Annual Report

CZ GROUP

CZG - Česká zbrojovka Group SE

CZ GROUP

CZ

CZ-USA

CZ EXPORT

4M TACTICAL

BRNO RIFLES

SPUHR

VIBROM

1. Introduction

CZG - Česká zbrojovka Group SE („CZG“ or „the Company“) and together with its consolidated subsidiaries („the Group“) is one of the leading European producers of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian uses. Its products are marketed and sold under the Česká zbrojovka, CZ-USA, Dan Wesson, Zbrojovka Brno and 4M Systems brands.

Its history dates back to 1936 when the Česká zbrojovka firearms factory was established in Uherský Brod. The factory was built prior to WWII by the Czechoslovak state with the strategic aim of moving firearms production further away from the German border. It was one of the largest and most modern armaments production facilities in Europe. The factory’s production of a full range of firearms started to develop gradually after WWII, resulting in strong product positioning in all major segments of the firearms market.

In 1997, CZ-USA was established in the United States to handle local distribution, sales and service of firearms. In 2004, CZG acquired the firearms division of Zbrojovka Brno and, subsequently, it acquired Dan Wesson Firearms through CZ-USA in 2005. In May 2020, the Company acquired a minority stake in Spuhr i Dalby AB, a Swedish manufacturer of optical mounting solutions for weapons.

As of 31 December 2020, CZG had an average recalculated headcount of 1,673 people, based in the Czech Republic, United States and Germany. Since October 2020, CZG´s shares are traded on the Prague Stock Exchange. The majority shareholder is Česká zbrojovka Partners SE with a 90.76% stake, the rest is free float.

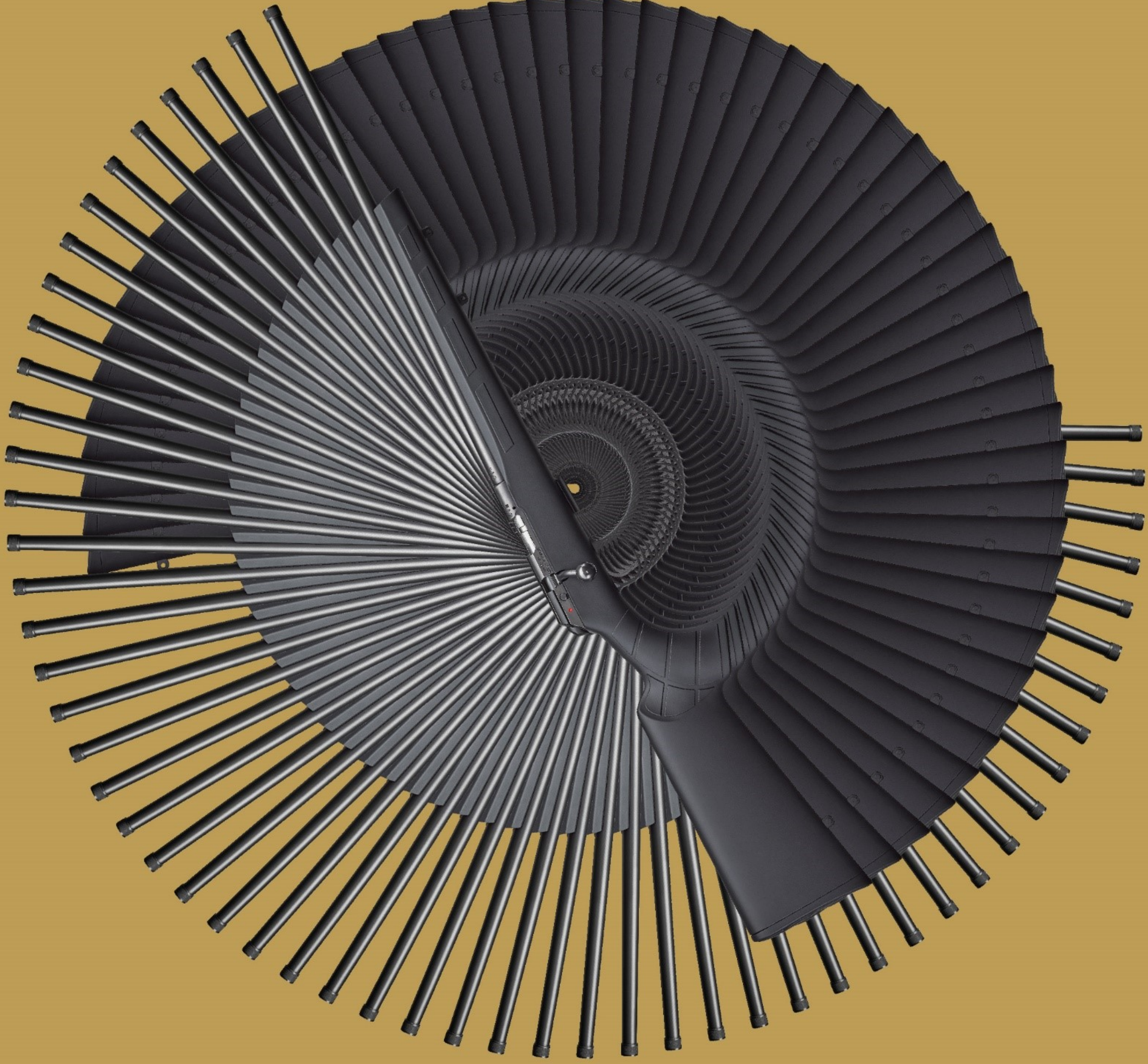
2. Key Financial Indicators in 2020

Consolidated Statement of Profit or Loss
and Other Comprehensive Income (consolidated, audited)

(CZK thousands)	For the year ended 31 December		Change in %
	2020 (audited)	**2019**	
Revenues from the sale of own products, goods and services	6,819,673	5,958,742	14.4%
There of: Production, Purchase and Sale of Firearms and Accessories Segment	*6,704,434*	*5,876,851*	*14.1%*
There of: Other Segment	*124,672*	*81,891*	*52.2%*
Operating profit	1,056,319	943,710	11.9%
Profit before tax	851,023	912,455	(6.7%)
Profit for the period from continued operations	676,571	734,119	(7.8%)
Post-tax profit from discontinued operation	-	15,192	n/a
Profit for the period attributable to:			
Owner of the parent	672,948	743,276	(9.1%)
Non-controlling interests	3,623	6,035	(40.0%)
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	21	25	(16.0%)
Diluted	21	25	(16.0%)

Consolidated Statement of Financial Position (consolidated, audited)

(CZK thousands)	As of		Change in %
	31 December 2020	**31 December 2019**	
Total assets	8,787,551	7,548,575	16.4%
Total equity	4,522,686	3,468,961	30.3%
Total liabilities	4,264,865	4,079,614	4.5%
Total liabilities and equity	8,787,551	7,548,575	16.4%



3. Key Events in 2020

January 2020	An award for Česká zbrojovka a.s. in the prestigious Exporter of the Year contest
	The production of components for automotive and aviation industry was spun off outside of the Group
April 2020	Česká zbrojovka signed a framework contact worth up to CZK 2.35 billion with the Czech Army
May 2020	Shares of CZG listed on the Prague Stock Exchange (technical listing)
	CZG – Česká zbrojovka Group SE acquired a minority stake in Swedish Spuhr
	CARDAM provided the Ministry of Health with the first masks against COVID-19
September 2020	CZG announced the public offering of its shares
October 2020	Initial Public offering of CZG´s shares completed CZG – Česká zbrojovka Group SE raised CZK 812,000,000 in public offering of its shares
November 2020	Changes in the Board of Directors. Ladislav Britaňák was replaced by Jan Zajíc, new CEO of Česká zbrojovka, a.s.
	CZG announced exclusivity for negotiation about potential acquisition of Colt

4. Letter from the CZG President

Ladies and gentlemen,

The year 2020 was a remarkable one from many perspectives. The COVID-19 pandemic brought many organisational and logistical challenges with it. I am happy to note that we tackled all of them successfully and CZG achieved record results, underlined by the launch of several new products and strong orders. In June, CZG marked another important milestone in its history by listing its shares on the Prague Stock Exchange. We took this step to demonstrate our commitment to transparency and to accelerate our international expansion. We will use the proceeds to fund the acquisition of Colt Holding Company LLC ("Colt"), which we announced in February 2021 and which we expect to be completed in the second quarter of 2021 once the transaction receives regulatory approval.

The Coronavirus pandemic tested our institutional resilience, operational flexibility, and personal responsibility. We focused on protecting the health of our employees while maintaining production and keeping the distribution channels open. Thanks to the efforts of all our employees and our partners across the world, CZG registered a record performance in 2020. Compared to the year 2019, when CZG generated revenues of CZK 5.96 bn, the company recorded an increase of 14.4 % and generated revenues of CZK 6.82 bn in 2020. The EBITDA[1] of CZG grew by 11.9 % to CZK 1.47 bn compared to the year 2019. The operating profit of CZG

[1] Alternative Performance Measure, see Chapter 19

increased y-o-y by 11.9 % reaching CZK 1.1 bn. The firearm units sold increased by 24.9 %, respectively, compared to 2019, reaching 467,463 firearm units sold.

Regionally, we grew in the United States, the Europe (excluding the Czech Republic), Africa and Asia. The U.S. market continues to be the most important, with 66.1 % of the company's 2020 revenues generated in the U.S.A., which represents an increase of 49.3 % to CZK 4.51 billion, mainly as a result of high demand on the civilian market. Revenues in Europe (excluding the Czech Republic) increased by 12.4 % to CZK 936,257 million in 2020, with 13.7 % of the company's 2020 revenues generated in the EU region. Although we registered a decrease of revenues in the Czech Republic, we expect a turnaround in 2021, as we start fulfilling the orders by the Czech Army within the framework contract signed in 2020.

I consider our results to be a remarkable success, especially in light of the global impact of the COVID-19 pandemic. It speaks volume about the dedication of our employees, the strength of our business model, and the overall market position of the CZ brand. We witnessed the positive impact of organisational changes we undertook at the beginning of the year, when CZG Board of Directors endorsed the creation of an overarching CZG Sales organisation under the purview of our daughter company CZ Export. The newly structured Sales team managed to navigate the numerous logistical challenges caused by the interruption of the global distribution network and was able to deliver our products to our customers. We are also starting to see the benefit of Sales and Product being under one roof, with better and faster connection between market demands and product development.

