function term
- Tranche 4: employment term/function term condition and a non-vesting condition (EBITDA related Target 1)
- Tranche 5: employment term/function term condition and vesting non-market performance condition (EBITDA related Target 2).

The participants in share-based payment arrangements must not sell or transfer the options.

Employees terminating their employment are divided into two groups:
- Leaving on good terms (over the entire term of 10 years): the provided options are not forfeited.
- Leaving on bad terms (over the entire term of 10 years): the provided options are forfeited.

Grant date/entitlement date	Number of instruments	Vesting conditions	Contractual maturity of the option
Granted options			
Tranche 1			
May 2022	44,500	employment term / function term from the grant date to 1 June 2022	The option may be exercised until 30 September 2029.
June 2022	17,850	ditto	ditto
July 2022	43,450	ditto	ditto
August 2022	14,350	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
January 2023	495	ditto	ditto

Grant date/entitlement date	Number of instruments	Vesting conditions	Contractual maturity of the option
Granted options			
Tranche 2			
May 2022	44,500	employment term / function term from the grant date to 1 June 2023	The option may be exercised until 30 June 2029.
June 2022	17,850	ditto	ditto
July 2022	43,450	ditto	ditto
August 2022	14,350	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
January 2023	495	ditto	ditto
July 2023	4,600	ditto	ditto
Tranche 3			
May 2022	44,500	employment term / function term from the grant date to 1 June 2024	The option may be exercised until 30 June 2029.
June 2022	17,850	ditto	ditto
July 2022	43,450	ditto	ditto
August 2022	13,700	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
January 2023	170	ditto	ditto
July 2023	1,950	ditto	ditto
Tranche 4			
May 2022	311,500	employment term / function term from the grant date to 1 July 2024 and non-vesting condition (EBITDA related Target 1)	The option may be exercised until 30 June 2029.
June 2022	124,950	ditto	ditto
July 2022	304,150	ditto	ditto
August 2022	95,900	ditto	ditto
September 2022	13,650	ditto	ditto
December 2022	94,955	ditto	ditto
January 2023	1,190	ditto	ditto
July 2023	15,700	ditto	ditto
December 2023	5,350	ditto	ditto
Tranche 5			
May 2022	445,000	employment term / function term from the grant date to 1 July 2026 and vesting non-market performance condition (EBITDA related Target 2)	The option may be exercised until 30 June 2031.
June 2022	178,500	ditto	ditto
July 2022	434,500	ditto	ditto
August 2022	137,000	ditto	ditto
September 2022	19,500	ditto	ditto
December 2022	135,650	ditto	ditto
January 2023	1,700	ditto	ditto
July 2023	39,500	ditto	ditto
December 2023	98,005	ditto	ditto
Total stock options	**2,870,755**		

10.2. Fair value measurement

To determine the fair values of equity-settled share-based payments (share option plans settled with equity instruments) as at the grant date, the following input information was used:

Stock option plan (equity-settled)					
Key executives	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**	**Tranche 5**
Fair value at the grant date (in CZK) (average)	469.95	469.95	469.95	375.96	433.77
Share price at the grant date (in CZK) (average)	556.60	556.60	556.60	556.60	556.60
Exercise price of the option (in CZK)	0.10	0.10	0.10	0.10	0.10
Expected volatility (weighted average)	22.33%	22.33%	22.33%	22.33%	22.33%
Expected maturity of the option (weighted average) in years	3.0	3.0	3.0	3.0	5.0
Dividend income	4.00%	4.00%	4.00%	4.00%	4.00%
Risk-free interest rate (based on the CZK IRS* rate)	4.61%	4.61%	4.61%	4.61%	4.31%

* Interest rate swaps in CZK with corresponding validity

The expected volatility was based on an assessment of the historical volatility of the Company's share price for the historical period corresponding to the expected maturity.

10.3. Reconciliation of stock options

The following table shows the number and weighted average exercise price of stock options in the Stock Option Plan.

	2023		2022	
Total options	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Not settled at 1 January	2,807,300	0.10	–	–
Granted during the period	63,455	0.10	2,807,300	0.10
Not settled at 31 December	**2,870,755**	**–**	**2,807,300**	**–**

10.4. Expenses recorded in the statement of profit or loss

For more details on stock option plan expenses see Notes 9 and 14.

10.5. Items recorded in the statement of financial position

As at 31 December 2023, the total fair value of 2,870,755 stock options (2022 – 2,807,300 stock options) from share-based payments was CZK 491,428 thousand (2022 – CZK 198,360 thousand). This fair value was reported in retained earnings from previous years with a corresponding double-entry in the statement of profit or loss (see Note 9).

At 31 December 2023, the related social security and health insurance liabilities amounted to CZK 20,388 thousand (2022 – CZK 10,168 thousand) and were reported in non-current provisions with a corresponding double entry in the statement of profit or loss (see Note 14). The Company also recorded deferred tax relating to these liabilities, totalling CZK 4,328 thousand (2022 – CZK 2,062 thousand) (see Note 20).

11. DEPRECIATION AND AMORTISATION

The table shows the composition of the Group's expenses in individual years (CZK '000):

	2023	2022
Amortisation of non-current intangible assets (Note 25.1)	367,664	514,977
Depreciation of non-current tangible assets (Note 25.3)	406,491	369,262
Depreciation of right of use assets (Note 25.4)	27,566	26,196
Total	**801,721**	**910,435**

12. OTHER OPERATING EXPENSES

The table shows the composition of other operating expenses of the Group in individual years is as follows (CZK '000):

	2023	2022
Taxes and levies	28,461	26,620
Insurance, premiums	105,362	97,614
Gifts	7,720	11,202
Write-off of financial assets	219	2,788
Damage compensation	701	928
Liquidation of inventories	29,572	15,550
Other operating expenses	38,190	83,384
Total	**210,225**	**238,086**

13. ALLOWANCES

Allowances constituting an impairment of assets and their changes were as follows (CZK '000):

Allowances for:	Balance at 31 Dec 2021	Charge for allowances	Utilisation of allowances	Release of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2022	Business combination – balance at the date of entry into consolidation*	Charge for allowances	Utilisation of allowances	Release of allowances	Impact of FX rate Fluctuations	Balance at 31 Dec 2023
Intangible assets	4,249	–	-724	-3,350	–	175	–	–	–	-175	–	–
Property, plant and equipment	18,868	2,661	-7,797	–	–	13,732	–	8,483	-11,965	–	–	10,250
Inventories	369,399	279,424	-197,688	-15,411,	5,642	441,366	31,490	264,539	-190,581	-33,753	479	513,540
Trade and other receivables	33,351	17,620	-5,564	-4,673	352	41,086	4,657	6,338	-15,575	-3,426	24	33,104
Total	**425,867**	**299,705**	**-211,773**	**-23,434**	**5,994**	**496,359**	**36,147**	**279,360**	**-218,121**	**-37,354**	**503**	**556,894**

* The acquisition of swissAA dated 28 June 2023

Net change in allowances of CZK 23,885 thousand (2022 – CZK 64,498 thousand) is presented under Allowances line in the consolidated statement of profit or loss and other comprehensive income.

14. PROVISIONS

The table below shows changes in non-current provisions (CZK '000):

Non-current provisions	Balance at 31 Dec 2021	Additions to provisions	Release of provisions	Utilisation of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2022	Business combination – balance at the date of entry into consolidation*	Additions to provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2023
Warranty repairs	10,520	15	-124	–	–	10,411	28,956	98	-776	–	3,070	41,759
Share-based payments	–	10,168	–	–	–	10,168	–	20,388	–	–	–	30,556
Other provisions	53,175	–	-45,389	-8,021	3,310	3,075	–	744	–	-43	97	3,873
Total	**63,695**	**10,183**	**-45,513**	**-8,021**	**3,310**	**23,654**	**28,956**	**21,230**	**-776**	**-43**	**3,167**	**76,188**

* The acquisition of swissAA dated 28 June 2023

The table below shows changes in current provisions (CZK '000):

Current provisions	Balance at 31 Dec 2021	Additions to provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2022	Business combination – balance at the date of entry into consolidation*	Additions to provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2023
Warranty repairs	48,329	45,834	-22,545	-27,098	1,743	46,263	–	25,557	-41,799	-6,591	320	23,750
Other provisions	2,451	2,686	–	–	-29	5,108	289	837	-25	–	125	6,334
Total	**50,780**	**48,520**	**-22,545**	**-27,098**	**1,714**	**51,371**	**289**	**26,394**	**-41,824**	**-6,591**	**445**	**30,084**

* The acquisition of swissAA dated 28 June 2023

Other current provisions include a provision for insurance claims and benefits of CZK 1,566 thousand (2022 – CZK 0 thousand).

The provision for warranty repairs is the management's best estimate concerning the future outflow of resources embodying economic damage required in relation to warranty repairs of the Group under local legislation regulating the sale of products and commercial goods. The estimate is based on the present development of warranty repairs and estimated future development and may be changed as a result of introducing new materials, adjustments to production procedures or due to other circumstances affecting product quality.

15. EMPLOYEE BENEFIT LIABILITIES

Employee benefit liabilities (CZK '000):

	31 Dec 2023	31 Dec 2022
Net employee benefit liability	133,047	141,889
Liability for medical (healthcare) benefits	137,501	143,024
Total net employee benefit liability	**270,548**	**284,913**
Non-current net employee benefit liabilities	255,721	265,280
Current net employee benefit liabilities	14,827	19,633
Total net employee benefit liability	**270,548**	**284,913**

The Company did not record any net assets arising from employee benefits in 2023 and 2022. The related revenues and expenses from employee benefits are presented on the Personnel expenses line in the consolidated statement of profit or loss and other comprehensive income.

The Group provides the following bonuses to its employees in the Czech Republic beyond basic salary and salary bonuses. Based on the Group's bonus policy, its employees are entitled to bonuses on their 50th birthday and retirement bonuses upon becoming eligible for retirement, early retirement, or disability pension. The terms for providing such bonuses are regulated by the Collective Bargaining Agreement for the respective year and their amount depends, inter alia, on the length of employment at the Group. The basis for calculating the liability is the expected liability that the Group is required to pay under internal regulations. The net present value of these liabilities is estimated at the end of each reporting period and adjusted if there are significant indications of impairment of these liabilities. Total liabilities equal discounted future payments considering employee turnover. The discount rate used in 2023 was 4% (2022 – 5%), the assumptions are based on the Collective Bargaining Agreement.

The Group also contributes to the following post-retirement plan of defined benefits in the United States.

The Group has a pension plan, which covers salaried employees and employees covered by a Collective Bargaining Agreement. Pension benefits for both salaried employees and employees covered by the Collective Bargaining Agreement were frozen at various dates prior to 1 January 2015. Accordingly, participants will retain pension benefits that have already been generated. However, no further benefits will be generated from the effective date of the freeze. In accordance with IAS 19, the pension plan liability is accounted for on a net basis.

The Group also provides certain post-retirement healthcare benefits and life insurance coverage to certain retired US employees who were covered by its Collective Bargaining Agreement at the time of retirement. The cost of these post-retirement benefits is determined actuarially and is recognised in the Group's consolidated financial statements over the active working lives of the employees. On 16 December 2015, COLT, the International Union, the United Automobile, Aerospace and Agricultural Implement Workers of America („UAW"), and Amalgamated UAW Local No. 376 (collectively with the UAW, the „Union") concluded a Memorandum of Understanding (the „MOU") as a result of the bankruptcy proceedings which, among other things, modified the provisions of the post-retirement healthcare plan. The MOU concluded between the Company and the Union modified eligibility requirements to qualify for post-retirement healthcare coverage and provided for reimbursement of Medicare Part B premiums paid up to USD 1,500 per year plus the eligible participant's pro rata share of any unused administrative costs of USD 120 per year per participant.

The table below shows a reconciliation of the movement from opening balances to closing balances of the net employee benefit liability and its components (in CZK ‘000).

2023	Life jubilee bonus			Retirement bonus			Pension plan			Post-retirement healthcare plan		
	Employee plan liabi-lity	**Fair value of the asset**	**Net employee benefit liability**	**Employee plan liabi-lity**	**Fair value of the asset**	**Net employee benefit liability**	**Employee plan liabi-lity**	**Fair value of the asset**	**Net employee benefit liability**	**Employee plan liabi-lity**	**Fair value of the asset**	**Net employee benefit liability**
Balance at 1 Jan	1,472	–	1,472	4,269		4,269	459,896	-323,748	136,148	143,025	–	143,025
Acquisition due to business combination	–	–	–				–	–	–	–	–	–
Included in the statement of profit or loss												
Present contractual costs	205	–	205	114		114	12,913	–	12,913	134		134
Interest expense (income)	–	–	–				21,424	–	21,424	6,849	–	6,849
	205	**–**	**205**	**114**		**114**	**34,337**	**–**	**34,337**	**6,983**	**–**	**6,893**
Included in the statement of profit or loss												
Profit (loss) from remeasurement:	–	–	–	–	–	–	–	–	–	–	–	–
- Actuarial loss (profit) arising from:												
- demographic assumptions	–	–	–	–	–	–	–	–	–	–	–	–
- financial assumptions	–	–	–	–	–	–	3,055	–	3,055	2,695	–	2,695
- experience-based adjustments	–	–	–	–	–	–	–	-13,590	-13,590	-3,234	–	-3,243
- Return of assets of the plan without interest income							–	-15,001	-15,001	–	–	–
Impact of FX rate fluctuations	–	–	–	–	–	–	-4,534	3,119	-1,415	-1,503	–	- 1,503
							-1,479	**-25,473**	**-26,951**	**-2,042**	**–**	**-2,042**
Other												
Contributions paid by the employer	–	–	–	–	–	–	–	-33,349	-33,349	–	–	–
Settlement	20	–	20	1,073	–	1,073	16,281	13,795	30,077	–	–	–
Paid-out benefits	-264	–	-264	-311		-311	-149,698	135,904	-13,793	-10,465	–	-10,465
	-244	**–**	**-244**	**762**	**–**	**762**	**-133,416**	**116,351**	**-17,065**	**-10,465**	**–**	**-10,465**
Balance at 31 Dec	**1,433**	**–**	**1,433**	**5,145**	**–**	**5,145**	**359,338**	**-232,870**	**126,469**	**137,501**	**–**	**137,501**

2022	Life jubilee bonus			Retirement bonus			Pension plan			Post-retirement healthcare plan		
	Employee plan liabi-lity	Fair value of the asset	Net employee benefit liability	Employee plan liabi-lity	Fair value of the asset	Net employee benefit liability	Employee plan liabi-lity	Fair value of the asset	Net employee benefit liability	Employee plan liabi-lity	Fair value of the asset	Net employee benefit liability
Balance at 1 Jan	1,715	–	1,715	6,478	–	6,478	627,649	-447,932	179,717	187,913	–	187,913
Acquisition due to business combination	–	–	–	–	–	–	–	–	–	–	–	–
Included in the statement of profit or loss												
Present contractual costs	108	–	108	–	–	–	14,600	–	14,600	350	–	350
Interest expense (income)	–	–	–	–	–	–	18,244	–	18,244	4,719	–	4,719
	108	**–**	**108**	**–**	**–**	**–**	**32,844**	**–**	**32,844**	**5,069**	**–**	**5,069**
Included in the statement of profit or loss												
Profit (loss) from remeasurement:												
- Actuarial loss (profit) arising from:												
- demographic assumptions	–	–	–	–	–	–	–	–	–	–	–	–
- financial assumptions	–	–	–	–	–	–	-137,801	–	-137,801	-36,278	–	-36,278
- experience-based adjustments	–	–	–	–	–	–	10,325	80,685	91,011	- 7,896	–	-7,896
- Return of assets of the plan without interest income	–	–	–	–	–	–	–	-12,708	-12,708	–	–	–
Impact of FX rate fluctuations	–	–	–	–	–	–	25,154	-18,102	7,052	7,368	–	7,368
	–	**–**	**–**	**–**	**–**	**–**	**-102,322**	**49,876**	**-52,446**	**-36,806**	**–**	**-36,806**
Other	–											
Contributions paid by the employer	–	–	–	–	–	–	–	-24,528	-24,528	–	–	–
Settlement	–	–	–	–	–	–	561	–	561	–	–	–
Paid-out benefits	-351	–	-351	-2,209	–	-2,209	-98,836	98,836	–	-13,152	–	-13,152
	-351	–	-351	-2,209	–	-2,209	-98,276	74,308	-23,967	-13,152	–	-13,152
Balance at 31 Dec	**1,472**	**–**	**1,472**	**4,269**	**–**	**4,269**	**459,896**	**-323,748**	**136,148**	**143,025**	**–**	**143,025**

Employee plan assets

The fair value of the asset-by-asset category and level is as follows (CZK '000):

2023	Total	Allocation percentage	Level 1
Equity funds	114,006	49%	166,728
Fixed income mutual funds	86,819	37%	107,454
Money market funds	6,064	3%	9,486
Total	**206,888**	**89%**	**283,669**
Stable value	25,984	11%	–
Total investments	**232,872**	**100%**	**–**

2022	Total	Allocation percentage	Level 1
Equity funds	168,517	52%	168,517
Fixed income mutual funds	108,607	34%	108,607
Money market funds	9,588	3%	9,588
Total	**286,711**	**89%**	**286,711**
Stable value	37,040	11%	–
Total investments	**323,751**	**100%**	**–**

The Group's overall investment strategy is to achieve a mix of approximately 50% equity securities, 45% fixed income securities, and 5% cash equivalents. This target allocation is unchanged from the previous year.

The Group regularly reassesses its portfolio to align its actual asset allocation with the target allocation. The percentage allocation to each asset class may vary depending on market conditions. Employee benefit plan assets are measured at fair market value. Money market and mutual funds are measured using Level 1 inputs based on the quoted share price as at the balance sheet date.

During the financial years ended 31 December 2023 and 2022, the Group did not make any transfers between levels of the fair value hierarchy.

Employee plan liabilities

Actuarial assumptions

The main actuarial assumptions as at the reporting date (expressed as weighted averages) are set out below.

	2023				2022			
	Life jubilee bonus	Retirement bonus	Pension plan	Post-retirement healthcare plan	Life jubilee bonus	Retirement bonus	Pension plan	Post-retirement healthcare plan
Discount rate	4.00%	4.00%	5.25%	4.75%	5.00%	5.00%	5.00%	5.00%
Expected return of plan assets	–	–	6.42%	–	–	–	1.79%	–
Healthcare cost trend rate	–	–	–	4.75%	–	–	–	4.50%
Turnover	15.82%	78.47%	–	–	19.39%	79.27%	–	–
Mortality	0.62%	15.04%	–	–	0.73%	14.04%	–	–
Average retirement age (in years)	–	64.95	–	–	–	64.93	–	–

Discount rate
The Group derives the discount rate from current investment returns of high-quality investments with fixed income over the term of employee benefits.

Turnover and mortality
The probability of retention (pay-out) includes the expected retirement, the probability of leaving the Group, and the mortality rate. The expected retirement is determined for individual employees in accordance with the applicable legislation of the country. Turnover and mortality rates are determined based on an analysis of the Group ,s historical data.

Expected return of plan assets
The long-term rate of return on pension plan assets represents the average rate of return expected over the long term on assets invested to secure expected future commitments to pay the benefit. The Group uses a building block approach to develop the assumed long-term return on plan assets. Rates of return exceeding inflation were considered separately for equity securities, debt securities, and other assets. Excess returns were weighted by a representative target allocation and added together with an appropriate inflation rate to develop the overall expected long-term return on pension plan assets.

The Group has developed an investment strategy that emphasises the total return of the pension plan, i.e., the total return on capital appreciation, dividend income, and interest income. The primary objective of asset investment management is to emphasise consistent growth, specifically growth in a manner that protects assets from excessive volatility in their market value. The investment policy also considers benefit obligations, including the expected timing of distributions.

Healthcare cost trend rate
The Group's healthcare cost trend rate assumptions are prepared based on historical cost data, a short-term outlook, an assessment of likely long-term trends, and a limit restricting its required contributions. For measurement purposes, the Group has assumed a weighted average annual per capita cost growth rate (health care cost trend) for health benefits of 4.75% for 2023.

Sensitivity analysis
Significant actuarial assumptions used to determine the liability include the discount rate, medical cost trend rate, and fluctuation. The sensitivity analyses presented below were determined based on possible changes in these parameters at the end of the financial year, while all other assumptions remained constant.

	2023		2022	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	337,530	352,791	155,037	140,980
Healthcare cost trend rate (1% movement)	149,723	127,797	136,715	160,362
Turnover (1% movement)	-493	556	468	-418

16. INTEREST INCOME AND OTHER FINANCIAL INCOME

Interest income and other financial income in individual years (CZK '000):

	2023	2022
Interest income	756,541	440,453
Total interest income	**756,541**	**440,453**
Other financial income	188,401	79,231
FX gains	457,735	412,280
FX losses	-394,540	-318,678
Total other financial income	**251,596**	**172,833**

Other financial income of CZK 188,401 thousand (2022 – CZK 79,231 thousand) in 2023 include mainly the remeasurement of Other financial assets of CZK 160,692 thousand (31 December 2022 – a loss of CZK 86,110 thousand reported in Other financial expenses). See Note 29.

Other financial income in 2022 included mainly revenues from revaluation of employee benefit obligations in the amount of CZK 65,759 thousand. See Note 15.

17. INTEREST EXPENSE AND OTHER FINANCIAL EXPENSES

	2023	2022
Interest expense	893,625	610,222
Interest on lease contracts	979	1,834
Total interest expense	**894,604**	**612,056**
Other financial expenses	72,120	133,802
Total other financial expenses	**72,120**	**133,802**

Other financial expenses of CZK 72,120 thousand (2022 – CZK 133,802 thousand) mainly include the remeasurement of contingent consideration arising from the acquisition of Colt of CZK 13,859 thousand (2022 – CZK 21,671 thousand).

18. GAINS/LOSSES FROM DERIVATIVE TRANSACTIONS

Gains or losses from derivative transactions in individual years (CZK ‘000):

	2023	2022
Income from derivative transactions	300,995	262,231
Expenses for derivative transactions	-79,976	-25,405
Total	**221,019**	**236,826**

19. INCOME TAX

Income tax in individual years was as follows (CZK ‘000):

	2023	2022
Current tax	535,270	648,210
Deferred tax	-68,246	-326,232
Total	**467,024**	**321,978**

The table below shows the reconciliation of the profit or loss with current tax (CZK ‘000):

	2023	%	2022	%
Profit before tax	2,509,562		2,356,170	
Income tax calculated using parent company tax rate (19%)	476,817	19.00%	447,672	19.00%
Effect of tax rates in foreign jurisdictions	35,379	1.41%	66,233	2.81%
Impact of tax rate changes in the Czech Republic	21,287	0.85%	–	–
Non-deductible expenses	100,473	4.00%	35,373	1.50%
Income exempt from tax	-123,362	-4.92%	-22,697	-0.96%
Current year losses for which no deferred tax asset was recognised in the current year	–	–	33,872	1.44%
Remeasurement of contingent consideration – Colt	5,330	0.21%	5,396	0.23%
Impact of restructuring in the Colt Group	-66,563	-2.65%	-257,918	-10.95%
Tax bonuses	-846	-0.03%	-955	-0.04%
Other	19,039	0.76%	15,002	0.64%
Utilisation of prior years’ tax losses for which no deferred tax asset has been recognized	-530	-0.02%	–	–
Income tax / effective tax rate	**467,024**	**18.61%**	**321,978**	**13.67%**

In 2023 and 2022, the Colt Group was restructured. As a result of these adjustments, a significant portion of the deferred tax liability representing potential withholding tax on dividends from foreign entities in the Colt Group was released in 2023 and 2022. The impact of this restructuring on the Group's income tax in 2023 amounts to CZK 66,563 thousand (2022 – CZK 257,918 thousand) and significantly affects the Group's effective tax rate.

20. DEFERRED TAX

The Group calculated deferred tax as follows (CZK '000):

2023	Balance at 1 Jan 2023	Change in 2023				Balance at 31 Dec 2023
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Business combination – balance at the date of entry into consolidation*** **	**Recognised in profit or loss**	**Recognised in equity**	**Effect of exchange rate movements**	**Deferred tax asset (+) / liability (-)**
Intangible assets	-467,686	-11,245	24,219	–	-962	-455,674
Property, plant and equipment	-256,254	-30,476	-58,366	–	-4,367	-349,463
Other remeasurement – Colt*	-184,094	–	29,450	–	2,196	-152,448
Receivables	1,891	-6,861	-1,143	–	-1,201	-7,314
Inventories	117,665	-36,653	-8,596	–	-4,457	67,959
Provisions	8,703	-36,002	38,471	–	-2,199	8,973
Liabilities	2,522	–	-67	–	-31	2,424
Other payables	28,043	–	11,607	–	169	39,819
Other liability items – Colt**	-58,440	–	57,391	–	1,049	–
Unutilised tax losses and interest on loans	306,332	1,930	-5,243	–	-490	302,529
Cash flow hedges – remeasurement of effective portion of hedging instruments	-250,569	–	–	91,124	–	-159,445
Other temporary differences	20,579	–	-19,477	–	–	1,102
Total	**-731,308**	**-119,307**	**68,246**	**91,124**	**-10,293**	**-701,538**
Deferred tax asset (+) / liability (-)	**-731,308**					**-701,538**

* Deferred tax liability arising from remeasurements in business combinations within the Colt Group.
** The deferred tax liability represented potential withholding tax on dividends from foreign entities in the Colt Group.
*** The acquisition of swissAA dated 28 June 2023.

2022	As at 1 Jan 2022	Change in 2022				As at 31 Dec 2022
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Business combination – balance at the date of entry into consolidation*** **	**Recognised in profit or loss**	**Recognised in equity**	**Effect of exchange rate movements**	**Deferred tax asset (+) / liability (-)**
Intangible assets	-443,858	-78,606	54,488	–	290	-467,686
Property, plant and equipment	-244,006	–	-10,493	–	-1,754	-256,253
Other remeasurement – Colt*	-209,412	–	32,704	–	-7,387	-184,095
Receivables	1,126	–	765	–	–	1,891
Inventories	78,570	–	38,154	–	941	117,665
Provisions	6,341	–	1,962	–	400	8,703
Liabilities	4,281	–	-1,759	–	–	2,522
Other payables	20,409	–	5,949	–	1,685	28,043
Other liability items – Colt**	-304,830	–	224,736	–	21,655	-58,439
Unutilised tax losses and interest on loans	326,798	–	-36,628	–	16,162	306,332
Cash flow hedges – remeasurement of effective portion of hedging instruments	-28,145	–	–	-222,424	–	-250,569
Other temporary differences	3,080	–	16,354	–	1,144	20,578
Total	**-789,646**	**-78,606**	**326,232**	**-222,424**	**33,136**	**-731,308**
Deferred tax asset (+) / liability (-)	**-789,646**					**-731,308**

* Deferred tax liability arising from remeasurements in business combinations within the Colt Group.
** The deferred tax liability represents potential withholding tax on dividends from foreign entities in the Colt Group.
*** The acquisition of Spuhr i Dalby AB dated 12 October 2022.

A tax rate of 21% has been used to calculate the deferred tax in 2023. In 2022, a tax rate of 19% was used.

21. OTHER COMPREHENSIVE INCOME

	2023	2022
Cash flow hedges – remeasurement of effective portion of hedging instruments, before tax	-559,522	1,170,655
Cash flow hedges – remeasurement of effective portion of hedging instruments, deferred tax	91,124	-222,424
Cash flow hedges – remeasurement of effective portion of hedging instruments	**-468,398**	**948,231**
Foreign currency translation of foreign operations	183,745	-125,035
Foreign currency translation of foreign operations	**183,745**	**-125,035**
Total other comprehensive income	**-284,653**	**823,196**

22. ACQUISITION OF SWISSAA

On 28 June 2023, the Group acquired a 100% share in swissAA Holding AG ("swissAA"). swissAA Holding AG became part of the consolidated group on 1 July 2023. The holding company consists of several fully owned subsidiaries (see an overview in Note 2).

SwissAA is a manufacturer of ammunition and technology for the armed forces specialising in small calibre ammunition, namely 5.56 mm, 7.62 mm, 9 mm and 12.7 mm, as well as 40 mm suspension grenade launcher ammunition.

This acquisition is part of the Group's long-term growth strategy in the small arms segment and in related sectors where ammunition is a natural complement to the Group's core products.

Revenues from the sale of swissAA's own products, goods and services from the date of acquisition until 31 December 2023 amount to CZK 430,022 thousand. Pro-forma revenues from the sale of own products, goods and services from 1 January 2023 to 31 December 2023 amount to CZK 691,371 thousand.

The result of operations from the date of acquisition until 31 December 2023 was a loss of CZK 41,513 thousand. The pro-forma result of operations for the period from 1 January 2023 to 31 December 2023 was a loss of CZK 108,941 thousand.

22.1. Consideration transferred

	28 June 2023 CZK '000
Monetary settlement	723,900
Total	**723,900**

Acquisition-related costs

In connection with the acquisition, the Group incurred costs of CZK 268 thousand, primarily relating to advisory services. These costs are recognised in the Services item in the consolidated statement of profit and loss and other comprehensive income.

22.2. Assets acquired and liabilities assumed at the acquisition date

	28 June 2023 CZK '000
Intangible assets	71,595
Property, plant and equipment	881,471
Other non-current assets	9,255
Inventories	492,981
Trade and other receivables	60,121
Cash and cash equivalents	150,863
Long-term loans and borrowings	-182,182
Lease liabilities	-9,193
Non-current and current provisions	-29,244
Deferred tax liability	-119,307
Short-term loans and borrowings	-1,186
Current lease liabilities	-2,485
Trade and other payables	-148,419
Other current liabilities	-52,732
Tax liabilities	-13,152
Fair value of acquired identifiable net assets	**1,108,382**

22.3. Bargain purchase gain

	28 June 2023 CZK '000
Consideration transferred	723,900
Fair value of acquired identifiable net assets	1,108,384
Bargain purchase gain	**384,482**

The bargain purchase gain of CZK 384,482 thousand is reported on a separate line of the consolidated statement of profit and loss and other comprehensive income.

23. ACQUISITION OF SELLIER & BELLOT

On 18 December 2023, the Company entered into an agreement with CBC Europe S.à r.l. ("CBC") to purchase a 100% share in Sellier & Bellot a.s.