The admission of CZG shares on the Prime Market of the Prague Stock Exchange took place on 1 June 2020 in the form of a so-called technical listing without a prior public offering. Trading of shares started on 2 October. The Board and I are very pleased about the steady growth of CZG share price since the listing, supported by positive news such as the good financial results of CZG for the first nine months of 2020 and the signing of exclusivity for the acquisition of Colt. The increase of the share price has continued at the beginning of 2021. We welcome our shareholders' trust and support and we strongly believe in the future increase of the value of CZG, as we execute our strategy.

We decided to become a publicly listed company to demonstrate our strong commitment to transparency and responsible corporate governance and to further strengthen our credibility towards our partners, especially in the military and law enforcement segment. Furthermore, the entry on the capital market aimed at obtaining financing for our development plans, with the paramount goal of acquiring a production capacity in the United States.

We will use the proceeds from the successful listing of CZG shares to finance the acquisition of Colt Holding Company LLC, the parent company of U.S. firearms manufacturer, Colt's Manufacturing Company LLC as well as its Canadian subsidiary, Colt Canada. The transaction is subject to regulatory approval but is anticipated to close in the second quarter of 2021. The CZG-Colt merger is a strategic step for both companies. The acquisition of Colt, an iconic brand and a benchmark for the military, law enforcement and commercial markets globally, fits perfectly in our strategy to become the leader in the firearms manufacturing industry and a key partner for the armed forces. We are proud to include Colt, which has stood shoulder-to-shoulder with the U.S. Army for over 175 years, in our portfolio. We believe in the successful connection of our corporate cultures, the proven track record of the current management team and the complementary nature of the CZ and Colt brands. The combined group will have revenues of more than USD 500 million and presents a real small arms powerhouse. The experience of CZ and Colt management will further strengthen both brands and ensure CZ and Colt deliver top quality products and solutions to all our customers. With this strategic move, CZG will acquire significant production capacity in the United States and Canada and substantially expand its global customer base. Colt is a traditional supplier to global military and law enforcement customers. Among others, Colt is a long-term supplier to the U.S. Army (which relationship dates back over 175 years) and, through its Canadian subsidiary, Colt a designated exclusive supplier of small arms to the Canadian military.

We monitor opportunities for further growth not only in the small arms segment, as represented by the acquisition of Colt, but also in complementary areas. In accordance with this strategy, CZG acquired a minority stake in Spuhr i Dalby AB, a Swedish manufacturer of optical mounting solutions for firearms, in May 2020. This acquisition creates mutual synergies in terms of products, customers and geographical presence. We believe that the connection of the CZ and Spuhr brands will further strengthen our position on the market and lead to innovation for the benefit of our customers.

CZG and its daughter companies continued to win business throughout the year. In the Military and Law enforcement market, we marked several successes. Česká zbrojovka signed a framework agreement with the Czech Army to supply up to 39,000 small arms and ammunition worth up to CZK 2.35 billion by 2025. We are also very pleased about the fruitful collaboration with the Hungarian state company Arzenál in the form of the transfer of technology programme, thus fulfilling the goal of rearming the Hungarian armed forces with four types of CZ products. Furthermore, I would like to highlight our success in the competitive tenders for the delivery of pistols to the Military Police of the Federal District of Brasilia with our CZ P-10 and, as well as for the delivery of assault rifles and pistols to the Kenya Wildlife Service with our BREN 2 and P-10, respectively. Our daughter company 4M Systems was also successful in Kenya, whereby the Kenyan Police ordered 3,000 sets of ballistic vests and helmets.

We continued to register strong sales on the civilian market, despite the worldwide transportation disruptions and temporary closure of some of our partners caused by the coronavirus pandemic and the associated local regulations. We also focused on implementing the CZ Configurator in other markets. After its launch in the Czech Republic, it is now available also in Slovakia, Poland and Germany, and we will not stop there. The CZ Configurator helped our sales during the time of closed stores due to COVID-19.

We continue investing in Research and Development in order to deliver state-of-the-art products and maintain our competitive edge. More than 100 of our employees are directly involved in R&D projects and a number of additional employees work on R&D-related tasks. Thanks to this effort, we were able to launch several new products that have already gained appreciation by our customers, specifically the CZ P-10 M, or the Micro, which has completed the defence and service striker-fired polymer frame P-10 pistol series; several optics and suppressor-ready models of the CZ P-10; three models of the new CZ 457 rimfire rifle; the CZ TS 2, which is a new sport pistol series optimized for competing in the IPSC Standard Division; and an addition to the CZ BREN 2 with the CZ BREN 2 Ms Carbine model.

The CZG R&D prowess was also demonstrated by the involvement of our experts from CARDAM in the design and production of a protective mask against the coronavirus. The mask obtained the European certification on the level of FFP3 proving the highest level of protection. The Ministry of Health of the Czech Republic bought a total of 50,000 masks, which means that the mask is supporting those on the front line of the coronavirus pandemic.

As in previous years, CZG supported many goodcase projects, including the Czech Army's Military Solidarity Fund and the Policemen and Firefighters' Foundation, as well as many local activities falling under the “good neighbor” policy. CZG also donated face masks, gloves and other sanitary products to help local authorities and organisations tackle the COVID-19 pandemic.

In conclusion, let me highlight the key initiatives on which we will focus in 2021. Following the regulatory approval of the Colt transaction, which we expect to be completed in the second quarter of 2021, we will dedicate our full attention to the successful integration between CZG and Colt. It will be a significant undertaking and we will spare no effort to ensure this project is a success, so that the joint CZG-Colt Group and our investors can reap the benefits of this very special connection in the years to come.

We will also continue to investigate opportunities for further expansion through acquisitions, joint ventures, or other strategic initiatives in the key complementary segments, such as ammunition production, optics and opto-electronics. Finally, we will invest in our people and in technology, to be at the very forefront of technological development in our field. We aim to continue to be an attractive employer, supporting diversity, encouraging employees’ growth, and attracting new talent.

Let me thank our of employees for your dedication, engagement, and perseverance throughout the challenging and exciting year 2020.

LUBOMÍR KOVAŘÍK

President and Chairman of the Board
CZG – Česká zbrojovka Group SE

5. *Group Performance*

a. Market and Products

The Group's management believes the Group is one of the leading European producers of firearms for military and law enforcement, personal defence, hunting, sport shooting and other civilian use. It markets and sells its products under the CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS brands.

FIREARMS AND ACCESSORIES BUSINESS

The Group designs, produces, assembles, markets and sells firearms. The Group addresses a broad variety of end-user customers, ranging from federal, state or local governments and agencies, including military and law enforcement units, to civilians purchasing firearms for hunting, sport shooting or personal defence purposes.

The Group produces a wide range of firearms including pistols, revolvers, assault rifles, submachine guns, grenade launchers, sniper rifles, shotguns and rim fire and centrefire rifles. The Group’s main products include the CZ 75 family models, CZ P-10, and CZ P-09/07 model pistols, the CZ Scorpion EVO 3 submachine gun, or the CZ BREN 2 assault rifle. The Group also produces components for firearms, including sights, triggers, stocks, grips and spare parts.

The Group also markets and sells a wide portfolio of tactical accessories, including tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks and firearms accessories, such as handgun holsters, magazine pouches and slings. The Group’s main accessories products include a ballistic t-shirt CZ 4M SPIRIT, a plate carrier CZ 4M RAPTOR 2.0 Modular Protection System and tactical trousers CZ 4M OMEGA.

The firearms produced by the Group can be split into the following categories: handguns and long guns.

The following table sets forth a breakdown of the Group's firearm units sold by type, for the periods indicated, excluding unregistered air rifles.

Units	2020	2019	change in %
Type of Firearm unit sold by the Group			
Long guns	161,754	142,303	13.7%
Handguns	305,709	231,973	31.8%
Total Firearms Units	**467,463**	**374,276**	**24.9%**

HANDGUNS

The portfolio of the Group's handguns is formed primarily by pistols. The Group's handguns portfolio also includes revolvers; however, their impact on the Group's revenues is minor. The production of pistols has formed the bedrock of the Group's production portfolio since 1957 and includes dozens of different designs and modifications. The Group's most successful pistol model is the CZ 75, which is still being produced in an improved form.

Through the acquisition of the American handgun manufacturer Dan Wesson in 2005, the Group has expanded its portfolio of handguns by adding the popular pistol models of the 1911 type. Revolvers are produced by the Group under the Dan Wesson brand. In the United States, the Dan Wesson brand is generally considered an upmarket brand due to its long-term history and revolver expertise.

CZ Shadow 2

CZ Shadow 2 represents the second generation of a standard-sized, all-metal competition pistol which was developed in collaboration with Česká zbrojovka's shooting team participating in International Practical Shooting Confederation ("IPSC) competitions. Recently, the CZ Shadow 2 family was extended by a top-tier model Shadow 2 Orange. The CZ Shadow 2 is primarily marketed to a civilian customer base including sportsmen in particular. It is particularly popular among IPSC competitors worldwide, but also among United States Practical Shooting Association ("USPSA and International Defensive Pistol Association ("IDPA members and competitors.

CZ P-07

CZ P-07 is a polymer compact pistol, designed primarily as a service firearm and for concealed carry. The CZ P-07 follows the CZ 75 P-07 DUTY, while introducing a number of innovative features, such as fiberglass reinforced thermostable polymer frame and a durable finish on the slide, barrel and other major parts. The CZ P-07 is offered in versions for military and law enforcement and for civilian use and is marketed to all types of customers, ranging from military and law enforcement to civilian customers.

CZ P-09

The CZ P-09 is a pistol designed primarily for military and law enforcement units and for personal defence. The frame of the CZ P-09 is produced from a mechanically and thermally extremely stable glass fibre-reinforced polymer material. The CZ P-09 is offered in versions for military and law enforcement customers and for civilian customers and is marketed to all types of customers, ranging from military and law enforcement to civilian customers.