Sellier & Bellot a.s. is a traditional Czech manufacturer of ammunition and ranks among the oldest engineering companies in the Czech Republic and worldwide. Its products have been manufactured under the trademark since 1825. The product portfolio includes a wide range of hunting and sporting ammunition and components for pistols and revolvers, rifles, shotguns and rimfire. Sellier & Bellot a.s. is also a major supplier of firearms ammunition to military and armed forces around the world. The company has around 1,600 employees and operates its main manufacturing plant in Vlašim in the Czech Republic.

The Group will acquire 100% of the shares of Sellier & Bellot a.s. for a combination of monetary consideration of USD 350 million and a new issue of the Company's ordinary shares that will lead to the acquisition by CBC of a share in the Company's registered capital approximating 27–28% after the transaction. CBC's final share in the Company will be determined depending on the audited financial results of both companies for 2023. The acquisition will be financed through a combination of the Company's existing cash resources and debt financing. The transaction is subject to regulatory approvals in various countries, which are expected to take place in the first half of 2024.

On 20 December 2023, the first part of the purchase price of CZK 2,690,040 thousand was paid. This payment is reported in Advances for acquisition of financial investments in the consolidated statement of financial position.

24. ACQUISITION OF SPUHR

On 12 October 2022, the Group completed the acquisition of the remaining 75% interest in Spuhr i Dalby AB, thus acquiring a 100% ownership interest in this company.

Spuhr i Dalby AB is a Swedish manufacturer of optical mounting solutions for weapons, based in Löddeköpinge, Sweden. Spuhr's product portfolio consists of optical mounts, accessories, and enhanced weapon kits, thus fittingly complementing the Group's core business. Spuhr mounts and accessories are used by many military and armed forces around the world. Spuhr also offers a popular hunting line of products.

The Group believes that the merger will deliver significant operational, commercial, and R&D synergies.

The acquisition will provide the Group with additional manufacturing capabilities and position it to become the leading supplier of optical mounting solutions for weapons and key global partner to both military, law enforcement and civilian customers.

Revenues from the sale of Spuhr i Dalby AB's own products, goods and services from the date of acquisition until 31 December 2022 amount to CZK 96,369 thousand. Pro-forma revenues from the sale of own products, goods and services from 1 January 2022 to 31 December 2022 amount to CZK 231,390 thousand.

Profit from the date of acquisition until 31 December 2022 amounts to CZK 26,737 thousand. Pro-forma profit from 1 January 2022 to 31 December 2022 amounts to CZK 99,607 thousand.

24.1. Consideration transferred

	12 Oct 2022 CZK '000
Monetary settlement	226,189
Contingent consideration (earn-out)	74,257
Total	**300,446**

Contingent consideration

The consideration transferred includes a deferred payment based on the results achieved (earn-out) up to a maximum of SEK 15,000 thousand for each specified period (approx. CZK 33,780 thousand) provided that the Company's gross profit for the first period, i.e., until September 2023, and for the second period, i.e., until September 2024, reaches a predetermined value. The transferred consideration also includes a bonus based on the results achieved (earn-out) up to a maximum of SEK 8,250 thousand for each specified period (approx. CZK 18,579 thousand) provided that the Company's gross profit for the first period, i.e., until September 2023, and for the second period, i.e. until September 2024, reaches a predetermined value.

As at the date of the consolidated financial statements, the Group expects that the gross profit targets will be achieved and therefore the contingent consideration of CZK 37,308 thousand is included in Other non-current financial liabilities and CZK 36,949 thousand in Other current financial liabilities.

Acquisition-related costs
In connection with the acquisition, the Group incurred costs of CZK 93 thousand, primarily relating to advisory services. These costs are recognised in the Services item in the consolidated statement of profit and loss and other comprehensive income.

24.2. Assets acquired and liabilities assumed at the acquisition date

	12 Oct 2022 CZK '000
Intangible assets	368,916
Property, plant, and equipment	56,834
Other non-current assets	2,568
Inventories	101,880
Trade and other receivables	16,519
Cash and cash equivalents	28,674
Long-term loans and borrowings	-10,500
Lease liabilities	-27,590
Short-term loans and borrowings	-6,639
Deferred tax liability	-78,606
Trade and other payables	-99,251
Other current liabilities	-3,659
Tax liabilities	-15,840
Fair value of acquired identifiable net assets	**333,306**

24.3. Goodwill

	12 Oct 2022 CZK '000
Consideration transferred	300,446
Fair value of previously held interest of 25%	100,149
Fair value of acquired identifiable net assets	333,306
Goodwill	**67,289**

Goodwill primarily includes expected synergies arising from the integration of Spuhr i Dalby AB into the Group's existing activities. The recognised goodwill is not expected to be tax effective.

25. NON-CURRENT ASSETS

25.1. Intangible assets

Cost

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation**	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Software	241,532	410	3,060	-3,726	1,650	803	243,729
Intangible assets under construction or being acquired	64,442	–	62,134	-564	-24,715	–	101,297
Other intangible assets	890,614	–	166,770	–	–	-6,707	1,050,677
Trademarks and logos*	1,638,762	–	–	-226	–	-9,301	1,629,235
Capitalised development	532,878	–	19,847	–	23,065	–	575,790
Concessions, licence rights and other intellectual property rights	350,245	989	46	-11,291	–	3,047	343,036
Contractual customer relations	1,667,688	70,196	–	–	–	9,294	1,747,178
Total	**5,386,161**	**71,595**	**251,857**	**-15,807**	**–**	**-2,864**	**5,690,942**

*Due to their nature, the Group considers these assets to be intangible assets with indefinite useful lives.
** The acquisition of swissAA dated 28 June 2023.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation**	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Software	219,241	–	20,619	-13,748	15,669	-249	241,532
Intangible assets under construction or being acquired	48,678	–	42,752	-9,305	-17,683	–	64,442
Other intangible assets	883,984	–	2,790	-7,020	205	10,655	890,614
Trademarks and logos*	1,541,483	71,058	–	-584	–	26,805	1,638,762
Capitalised development	531,535	–	3,528	-3,632	1,809	-362	532,878
Concessions, licence rights and other intellectual property rights	340,280	19,414	9,544	-13,032	–	-5,961	350,245
Contractual customer relations	1,384,022	278,444	–	–	–	5,222	1,667,688
Total	**4,949,223**	**368,916**	**79,233**	**-47,321**	**–**	**36,110**	**5,386,161**

*Due to their nature, the Group considers these assets to be intangible assets with indefinite useful lives.
** The acquisition of Spuhr i Dalby AB dated 12 October 2022.

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Amortisation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	-175,444	-19,869	31	–	-865	-196,147	47,582
Intangible assets under construction or being acquired	–	–	–	–	–	–	101,297
Other intangible assets	-291,363	-118,167	–	–	4,343	-405,187	645,490
Trademarks and logos	–	–	–	–	–	–	1,629,235
Capitalised development	-220,991	-28,074	–	175	–	-248,890	326,900
Concessions, licence rights and other intellectual property rights	-235,546	-19,658	11,147	–	16,507	-227,550	115,486
Contractual customer relations	-1,000,686	-181,896	–	–	-16,705	-1,199,287	547,891
Total	**-1,924,030**	**-367,664**	**11,178**	**175**	**3,280**	**-2,277,061**	**3,413,881**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Amortisation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	-166,713	-17,457	8,503	–	223	-175,444	66,088
Intangible assets under construction or being acquired	-3,348	–	–	3,350	-2	–	64,442
Other intangible assets	-142,738	-155,419	63	–	6,731	-291,363	599,251
Trademarks and logos	–	–	584	–	-584	–	1,638,762
Capitalised development	-178,558	-47,163	3,015	724	991	-220,991	311,887
Concessions, licence rights and other intellectual property rights	-51,698	-201,739	5,660	–	12,231	-235,546	114,699
Contractual customer relations	-900,704	-93,199	–	–	-6,783	-1,000,686	667,002
Total	**-1,443,759**	**-514,977**	**17,825**	**4,074**	**12,807**	**-1,924,030**	**3,462,131**

Major additions to intangible assets include the acquisition of swissAA Holding AG, described in detail in Note 22, and the purchase of intellectual property rights to the Mk 47 automatic grenade launcher of CZK 166,770 thousand.

Intangible assets also include intangible assets with indefinite useful lives. This principally relates to trademarks and logos. As disclosed in Note 3.19, intangible assets with indefinite useful lives, intangible assets that have not yet been used, and goodwill are tested for impairment by the Group on an annual basis. Intangible assets with indefinite useful lives are part of the same cash-generating unit as goodwill and are tested together with goodwill. As at 31 December 2023 and 31 December 2022, no impairment was identified. Goodwill is described in Note 25.2.

Apart from development costs of CZK 42,912 thousand (2022 – CZK 16,150 thousand) recognised as intangible assets, the Group recognised research expenditure of CZK 220,952 thousand (2022 – CZK 209,648 thousand) as an expense in 2023.

25.2. Goodwill

Cost

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Goodwill	2,457,416	–	–	–	90,064	2,547,480
Total	**2,457,416**	**–**	**–**	**–**	**90,064**	**2,547,480**

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Goodwill	2,390,127	67,289	–	–	–	2,457,416
Total	**2,390,127**	**67,289**	**–**	**–**	**–**	**2,457,416**

* The acquisition of Spuhr i Dalby AB dated 12 October 2022.

Goodwill of CZK 2,547,480 thousand (2022 – CZK 2,457,416 thousand) presented in the statement of financial position relates to the acquisition of Česká zbrojovka a.s. in 2014 (CZK 280,686 thousand), to the acquisition of the Colt Group in 2021 (CZK 2,200,193 thousand), and to the acquisition of Spuhr in 2022 (CZK 66,601 thousand).

At least once a year, the Group assesses whether or not goodwill has been impaired. The recoverable amount is determined as the value in use based on the long-term cash flow plan. This plan anticipates a gradual growth in sales, operating profit, and cash flow from operating activities in the coming years. On the grounds of prudence, the values for 2028 are also used for periods following 2028.

In order to determine the discount rate, the internally set weighted average cost of capital indicator is used, reflecting the costs of debt and capital financing of the Group. This value was set at a range of 5.9% - 9.0% for 2023 (2022 – 7.6% - 8.3%). As at 31 December 2023 and 31 December 2022, no impairment was identified.

25.3. Property, plant and equipment

Cost

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Buildings	1,545,612	285,749	49,442	-2,554	1,528	62,913	1,942,690
Machinery, devices and equipment	3,626,911	259,349	297,989	-127,659	108,784	66,251	4,231,625
Other non-current operating assets	44,896	6,684	13,615	-159	–	6,512	71,548
Tangible assets under construction	99,361	2,413	175,959	-15,641	62,442	740	325,274
Prepayments made for non-current tangible assets	124,214	217,701	112,915	–	-172,754	24,102	306,178
Land	324,539	97,896	–	–	–	7,636	430,071
Total	**5,765,533**	**869,792**	**649,920**	**-146,013**	**–**	**168,154**	**7,307,386**

* The acquisition of swissAA dated 28 June 2023.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Buildings	1,513,277	2,394	30,243	-8,325	6,730	1,293	1,545,612
Machinery, devices and equipment	3,334,299	74,167	331,213	-243,651	133,161	-2,278	3,626,911
Other non-current operating assets	23,994	3,054	18,217	-329	–	-40	44,896
Tangible assets under construction	90,354	–	71,556	-4,397	-54,799	-3,353	99,361
Prepayments made for non-current tangible assets	114,304	–	103,795	-9,536	-85,092	743	124,214
Land	270,714	–	49,547	–	–	4,278	324,539
Total	**5,346,942**	**79,615**	**604,571**	**-266,238**	**–**	**643**	**5,765,533**

* The acquisition of Spuhr i Dalby AB dated 12 October 2022.

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Depreciation	Disposals, sale, liquidation	Changes in allowances, reversal of allowances	Transfers**	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	-609,966	–	-79,547	2,554	–	–	-35,242	-722,201	1,220,489
Machinery, devices and equipment	-2,124,844	–	-315,483	124,567	–	-5,316	-26,949	-2,348,025	1,883,600
Other non-current operating assets	-14,135	–	-11,461	–	–	–	-5,631	-31,227	40,321
Tangible assets under construction	-12,581	–	–	–	3,217	–	-1	-9,365	315,909
Prepayments made for non-current tangible assets	-1,149	–	–	–	265	–	–	-884	305,294
Land	–	–	–	–	–	–	–	–	430,071
Total	**-2,762,675**	**–**	**-406,491**	**127,121**	**3,482**	**-5,316**	**-67,823**	**-3,111,702**	**4,195,684**

* The acquisition of swissAA dated 28 June 2023.
** The balance in Transfers represents the reclassification of selected non-current assets between Property, plant and equipment and Rights of use.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Depreciation	Disposals, sale, liquidation	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	-550,185	-658	-59,810	3,668	–	-2,981	-609,966	935,646
Machinery, devices and equipment	-2,008,538	-47,056	-303,015	234,200	–	-435	-2,124,844	1,502,067
Other non-current operating assets	-4,933	-2,657	-6,437	273	–	-381	-14,135	30,761
Tangible assets under construction	-17,529	–	–	–	4,948	–	-12,581	86,780
Prepayments made for non-current tangible assets	-1,337	–	–	–	188	–	-1,149	123,065
Land	–	–	–	–	–	–	–	324,539
Total	**-2,582,522**	**-50,371**	**-369,262**	**238,141**	**5,136**	**-3,797**	**-2,762,675**	**3,002,858**

** The acquisition of Spuhr i Dalby AB dated 12 October 2022.

Major additions to tangible assets include the acquisition of swissAA Holding AG, described in detail in Note 22, and the acquisition of machinery, devices and equipment, including provided advances for non-current tangible assets.

25.4. Right of use

Cost

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Right of use of buildings and land	84,477	10,907	23,701	-37,441	1,262	82,906
Right of use of machinery, devices and equipment	35,874	772	9,865	-9,749	67	36,829
Total	**120,351**	**11,679**	**33,566**	**-47,190**	**1,329**	**119,735**

* The acquisition of swissAA dated 28 June 2023.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Right of use of buildings and land	51,853	26,482	13,059	-6,815	-102	84,477
Right of use of machinery, devices and equipment	34,469	1,108	7,463	-7,247	81	35,874
Total	**86,321**	**27,590**	**20,522**	**-14,062**	**-21**	**120,351**

* The acquisition of Spuhr i Dalby AB dated 12 October 2022.

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2023 with opening balances as at 31 December 2022. Amounts in the table are presented in CZK '000.

	Opening balance	Amortisation	Disposals, sale, liquidation	Transfers**	Impact of FX rate fluctuations	Closing balance	Carrying amount
Right of use of buildings and land	-31,467	-17,069	37,016	–	116	-11,404	71,502
Right of use of machinery, devices and equipment	-25,491	-10,497	8,114	5,316	-8	-22,566	14,263
Total	**-56,958**	**-27,566**	**45,130**	**5,316**	**108**	**-33,970**	**85,765**

* The balance in Transfers represents the reclassification of selected non-current assets between Property, plant and equipment and Rights of use.

Year ended 31 December 2022 with opening balances as at 31 December 2021. Amounts in the table are presented in CZK '000.

	Opening balance	Amortisation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Right of use of buildings and land	-21,807	-16,120	6,815	-355	-31,467	53,010
Right of use of machinery, devices and equipment	-18,820	-10,076	3,426	-21	-25,491	10,383
Total	**-40,626**	**-26,196**	**10,241**	**-376**	**-56,958**	**63,393**

26. EQUITY-ACCOUNTED SECURITIES AND INVESTMENTS

The carrying amount of all equity-accounted securities and investments changed as follows in the year ended 31 December 2023 (CZK '000):

	2023	2022
Beginning of the period	39,401	109,445
Successive acquisition of a company – Spuhr i Dalby	–	-61,217
Acquisition of Colt CZ Hungary Zrt.	1,212	–
Share in profit of associates after tax	682	14,302
Dividends received	-500	-23,130
Other	–	1
End of the period	**40,795**	**39,401**

27. INVENTORIES

The structure of inventories in individual years is as follows (CZK '000):

	2023	2022
Material	2,036,572	1,495,410
Finished products	1,910,278	1,334,103
Goods	326,830	270,246
Production in progress and semi-finished products	969,183	663,939
Prepayments made for inventories	55,214	33,859
Total	**5,298,077**	**3,797,557**

The measurement of redundant, obsolete, and slow-moving inventories is decreased to the selling price net of the costs of sale by means of allowances. The allowance (refer to Note 13) was determined by the Group's management based on the movements of inventories and their planned consumption.

Goods and finished products include pistols, rimfire rifles, centrefire rifles, semi-automatic rifles, semi-automatic carbines, submachine guns, assault rifles, bolt-action rifles, ammunition, and accessories.

28. PROVIDED LOANS

The structure of other provided loans in individual years was as follows (CZK '000):

			31 Dec 2023	31 Dec 2022
	Due date (expiry)	**Aggregate limit as at 31 December 2023 (CZK '000)**	**CZK '000**	**CZK '000**
EHC zdravotní s.r.o.	31 Dec 2023	7,000	–	7,000
Total			**–**	**7,000**
Repayments in the following year, incl. outstanding interest			–	7,700
Total			**–**	**7,700**

Total interest income relating to provided loans recognised in Interest income amounted to CZK 31 thousand in 2023 (2022 – CZK 175 thousand).

29. OTHER FINANCIAL ASSETS

	31 Dec 2023	31 Dec 2022
Other financial assets at fair value through profit or loss	908,580	756,834
Total	**908,580**	**756,834**

Other financial assets represent the Group's short-term investment in listed shares held for trading. The Group completed this investment through an intermediary, i.e., a securities dealer. The fair values of these shareholdings are determined based on prices quoted on an active market – see Note 40.

30. TRADE AND OTHER RECEIVABLES

The structure of trade and other receivables in individual years was as follows (CZK '000):

	31 Dec 2023	31 Dec 2022
Trade receivables	1,691,032	1,234,833
Other receivables	103,159	128,501
Estimated receivables	27,065	11,011
Accrued income	15,852	7,313
Total	**1,836,838**	**1,381,658**
Non-current	61,891	35,515
Current	1,774,947	1,346,143
Total	**1,836,838**	**1,381,658**

The ageing structure and impairment losses recognised for current trade receivables are as follows (CZK '000):

	31 Dec 2023			31 Dec 2022		
	Receivables	Allowances	Net receivables	Receivables	Allowances	Net receivables
Within due date	1,356,691	-15,361	1,341,330	1,064,317	-19,714	1,044,603
Up to 3 months overdue	347,800	-3,058	344,742	181,180	-1,207	179,973
3 to 6 months overdue	2,278	-2,278	–	5,124	-543	4,581
6 to 12 months overdue	5,869	-909	4,960	6,813	-3,409	3,404
More than 12 months overdue	11,498	-11,498	–	18,485	-16,213	2,272
Total	**1,724,136**	**-33,104**	**1,691,032**	**1,275,919**	**-41,086**	**1,234,833**

The credit quality of trade receivables is discussed in Note 41.

The Group has pledged current receivables in favour of the Group's creditors.

Receivables pledged in favour of the Group's creditors as at 31 December 2023 (CZK '000):

Receivables	Amount	Description
Current trade receivables pledged in favour of Komerční banka, a.s.	877,693	Agreement on a pledge on receivables from business contracts

Receivables pledged in favour of the Group's creditors as at 31 December 2022 (CZK '000):

Receivables	Amount	Description
Current trade receivables pledged in favour of Komerční banka, a.s.	646,314	Agreement on a pledge on receivables from business contracts
Current trade receivables pledged in favour of Česká spořitelna, a.s.	4,817	Pledge under an overdraft agreement

31. OTHER RECEIVABLES

The structure of other receivables in individual years is as follows (CZK '000):

	2023	2022
Prepayments made	177,797	154,649
Deferred expenses	144,850	124,150
Other receivables – non-financial	2,911	–
Value added tax	20,788	31,018
Other taxes	7,375	748
Total	**353,721**	**310,565**

Non-current	2,556	6,560
Current	351,165	304,005
Total	**353,721**	**310,565**

32. CASH AND CASH EQUIVALENTS

The structure of cash is as follows (CZK '000):

	2023	2022
Cash on hand	1,727	1,431
Cash at bank	3,326,957	2,824,350
Total	**3,328,684**	**2,825,781**

33. REGISTERED CAPITAL AND SHARE PREMIUM

On 16 May 2023, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. at a price of CZK 585 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 1 June 2023, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 213,659 thousand was recorded as a share premium.

On 20 September 2023, the registered capital was increased through the issue of 322,170 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group SE at a price of CZK 526.5 per share in connection with the payment of a dividend. On 2 October 2023, a total of 322,170 shares of the Company were handed over to the subscribing shareholders. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 169,590 thousand was recorded as a share premium.

On 15 December 2023, the registered capital was increased through the issue of 368,038 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. at a price of CZK 525 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 28 December 2023, a total of 368,038 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 193,183 thousand was recorded as a share premium. As at 31 December 2023, the Company's registered capital comprises 35,157 thousand ordinary registered shares totalling CZK 3,516 thousand.

On 30 May 2022, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. (former CZ-US Holdings, Inc.) at a price of CZK 622 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 15 July 2022, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 227,175 thousand was recorded as share premium. As at 31 December 2022, the Company's registered capital comprised 34,102 thousand ordinary registered shares totalling CZK 3,410 thousand.

34. OTHER COMPONENTS OF EQUITY

The structure of other equity components in individual years is as follows (CZK '000):

	2023	2022
Share premium	1,942,818	1,366,386
Capital funds	1,641,512	1,641,512
Cash flow hedge reserve	599,816	1,068,214
Foreign exchange translation reserve	-142,688	-326,433
Total	**4,041,458**	**3,749,679**

Other capital funds represent additional capital contributions relating to the acquisition of a 50% interest in Česká zbrojovka a.s. in 2013.

35. BONDS, BANK LOANS AND BORROWINGS

35.1. Bonds

As at 31 December 2023, the Group used the following external financing in the form of issued bonds (CZK '000):

				31 Dec 2023	31 Dec 2022
	Terms	**Interest rate %**	**Aggregate limit as at 31 Dec 2023 (CZK '000)**	**CZK '000**	**CZK '000**
Issued bonds	23 March 2027	6M PRIBOR + margin % p.a.	5,000,000	5,000,000	5,000,000
Issued bonds – outstanding interest				120,811	124,839
Issued bonds - costs of issue				-16,882	-22,118
Issued bonds	27 Jan 2029	6M PRIBOR + margin % p.a.	1,998,000	1,998,000	1,998,000
Issued bonds – outstanding interest				74,361	77,606
Issued bonds - costs of issue				-9,795	-11,725
Issued bonds	18 May 2030	6M PRIBOR + margin % p.a.	1,929,000	1,929,000	–
Issued bonds – outstanding interest				20,448	–
Issued bonds - costs of issue				-10,242	–
Total				**9,105,701**	**7166,602**
Repayments in the following year				215,620	202,445
Repayments in future years				8,890,081	6,964,157

In 2023, the Company issued bonds totalling CZK 1,929,000 thousand and maturing in 2030. In 2022, the Company issued bonds totalling CZK 1,998,000 thousand and maturing in 2029. In 2021, the Company issued bonds totalling CZK 5,000,000 thousand and maturing in 2027. The Company does not expect to call the bonds in 2024.

As at 31 December 2023, interest expense amounted to CZK 738,434 thousand (2022 – CZK 474,209 thousand), of which unsettled interest expense was CZK 215,660 thousand (2022 – CZK 202,445 thousand).

Costs related to the issue of bonds in 2023 of CZK 11,244 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining balance of these accruals is CZK 10,242 thousand as at 31 December 2023. Costs related to the issue of bonds in 2022 of CZK 13,508 thousand are accounted for on an accrual basis over the maturity of the bonds.

The remaining part of these costs as at 31 December 2023 is CZK 9,795 thousand (2022 – CZK 11,725 thousand).

Costs related to the issue of bonds in 2022 of CZK 31,412 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining part of these costs as at 31 December 2023 is CZK 16,882 thousand (2022 – CZK 22,118 thousand).

The issued bonds bear variable interest and their fair value did not differ significantly from their carrying amount as at 31 December 2023.

35.2. Bank loans and borrowings

As at 31 December 2023 and 31 December 2022, the Group had the following bank loans and borrowings (CZK '000):

				31 Dec 2023	31 Dec 2022
Bank	**Terms**	**Interest rate %**	**Aggregate limit as at 31 December 2023 (CZK '000)**	**CZK '000**	**CZK '000**
Komerční banka, a.s.	10 Oct 2024	1M Pribor + margin % p.a.	2,257,782	2,257,782	–
Sparbanken Skåne	30 Nov 2026	6.1 - 6.4%	8,996	8,996	14,893
UBS	30 Sep 2038	2.6 – 3.5%	125,861	125,861	–
Raiffeisen Bank	30 April 2026	1.9 – 4.75%	94,663	94,663	–
ŠkoFin s.r.o.	30 June 2028	5.59 – 6.44%	21,281	21,281	–
Total			**2,508,583**	**2,508,583**	**14 893**
Repayments in the following year				2,358,124	6,152
Repayments in future years				150,459	8,741

A bank loan of CZK 2,257,782 thousand (2022 – CZK 0 thousand) was drawn by the Group in connection with the acquisition of Sellier & Bellot a.s. (for more details, see Note 23). Bank loans of CZK 220,524 thousand (2022 – CZK 0 thousand) granted by UBS and Raiffeisen Bank were assumed by the Group within the acquisition of swissAA dated 28 June 2023 (for more details, see Note 22).

Payables arising from the loans are secured with a pledge on receivables (as stated in Note 30).

36. TRADE AND OTHER PAYABLES

The structure of trade and other payables in individual years is as follows (CZK '000):

	2023	2022
Trade and other payables	1,464,470	852,242
Accrued expenses	3,222	10,665
Estimated payables	269,150	216,491
State subsidies	1,012	924
Other current liabilities – financial	50,964	82,458
Total	**1,788,818**	**1,162,780**
Non-current	42,022	7,825
Current	1,746,796	1,154,955
Total	**1,788,818**	**1,162,780**

As at 31 December 2023 and 31 December 2022, the Group did not record any liabilities with a maturity of more than five years.

As at 31 December 2023, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Amount	Currency	Due date (expiry)	Description of collateral or guarantee
300,000	CZK	30 Sept 2024	Customs guarantee
19,043	USD	30 June 2024	Bank guarantee
563,236	USD	30 Sept 2024	Bank guarantee
47,790	EUR	12 October 2025	Bank guarantee
100,000	USD	28 February 2024	Bank guarantee
18,852	USD	14 April 2024	Bank guarantee
102,138	USD	30 April 2024	Bank guarantee
5,348	USD	30 April 2025	Bank guarantee
4,226	USD	30 June 2024	Bank guarantee
2,254	USD	31 December 2024	Bank guarantee
120,745	USD	30 Sept 2024	Bank guarantee
17,731	USD	13 November 2024	Bank guarantee
4,510	USD	30 November 2024	Bank guarantee
1,413,322	USD	31 January 2024	Letter of credit
4,800	USD	31 December 2023	Letter of credit
383,000	USD	14 February 2024	Letter of credit
97,000	SEK	30 April 2024	Bank guarantee

As at 31 December 2022, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Amount	Currency	Due date (expiry)	Description of collateral or guarantee
300,000	CZK	6 Jan 2023	Customs guarantee
38,000	EUR	11 November 2023	Bank guarantee
2,670	USD	14 Jan 2023	Bank guarantee
18,302	USD	14 Jan 2023	Bank guarantee
19,043	USD	30 Jun 2023	Bank guarantee
100,000	USD	28 Feb 2024	Bank guarantee
9,495	USD	30 Apr 2023	Bank guarantee
18,852	USD	28 Feb 2023	Bank guarantee
102,138	USD	30 Apr 2023	Bank guarantee
123,000	USD	18 March 2023	Bank guarantee
552,000	USD	18 March 2023	Bank guarantee
439,000	USD	18 March 2023	Bank guarantee
87,000	USD	7 Dec 2023	Bank guarantee
128,000	USD	12 months after delivery	Bank guarantee
95,580	SEK	25 July 2023	Bank guarantee
20,000	USD	30 June 2023	Letter of credit
5,946,000	USD	19 Jan 2023	Letter of credit
1,260,000	USD	21 Jan 2023	Letter of credit
636,000	USD	17 February 2023	Letter of credit
368,000	USD	21 February 2023	Letter of credit
23,000	USD	1 Dec 2023	Letter of credit
6,000	USD	30 June 2023	Non-bank guarantee
6,000	USD	30 Apr 2023	Non-bank guarantee

37. OTHER PAYABLES

The structure of other payables in individual years is as follows (CZK '000):

	2023	2022
Prepayments received	902,539	818,867
Employee liabilities	343,106	252,555
Liabilities from untaken holidays	30,804	25,261
Liabilities arising from employee bonuses	97,711	111,067
Social security and health insurance	30,557	29,579
Other non-financial liabilities	16	438
Value added tax	47,442	13,576
Other taxes	148,887	205,488
Deferred income	68,601	43,605
Total	**1,669,663**	**1,500,436**
Non-current	14,569	21,169
Current	1,655,094	1,479,267
Total	**1,669,663**	**1,500,436**

38. OTHER FINANCIAL LIABILITIES

	2023	2022
Contingent consideration (earn-out Colt)	–	404,804
Contingent consideration (earn-out Spuhr)	44,580	74,257
Total	**44,580**	**479,061**
Non-current	–	240,468
Current	44,580	238,593
Total	**44,580**	**479,061**

39. LEASES

39.1. Group as a lessor

In 2023, the Group recognised income from leases of CZK 9,147 thousand (2022 – CZK 8,348 thousand). The lease-related income is recorded as part of Other operating income (Note 6). The income does not include any variable portion not depending on rate or index.

39.2. Group as a lessee

In line with its common practice, the Group holds a part of machinery, buildings, cars and IT equipment under leases. The lease term is 2-10 years.

Interest expense arising from lease contracts, depreciation of rights-of-use assets for the year, acquisition cost of right-of-use assets and expenses related to short-term contracts, contracts for low-value assets, and variable costs arising from lease contracts are disclosed in Notes 8, 11, 17 and 25.4. Total cash outflows arising from lease contracts in 2023 (2022 – CZK 61,942 thousand).