CZ P-10 family

The CZ P-10 family of pistols functions on a "striker-fired principle" (i.e. hammerless pistol). They are suitable for personal defence and armed forces. The family is produced in different frame sizes to satisfy particular needs of specific client groups. The CZ P-10 C has a compact size and, as such, is suitable for concealed carry. The CZ P-10 family is produced with a mechanically and thermally stable polymer frame reinforced with glass fibre. In 2017, the CZ P-10 C was awarded the "Handgun of the Year 2017" award by the prestigious American magazine Guns & Ammo. The CZ P-10 C is offered in special,

	slightly tuned and modified versions, for both the military and law enforcement market and the civilian market.

The Group's portfolio of handguns includes handguns for both military and law enforcement use and civilian use. The Group's handgun products are used by a wide customer base, ranging from federal, state or local governments and agencies, including military and law enforcement units, to civilians purchasing firearms for hunting, sport shooting or personal defence purposes.

Handguns can be split into pistols and revolvers with pistols being further split into steel frame pistols (e.g. CZ 75 Family and Shadow 2) and polymer frame pistols (e.g. CZ P-07, CZ P-09 and CZ P-10) which can be further split into hammer fired and striker fired pistols. The Group covers all main markets of handguns due to, among other things, its capacity to produce steal frame pistols

The table below contains most notable products in the category of handguns for the Group:

CZ 75 family	Pistols in the CZ 75 family are semi-automatic handguns based on the locked breech principle. The CZ 75 line is equipped with a large-capacity double-column magazine. The CZ 75 family line is directed at all types of customers, including military and law enforcement customers and civilian customers. The CZ 75 family also includes the CZ 75 Compact which is an all-metal compact-size pistol designed primarily as a service firearm and for concealed carry. CZ 75 Compact is primarily marketed to military and law enforcement customers.

LONG GUNS

The Group's long guns are comprised of production for military and law enforcement use (assault rifles, submachine guns and sniper rifles) as well as civilian use (especially rim fire and centrefire rifles, shotguns or combos), which means that the Group covers all the main markets for long guns up to a certain calibre.

The table below contains most notable products in the long guns category for the Group:

CZ Scorpion EVO 3	The CZ Scorpion EVO 3 is a modern submachine gun chambered in 9x19 millimetre ammunition rounds. The CZ Scorpion EVO 3 enables the adjustment of fire in fully-automatic fire, three-round bursts, and single shots. The CZ Scorpion EVO 3 is produced in versions for military and law enforcement and for civilian use and while it is primarily marketed to military and law enforcement customers, the semi-automatic version is popular with civilian customers in the United States.
CZ BREN 2	The CZ BREN 2 is a multi-calibre assault rifle. The CZ BREN 2 is the successor of the CZ 805 BREN. The system of the CZ BREN 2 is based on a tried-and-tested gas system with a three-position adjustable regulator of the piston mechanism. The materials used in this firearm are fire-proof or highly flame-resistant and impact-resistant with a high resistance against mechanical damage. The CZ BREN 2 is

primarily marketed to military and law enforcement customers. A modified CZ BREN 2 as a submachine gun is also produced for civilian use. Due to the use of different components, the civilian version cannot be modified for automatic use.

CZ 457

The CZ 457 is the successor of the popular model CZ 455, which is being discontinued and replaced by the advanced CZ 457 model. The CZ 457 is a magazine-fed bolt-action rim fire rifle. The CZ 457 has hammer-forged, hand-lapped steel barrels, a trigger that is adjustable for weight of pull and the capability to interchange barrels in different contours and calibres by simply removing two set screws from the receiver. The CZ 457 Synthetic has an ambidextrous polymer stock that suits both right – and left-handed shooters. The CZ-457 LUX features the classic design of a European hunting rifle. The CZ 457 LRP is tuned to hit targets at extreme distances. The CZ 457 is marketed to civilian customers including, primarily, sportsmen, hunters and outdoorsmen.

CZ 557

The CZ 557 is a universal centrefire rifle with a universal system of sights. It is equipped with adjustable open sights on the barrel and a weaver rail on the receiver. The CZ 557 is primarily marketed to civilian customers including, primarily, sportsmen, hunters and outdoorsmen.

TACTICAL ACCESSORIES

In 2016, the Group expanded its product portfolio to include tactical accessories. Within the Group, 4M SYSTEMS designs, markets and sells a wide ranging portfolio of tactical accessories, including tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks, and firearms accessories, such as handgun holsters, magazine pouches and slings. The Group's tactical accessories target a variety of end-user customers, ranging from federal, state or local governments and agencies, including military and law enforcement units, to civilians purchasing tactical accessories for hunting, sport shooting or personal defence purposes. The sale of tactical accessories enables the Group to provide its customers with the full set of weapon equipment and such cross-selling is particularly welcomed by military and law enforcement customers.

The Group's core competence lies in the design, precise machining and production of firearms. The Group therefore made a strategic decision to outsource most of the production of tactical accessories to external suppliers. The Group's key external suppliers of tactical accessories are located primarily in the Czech Republic, the Socialist Republic of Vietnam, the People's Republic of China and the Republic of Korea.

The table below contains most notable products in the category of the tactical accessories for the Group:

CZ 4M SPIRIT

The CZ 4M SPIRIT is a ballistic t-shirt for concealed wearing. The design of the t-shirt is geared towards achieving the maximum stealth required by secret operations for personal protection. The CZ 4M SPIRIT is primarily marketed to military and law enforcement units.

CZ 4M RAPTOR 2.0 Modular Protection System

The CZ 4M RAPTOR 2.0 is a plate carrier and compact modular system designed specifically for special units. It is a lightweight and mobile plate carrier. The CZ 4M RAPTOR 2.0 is the result of continuing development of plate carriers of the RAPTOR type which members of the Czech Army's 601st Special Forces Group use as their standard means of ballistic protection. The CZ 4M RAPTOR 2.0 is primarily marketed to military and law enforcement units.

CZ 4M OMEGA

The CZ 4M OMEGA tactical trousers are made of highly breathable tear-resistant material designed for a wide range of special military and security operations. The CZ 4M OMEGA is primarily marketed to military and law enforcement units.

i) Relevant Markets and Competition

The Group's broad portfolio of handguns, long guns and tactical accessories, such as ballistic vests, grenades and ammunition, enables it to serve a broad variety of firearm users, from civilians purchasing firearms for personal defence, hunting, sport shooting and other civilian uses, to federal, state or local governments and agencies, including military and law enforcement units. The Group produces a wide range of firearms, including dozens of models, in three main categories for the civilian market: (i) pistols (including, steel frame pistols and polymer frame pistols which can be further split into hammer fired and striker fired pistols), (ii) revolvers and (iii) hunting guns (which can be split into three categories: centrefire rifles, rim fire rifles and shotguns) and five main categories for the military and law enforcement market: (a) pistols, (b) submachine guns, (c) assault rifles, (d) sniper rifles and (e) grenade launchers. Moreover, the firearms the Group produces for the military and law enforcement market are available in semi-automatic versions for the civilian market.

The Group is able to meet a variety of customer requirements through a wide range of products and product customization options. For example, in order to further expand its reach to even the most demanding of civilian customers, the Group launched an online firearm configurator in October 2019, which allows customers to customize some of the Group's products. The online firearm configurator was initially available only in the Czech Republic and included the CZ P-10 pistol, the CZ Scorpion EVO 3 submachine gun in a semi-automatic version and the CZ 457 rim fire rifle. However, based on positive customer feedback and requests for additional products, the Group intends to include additional products in the online firearm configurator and also make it available to civilian customers in other Key Markets and has already expanded it to Slovakia, Poland and Germany. The Group also intends to evaluate potential applications of the on-line firearm configurator for military and law enforcement customers.

The Group operates primarily in the small firearms industry. The Group designs, produces, assembles and sells firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian use. The small firearms industry is highly competitive, and competition presents an ongoing threat to the success of the Group's business. The global market for small firearms is highly fragmented and includes hundreds of companies of various sizes and market power. The market is characterized by relatively low entry barriers for potential new market participants which further decreases the stability of the global small firearms industry.

Currently, the Group's management believes that the key market participants apart from the Group, include Blaser GmbH, Browning International S.A., Caracal International LLC, Colt's Manufacturing Company, Daniel Defence Inc., Fabbrica Di Armi Pietro Beretta SPA, Fabrique Nationale de Herstal, FRATELLI TANFOGLIO S.R.L, Glock Gesellschaft m.b.H., C.G. HAENEL GmbH, Heckler & Koch GmbH, HS Produkt d.o.o. (Springfield Armory), Israel Weapon Industries (IWI), Kalashnikov Concern, OF Mossberg & Sons, Remington Outdoor Company, SAKO Limited, Savage Arms Inc., SIG SAUER GmbH & Co. KG, Singapore Technologies Engineering Ltd., Smith & Wesson Brands, Inc., STI International Inc., Sturm, Ruger & Company, and Taurus Holdings Inc. In recent years, several established companies including Remington Outdoor Company and Colt's Manufacturing faced financial challenges due to, among other things, the tight competitive environment, and both companies went through reorganization procedures under United States bankruptcy laws in 2018 and 2015, respectively, and Remington Outdoor

Company entered reorganization procedures under United States bankruptcy laws once again in 2020.

The Group competes with the above-mentioned companies primarily for large contracts to supply military and law enforcement customers around the world (excluding China and/or other embargoed countries). This typically includes long tendering processes and competition for these contracts is mainly driven by innovation, range of products, quality testing and price. Some of the Group's competitors are better established in targeting military and law enforcement customers than the Group due to their longer operating history in this area and larger base of established products and customers, wider recognition among military and law enforcement customers, and larger resources available to support higher costs of the contracting process. In order to increase its market presence in the military and law enforcement market segment, the Group needs to deploy significant resources to acquire the relevant track record and experience and overcome disadvantages of being the late mover. The civilian market segment is occupied by a large number of smaller producers who, although without significant market power individually, collectively represent important competition to the Group. In the civilian market segment, competition is largely driven by a combination of price, brand recognition and product innovation.