The table below shows liabilities arising from lease contracts (CZK '000):

	2023	2022
Lease liabilities – non-current	62,052	46,796
Lease liabilities – current	25,619	23,939
Total	**87,671**	**70,735**

The table below shows the terms of lease liabilities and their nominal value (CZK '000):

	2023			2022		
	Nominal interest rate	Nominal value	Carrying amount	Nominal interest rate	Nominal value	Carrying amount
Liabilities from building and land leases	2 - 4% p.a.	77,003	72,299	4% p.a.	57,730	54,530
Liabilities from lease of machinery, devices and equipment	2 - 4% p.a.	15,851	15,372	4% p.a.	17,194	16,205
Total		**92,854**	**87,671**		**74,924**	**70,735**

Reconciliation of movements of lease liabilities with cash flows:

	2023	2022
Opening balance of lease liability as at 1 January	**70,735**	**53,301**
Lease payments	-32,772	-24,735
Total cash flows	**-32,772**	**-24,735**
Interest expense	979	1,834
Lease additions and modifications	48,729	40,335
Closing balance as at 31 December	**87,671**	**70,735**

As at 31 December 2023, the Group recorded the following in the statement of profit or loss in connection with leases:

	2023	2022
Depreciation of right-of-use assets	27,566	26,196
Interest expense relating to lease liability (included in financial expenses)	979	1,834
Costs of short-term leases (included in service costs)	21,463	23,993
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	3,987	2,468
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	11,041	10,746
Total	**65,036**	**65,237**

The table below shows the ageing structure of lease liabilities (CZK '000):

Ageing structure of lease liabilities	Balance at 2023	Balance at 2022
Within 3 months	6,179	6,149
3 months to 1 year	19,440	17,790
1 to 2 years	19,325	17,484
2 to 3 years	11,845	10,510
3 to 4 years	9,937	3,535
4 to 5 years	8,989	2,531
More than 5 years	11,956	12,736
Total	**87,671**	**70,735**

40. FINANCIAL ASSETS AND LIABILITIES

The table below provides an overview of financial assets and liabilities in the accounting records (CZK '000):

Financial assets	2023	2022
Short-term portion		
Trade and other receivables	1,774,947	1,346,143
Provided loans	–	7,700
Other financial assets	908,580	756,834
Financial derivatives	149,047	217,123
Cash and cash equivalents	3,328,684	2,825,781
Total	**6,161,258**	**5,153,581**
Long-term portion		
Financial derivatives	1,013,168	1,181,097
Trade and other receivables	61,891	35,515
Total	**1,075,059**	**1,216,612**

Financial liabilities	2023	2022
Short-term portion		
Bonds, bank loans and borrowings	2,573,744	208,597
Financial derivatives	11,038	38,610
Lease liabilities	25,619	23,939
Other financial liabilities	44,580	238,593
Trade and other payables	1,746,796	1,154,955
Total	**4,401,777**	**1,664,694**
Long-term portion		
Bonds, bank loans and borrowings	9,040,540	6,972,898
Financial derivatives	244,169	28,684
Lease liabilities	62,052	46,796
Other financial liabilities	–	240,468
Trade and other payables	42,022	7,825
Total	**9,388,783**	**7,296,671**

40.1. Fair value

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy in 2023 (CZK '000). It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

		Carrying amount			Fair value		
2023	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	42	–	129,224	129,224	–	129,224	129,224
Currency swaps held for trading	42	–	7,567	7,567	–	7,567	7,567
Currency options held for trading	42	–	123	123	–	123	123
Financial derivatives used for hedge accounting							
Currency forwards used for hedge accounting	42	195,389	–	195,389	–	195,389	195,389
Currency swaps used for hedge accounting	42	378,265	–	378,265	–	378,265	378,265
Currency options used for hedge accounting	42	32,163	–	32,163	–	32,163	32,163
Cross currency interest rate swaps for hedge accounting	42	361,465	–	361,465	–	361,465	361,465
Interest rate swaps used for hedge accounting	42	58,018	–	58,018	–	58,018	58,018
Other financial assets							
Other financial assets	29	–	908,580	908,580	908,580	–	908,580
Total		**1,025,300**	**1,045,494**	**2,070,794**	**908,580**	**1,162,214**	**2,070,794**

		Carrying amount			Fair value		
2023	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial liabilities measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	42	–	2,997	2,997	–	2,997	2,997
Currency options held for trading	42	–	3	3	–	3	3
Currency swaps held for trading	42	–	6,420	6,420	–	6,420	6,420
Financial derivatives used for hedge accounting							
Currency forwards used for hedge accounting	42	10,979	–	10,979	–	10,979	10,979
Currency options used for hedge accounting	42	13,080	–	13,080	–	13,080	13,080
Currency swaps used for hedge accounting	42	2,622	–	2,622	–	2,622	2,622
Cross currency interest rate swaps for hedge accounting	42	112,179	–	224,358	–	224,358	224,358
Interest rate swaps used for hedge accounting	42	106,927	–	106,927	–	106,927	106,927
Other financial liabilities							
Contingent consideration from the acquisition of Spuhr	38	–	44,580	44,580	44,580	–	44,580
Total		**245,787**	**54,000**	**411,966**	**44,580**	**367,386**	**411,966**

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy in 2022 (CZK '000). It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

		Carrying amount			Fair value		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	42	–	64,557	64,557	–	64,557	64,557
Currency swaps held for trading	42	–	24,581	24,581	–	24,581	24,581
Currency options held for trading	42	–	70,142	70,142	–	70,142	70,142
Financial derivatives used for hedge accounting							
Currency forwards used for hedge accounting	42	114,620	–	114,620	–	114,620	114,620
Currency swaps used for hedge accounting	42	327,129	–	327,129	–	327,129	327,129
Currency options used for hedge accounting	42	113,135	–	113,135	–	113,135	113,135
Cross currency interest rate swaps for hedge accounting	42	585,796	–	585,796	–	585,796	585,796
Interest rate swaps used for hedge accounting	42	98,260	–	98,260	–	98,260	98,260
Other financial assets							
Other financial assets	29	–	756,834	756,834	756,834	–	756,834
Total		**1,238,940**	**916,114**	**2,155,054**	**756,834**	**1,398,220**	**2,155,054**

		Carrying amount			Fair value		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial liabilities measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	42	–	20,126	20,126	–	20,126	20,126
Currency options held for trading		–	1,550	1,550	–	1,550	1,550
Financial derivatives used for hedge accounting	42						
Currency forwards used for hedge accounting	42	30,826	–	30,826	–	30,826	30,826
Currency options used for hedge accounting	42	14,792	–	14,792	–	14,792	14,792
Other financial liabilities							
Contingent consideration from the acquisition of Colt	38	–	404,804	404,804	404,804	–	404,804
Contingent consideration from the acquisition of Spuhr	42	–	74,257	74,257	74,257	–	74,257
Total		**45,618**	**500,737**	**546,355**	**479,061**	**67,294**	**546,355**

There were no transfers between levels during the period.

40.2. Fair value measurement

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques used for fair value measurement at Level 1 and 2 for financial instruments in the statement of financial position as well as significant unobservable inputs used.

Type of instrument	Valuation techniques	Significant unobservable inputs
Currency forwards and swaps	The fair value of financial derivatives (interest rate swaps and currency forwards) is determined based on the present value of future cash flows based on market data as yield curves of referential interest rate swaps, spot foreign exchange rates and forward points.	None
Currency options	For currency options, the respective option model is used (primarily the Black-Scholes model or its modifications), with the specific input data including the volatility of currency exchange rates reflecting specific realisation rates of individual transactions (“volatility smile”).	None
Cross currency interest rate swaps	Fair value is determined as the present value of future cash flows. The estimate of future variable cash flows is based on quoted swap rates and interbank deposit rates. The estimated future cash flows are discounted using a yield curve constructed from the above sources.	None
Interest rate swaps	The fair value of financial derivatives (interest rate swaps and currency forwards) is determined based on the present value of future cash flows based on market data as yield curves of referential interest rate swaps, spot foreign exchange rates and forward points.	None
Contingent consideration from the acquisition of Colt	The subject of contingent consideration is the parent company's shares, which are measured using Level 1 inputs based on the quoted share price as at the balance sheet date.	None
Contingent consideration from the acquisition of Spuhr	The fair value of contingent consideration is determined based on the current estimate of gross profits of Spuhr for the periods defined in the purchase agreement.	None
Share-based payment arrangements	The fair value of employee stock options was determined using the Black Scholes measurement model. The options are subject to the employment term/function term and non-market performance condition which were not considered in fair value determination.	None
Other financial assets	The fair value is determined based on the quoted bid price in an active market.	None

41. RISK MANAGEMENT

This section details the financial risks the Group is exposed to and how these risks are managed. Risk management is a fundamental part of the Group’s management. The main emphasis is on identifying the risks the Group is exposed to in the market (risk of changes in exchange rates and interest rates), credit risk, and liquidity risk. The risk management strategy focuses on the minimisation of potential negative impact on the Group’s financial performance.

The policy of the Group is to enter into currency and interest rate hedging derivative instruments to manage its exposure to currency and interest rate risk. Details are provided in Note 42.

41.1. Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty in a transaction fails to meet its contractual obligations, such as payment, acceptance of a service at the agreed price, or failure to deliver an agreed service.

The Group mainly does business with proven partners. The Group has a policy of subjecting all customers wishing to make use of credit facilities to an analysis of their individual creditworthiness. The Company continuously monitors the status of receivables on an individual and aggregate level.

All business counterparties are subject to an analysis of their individual creditworthiness and assigned a credit limit. Credit limits are approved based on an external rating if available, or based on an internal risk assessment guideline. Exposure to risk is monitored daily for each counterparty, considering any potential future impact. The overall credit risk of the business portfolio is continuously monitored and calculated with respect to the customer segment.

For the wholesale customer portfolio (state military and law enforcement, government agencies, distributors, etc.), the overall credit risk is determined based on expected loss, i.e., each counterparty is assigned an internal credit rating with an estimated probability of default. The expected loss is calculated by default as the product of the probability of default, the percentage of loss on that exposure in the event of default, and the exposure to the counterparty at that point in time. For the portfolio of retail customers, a model based on the ageing structure of trade receivables is used.

With respect to credit risk arising from the Group's financial assets, the maximum amount of credit risk caused by the counterparty's default corresponds to the carrying amount of these instruments.

No concentration of credit risk occurs.

Impairment losses on financial assets recognised in the statement of profit or loss are presented in Note 13.

The table below shows an overview of credit risk based on territory for 2023 (CZK '000):

2023	Czech Republic	USA	Canada	Europe (excluding the Czech Republic)	Asia	Other	Total
Other financial assets	–	908,580	–	–	–	–	**908,580**
Financial derivatives	1,162,215	–	–	–	–	–	**1,162,215**
Trade and other receivables	80,566	307,429	554,344	222,605	309,997	361,897	**1,836,838**
Cash and cash equivalents	2,002,218	945,722	211,968	167,282	–	1,494	**3,328,684**
Total	**3,244,999**	**2,161,731**	**766,312**	**389,887**	**309,997**	**363,391**	**7,236,317**

The table below shows an overview of credit risk based on territory for 2022 (CZK '000):

2022	Czech Republic	USA	Canada	Europe (excluding the Czech Republic)	Asia	Other	Total
Provided loans	7,700	–	–	–	–	–	**7,700**
Other financial assets	–	756,834	–	–	–	–	**756,834**
Financial derivatives	1,398,220	–	–	–	–	–	**1,398,220**
Trade and other receivables	24,480	496,351	251,544	227,166	82,085	300,034	**1,381,658**
Cash and cash equivalents	2,047,929	478,464	198,161	74,226	–	–	**2,825,781**
Total	**3,505,329**	**1,731,649**	**449,705**	**301,392**	**82,085**	**300,034**	**6,370,193**

Trade and other receivables

The Group establishes allowances for impairment based on estimates of expected future losses that may occur for trade receivables. In accordance with IFRS 9 and as part of the measurement of expected credit losses, trade receivables were assessed based on individual customer ratings and days past due (individual approach).

For wholesale customers, the Group assesses receivables individually and considers the rating of a debtor's country as a significant volume of the Group's business transactions is concluded with entities linked directly or very closely to the state and state institutions.

Receivables are categorised based on the country of origin of the company for which a receivable is recorded. These countries have been assigned a rating based on their rating by Standard & Poor's. Using this rating, receivables are divided into five groups based on their potential default risk.

For its analysis, the Group used publicly available data from a document titled Default, Transition, and Recovery: 2022 Annual Global Corporate Default and Rating Transition Study, tab. 26.

The amount of the allowance measured according to the rating system described above is further expanded to include specific allowances that are established based on the individual assessment of the debtor. This individual assessment applies to all trade receivables that are more than 180 days overdue.

For the portfolio of retail customers, a model based on the ageing structure of trade receivables is used. To measure the expected life-time credit losses, trade receivables are grouped based on shared characteristics of credit risk and days past due. These groups of assets are assigned an expected credit loss rate based on historical default rates.

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables as at 31 December 2023 based on the external credit rating equivalent (CZK '000):

2023	External credit rating equivalent	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Grade 1–6: Low risk	BBB- to AAA	1.10%	1,583,436	-17,404	1,566,032	No
Grade 7–9: Reasonable risk	BB- to BB+	11.47%	79,528	-9,124	70,404	No
Grade 10: Non-standard	B- to CCC-	4.11%	56,937	-2,341	54,596	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	100.0%	4,235	-4,235	–	Yes
Total			**1,724,136**	**-33,104**	**1 691,032**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables for as at 31 December 2022 based on the external credit rating equivalent (CZK '000):

2022	External credit rating equivalent	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Grade 1–6: Low risk	BBB- to AAA	2.6%	1,124,219	-29,500	1,094,720	No
Grade 7–9: Reasonable risk	BB- to BB+	23.38%	24,080	-5,629	18,450	No
Grade 10: Non-standard	B- to CCC-	3.62%	126,237	-4,574	121,663	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	100.0%	1,383	-1,383	–	Yes
Total			**1,275,919**	**-41,086**	**1,234,833**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables based on ageing structure as at 31 December 2023 (CZK '000):

2023	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Within due date	1.13%	1,356,691	-15,361	1,341,330	No
1–90 days overdue	0.88%	347,800	-3 058	344,742	No
90–180 days overdue	100%	2,278	-2,278		No
180–360 days overdue	15.49%	5,869	-909	4,960	No
More than 360 days overdue	100%	11,498	-11,498	–	Yes
Total		**1,724,136**	**-33,104**	**1,691,032**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables based on ageing structure as at 31 December 2022 (CZK '000):

2022	Expected credit loss rate	Gross carrying amount	Allowances for credit losses	Net carrying amount	Credit-impaired
Within due date	1.85%	1,064,317	-19,714	1,044,603	No
1–90 days overdue	0.67%	181,180	-1,207	179,973	No
90–180 days overdue	10.59%	5,124	-543	4,581	No
180–360 days overdue	50.04%	6,813	-3,409	3,404	No
More than 360 days overdue	87.71%	18,485	-16,213	2,271	Yes
Total		**1,275,919**	**-41,086**	**1,234,833**	

Trade and other receivables are written off if their recovery cannot be reasonably expected. Indicators that there is no reasonable expectation of recovery also include the debtor's failure to engage in a repayment plan and failure to make contractual payments for more than 360 days past due.

Impairment losses on trade and other receivables are recognised as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited to the same line item.

The Group records a lifetime expected credit loss for all other financial assets if there is a significant increase in credit risk after initial recognition. However, if the credit risk of a financial instrument does not significantly increase after initial recognition, the Group calculates an allowance for the loss on that financial instrument equal to 12-month expected credit losses.

Cash and cash equivalents
As at 31 December 2023, the Group held cash and cash equivalents of CZK 3,328,684 thousand (2022 – CZK 2,825,781 thousand).

The impairment of cash and cash equivalents was measured based on a 12-month expected loss and reflects the short maturity of the exposures. The Group has bank accounts only with prestigious banking institutions. The Group believes that its cash and cash equivalents have low credit risk based on the external credit ratings of counterparties. The potential impact of IFRS 9 is insignificant.

41.2. Liquidity risk management

The Group manages liquidity risk by retaining banking sources and loan instruments, ongoing monitoring of anticipated and actual cash flows and adapting the maturity of financial assets and financial liabilities.

Liquidity risk

Liquidity risk is a risk that the Group will not have sufficient available resources to meet its payables arising from financial contracts. The Group continuously monitors the risk of shortage of funds by managing liquidity and monitoring the maturity of debts and financial investments, other assets, and expected cash flows from its operations. The Group holds unrestricted liquid resources, i.e., cash, cash equivalents and current financial assets in currencies in which future cash requirements are expected to be denominated.

The Group also monitors the level of expected cash flows from trade and other receivables together with the expected cash flows from trade and other payables.

As at 31 December 2023, the quick liquidity ratio, which is calculated as the ratio of current financial assets to current financial liabilities, is 1.40 (31 December 2022 – 3.10).

The remaining contractual maturities of financial liabilities at the balance sheet date are shown below. Amounts are gross and undiscounted, include contractual interest payments, and exclude the impact of netting arrangements. Liabilities past their due dates are included in the 'Within 3 months' column.

The table below shows information as at 31 December 2023 (CZK '000):

			Contractual cash flows				
2023	**Carrying amount**	**Total**	**Within 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	1,788,818	1,788,818	1,767,537	8,504	–	12,777	–
Lease liabilities	87,671	87,671	6,179	6,480	12,960	50,096	11,956
Other financial liabilities	44,580	44,580	–	–	44,580	–	–
Bonds, bank loans and borrowings	11,614,284	13,767,171	452,268	190,841	2,666,546	6,264,746	4,192,768
Total non-derivative financial liabilities	**13,535,353**	**15,688,240**	**2,225,984**	**205,825**	**2,724,086**	**6,327,619**	**4,204,724**
Derivative financial liabilities							
Currency forwards held for trading	2,997	2,997	936	2,061	–	–	–
Currency options held for trading	3	3	3	–	–	–	–
Currency swaps held for trading	6,420	6,420	–	6,420	–	–	–
Currency forwards used for hedge accounting	10,979	10,979	–	1,505	92	9,382	–
Currency options used for hedge accounting	13,080	13,080	20	–	–	13,060	–
Currency swaps used for hedge	2,622	2,622	–	–	–	2,622	–
Cross currency interest rate swaps used for hedge	112,179	112,179	–	–	–	–	112,179
Interest rate swaps used for hedge	106,927	106,927	–	–	–	–	106,927
Total derivative financial liabilities	**255,207**	**255,207**	**959**	**9,986**	**92**	**25,064**	**219,106**
Total	**13,790,560**	**15,943,447**	**2,226,943**	**215,811**	**2,724,178**	**6,352,683**	**4,423,830**

The table below shows information as at 31 December 2022 (CZK '000):

		Contractual cash flows					
2022	**Carrying amount**	**Total**	**Within 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Lease liabilities	70,735	70,735	6,149	5,930	11,860	34,060	12,736
Other financial liabilities	479,061	479,061	–	201,644	36,949	240,468	–
Trade and other payables	1,162,780	1,162,779	1,144,563	7,564	–	10,652	–
Bonds, bank loans and borrowings	7,181,495	9,350,291	361,301	471,471	507,157	5,908,033	2,102,329
Total non-derivative financial liabilities	**8,894,071**	**11,062,866**	**1,512,013**	**686,609**	**555,966**	**6,193,213**	**2,115,065**
Derivative financial liabilities							
Currency forwards held for trading	20,126	20,126	6,120	14,006	–	–	–
Currency options held for trading	1,550	1,550	31	1,519	–	–	–
Currency forwards used for hedge accounting	30,826	30,826	–	13,299	–	17,527	–
Currency options used for hedge accounting	14,792	14,792	–	1,958	1,679	11,155	–
Total derivative financial liabilities	**67,294**	**67,294**	**6,151**	**30,782**	**1,679**	**28,682**	**-**
Total	**8,961,365**	**11,130,160**	**1,518,164**	**717,391**	**557,645**	**6,221,895**	**2,115,065**

41.3. Market risk management
Market risk is the risk of changes in the value of assets, liabilities, and cash flows denominated in foreign currencies due to changes of exchange rates, interest rates, and commodity prices. The Company has implemented policies and methods to monitor and hedge the risks to which it is exposed. Exposure to market risk is measured using sensitivity analyses.

41.3.1. Currency risk management
The Group's exposure to currency risk primarily arises from its purchases and sales in currencies other than the Group's functional currency. Exposure to currency risks is governed by parameters approved based on currency forwards and options. The objective of the Group is to minimise the impact of foreign currency rates changes on the value of its sales and profit.

The Group measures its exposure to the foreign currency risk by the expected excess of anticipated sales over purchases, excess of foreign currency receivables over payables and sensitivity of the Group's profit or equity to the changes in exchange rates.

The carrying amount of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the end of the reporting period is as follows:

2023	CZK	EUR	USD	CAD	SEK	CHF	Ostatní	Celkem
Financial assets								
Financial derivatives	1,162,215	–	–	–	–	–	–	1,162,215
Trade and other receivables	72,342	218,748	809,297	553,202	18,701	164,548	–	1,836,838
Other financial assets	–	–	908,580	–	–	–	–	908,580
Cash and cash equivalents	1,634,588	222,765	1,159,320	199,370	64,811	40,488	7,342	3,328,684
Total financial assets	**2,869,145**	**441,513**	**2,877,197**	**752,572**	**83,512**	**205,036**	**7,342**	**7,236,317**
Financial liabilities								
Financial derivatives	255,207	–	–	–	–	–	–	255,207
Lease liabilities	31,982	–	17,632	2,528	23,946	11,583	–	87,671
Other financial liabilities	–	–	–	–	44,580	–	–	44,580
Trade and other payables	549,308	215,039	688,445	235,406	7,347	92,430	843	1,788,818
Bonds, bank loans and borrowings	9,126,964	2,257,782	–	–	8,996	220,542	–	11,614,284
Total financial liabilities	**9,963,461**	**2,472,821**	**706,077**	**237,934**	**84,869**	**324,555**	**843**	**13,790,560**
Effect of currency derivative instruments – nominal value	**–**	**–**	**966,643**	**–**	**–**	**–**	**–**	**966,643**
Total currency risk exposure	**-7,094,316**	**-2,031,308**	**1,204,477**	**514,638**	**-1,357**	**-119,519**	**6,499**	**-7,520,886**

2022	CZK	EUR	USD	CAD	SEK	Other	Total
Financial assets							
Provided loans	7,700	–	–	–	–	–	7,700
Financial derivatives	1,398,220	–	–	–	–	–	1,398,220
Trade and other receivables	43,645	257,301	858,486	198,116	22,393	1,717	1,381,658
Other financial assets	–	–	756,834	–	–	–	756,834
Cash and cash equivalents	1,752,846	201,327	611,944	191,950	66,423	1,291	2,825,781
Total financial assets	**3,202,411**	**458,628**	**2,227,264**	**390,066**	**88,816**	**3,008**	**6,370,193**
Financial liabilities							
Financial derivatives	67,294	–	–	–	–	–	67,294
Lease liabilities	25,201	493	15,334	3,822	25,885	–	70,735
Other financial liabilities	74,257	–	404,804	–	–	–	479,061
Trade and other payables	462,861	90,363	482,562	64,480	60,531	1,983	1,162,780
Bonds, bank loans and borrowings	7,166,601	–	–	–	14,894	–	7,181,495
Total financial liabilities	**7,796,214**	**90,856**	**902,700**	**68,302**	**101,310**	**1,983**	**8,961,365**
Effect of currency derivative instruments – nominal value	**–**	**–**	**830,007**	**–**	**–**	**–**	**830,007**
Total currency risk exposure	**-4,593,803**	**367,772**	**494,557**	**321,764**	**-12,494**	**1,025**	**-3,421,179**

41.3.2. Sensitivity to exchange rate fluctuations

The Group is exposed to currency risk, especially in relation to EUR, USD, CAD, SEK, and CHF.

The Company used the following most important exchange rates:

	Average exchange rate		Exchange rate at the end of the period	
In CZK	**2023**	**2022**	**2023**	**2022**
EUR	24.007	24.565	24.725	24.115
USD	22.21	23.36	22.376	22.616
CAD	16.451	16.706	16.885	17.952
SEK	2.093	2.23	2.229	2.167
CHF	25.406	–	26.688	–

The following table shows the Group's sensitivity to a 10% appreciation and depreciation of the Czech crown towards the respective foreign currencies. The sensitivity analysis only includes outstanding monetary items denominated in a foreign currency, adjusting their translation at the end of the reporting period by a 10% change in exchange rates. The positive value indicates an increase in profits or equity due to a potential appreciation of the Czech crown by 10% with respect to the respective currency.

	Impact on profit before tax 2023		Impact on profit before tax 2022	
In CZK '000	**Foreign currency appreciation by 10%**	**Foreign currency depreciation of 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation of 10%**
Foreign currency				
EUR	-214,781	214,781	-67,886	67,886
USD	-71,668	71,668	49,456	-49,456
CAD	51,464	-51,464	32,176	-32,176
SEK	-136	136	-1,249	1,249
CHF	-35,824	35,824	–	–

	Impact on equity 2023		Impact on equity 2022	
In CZK '000	**Foreign currency appreciation by 10%**	**Foreign currency depreciation of 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	-680,145	690,510	-843,628	805,036
USD	-630,597	552,987	-561,351	520,054

41.3.3. Interest rate risk management

The Group is exposed to the risk of interest rate changes as the Group borrows funds with variable interest rates. Interest expense from issued bonds, which represent the most important portion of interest-bearing liabilities, are based on 6M PRIBOR rate. Amount of interest paying liabilities using other reference rates is not significant (Note 35).

The Group has managed interest rate risk using interest rate and cross currency interest rate swap agreements. This ensures the utilisation of hedging strategies which are economically most effective.

As at 31 December 2023, interest rate risk exposure was as follows:

31 Dec 2023 CZK '000	**Carrying amount**	**Contractual cash flows**	**Variable interest rate**	**Fixed interest rate**
Bonds, bank loans and borrowings	11,614,284	13,767,171	13,442,174	324,997
Lease liabilities	87,671	87,671	–	87,671
Other financial liabilities	44,580	44,580	–	44,580
Total interest-bearing financial liabilities	**11,746,535**	**13,899,422**	**13,442,174**	**457,248**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	–	–	7,141,700	–
Total interest rate risk exposure	**-11,746,535**	**-13,899,422**	**-6,300,474**	**-457,248**

As at 31 December 2022, interest rate risk exposure was as follows:

31 Dec 2022 CZK '000	**Carrying amount**	**Contractual cash flows**	**Variable interest rate**	**Fixed interest rate**
Provided loans	7,700	7,731	–	7,731
Total interest-bearing financial assets	**7,700**	**7,731**	**–**	**7,731**
Bonds, bank loans and borrowings	7,181,495	9,350,291	9,350,291	–
Lease liabilities	70,735	70,735	–	70,735
Other financial liabilities	479,061	479,061	–	479,061
Total interest-bearing financial liabilities	**7,731,291**	**9,900,087**	**9,350,291**	**549,796**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	**–**	**–**	**5,212,700**	**–**
Total interest rate risk exposure	**-7,723,591**	**-9,892,356**	**-4,137,591**	**-542,065**

41.3.4. Interest rate sensitivity analysis

The below interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative and non-derivative instruments at the end of the reporting period. Payables with a floating interest rate are subject to the analysis provided that the value of principal remains unchanged throughout the reporting period based on a calculation of the average annual principal.

If interest rates were higher/lower by 100 basis points and all other variables remained constant, the profit or loss would change based on the values specified below.

	Impact on profit before tax 2023		Impact on profit before tax 2022	
CZK '000	**Increase of 1 percentage point**	**Decrease of 1 percentage point**	**Increase of 1 percentage point**	**Decrease of 1 percentage point**
Issued bonds with variable interest rate	-83,169	83,169	-67,884	67,884
Cross currency interest rate swaps	47,127	-47,127	46,210	-46,210
Interest rate swaps	17,217	-17,217	4,514	-4,514
Cash and cash equivalent	30,772	-30,772	31,996	-31,996
Sensitivity of interest rates changes	**11,947**	**-11,947**	**13,212**	**-13,212**

*In 2023, the structure of the above table was adjusted, and for the sake of data comparability the Group also adjusted the data for 2022.

	Impact on equity 2023		Impact on equity 2022	
CZK '000	**Increase of 1 percentage point**	**Decrease of 1 percentage point**	**Increase of 1 percentage point**	**Decrease of 1 percentage point**
Cross currency interest rate swaps	175,078	-175,078	206,474	-206,474
Interest rate swaps	125,534	-125,534	17,875	-17,875
Sensitivity of interest rates changes	**300,612**	**-300,612**	**224,349**	**-224,349**

42. DERIVATIVE INSTRUMENTS

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks. To manage these risks, the Company uses the following derivative instruments:

- Cross currency interest rate swaps;
- Interest rate swaps;
- Foreign-currency put options,
- Foreign-currency call options,
- Currency forwards; and
- Currency swaps.

Derivative instruments are classified as trading or hedging.

The Group engages in hedging transactions to partially mitigate the foreign exchange ("FX risk") and interest rate risk ("IR risk"). The instruments used for the FX risk management include plain vanilla FX forwards, currency swaps, and currency options. Usual hedging maturity for the FX hedging contracts is up to five years. At the same time, the Group has a few long-term commercial contracts meaning the future exposure can be hedged even without the current existence of the particular contract.

This can result in an over-hedged or under-hedged position, unexpected losses or profits in case the estimates of future foreign exchange exposure do not materialise. The IR risk is managed by plain vanilla interest rate swaps ("IRS") with the maturity corresponding to the maturity of the external debt.

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk of a portion of highly probable forecasted sales denominated in EUR, USD (cash flow hedge), part of net investments in foreign operations in CHF, and interest rate risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges and those hedging net investments in foreign operations is recognised in other comprehensive income under cash flow hedges – remeasurement of effective portion of hedging instruments; the cumulative balance is recognised in the statement of financial position in cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss and is included in the Gains or losses from derivative transactions. Fair value of derivative contracts is presented as Financial derivative assets or liabilities in the statement of financial position. Accounting for hedging derivatives is described in detail in Note 3.27. The Group expects to continue its hedging activities in the future.