The Group's ability to compete effectively depends on, among other things, its ability to anticipate its customers' needs and provide products to meet those needs, adapt quickly to new market and industry trends and regulatory developments, integrate modern materials into its products, differentiate its products from its competitors' offerings, enhance and upgrade its existing products, sustain and promote the strength of its brands and on its ability to achieve these goals without compromising the quality of its product while increasing production efficiency. Moreover, certain countries, including the Unites States, impose specific requirements for domestically produced parts or other content in products sold to governmental entities or even complete production localization, which makes it even more challenging and expensive to compete in such markets. For instance, the United States adopted statutes and other regulation relating to federal procurement or federal grants including those that refer to "Buy America" or "Buy American". These require, or provide a preference for, the purchase or acquisition of goods, products, or materials produced in the United States, including iron, steel, and manufactured goods.

The Group's main competitors are small arms and light weapons producers. The Group's management believes the following weapons producers are the Group's competitors in its key markets.

- FN Herstal (Belgium) – manufacturer of products including rifles, shotguns and handguns for clay shooting, big game hunting, tracker and practical shooting, among others;
- Fabbrica Di Armi Pietro Beretta SPA (Italy) – manufacturer of shotguns, pistols, rifles and premium guns for a variety of purposes such as hunting, competition sports and target shooting among others. The Group believes their product portfolio is the most comparable to the Group's in terms of breadth of offering;
- Glock Gesellschaft m.b.H. (Austria) – producer of pistols for the civilian market and the military and law enforcement market and the largest importer of firearms to the United States;
- Heckler & Koch GmbH (Germany) – producer of small firearms mainly for the military and law enforcement market;

- Kalashnikov Concern (Russia) – largest firearms manufacturer in Russia, producing pistols, assault rifles, sniper rifles and sporting rifles for the civilian market and the military and law enforcement market;
- O.F. Mossberg & Sons (U.S.) – manufacturer of rim fire rifles, centrefire rifles and shotguns, among others for the civilian market and the law enforcement market;
- Savage Arms Inc. (formerly part of Vista Outdoor Inc.) (U.S.) – manufacturer rim fire rifles, shotguns, centrefire rifles and modern sporting rifles for the civilian market;
- SIG SAUER GmbH & Co. KG (Switzerland) – producer of pistols and assault rifles mainly for the military and law enforcement market, which also occupies a very strong position in the U.S. civilian market (repeatedly ranks among the top of five most sold manufacturers in terms of revenue)[2]. In 2020, Sig Sauer announced its intention to close its European factory, located in Germany[3] and
- Taurus Holdings Inc. (Brazil, U.S.) – manufacturer of revolvers and pistols for the civilian market and the military and law enforcement market.

ii) Markets

The Group designs, produces, assembles and sells firearms and tactical accessories for a wide range of customers. Key market customers include the civilian market customers and the military and law enforcement market customers. The Group sells its products worldwide, but the most important markets for the Group's products are the United States, the Czech Republic and rest of Europe.

KEY GEOGRAPHIC MARKETS FOR THE GROUP

The United States represented 50.7 %, the Czech Republic represented 22.9 % and Europe (excluding the Czech Republic) represented 14.0 %, of the Group's revenues in 2019. The United States represented 66.1 %, the Czech Republic represented 4.8 % and Europe (excluding the Czech Republic) represented 13.7 %, of the Group's revenues in 2020. As a traditional Czech firearms producer, the Group continues to have a particularly significant presence in the Czech Republic.

KEY CUSTOMER MARKET FOR THE GROUP

The Group produces a wide range of firearms including pistols, revolvers, assault rifles, submachine guns, grenade launchers, sniper rifles, shotguns, and rim fire and centrefire rifles as well as components for firearms, including sights, triggers, stocks, grips and spare parts. The Group also markets a broad portfolio of tactical accessories, including firearms accessories, tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks and firearms accessories, such as handgun holsters, magazine pouches and slings. There is a wide range of applications for the Group's products including for civilian use and for military and law enforcement use. The expected global

[2] Source: Gunbroker
[3] Source: https://sigsauer.de/

demand for small firearms was approximately 1.09 billion units in 2019 and is expected to rise to 1.26 billion units in 2023. The civilian market represents the largest consumer of small firearms with approximately 62.0 % of volume demand and the military and law enforcement market represents approximately 38.0 % of volume demand[4].

MARKET DRIVERS

The civilian market includes personal defence, hunting, sport shooting and other civilian use. As shown in the chart titled "Value of global firearms market 2017-2023, by application", civilian demand for firearms for personal defence is expected to grow. According to the BIS Small Arms Market Report, the increase is a result of the increasing number of female shooters purchasing firearms for personal defence because of rising security concerns in developed markets, mainly North America and Europe. In addition, the BIS Small Arms Market Report, expects a growing number of participants in hunting and shooting sports to drive civilian demand (from a market value of USD 1.48 billion in 2017 to a forecasted market value of USD 1.75 billion in 2023) with a medium impact over the next one to two years and a high impact over the next three to five years.

The Group's customers in the military and law enforcement market are federal, state or local governments and agencies. According to the BIS Small Arms Market Report, the military and law enforcement market will be driven by (i) rising demand for handguns for law enforcement with a high impact over the next one to two years and a high impact over the next three to five years and (ii) an increase in defence expenditures with a medium impact over the next one to two years and a high impact over the next three to five years. There has been an increase in the overall defence spending of various countries all over the world. The growing defence budget of the different countries is playing a major part in the defence modernization program adopted for strengthening their military forces. Global military expenditure is estimated to have reached USD 1,922.10 billion in 2019 (Source: SIPRI Military Expenditure Database), its highest level since 1988[5]. The 15 countries with the highest military expenditures in 2019, include the United States (USD 719 billion), China (USD 266 billion), France (USD 52 billion), Germany (USD 51 billion), the UK (USD 50 billion) and Italy (USD 28 billion) (at constant 2018 prices and exchange rates).

iii) Marketing and Customers

The Group believes that its brands are globally recognized among firearms customers and valued especially for good craftsmanship, which is backed by the Group's more than 80 years of experience in the firearms business and the iconic status of some of its products. For example, the Shadow 2 OR pistol from CZ-USA has been named as the best Full Size Semi-Automatic Handgun of the year by the Ballistic Magazine's annual Ballistic's Best Awards in 2020[6]. In 2019, the CZ P-10S Optics Ready line was awarded On Target Magazine Editor's Choice Award[7] and Gun News Daily ranked the CZ 75 pistol third among the ten best handguns

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[4] Source: BIS Small Arms Market Report
[5] Source: SIPRI Trends
[6] Source: The Outdoor Wire
[7] Source: On Target Magazine

for home defence and among the most reasonably priced[8]. Gun News Daily also described the CZ 75 to be the world's most copied pistol and the archetypal example of a "Wonder Nine" pistol, which are nine millimetre semi-automatic handguns with a double stack high-capacity magazine and all steel frame[4]. In 2018, the CZ Scorpion EVO 3 S1 was awarded Editor's Choice for Best Pistol-Caliber Carbine by Ballistic's Best magazine[9] and, in 2017, it was awarded TTAG's Editor's Choice Award for best new firearm of 2015[10].The Group has sold over one million CZ 75 pistols and the CZ P-10 C was awarded the "Handgun of the Year 2017" award by the prestigious American magazine Guns & Ammo. The Group's firearms are also used by numerous military and law enforcement customers, such as armed forces in the Czech Republic, Hungary, Poland, Slovakia, Portugal, Romania, Jordan and Serbia; police and border units in the Czech Republic, Colombia, Kenya, Indonesia, Malaysia, Mexico, Poland, Romania, Slovakia, Slovenia, Singapore, Uzbekistan, and Vietnam; and France's counterterror special force, the Groupe d'intervention de la Gendarmerie nationale.

The Group's commitment to the highest industry quality standards and technological prowess are also underlined by successes of the Group's products in expert shooting events. For example, in October 2019, David Miller and a CZ-USA team of five shooters set a new Guinness World Record of 14,167 sporting clays shot by a team of five in 12 hours. They used the CZ 1012 shotgun, which uses the energy of recoil to eject the spent shell and load the next round and was proved by being put through the wringer of firing over 5,000 rounds without any cleaning or lubrication. In addition, according to the NRA's Shooting Sports USA publication, the Group's CZ Shadow 2 was the most popular handgun in the production division at the 2018 USPSA National Championships, and was used by 48 % of participants, while the closest competitor-produced weapon was chosen by only 20 % of participants in the production division.

In addition, in 2019, the Group was selected to represent the Czech Republic in the European Defence Agency's project titled Additive Manufacturing of Metallic Auxetic Structures and Materials for Lightweight Armour ("AMALIA"). The Group supports AMALIA's aim to enhance the performance of the EU ballistic and blast protections by providing R&D support and manufacturing samples.

The Group's products are marketed to the military and law enforcement markets and the civilian markets under multiple brands including CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS.

Military customers include members of regular army units and members of various military special forces units. Law enforcement customers include, among others, members of the federal and municipal police, members of the border patrol, members of the prison service and VIP protection units. Civilian customers include hunters and outdoor enthusiasts, sport shooters, including those competing in competitions held by the IPSC, the USPSA, the IDPA, as well as other competitions, such as various rim fire rifle and centrefire rifle cup competitions. The last category of civilian customers is identified as hobby, home protection and personal defence users.

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[8] Source: Guns News Daily: 10 Best Handguns

[9] Source: Ballistic's Best

[10] Source: TTAG

The Group's marketing campaigns and initiatives are based on a careful evaluation of each market, its customer groups and possible legal limitations within that market. The Group's marketing analysts periodically assess market potential and carry out in-depth research which is then used by the Group's marketing communications specialists and external marketing agencies to create effective marketing materials relevant to a specific end-customer group. In the United States, marketing and advertising materials undergo a special review to ensure their content does not unduly expose the Group to liability under certain novel legal theories currently being litigated in various US courts. The Group sells mainly through the following distribution channels: wholesale, tenders, direct sale and on-line. The Group sells mainly to wholesalers and distributors for the civilian market and mainly by way of tenders to military and law enforcement customers, but also directly to end-user customers via the Group's two company retail stores (located in the Czech Republic) and via its own e-shop for firearms accessories.

iv) Suppliers

The Group's production of firearms relies on external suppliers of materials, parts, and even complete products (i.e. firearms, accessories, ammunition etc.). The Group utilizes numerous raw materials, including steel, wood, aluminium and certain alloys. The Group also utilizes various types of supplied components, especially polymers and plastic firearms parts, pistol magazines, machining firearms parts and metal powder injection moulding ("MIM") parts for handguns.