42.1. Currency contracts

The following table provides an overview of nominal values and positive or negative fair values of open derivatives held for trading as at 31 December 2023 and 31 December 2022 (CZK '000):

	2023			2022		
		Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Put option	49,450	123	–	965,806	70,142	–
Call option	49,450	–	3	1,555,779	–	1,550
Forwards	1,983,865	129,224	2,997	2,020,123	64,557	20,126
Swaps	1,196,464	7,567	6,420	830,007	24,581	–
Total	**3,279,229**	**136,914**	**9,420**	**5,371,715**	**159,280**	**21,676**

The following table provides an overview of nominal values and positive or negative fair values of open derivatives held for hedging as at 31 December 2023 and 31 December 2022 (CZK '000):

	2023			2022		
		Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Interest rate swap	2,429,000	58,018	106,927	500,000	98,260	–
Put option	586,474	32,163	–	1,911,409	113,135	–
Call option	586,474	–	13,080	1,911,409	–	14,792
Currency swaps	5,086,546	378,265	2,622	4,503,470	327,129	–
Currency forwards	4,018,351	195,390	10,979	4,456,425	114,620	30,826
Cross currency interest rate swaps - USD	3,212,700	186,216	–	3,212,700	274,828	–
Cross currency interest rate swaps - EUR	1,500,000	175,249	–	1,500,000	310,968	–
Cross currency interest rate swaps - CHF	724,200	–	112,179			
Total	**18,143,745**	**1,025,301**	**245,787**	**17,995,413**	**1,238,940**	**45,618**

Valuation techniques are described in Note 40.2.

The fair values determined by the Group are verified in view of the valuation of transactions regularly obtained from individual counterparties on an individual basis. Interest rate risks relating to derivative transactions are considered immaterial.

The fair values of derivative transactions are classified as level 2, whereby the market data used in models originate from active markets. For other financial instruments, the fair value approximates the carrying amount.

The Company has concluded a master agreement with the bank for mutual offsetting of receivables, however, the receivables and payables from derivatives are reported separately since the Company does not plan to offset these derivatives in the future.

The tables below show open foreign-currency forwards at the end of the reporting period and open foreign currency put and call options and currency swaps at the end of the reporting period:

Open currency forwards and swaps	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
trading	23.490	24.234	85,500	60,000	1,921,154	1,356,960	128,288	64,557
trading - SWAP	22.438	23.250	43,200	36,700	966,643	830,007	2,399	24,581
hedging - SWAP	22.353	23.667	41,000	14,000	916,492	331,343	14,739	8,182
hedging	23.256	23.354	144,500	144,000	3,360,507	3,363,019	144,252	41,727
hedging - USD/EUR	–	1..106	–	22,119	–	20,000	–	13,299
EUR	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
trading	26.820	–	2,500	–	67,050	–	5,168	–
hedging	26.768	27.310	31,750	29,750	849,890	812,490	40,158	55,366
hedging - SWAP	27.537	27.552	168,620	173,620	4,643,258	4,783,512	360,904	318,947
CHF	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
trading	26.445	–	2,651	–	70,717	–	-2,061	–
trading - SWAP	25.534	–	6,298	–	168,008	–	-6,420	–

Open put options	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
hedging	22.250	23.067	24,000	36,000	534,000	830,400	31,985	40,581
EUR	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
trading	24.500	26.134	2,000	40,050	49,450	1,046,632	123	70,141
hedging	24.500	26.070	2,000	45,500	49,450	1,186,163	178	72,554

Open call options	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
hedging	25.028	27.633	24,000	36,000	600,660	994,800	-13,060	11,814
EUR	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
trading	26.550	–	2,000	–	53,100	–	-3	–
hedging	26.550	26.250	2,000	45,500	53,100	1,194,363	-20	1,132

The tables below show the maturity of individual financial derivatives as at 31 December 2023 and 31 December 2022 based on their fair and nominal values (CZK '000):

		2023		2022	
Ageing structure	**Type of transaction**	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**
Within 3 months	trading	32,424	1,809,824	32,056	1,292,926
	hedging	157	98,900	–	–
3-6 months	trading	-7,183	350,605	40,990	2,721,829
	hedging	38,549	526,271	75,674	2,905,923
6-12 months	trading	–	–	–	–
	hedging	74,065	1,311,163	29,793	1,126,238
1-2 years	trading	22,081	223,760	12,111	226,160
	hedging	171,556	3,013,536	78,652	2,651,323
2-3 years	trading	20,101	223,760	14,409	226,160
	hedging	179,342	3,025,219	107,700	2,724,427
3-4 years	trading	60,075	671,280	10,675	226,160
	hedging	110,467	1,899,988	138,992	2,190,266
4-5 years	trading	–	–	27,362	678,480
	hedging	4,997	402,768	78,455	1,184,536
Total		**706,631**	**13,557,074**	**646,869**	**18,154,428**

As mentioned above, the Group designated certain currency derivative as hedging items in respect of changes in cash flows arising from forecasted highly probable sales in foreign currency. The table below summarises the amount of hedged forecasted sales at the end of each period, change in the fair value of hedged cash flows and the balance of hedged cash flow as at 31 December (CZK '000):

	Volume of hedged sales	Change in the value of hedged sales since the inception of the hedge	Balance of hedged cash flows
2023	10,277,845	440,538	440,538
2022	12,782,713	424,281	424,281

*In 2023, the structure of the above table was adjusted, and for the sake of comparability the Group also adjusted the information for 2022.

Changes in the fair value of hedging derivatives recognised in other comprehensive income and the amount reclassified to the statement of profit or loss in respective years 2023 and 2022 are as follows:

Cash flow hedges from expected sale	Change in the fair value of hedging instruments	Recognised in OCI	Hedge ineffectiveness recognised in the statement of profit or loss	Reclassified to the statement of profit or loss
2023	69,871	33,839	1,372	34,660
2022	428,144	453,903	-474	-25,285

In accordance with the hedging strategy, the accumulated fair value of hedging item is reclassified to profit or loss when the hedged forecasted sale affects profit or loss. The effect "Recognised in OCI" contains also element of taxes – 21% tax rate used.

The reconciliation between opening and closing balances of the cash flow hedge reserve is provided in the following table:

	2023	2022
1 January	**404,165**	**56,619**
Change in fair value	132,107	403,310
Reclassification to the statement of profit or loss	-33,919	25,759
Tax on movements in reserve funds during the year	-32,268	-81,523
31 December	**470,085**	**404,165**

42.2. Cross currency interest rate swaps

The Company has entered into cross currency interest rate swaps in which it is the payer of fixed interest derived from the nominal value in USD or EUR and the payee of variable interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD or EUR and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD or EUR-denominated loan with a fixed interest rate) or the expected foreign currency sales in EUR,
- to hedge the interest rate risk arising from variable interest payments on the bonds issued (bonds issued in CZK with a variable interest rate of 6M PRIBOR).

For hedge accounting purposes, the negotiated cross currency interest rate swaps are divided into the following derivatives, which are defined as hedging instruments in a combined hedging relationship:

- The cross currency interest rate swap in which the Group is the payer of fixed interest derived from the nominal value in USD or EUR and the payee of fixed interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD or EUR and CZK. This cross currency interest rate swap is used to hedge the currency risk on the provided USD loan or foreign currency sales in EUR, whereby the exchange rate differences on the hedged portion of the loan or sales (equal to the nominal value of the cross currency interest rate swap - the hedge ratio is 1:1) are offset by the revaluation of the cross currency interest rate swap.
- An interest rate swap in which the Group is the payer of a fixed interest rate derived from the nominal value in CZK and payee of variable interest rate derived from the nominal value in CZK. This interest rate swap is used to hedge the interest rate risk on the bonds issued where the interest paid on the hedged portion of the bonds (equal to the nominal value of the interest rate swap - the hedge ratio is 1:1) derived from the variable interest rate is offset by the revaluation of the interest rate swap (in which the Company is the payee of interest payments derived from the same variable interest rate).

The combined hedging relationship is considered effective and qualifies for hedge accounting (see Section 3.14.) only if the two separate derivatives (the hedging relationships in which the derivatives are defined as hedges) meet the hedge accounting requirements. In the following tables, separate hedging derivatives are always listed separately in the relevant section based on the hedged risk.

The Group began applying hedge accounting on 21 May 2021 for USD/CZK interest rate swaps and on 27 January 2022 for EUR/CZK interest rate swaps. Until the initial application of hedge accounting, the cross currency interest rate swaps negotiated were classified as trading derivatives.

The Group assesses the effectiveness of hedges and the existence of an economic relationship between the hedging instruments and the hedged items based on a comparison of their parameters and sensitivity analysis. The Group determines the ineffective portion of the hedge based on the hypothetical derivative method and a comparison of changes in the cumulative fair values of the hedging instruments and hedged items represented by the hypothetical derivative.

The sources of ineffectiveness are mainly the credit risk of the counterparty to the hedging instruments and the Group, which the Group considers to be minimal given that the hedging instruments are negotiated with banks with high credit ratings, and the risk of prepayment of the provided loan or a reduction in the volume of sales (for currency hedges) and bonds issued (for interest rate hedges) is very low.

The Group has entered into cross currency interest rate swaps in which it is the payer of fixed interest derived from the nominal value in CHF and the payee of fixed interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in CHF and CZK to achieve the following objectives:

- hedge against currency risk associated with the net investment in foreign operations in CHF.

The Group assesses the effectiveness of hedges and the existence of an economic relationship between the hedging instruments and the hedged items based on a comparison of their parameters. The Group determines the ineffective portion of the hedge based on the hypothetical derivative method and a comparison of changes in the cumulative fair values of the hedging instruments and hedged items represented by the hypothetical derivative.

The sources of ineffectiveness are mainly the credit risk of the counterparty to the hedging instruments and the Group, which the Group considers to be minimal given that the hedging instruments are negotiated with banks with high credit ratings, and the risk of impairment of the net investment in foreign operations.

42.3. Interest rate swaps

The interest rate swap agreement obliges the Group to exchange the difference between the fixed and variable interest calculated on the agreed principal. The interest rate swap agreement has been agreed with the financing bank for the period from 27 January 2022 to 27 January 2027. This contract partially eliminates the risk of the impact of the future increase of market interest rates on the value of issued debt instruments with a floating reference rate. The fair value of the interest rate swap at the end of the reporting period is determined by discounting future cash flows. This interest rate swap is classified by the Group as held for hedging.

The hedge ratio is set as 1:0.996 due to a mismatch of 0.04% between the principal amounts of the hedging derivative and the hedged item, which the Group does not consider significant. The sources of hedge ineffectiveness are mainly the credit risk of the counterparty to the hedging instrument, which the Group considers to be minimal due to the fact that the hedging instrument has been negotiated with a bank with a high credit rating, and the risk of early repayment of the issued bonds.

In connection with the newly issued bonds amounting to CZK 1,929,000 thousand, on 18 May 2023, the Company entered into an interest rate swap with Česká spořitelna, which exactly replicates the volume and maturity of the bond.

As at 31 December 2023, the Group held the following instruments to hedge its exposure to changes in foreign exchange rates and interest rates.

2023		Due date	
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure – USD	–	–	3,356,400
Net exposure – EUR	–	–	1,516,065
Net exposure – CHF	–	–	1,030,801
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Average exchange rate CZK/CHF	–	–	24.140
Interest rate risk			
Net exposure – split USD/CZK interest rate swap	–	–	3,212,700
Net exposure – split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure – interest rate swap	–	–	2,429,000
Average fixed interest rate – split USD/CZK interest rate swap	–	–	3.52%
Average fixed interest rate – split EUR/CZK interest rate swap	–	–	5.18%
Average fixed interest rate – interest rate swap	–	–	3.75%

2022		Due date	
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure – USD	–	–	3,392,400
Net exposure – EUR	–	–	1,478,662
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Interest rate risk			
Net exposure – split USD/CZK interest rate swap	–	–	3,212,700
Net exposure – split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure – interest rate swap	–	–	500,000
Average fixed interest rate – split USD/CZK interest rate swap	–	–	3.52%
Average fixed interest rate – split EUR/CZK interest rate swap	–	–	5.18%
Average fixed interest rate – interest rate swap	–	–	0.74%

As at the reporting date, the amounts relating to the hedged items were as follows.

		31 December 2023	
CZK '000	**Change in value used to calculate hedge ineffectiveness**	**Cash flow hedge reserve**	**Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied**
Currency risk			
Provided loan in USD	-149,743	142,153	–
Volume of hedged sales in EUR	38,518	79,960	–
Volume of hedging applicable to net investment in foreign operations in CHF	149,071	-88,622	–
Interest rate risk			
Issued bonds with variable interest rate	489,857	10,471	–
Effect of change of tax rate	–	-14,230	–
Total	**527,703**	**129,731**	**–**

		31 December 2022	
CZK '000	**Change in value used to calculate hedge ineffectiveness**	**Cash flow hedge reserve**	**Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied**
Currency risk			
Provided loan in USD	112,593	67,395	–
Volume of hedged sales in EUR	207,373	147,378	–
Interest rate risk			
Issued bonds with variable interest rate	272,673	449,276	–
Total	**592,639**	**664,049**	**–**

Amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

2023					
CZK '000	**Nominal value**	**Receivable (+)/ Liability (-)**	**Changes in value of hedging instrument recognised in Other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Amount reclassified from the hedge reserve to the statement of profit or loss**
Currency risk					
Cross currency interest rate swaps	5,903,267	-26,080	-9,456	-2,583	73,440
Interest rate risk					
Interest rate swap	2,429,000	-48,909	147,170	–	19,274
Cross currency interest rate swaps	4,712,700	275,366	358,728	–	68,554
Deferred tax effect	–	–	-137,622	–	–
Effect of change of tax rate	–	–	14,230	–	–
Total	**–**	**200,377**	**373,050**	**-2,583**	**161,268**

2022					
CZK '000	**Nominal value**	**Receivable (+)/ Liability (-)**	**Changes in value of hedging instrument recognised in Other comprehensive income**	**Hedge ineffectiveness recognised in profit or loss**	**Amount reclassified from the hedge reserve to the statement of profit or loss**
Currency risk					
Cross currency interest rate swaps	4,871,062	-25,827	-325,148	13,058	-86,378
Interest rate risk					
Interest rate swap*	500,000	98,261	-98,140	121	14,632
Cross currency interest rate swaps	4,712,700	611,623	-320,089	-	73,537
Deferred tax effect	–	–	140,901	–	–
Total	**–**	**684,057**	**-602,476**	**13,179**	**1,791**

* The Company purchased the interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2022 is CZK 98,261 thousand.

Receivables from hedging derivatives of CZK 419,483 thousand (31 December 2022 – a receivable of CZK 684,057 thousand) are recognised in Non-current receivables from financial derivatives. Liabilities from hedging derivatives of CZK 219,106 thousand (31 December 2022 – CZK 0 thousand) are recognised in Non-current liabilities from financial derivatives.

Hedge ineffectiveness of CZK 2,583 thousand (31 December 2022 – CZK 13,179 thousand) is recognised in Gains/losses from derivative transactions.

CZK 73,440 thousand reclassified from the cash flow hedge reserve to profit or loss (31 December 2022 – CZK 86,377 thousand) arising from the currency risk is reported in Other financial income. CZK 87,828 thousand reclassified from the cash flow hedge reserve to profit or loss (31 December 2022 – CZK 88,168 thousand) arising from the interest rate risk is reported in Interest income.

The following table provides a reconciliation of equity components by risk category and an analysis of the items in other comprehensive income, net of tax, arising from hedge accounting.

	Cash flow hedge reserve	
CZK '000	**2023**	**2022**
Opening balance as at 1 January	**664,049**	**63,364**
Cash flow hedges		
Change in fair value:		
– Currency risk	9,456	325,148
– Interest rate risk	-505,898	418,229
Values reclassified to the statement of profit or loss:		
- Currency risk - other items	-73,440	86,378
– Interest rate risk	-87,828	-88,169
Tax on movements in reserve funds during the year	137,622	-140,901
Effect of change of tax rate	-14,230	–
Closing balance as at 31 December	**129,731**	**664,049**

43. RELATED PARTIES

The Group had the following transactions with its related parties in 2023 (CZK '000):

		Liabilities as at 31 Dec 2023	Purchases for the period from 1 Jan to 31 Dec 2023	Receivables as at 31 Dec 2023	Sales for the period from 1 Jan to 31 Dec 2023
Česká zbrojovka Partners SE	parent company	–	5	–	–
Keriani, a.s.	associated company of the parent company	585	5,692	–	–
B:TECH, a.s.	company of the ultimate owner's corporate group	1,773	5,731	187	259
EHC zdravotní s.r.o.	company of the ultimate owner's corporate group	–	–	–	313
CZUB zdravotní s.r.o.	company of the ultimate owner's corporate group	–	2,382	–	12
CZ-SKD Solutions a.s.	subsidiary of the parent company	286	7,425	–	385
CZ-AUTO SYSTEMS a.s.	subsidiary of the parent company	23	6,407	13,351	70,803
M&H Management a.s.	company of the ultimate owner's corporate group	–	–	–	43
ITeuro, a.s.	company of the ultimate owner's corporate group	1,123	4,058	1,297	7
VIBROM spol. s r.o.	associated company	20,102	134,567	9,022	1,842
CARDAM s.r.o.	associated company	1,067	4,622	–	238
CZ BRAZIL, LTDA	associated company	–	–	1,141	–
Colt CZ Hungary Zrt.	associated company	4,738	141	2,206	2,301
EG-CZ Academy	associated company	62	720	–	–
Total		**29,759**	**171,750**	**27,204**	**76,203**

The Group also paid a dividend of CZK 786,314 thousand (2022 – CZK 652,262 thousand) to Česká zbrojovka Partners SE.

The Group had the following transactions with its related parties in 2022 (CZK '000):

		Liabilities as at 31 Dec 2022	Purchases for the period from 1 Jan to 31 Dec 2022	Receivables as at 31 Dec 2022	Sales for the period from 1 Jan to 31 Dec 2022
Česká zbrojovka Partners SE	parent company	–	14	212	–
Keriani, a.s.	associated company of the parent company	418	10,141	2,299	30
B:TECH, a.s.	company of the ultimate owner's corporate group	23	3,613	1,122	–
EHC zdravotní s.r.o.	company of the ultimate owner's corporate group	–	–	9,873	1,361
CZUB zdravotní s.r.o.	company of the ultimate owner's corporate group	64	5,880	15	53
CZ-SKD Solutions a.s.	subsidiary of the parent company	67	6,313	312	–
CZ-AUTO SYSTEMS a.s.	subsidiary of the parent company	2,249	18,750	13,193	61,641
TRX, s.r.o.	company of the ultimate owner's corporate group	85	840	–	–
M&H Management a.s.	company of the ultimate owner's corporate group	–	–	17	792
ITeuro, a.s.	company of the ultimate owner's corporate group	–	5,201	–	–
VIBROM spol. s r.o.	associated company	20,102	134,567	9,022	1,842
CARDAM s.r.o.	associated company	1,067	4,622	–	238
CZ BRAZIL, LTDA	associated company	–	–	1,141	–
EG-CZ Academy	associated company	62	720	–	–
Total		**24,137**	**190,661**	**27,333**	**65,957**

*The structure of the above table has been adjusted in 2023 and the Group has also adjusted the data for 2022 for comparability reasons.

Receivables due from EHC zdravotní s.r.o. also include loans provided by the Group and outstanding interest. See Note 28.

44. OFF-BALANCE SHEET COMMITMENTS

As at 31 December 2023 and 31 December 2022, the Group issued no guarantees in respect of third-party liabilities.

As at 31 December 2023, the Group records no significant legal disputes where the Group acts as a defendant or investment, environmental and other off-balance sheet commitments.

45. AUDITOR'S FEE

The table below shows a breakdown of auditor's fee in 2023:

CZK '000	Colt CZ Group SE	Other Group companies
Statutory audit	3,425	10,260
Other services:		
Assurance services	2,493	–
Other	8,746	–
TOTAL (excl. VAT)	**14,664**	**10,260**

The table below shows a breakdown of auditor's fee in 2022:

CZK '000	Colt CZ Group SE	Other Group companies
Statutory audit	2,989	9,808
Other services:		
Assurance services	1,203	–
TOTAL (excl. VAT)	**4,192**	**9,808**

46. NET EARNINGS PER SHARE

Basic and diluted earnings per share were determined as follows:

	2023	2022
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	2,042,538	2,034,192
Denominator (average number of shares in CZK '000)		
Basic	35,458	34,172
Diluted	35,472	34,397
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	58	60
Diluted	58	59

The diluted average number of shares of 35,458 thousand is increased from the basic average number of shares of 35,472 thousand by the expected weighted average number of shares to be issued by the Company in 2024.

47. SUBSEQUENT MATERIAL EVENTS

On 26 February 2024, the General Meeting of the Company decided to increase the Company's share capital by a maximum of CZK 1,500 thousand through the issue of book-entry shares in the maximum amount of 15,000,000 units. The newly issued shares will be offered for subscription to CBC Europe S.à r.l. in connection with the acquisition of a 100% share in Sellier & Bellot a.s.

On 18 December 2023, the Company entered into an agreement to acquire 100% of the shares of Sellier & Bellot a.s. The transaction is subject to regulatory approvals in various countries. As at the reporting date, the Company has not received all regulatory approvals. A number of regulatory approvals have been obtained and the acquisition is expected to be completed during the second quarter of 2024.

During the first quarter of 2024, the Group sold Other financial assets representing the Group's short-term investment in listed shares. The Group realized a gain on these sales.

On 18 April 2024, the Company's Board of Directors approved an increase in the volume of the existing COLTCZ VAR/30 bond issue in the amount of CZK 1,071,000 thousand. The increase in the volume of the existing bond issue is in accordance with the prospectus issued on 18 May 2023, which allows for an increase in the volume of the bond issue up to a maximum of CZK 3,000,000 thousand.

No other subsequent events have occurred up to the reporting date that would have any material impact on the consolidated financial statements as at 31 December 2023.

On 18 April 2024, the consolidated financial statements were approved by the Board of Directors of the Company.

Jan Drahota
Chair of the Board of Directors

Josef Adam
Vice-Chair of the Board of Directors

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„THE REPORT BELOW REPRESENTS THE AUDITOR'S REPORT THAT RELATES SOLELY AND EXCLUSIVELY TO THE OFFICIAL ANNUAL FINANCIAL REPORT PREPARED IN THE XHTML FORMAT."

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Colt CZ Group SE

Having its registered office at: náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1

Audit Report on the Separate Financial Statements and the Consolidated Financial Statements

Opinion on the Separate Financial Statements and the Consolidated Financial Statements

We have audited the accompanying separate financial statements of Colt CZ Group SE (hereinafter also the "Company") prepared on the basis of IFRS Accounting Standards as adopted by the European Union, which comprise the separate statement of financial position as of 31 December 2023, separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate cash flow statement for the year ended 31 December 2023, and notes to the separate financial statements, including material accounting policy information.

We have audited the accompanying consolidated financial statements of the Colt CZ Group SE consolidation group (hereinafter also the "Group") prepared on the basis of IFRS Accounting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as of 31 December 2023, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion:

The accompanying separate financial statements give a true and fair view of the financial position of Colt CZ Group SE as of 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Colt CZ Group SE consolidation group as of 31 December 2023, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

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 guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements and the Consolidated 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How it was addressed
Revenue related to the sale of firearms – consolidated financial statements	
As of 31 December 2023, revenues from the sales of own products, goods and services amounted to CZK 14,856 million (Note 5 to the consolidated financial statements). The most significant part of these revenues is revenue from the sale of firearms, ammunition and tactical accessories. Revenue is one of the key indicators to assess the Company's performance. Revenue is accounted for when the Company meets its contractual obligation to the customer, e.g. the final supply is ready to be dispatched to the customer, taking into consideration the terms of delivery. In most cases, the Company applies the EXW (Ex Works) and FCA (Free Carrier) Incoterms. One of the key requirements for revenue recognition is an approved order between the Company and its customer. In the case of export, receipt of necessary export permissions is important. Based on the above, we consider meeting the conditions for revenue recognition and accounting for revenue at the turn of the reporting period to be a significant risk and a key audit matter.	In addressing this key audit matter, we performed substantive testing. Substantive testing We performed a detailed test using a statement of completed supplies, independent of accounting records, to select a sample of items for which we reviewed their approved order, packing list or shipping note, issued invoice and correctness of accounting. We also performed testing focused on the determination whether an invoice and the related revenue were recognised in the correct reporting period and whether revenue was not misstated by recognition in an incorrect period. We selected a sample of invoices accounted for at the turn of the reporting period and based on the underlying documents related to the invoices, we assessed whether the revenue had been recognised in the correct reporting period.
Option plan – separate and consolidated financial statements	
On 27 December 2021, the Supervisory Board of the Company approved an employee stock option plan (the "Option Plan"). The Option Plan gives key executives and employees of the Group (option holders) the right to purchase shares of the Company. The plan is currently restricted to executives and senior employees only. During 2022 and 2023, the Company granted 2,870,755 options to purchase shares at a nominal value of CZK 0.10 to selected key employees of the Company. In connection with this Option Plan, the Company recognised a total expense of CZK 313,456 thousand for the 12 months ended 31 December 2023 (Notes 9 and 14 to the consolidated financial statements), or CZK 118,623 thousand (Notes 9 and 13 to the separate financial statements). The recognition of this Option Plan requires the Company's management to use a mathematical model to determine the fair value of these options, to use estimates relating to the satisfaction of the terms of the Option Plan and to assess what type of Option Plan it is.	In addressing this key audit matter, we performed substantive testing. Substantive testing We performed a detailed assessment of the contractual documentation relating to the Option Plan. We verified the conditions of the Company's and the selected employee's acceptance of the Plan on a selected sample. We performed an assessment of all input parameters to the mathematical model, including the actual determination of the independent variables of the model. We performed a remeasurement of the value of the Option Plan and assessed its classification in accordance with the requirements of IFRS 2 Share-based Payment. We also performed an assessment of the recognition of the values determined.

Key Audit Matter	How it was addressed
Based on the above, we consider compliance with the conditions for recognising remuneration associated with the Option Plan during 2023 to be a significant risk and a key audit matter.	
Accuracy and completeness of the presentation of the acquisition of a subsidiary - consolidated financial statements	
The proper recognition of the acquisition of the swissAA Holding AG Group (Note 22 to the consolidated financial statements) is a significant area for the Group's audit in terms of the acquisition of assets, the assumption of liabilities and the recognition of a bargain purchase gain. Due to the complexity of the assessment of the above-stated aspects and the need to use judgment, we consider these areas to be a key audit matter. SwissAA Holding AG became part of the consolidation group as of 1 July 2023. The Group consists of several fully owned subsidiaries. The assets and liabilities of the acquired entities are measured at fair value. The consideration transferred had the form of a cash settlement, and a bargain purchase gain of CZK 384,482 thousand was recognised.	We obtained an understanding of the overall transaction and a purchase agreement to which we also agreed the purchase price. In cooperation with an internal specialist, we assessed the correct application of IFRS 3 Business Combinations, where we also assessed the correct calculation and recognition of the bargain purchase gain. We used the work of the Swiss component auditor of the swissAA Holding AG Group and managed, supervised and audited the procedures performed by them. We assessed the adequacy of the information provided in the notes to the separate financial statements and notes to the consolidated financial statements in relation to this transaction.

Other Information in the Annual Financial Report

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

Our opinion on the separate financial statements and the consolidated financial statements does not cover the other information. In connection with our audit of the separate financial statements and 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 separate financial statements and the consolidated financial statements or our knowledge obtained in the audit of the separate financial statements and the consolidated financial statements 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 applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of 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 separate financial statements and the consolidated financial statements is, in all material respects, consistent with the separate financial statements and the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in 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 Company's Board of Directors, Supervisory Board and the Audit Committee for the Separate Financial Statements and the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the separate financial statements and the consolidated financial statements in accordance with IFRS Accounting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements and 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 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 and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements and the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements and 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 ISAs 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 separate financial statements and the consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements and 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/Group'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/Group'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 separate financial statements and 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/Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements and the consolidated financial statements, including the disclosures, and whether the separate financial statements and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements and the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reports on Other Legal and Regulatory Requirements

Information required by Regulation (EU) No. 537/2014 of the European Parliament and the Council

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 14 June 2023 and our uninterrupted engagement has lasted for 10 years. The Company became a public interest entity in 2020.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the separate financial statements and the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 April 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the notes to the separate financial statements and notes to the consolidated financial statements.

Report on Compliance with the ESEF Regulation

We have conducted a reasonable assurance engagement on the verification of compliance of the financial statements included in the annual financial report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation") that apply to the financial statements.

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of the separate financial statements and the consolidated financial statements in compliance with the ESEF Regulation. Inter alia, the Company's Board of Directors is responsible for:

- The design, implementation and maintenance of the internal controls relevant for the application of the requirements of the ESEF Regulation;
- The preparation of the separate financial statements and the consolidated financial statements included in the annual financial report in the valid XHTML format; and
- The selection and use of XBRL mark-ups in line with the requirements of the ESEF Regulation.

Auditor's Responsibilities

Our task is to express a conclusion whether the separate financial statements and the consolidated financial statements included in the annual financial report are, in all material respects, in compliance with the requirements of the ESEF Regulation, based on the audit evidence obtained. Our reasonable assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and scope of the selected procedures depend on the auditor's judgment. A reasonable assurance is a high level of assurance; however, it is not a guarantee that the examination conducted in accordance with the above standard will always detect a potentially existing material non-compliance with the requirements of the ESEF Regulation.

As part of our work, we performed the following procedures:

- We obtained an understanding of the requirements of the ESEF Regulation;
- We obtained an understanding of the Company's internal controls relevant for the application of the requirements of the ESEF Regulation;
- We identified and evaluated risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- Based on this, we designed and performed procedures responsive to those risks and aimed at obtaining a reasonable assurance for the purposes of expressing our conclusion.

The aim of our procedures was to assess whether

- The financial statements included in the annual financial report were prepared in the valid XHTML format;
- The disclosures in the consolidated financial statements were marked up where required by the ESEF Regulation and all mark-ups meet the following requirements:
  - XBRL mark-up language was used;
  - The elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with Annex IV to the ESEF Regulation; and
  - The mark-ups comply with the common rules for mark-ups pursuant to the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Company's separate financial statements and the consolidated financial statements for the year ended 31 December 2023 included in the annual financial report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 23 April 2024

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Martin Tesař
registration no. 2030