The Group maintains relationships with more than 2,000 suppliers of various parts, commodities, materials and services via a combination of short-and medium-term contracts, some of which contain minimum purchase requirements (primarily those with utility companies), but often without volume requirements or fixed prices, with a variety of suppliers, as well as long-term relationships with vendors. For example, the Group works with Rheinmetall Waffe Munition GmbH for the development and supply of medium and high caliber ammunition as well as pyrotechnic products. The Group sources complete sporting and hunting shotguns from two Turkish suppliers, Huglu (Huğlu Av Tüfekleri İmali Alım-Satım Küçük Sanat Kooperatifi temsilciler) and Akkar (Akkar Silah Sanayi), for sale in the United States firearms market. All such Turkish-made shotguns are marketed and sold under the CZ-USA brand. There is no written agreement between CZ-USA and Akkar or Huglu. The cooperation between Akkar and CZ-USA started in 2012 on a non-exclusive basis. The cooperation between Huglu and CZ-USA originally started in 2003.

The Group deems the following contractual relationships to be the most significant for the Group's production process: supplies of pistol magazines, machining firearms parts (mainly slides) and MIM parts for handguns and rifles.

v) Regulation

FIREARMS REGULATION

All segments of the Group's business are subject to applicable Czech and foreign laws and regulations. This section is not meant to be a comprehensive or complete description of the entire regulatory framework accompanying and/or pertaining to the main determinants of the Group's business, but a summary only intended to underline the main legal acts and regulatory requirements necessary to be fulfilled in order for the Group to operate its business.

RELEVANT CZECH AND EU LEGISLATION

Manufacturing and trading activities relating to firearms in the Czech Republic are primarily subject to the Czech Weapons Act, which implements the relevant EU legislation, in particular Council Directive 91/477/EEC of 18 June 1991 on control of the acquisition and possession of weapons, as amended (the "Firearms Directive"), and Trade Licensing Act. Further, Act No. 156/2000 Coll., on the authentication of certain types of firearms, ammunition and pyrotechnics (the "Firearms Authentication Act") sets forth the obligations of firearm manufacturers, importers, distributors and other persons related to the firearm authentication procedure conducted by the Czech Authority for Firearms and Ammunition Testing. The procedures conducted by the Czech Authority for Firearms and Ammunition Testing is further regulated by Ministerial Decree No. 335/2004 Coll., on the implementation of certain provisions of the Firearms Authentication Act.

Regarding EU legislation, the Firearms Directive was amended by Directive (EU) 2017/853 of the European Parliament and of the Council of 17 May 2017 (the "Gun Ban Directive"). The Czech Republic has not implemented the Gun Ban Directive into Czech law despite its implementation deadline in September 2018. In July 2019, the European Commission issued a reasoned opinion urging the Czech Republic and other member states that failed to transpose the Gun Ban Directive into their respective national laws to do so as soon as possible. This step follows the letters of formal notice, which the European Commission sent to the relevant member states in November 2018. The member states concerned have two months since the day of notification to notify back the European Commission of the measures taken. Otherwise, the European Commission may decide to take further steps before the Court of Justice of the EU.

In response to the Gun Ban Directive, a draft amendment to the Czech constitutional act No. 2/1993 Coll., the Charter of Fundamental Rights and Freedoms, prepared by the Senate of the Parliament of the Czech Republic, has been submitted to the Czech Parliament. The proposed draft amendment introduces a right to defend oneself as well as the lives of others with a weapon as a constitutional right.

MANUFACTURING AND TRADE LICENSES

All persons conducting business relating to manufacturing or trading of firearms are required to obtain the following licenses: (i) a trade license under the Trade Licensing Act, (ii) an arms licence under the Czech Weapons Act and (iii) an export licenses under Act No. 228/2005 Coll., on control of trade in products whose possession is restricted for security reasons in the Czech Republic and the Act on Trade in Military Materiel.

HANDLING OF FIREARMS

Handling of firearms (both military and non-military) is primarily subject to the Czech Weapons Act and Governmental Regulation No. 217/2017 Coll., on security requirements for weapons, ammunition, black hunting dust, smokeless dust, matches and ammunition depot (the "Security Requirements Regulation"). The Security Requirements Regulation further elaborates requirements under the Czech Weapons Act on handling with firearms (both military and non-military). Compliance with the Czech Weapons Act and the Security Requirements Regulation is overseen by the relevant police office; in this regard the relevant police office may, in particular, require access to the documentation relating to controlled firearms, request the submission of the relevant security material or to oversee the destruction thereof.

U.S. FIREARMS REGULATION

In addition to Czech and EU regulation, the U.S. manufacture, sale, and purchase of firearms are subject to extensive federal, state, and local government regulation. The primary federal laws and regulations are: the Gun Control Act of 1968, the National Firearms Act of 1934, the Arms Export Control Act of 1976, the International Traffic in Arms Regulations and the Export Administration Regulations, which have been amended from time to time.

Imports and exports of defence articles and services to and from the United States and U.S. persons are subject to the U.S. International Traffic in Arms Regulations ("ITAR") and the U.S. Export Administration Regulations (the "EAR"), which restrict and control the flow of defence and military-related items and services, including firearms, from, and through the United States and U.S. persons. The Group's sales that do not involve the flow of defence articles, other military-related items, and services to or from the U.S. or U.S. persons, directly or indirectly, are not subject to the ITAR or the EAR .Accordingly, the Group's non-U.S. activities provide the Group a competitive advantage over its U.S.-based competitors because the Group can serve military and law enforcement customers that exclude from their tender processes any products and producers which are subject to the ITAR or the EAR (for example recent tenders in Germany and France). The Group's management believes these factors form a solid foundation for the Group's further growth.

b. Financial Performance

REVENUES

Revenues increased by 14.6%, from CZK 6.0 billion 2019 to CZK 6.8 billion in 2020, mainly due to an increase in the number of firearms sold as a result of increased demand in the United States, Europe (outside the Czech Republic) and Africa.

Regionally, revenues in the Czech Republic decreased by 76.0% to CZK 327.4 million in 2020 of reduced sales to key military and law enforcement customers in the Czech Republic and a one-time ammunition delivery in 2019, which did not recur in 2020, as well as reduced sales to civilian customers resulting from the COVID-19 pandemic related shutdown measures, which negatively impacted the availability of the Group's distribution channels. Revenues in the United States increased by 49.3%, reaching 4,506.7 million in 2020 mainly as a result of increased demand due to the COVID-19 pandemic, civil unrest and calls for to defund the police in the U.S. Revenues in Europe (excluding the Czech Republic) increased by 12.4%, to CZK 936.2 million in 2020.

Revenues in Africa increased by 212.4%, to CZK 414.6 million in 2020 due to one-time sales to a military and law enforcement customers. Revenues in Asia increased by 24.9%, to CZK 390.6 million in 2020 due to increased sales to military and law enforcement customers as well as increased sales to civilian customers. Revenues in the rest of the world (Other) decreased by 17.4%, to CZK 244.0 million in 2020 due to the negative impact on the availability of the Group’s distributions channels caused by the COVID-19 pandemic related shutdown measures.

The following table sets forth a breakdown of the Group's revenues by region for the periods indicated.

(CZK thousands)	**For year ended 31 December**		**Change in %**
	2020	**2019** (audited)	
Czech Republic	**327,419**	**1,366,980**	**(76.0%)**
United States	**4,506,751**	**3,018,113**	**49.3%**
Europe (excl. the Czech Republic)	**936,257**	**832,787**	**12.4%**
Africa	**414,641**	**132,712**	**212.4%**
Asia	**390,575**	**312,833**	**24.9%**
Other	**244,030**	**295,317**	**(17.4%)**
Total	**6,819,673**	**5,958,742**	**14.4%**

Other operating income

Other operating income decreased by 50.3% yoy and amounted to CZK 50.4 million in 2020 due to one-time royalties related to licences for the production of firearms received in 2019 that were not repeated in 2020.

Changes in inventories of finished goods and works in progress

Changes in inventories of finished goods and works in progress decreased mainly as a result of increased demand in the United States, which led to the complete exhaustion of the Group's inventory in the United States and increased production in both the Czech Republic and the United States.

Own work capitalized

Own work capitalized reached CZK 123.5 million in 2020, up by 17.7% if compared to 2019.

Raw materials and consumables used

The accounting item “Raw materials and consumables used” consists of cost of goods sold, material consumption and energy consumption. The item decreased by 5.2% yoy and amounted to CZK 2,736.0 million in 2020. Of this, the material consumption increased by 4.7% while the cost of goods sold and energy consumption decreased by 29.4% and 2.6% respectively. As a percentage of revenues, it decreased from 48.4% in 2019 to 40.1% in 2020.

Services

Services increased by 33.4% yoy reaching CZK 1,094.7 million in 2020, primarily driven by reclassification of sales commissions in the U.S. and operational and logistical costs related to measures taken to address the COVID-19 pandemic.

Personnel costs

Personnel costs increased by 16.6% yoy and amounted to CZK 1,260.1 million in 2020. The increase was attributable to changes in the allocation of remuneration for the Company’s representative bodies (in the six months ended 30 June 2020, the Company paid the Board of Directors and Supervisory Board’s compensation, senior hires in the commercial department and additional hires in the U.S. and Germany.

Depreciation and amortization

Depreciation and amortization increased by 6.2% yoy reaching CZK 393.5 million in 2020. The increase can be attributed to continuous investments by the Group in its production base in amounts exceeding corresponding depreciation.

Other operating expenses

Other operating expenses amounted to CZK 144.3 million up by 23.5% yoy in 2020, mainly as a result of the release of a provision created for obsolete inventories, upon the sale of that inventory to a Group customer.

EBITDA from continued operations

The Group's management considers EBITDA from continued operations to be a key performance indicator in evaluating the Group's business. EBITDA from continued operations is not a measure of performance defined or recognized under IFRS. The Group calculates EBITDA from continued operations based on the figures included in the Audited Financial Statements. EBITDA from continued operations is defined as post-tax profit for the period less post-tax profit from discontinued operations plus income tax less other financial income plus other financial expenses less interest income plus interest expenses plus depreciation and plus expense from derivatives transactions less income from derivatives transactions plus depreciation and amortization.

EBITDA from continued operations was CZK 1.470.7 million which is an increase of 11.9% yoy.

Interest income and other financial income

Interest income increased by 2.1% yoy and amounted to CZK 17.3 million in 2020. Other financial income increased by 299.1% yoy and amounted to CZK 295.6 million in 2020, primarily as a result of market interest rates movement and reclassification of financial income incurred on derivatives transactions.

Interest expenses and other financial expenses

Interest expenses decreased by 10.9% reaching CZK 76.5 million in 2020. Other financial expenses increased by 310.7% yoy reaching CZK 361.3 million in 2020, primarily driven by FX losses.

Income/Expense from derivatives transactions

Income from derivatives transactions decreased by 60.6% yoy and amounted to CZK 138.9 million in 2020. Expense from derivatives transactions decreased by 20.1% yoy reaching CZK 240.1 million in 2020.

Profit before tax

Profit before tax slightly decreased by 6.7% yoy and amounted to CZK 851.0 million in 2020. The decrease is related to the significant depreciation of CZK against both EUR and USD in 2020 discussed above.

Income tax

As a result of the lower pre-tax profit, income tax decreased by 2.2% yoy and reached CZK 174.5 million in 2020. In addition, the Group's estimated effective tax rate went up from 19.5% in 2019 to 20.5% 2020.

Profit for the period from continued operations

Profit for the period from continued operations decreased by 7.8% yoy and amounted to CZK 676.6 million in 2020 as a result of factors discussed above.

Net earnings per share attributable to the owner of the parent company

In 2020, net earnings per share attributable to the owner of the parent company were CZK 21 which is down by 16.0% if compared to the year 2019.

c. Strategy and Outlook

The Group believes that it can execute a mixed growth strategy, combining external growth driven by potential acquisitions, including the contemplated acquisition of COLT, and organic growth driven by internal resources and the currently postponed Little Rock Project.

PENETRATION OF MILITARY AND LAW ENFORCEMENT MARKETS

Currently, the Group generates most of revenues from sales to the civilian market. The Group intends to focus on increasing its penetration of military and law enforcement markets particularly in Western Europe, the United States and select markets in Asia. The Group's management believes the military and law enforcement market offers greater growth opportunities than the civilian market due to the current political and security situation and the rather long investment gap in most developed countries. The Group also believes that increased sales to military and law enforcement customers will enhance the Group's brand recognition generally, supporting the Group's aim of positioning its products as premium brands.

The Group believes that it is well positioned to further penetrate the military and law enforcement market. The Group can capitalize on its experience gained from supplying firearms to military and law enforcement customers for many years and can offer full firearm and ammunition solutions to existing and new military and law enforcement customers. In addition, it is critical to obtain the appropriate export licenses in order to be able to export firearms and the Group has a successful track record of obtaining the necessary approvals for export from the EU.

The Group has been upgrading its product offering to include all relevant types of handguns (mainly pistols), submachine guns and advanced assault rifles, including the addition of the CZ 457 rim fire rifle series, the CZ 455 Mini Sniper rim fire rifle, the CZ Shadow 2 Orange sport special pistol and three new models to the CZ P-10 polymer frame pistol series in 2019 and 2020. Also, the Group intends to intensify its firearms and accessories sales and marketing efforts in order to penetrate the military and law enforcement market, including through presentations and testing events for military and law enforcement customers. The Group has also strengthened its footprint in Germany and Western Europe with new senior sales roles hires and the Group's P-10 handgun is undergoing testing to be certified for use by German law enforcement. In order to increase its success rate in reaching and concluding agreements with various military and law enforcement customers, CZUB set up a tender support department that specifically monitors and assesses various opportunities within this market. In order to increase the Group's penetration of the market, the Group also actively seeks, selects and cooperates with external governmental agencies, partners and experts, such as various supply and procurement agencies and hires experienced experts with military background and a long-term experience within the defence industry. These individuals actively seek new opportunities as well as provide feedback to the research and development teams assuring the Group maintains a highly competitive product portfolio.

GROWTH THROUGH OPPORTUNISTIC ACQUISITIONS

In order to fulfil the Group's vision, the Group continuously monitors and evaluates opportunities for growth through opportunistic acquisitions. The Group is primarily looking at acquisition opportunities among its competitors in the firearms production industry, particularly those with significant sales to, and a proven track record with, military and law enforcement customers in order to help the Group penetrate that market further. In addition, in anticipation of potential changes in the needs and preferences of military and law enforcement customers, which could result in the digitalization of small firearms, and further integration of optics and optoelectronics, the Group is focusing on acquisition opportunities among optics and optoelectronics producers and designers. The Group may also consider the acquisition of ammunition producers and designers that would be complementary to the Group's firearms products due to the importance of seamless functioning of the Group's products with the relevant ammunition and the increasing demand of military and law enforcement customers for ammunition with more impact. The Group considers the ideal enterprise value of potential acquisition targets to be in the area of EUR 50 to 300 million. However, the enterprise value of the potential acquisition target is highly dependent on the relevant market in which it operates and its position in such market.

In February 2021, the Group entered into the Colt Acquisition Agreement through this acquisition, the Group plans to establish a substantial production presence in the United States and acquire C's strong customer base.

In order to be able to execute the Group's acquisition strategy in a transparent manner and in line with the interests of all stakeholders, the Group has decided to create an acquisition committee, which will help the Group to ensure a disciplined approach to M&A activity.

GENERATE GROWTH BY EXPANDING ITS PRESENCE IN THE U.S. AND THE EU

The Group has expanded into more than 90 markets globally and continues to expand its presence in growth markets, particularly in the U.S. The especially dynamic trends in the U.S. in recent years underscore the importance of further expanding not only the Group's production capabilities, but also its degree of localization. The Group seeks to establish itself as a premium brand in the U.S. by strengthening its brand recognition among military and law enforcement customers, increasing the production volume of its firearms as well as expanding the variety of types of firearms it offers, including modifications and upgrades to the current product mix. The Group intends to continue upgrading its existing production facilities in the Czech Republic to stimulate the organic growth of the Group and to enhance its production efficiency and optimize inventory management and order fulfilment.

The Group has also decided to strategically expand its production capacities in the United States by constructing a new production facility in Little Rock, Arkansas, which will potentially serve as the Group's North American headquarters and second major production facility, in addition to its existing main facility in Uherský Brod. The Group believes that the new production facility in Little Rock will help the Group to better serve the U.S. market, the largest and most important small arms market globally, to compete in more tender processes with U.S. law enforcement and military customers as its products will be eligible for consideration under the Buy American Laws, and thereby further strengthen its brand recognition in the U.S. In addition, greater production capacity in the U.S. will provide the Group with flexibility to switch production between the EU and the U.S. if needed, for example due to regulatory or cost structure changes in one or the other location. As of date of this Report, the Group has all the necessary internal approvals to start construction of the Little Rock Project. At the same time, the Board of Directors of the Group decided in December 2020 to further postpone the process as the potential acquisition of Colt can potentially present a suitable medium term substitute to the Little Rock Project and could provide the Group with the needed additional production capacity in the U.S. Therefore, depending on the completion of the acquisition and integration of Colt, the Group will review its strategy of establishing production presence in the U.S. The Group currently estimates that the Colt acquisition could result in the Little Rock being postponed by approximately three to five years.

The Group has also recently entered into the Framework Agreement with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state, granting HM ARZENÁL a license to manufacture and sell certain types of CZ firearms in Hungary. Any excess production capacity from the Hungarian facility represents additional production capacity potentially available to support the Group’s organic growth ambitions.

In addition to its geographic expansion, the Group is also developing a wider product portfolio. Among other things, the new additions will include optics and optoelectronics with the aim to support the anticipated shift to the use of smart and integrated firearms among military and law enforcement customers which are being developed by the Group and its partners. The Group also plans to introduce services, such as specialty training programs for law enforcement agencies.

LITTLE ROCK PROJECT

The Group decided to build its North American headquarters and a production facility in Little Rock, Arkansas (the "Little Rock Project"). The implementation of the Little Rock Project will be done via a newly established company, CZ MFG, Inc., which is a 100% subsidiary of CZ-US Holdings, Inc. According to the Group's plan, the facility is expected to manufacture, warehouse and distribute the Group's high-end, precision firearms, while employing up to 300 workers over the next five years. The State of Arkansas has agreed to support the building of the production facility with incentives including a training program, tax refund program, land donation program and, subject to fulfilment of the granted incentives conditions (in particular, defined job creation) a forgivable loan. The total amount of incentives is expected to exceed USD 23.4 million. The total area of the plot is approximately 260,000 m^2 and is subject to the land donation program. The planned logistics and manufacturing plant will be approximately 18,000 m^2.

The Company has obtained the necessary permits to begin construction of the Little Rock Project that was originally planned to begin in the second half of 2020. At the same time, the Board of Directors of the Group decided in December 2020 to further postpone the process as the potential acquisition of Colt can potentially present a suitable medium term substitute to the Little Rock Project and could provide the Group with the needed additional production capacity in the U.S. Therefore, depending on the completion of the acquisition and integration of Colt, the Group will review its strategy of establishing production presence in the U.S. The Group currently estimates that the Colt acquisition could result in the Little Rock being postponed by approximately three to five years.

PENETRATION OF MILITARY AND LAW ENFORCEMENT MARKETS

Currently, the group generates most of revenues from sales to the civilian market. The Group intends to focus on increasing its penetration of military and law enforcement markets particularly in Western Europe, the United States and select markets in Asia. The Group's management believes the military and law enforcement market offers greater growth opportunities than the civilian market due to the current political and security situation and the rather long investment gap in most developed countries. The Group also believes that increased sales to military and law enforcement customers will enhance the Group's brand recognition generally, supporting the Group's aim of positioning its products as premium brands.

The Group believes that it is well positioned to further penetrate the military and law enforcement market. The Group can capitalize on its experience gained from supplying firearms to military and law enforcement customers for many years and can offer full firearm and ammunition solutions to existing and new military and law enforcement customers. In addition, it is critical to obtain the appropriate export licenses in order to be able to export firearms and the Group has a successful track record of obtaining the necessary approvals for export from the EU.

The Group has been upgrading its product offering to include all relevant types of handguns (mainly pistols), submachine guns and advanced assault rifles, including the addition of the CZ 457 rimfire rifle series, the CZ 455 Mini Sniper rimfire rifle, the CZ Shadow 2 Orange sport special pistol and three new models to the CZ P-10 polymer frame pistol series in 2019 and 2020. Also, the Group intends to intensify its firearms and accessories sales and marketing efforts in order to penetrate the military and law enforcement market, including through presentations and testing events for military and law enforcement customers. The Group has also strengthened its footprint in Germany and Western Europe with new senior sales roles hires and the Group's P-10 handgun is undergoing testing to be certified for use by German law enforcement. In order to increase its success rate in reaching and concluding agreements with various military and law enforcement customers, CZUB set up a tender support department that specifically monitors and assesses various opportunities within this market. In order to increase the Group's penetration of the market, the Group also actively seeks, selects and cooperates with external governmental agencies, partners and experts, such as various supply and procurement agencies and hires experienced experts with military background and a long-term experience within the defence industry. These individuals actively seek new opportunities as well as provide feedback to the research and development teams assuring the Group maintains a highly competitive product portfolio.

EXPANSION OF PRESENCE IN THE U.S. AND THE EU

The Group has expanded into more than 90 markets globally and continues to expand its presence in growth markets, particularly in the U.S. The especially dynamic trends in the U.S. in recent years underscore the importance of further expanding not only the Group's production capabilities, but also its degree of localization. The Group seeks to establish itself as a premium brand in the U.S. by strengthening its brand recognition among military and law enforcement customers, increasing the production volume of its firearms as well as expanding the variety of types of firearms it offers, including modifications and upgrades to the current product mix. The Group intends to continue upgrading its existing production facilities in the Czech Republic to stimulate the organic growth of the Group and to enhance its production efficiency and optimize inventory management and order fulfilment.

The Group has also entered into the Framework Agreement with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state, granting HM ARZENÁL a license to manufacture and sell certain types of CZ firearms in Hungary. Any excess production capacity from the Hungarian facility represents additional production capacity potentially available to support the Group's organic growth ambitions.

In addition to its geographic expansion, the Group is also developing a wider product portfolio. Among other things, the new additions will include optics and optoelectronics with the aim to support the anticipated shift to the use of smart and integrated firearms among military and law enforcement customers.

CZ EXPORT PRAHA S.R.O. – COMMERCIAL STRATEGY

CZ Export Praha, s.r.o. ("CZ EXPORT") is a global commercial organization of CZG, with key responsibility of new markets and new partnership development as well as exploring new business schemes globally, with exception of sales activities in territory of USA. CZ EXPORT covers both sales, business development and global marketing and consumer/customer research. CZ EXPORT acts as an additional commercial representant and business developer of its sister companies within CZ Group. Also, CZ EXPORT buys and sells additional gear and ammunition supplied from outside of the CZ Group portfolio, completing the portfolio of offered products for full satisfaction of CZ Group global customers.

OUTLOOK FOR 2021

In 2021, the financial performance of the Group will be significantly impacted by the on-going acquisition of 100% stake in Colt Holding Company LLC. The combined performance is expected to drive the Group´s revenues and EBITDA, in addition to the strong organic growth of the existing operations. The acquisition will be partially financed by external financing in the form of a bond issue that will increase net debt and net leverage ratio which was at around zero level at the end of 2020. Further growth is anticipated in the US market and the sales to Czech Republic should benefit from the deliveries under the framework agreement with the Czech Army.

The management of the Company expects that the total revenues could reach CZK 7.1 – 7.4 billion in 2021. If the additional revenues from Colt are included, the total revenues could reach CZK 12.5 – 12.8 billion in 2021. The expected EBITDA in 2021 could grow modestly to CZK 1.45 – 1.65 billion for CZG or to CZK 2.35 – 2.55 billion if Colt is included in the guidance. Capital expenditures of the Company are expected to reach 5-7% of total revenues or CZK 500 – 805 million in 2021.

The Group cannot, at this time, predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

d. Information Concerning COVID-19

IMPACT OF COVID-19 ON THE GROUP

The Group operates its principal production facility in Uherský Brod, Czech Republic. The impact of coronavirus COVID-19 on the Group’s production has been limited so far. The Group has not experienced major interruptions of its production process in its main production facility; initially, production was closed for one day to evaluate the government recommendations and implement adequate measures and subsequently daily production was slowed for approximately two months, but has since returned to full production capacity. At the same time, the Group had to temporarily close its manufacturing facility in Norwich, New York, beginning on 22 March 2020, cease production of its Dan Wesson products and, effective 11 April 2020, reduce its workforce in the U.S. by 35 employees. In May and June 2020, the facility gradually started to re-hire employees and restart production and, as of 31 December 2020, there were 29 employees at Dan Wesson. As a result of the closure and increased demand for Dan Wesson products in the U.S., the Group had sold its entire stock of Dan Wesson products by August 2020 and, despite the restart of production in its Norwich, N.Y. facility, is not currently able to satisfy the continued increased demand for Dan Wesson products in the U.S.

RISKS RELATED TO THE ONGOING COVID-19 HEALTH CRISIS

The Group faces various risks related to the ongoing COVID-19 health crisis. In December 2019, a novel strain of coronavirus COVID-19 reported to have surfaced in Wuhan, China. On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. The rapid spread of COVID-19 has resulted in authorities implementing numerous measures to try to contain COVID-19, such as travel bans and restrictions, quarantines, shelter in place orders, curfews and shutdowns and these measures have adversely impacted and may further impact the majority of economic sectors including portions or all of the Group's workforce and operations, the operations of its customers, and those of its respective vendors and suppliers. To date, the COVID-19 pandemic has caused significant financial market volatility and uncertainty and international supply changes, which have already significantly depressed global business activities and could restrict access to capital and result in a long-term economic slowdown or recession that could negatively affect the Group's operating results. The Group's sales increased in certain markets during the first six months of 2020 and since the COVID-19 outbreak and the start of civil unrest in May 2020, demand in the U.S. has been higher than demand in previous years, however, the Group is unable to assess whether or for how long the increased or stable demand in those markets will last and believes this may be a temporary effect. In addition, due to the near halt of passenger air flights from and/or to key markets of the Group, the Group has had to switch from using the excess cargo capacity of passenger air flights to more costly specialised cargo plane flights. Consequently, the cost of transportation of the Group’s products has increased substantially. The Group operates its principal production facility in Uherský Brod, Czech Republic. This facility is critical to the

Group's operations. The Group does not have any other significant production capacity which could substitute this facility. If significant portions of the Group's workforce based in Uherský Brod were unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, the Group's operations would be materially adversely impacted.

The Group has significant manufacturing operations in the Czech Republic and an important distribution centre as well as the Dan Wesson manufacturing facility in the United States. Both the Czech Republic and the United States have been affected by the pandemic and taken measures to try to contain it. As part of such measures, the Group has had to temporarily close its manufacturing facility in Norwich, New York, as of 22 March 2020, cease production of its Dan Wesson products and, effective 11 April 2020, reduce its workforce in the U.S. by 35 employees. In May and June 2020, the facility gradually started to re-hire employees and restart production and, as of 31 December 2020, there were 29 employees at Dan Wesson. As a result of the closure and increased demand for Dan Wesson products in the U.S., by August 2020, the Group had sold its entire stock of Dan Wesson products and, despite the restart of production in its Norwich, N.Y. facility, is not currently able to satisfy the continued increased demand for Dan Wesson products in the U.S.

There is considerable uncertainty regarding measures taken to try to contain the pandemic and potential future measures, including region and/or town closures/quarantines, forced and/or voluntary facility closures, reductions in operating hours, labour shortages and real time changes in operating procedures to accommodate social distancing guidelines. Restrictions on access to the Group’s manufacturing facilities or on its support operations or workforce, or similar limitations for its suppliers, and restrictions or disruptions of transportation, port closures and increased border controls or closures, could limit the Group’s ability to meet customer demand and have a material adverse effect on its financial condition, cash flows and results of operations. There is no certainty that measures taken by governmental authorities will be sufficient to mitigate the risks posed by COVID-19, and the Group’s ability to perform critical functions could be harmed.

The Group has experienced interruptions to its supply chain and if these or other interruptions are long-lasting or spread to a wider supplier base, this could cause shortages in certain materials, parts and labour supplies that are key to the Group's commercial operations and negatively impact the Group's business results. Additionally, the COVID-19 pandemic may impact distribution and logistics providers' ability to operate or may increase their operating costs. For example, the Group has traditionally used cargo services on passenger flights provided by airlines as a complementary product. As passenger flights have been dramatically reduced, the Group has had to use alternative logistics solutions, in particular dedicated cargo flights, which tend to be more expensive than the services used in the past. These supply chain effects may have an adverse effect on the Group's ability to meet consumer demand and could result in an increase in the Group's costs of production and distribution, including increased freight and logistics costs and other expenses. While there have been intensifying efforts to contain the spread of COVID-19 by the governments of the countries and territories affected, the extent to which the COVID-19 outbreak impacts the Group's results is highly uncertain and depends on future developments, including new information that emerges concerning the severity of the COVID-19 pandemic and the actions to contain the outbreak or treat its impact, among others.

The COVID-19 pandemic and the containment measures taken could impact the Group's business globally, including through store closures or reduced operating hours or decreased retail traffic because consumers are staying at home. Store closures by the Group, its wholesale customers or distributors globally have been required in certain markets and additional store closures may be required and there can be no assurance as to how long these closures may remain in effect or as to whether they may need to be reinstated following a resurgence in the number of infections. Furthermore, even after reopening, there can be no assurance as to the time required to regain operations and sales at prior levels.

In addition, the Group's business is sensitive to reductions in discretionary spending by consumers. In recent months, the COVID-19 pandemic has also significantly increased economic and demand uncertainty, and has led to disruption and volatility in the global capital markets, which could lead to a decline in discretionary spending by consumers and business failures or insolvencies, including of the Group's wholesale customers and distributors, and which could in turn impact, possibly materially, the Group's business, sales, financial condition and results of operations. In the United States, the unemployment rate was at 3.5% in February 2020[11], since the U.S. president declared a national emergency over the COVID-19 pandemic on 13 March 2020, the unemployment rate reached 4.4% in March and then 14.7% in April 2020, the largest one-month increase and the highest rate in the history of the official government data (started in 1948)[10]. Subsequently, in July 2020, the unemployment rate in the United States decreased slightly to 10.2%[10]. Uncertain or negative outlook on general economic conditions can cause significant changes in market liquidity conditions, which could impact the Group's access to funding and associated funding costs, which could reduce the Group's earnings and cash flows. The Company cannot predict the degree to, or the time period over which, the Group's sales and operations will be impacted by the COVID-19 pandemic, and the effects could be material. It is likely that the COVID-19 pandemic will cause an economic slowdown, and it is possible that it could cause a global recession.

The Group continues to monitor the rapidly evolving situation and guidance from international and domestic authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside the Group's control that require the Group to adjust its operating plan. The ultimate magnitude of the COVID-19 pandemic, including the extent of its impact on the Group's financial and operational results, which could be material, will be determined by the length of time that the pandemic continues, its effect on the demand for the Group's products and services and the supply chain, as well as the effect of governmental regulations imposed in response to the pandemic. The Group cannot, at this time, predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

The COVID-19 outbreak has posed significant challenges to CZG´s business activities in the reported period. CZG implemented various measures to keep its business and operations going and provide the highest possible protection to its employees in all production plants. The Company has bought protective equipment (face masks, respirators, disposable gloves and disinfection), vitamins for its employees, provided psychological support and extended the spacing at the workplaces. The closed work teams up to 10 employees were created. The work shifts were cut and shortened so that the workers in each shift did not meet in the changing

[11] Source: U.S. Bureau of Labor Statistics

rooms and had an additional time for personal hygiene and disinfection. The Company increased the frequency of cleaning and disinfection of all contact surfaces.

The Group's management, having considered all information available and measures adopted by the date of the issuance of this report, concludes that Group has adequate resources to continue its operations for the foreseeable future. For this reason, the Group continues to adopt going concern basis in preparing its consolidated financial statements.

e. Plants and Facilities

The Group’s main production facility in Uherský Brod, a town of approximately 16,500 inhabitants, is situated in a rural region with a moderate cost of living, a skilled workforce at affordable wages and, most importantly, a long tradition of firearms manufacture and metal craftsmanship in general. The Group is the biggest employer in Uherský Brod and plays an important role in the region’s industry.

FACILITIES

The Group’s material assets are primarily its production, distribution and storage facilities. Accordingly, the Group’s material assets consist primarily of buildings, warehouses and other structures, as well as real estate (plots of land) on which these structures are located, and the machinery and equipment housed by these structures (e.g., production lines).

The Group owns or leases various properties in Uherský Brod, Prague and Brno in the Czech Republic and Kansas City, Kansas, Norwich, New York and Little Rock, Arkansas in the U.S. The majority of this real estate is used as production plants for the production of the Group’s products. The Group owns its production facility in Uherský Brod and leases its production facilities in Brno, Kansas City and Norwich.

The table below sets forth the Group's production or distribution facilities:

Country	Location	Title	Total area (approximately)	Brief Description
Czech Republic	Uherský Brod	Owned	204,915 m^2	Main production facility of the Group[1]
Czech Republic	Prague	Leased	1,831.8 m^2	Offices and small storage
Czech Republic	Brno	Leased	1,071 m^2	Ancillary production facility, limited mainly to customized production
U.S.	Kansas City, Kansas	Leased	5,295 m^2	Main distribution centre for North America, assembly, customization and limited production
U.S.	Norwich, New York	Leased	2,322 m^2	Production facility for Dan Wesson handguns
U.S.	Little Rock, Arkansas	Owned	260,000 m^2	Construction site for the Little Rock Project facility[2]

(1) The total area of buildings and facilities within this location was approximately 43,925 m^2.
(2) The planned logistics and manufacturing plant will be approximately 18,000 m^2.

CZECH REPUBLIC

The Group's products are mainly produced in CZUB's production facility located in Uherský Brod with a total area of approximately 204,915 m^2. The Group also operates another facility in Brno, the Czech Republic, which is an ancillary facility supporting the main production of firearms in Uherský Brod.

CZUB's production facility located in Uherský Brod is a fully integrated firearm manufacturing plant with state-of-the-art manufacturing capabilities, which allows the Group to control the complete production process and to cover multiple functions and operations from Uherský Brod, including casting, cold hammering, coating and heat treatment, all in-house. The Group's firearms production process is qualified to ISO 9001:2015 quality control standards throughout the production process. In addition, the Group utilizes specifically tailored testing procedures and analyses depending upon the nature of the firearms and material that is being produced. Upon completion, each firearm is tested for endurance and reliability. Each firearm is proof fired and checked for function and accuracy before it leaves the factory.

The process of producing firearms involves the utilization of modern computerized numerical control technologies, i.e., the automated computer control of machining tools such as drills, boring tools or lathes. CNC technologies are utilized with elements of robotics to secure the efficiency of the production process.

UNITED STATES

KANSAS CITY DISTRIBUTION, ASSEMBLY AND PRODUCTION FACILITY

The Group leases its Kansas City distribution, assembly and production facility (the "Kansas City Facility") consisting of two buildings with a total area of approximately 5,295 m^2. The Kansas City Facility is the Group's main facility in the United States.

In 2016, CZ-USA launched assembly operations that focus on customizing the Group's existing products produced in the Czech Republic for the U.S. market. CZ-USA's own assembly capabilities and its cooperation with U.S. stock producers allowed CZ-USA to significantly increase the Group's presence in the United States civilian market by combining the barrelled action made in the Czech Republic with stock and accessories made in the U.S. In particular, the customization of the CZ Scorpion EVO 3's barrelled actions manufactured in the Czech Republic with parts produced in the U.S. to create a carbine version of the CZ Scorpion EVO 3, opened up a new market for CZ-USA.

The Kansas City Facility's production focuses on the assembly of CZ P-10 pistols, the CZ Scorpion EVO 3 submachine gun and a variety of CZ rim fire rifles in the United States.

In addition, the Kansas City Facility functions as a distribution centre for the North American markets. All warranty and repair work are also performed in the Kansas City Facility. The Kansas City Facility also houses a well-stocked parts department which benefits from its location in the Midwest when it comes to onward distribution.

NEW YORK PRODUCTION FACILITY

The Group leases its New York production facility with a total area of approximately 1,071 m^2.

In 2005, CZ-USA purchased certain patents, trademarks, equipment and related assets (e.g., completed firearms and parts) of the traditional American firearms manufacturer Dan Wesson Firearms located in Norwich, New York. CZ-USA then revived the production of premium revolvers and 1911 pistols under the Dan Wesson brand. The pistols and revolvers are currently produced by the Group in Norwich, New York, and subsequently marketed and sold under the Dan Wesson brand.

f. Investments

The Group's cash capital expenditures were CZK 329.2 million in 2020 and CZK 435.3 million in 2019. These capital expenditures were primarily related to improvements in the Group's production machinery. Also, CZ-USA purchased a new exhibition stand in the amount of USD 600 thousand which was used during the Shot Show in January 2020 and further invested in a new IT system Cloud Suite Industrial.

g. Human Resources

With its main production facility located in the Czech Republic, the Group benefits from the relatively high real labour productivity growth and relatively low cost of labour in the country when compared to the rest of the EU (including the UK). According to Eurostat Labour, real labour productivity growth from 2015 to 2019 was 8.7 % in the Czech Republic compared to 2.9 % for the EU (28 members), 2.8 % in Austria, 0.4 %. in Belgium, 1.8 % in Germany and 0.1 %. in Italy and the average compensation of employees per hour worked in the Czech Republic is 48.1 % of the EU average level, 36.9 % of the Austrian level, 29.3 % of the Belgian level, 34.7 %. of the German level and 50.0 % of the Italian level[12].

The Group's employees are based in the Czech Republic, the United States and Germany.

The table below provides average recalculated headcount data for the Group's continued operations for the years ended 31 December 2020 and 2019.

	For the year ended 31 December		
	2020	2019	change in %
	(number)		
Average recalculated headcount	1,673	1,619	3.3%

The table below sets forth information on the geographical split of the Group's employees as of 31 December 2020.

	As of 31 December 2020 *(average recalculated headcount)*	As of 31 December 2019 *(average recalculated headcount)*)
Czech Republic	**1,545**	**1,499**
United States	**122**	**120**
Germany	**6**	**0**
Total	**1,673**	**1,619**

Most of the Group's employees are covered by an incentive program that makes the amount of their bonuses conditional on the accomplishment of their individual or collective goals and

[12] Source: Eurostat Labour

on the financial results achieved by the Group's companies at which they are employed. In addition to offering training and other benefits, the size and diversity of the Group's operations provide development and promotion opportunities for new employees.

The Group also employs temporary and agency workers (up to 10 % of its total workforce) in order to maintain a degree of flexibility and be able to quickly respond to fluctuations in demand for its products. CZUB is subject to collective bargaining agreement which is set to remain in force until 31 March 2021. Under this collective bargaining agreement, pay raises for the relevant CZUB's employees (in the Czech Republic) are guaranteed, and CZUB provides its employees with social benefits such as travel compensation at rates above those set forth in the applicable labour legislation, a contribution to private pension insurance, or above-standard medical care. ZO OS KOVO ČESKÁ ZBROJOVKA a.s. operates as a workers' council within CZUB.

CZ-USA is not subject to a collective bargaining agreement. CZ-USA offers full-time employees the opportunity to participate in the company's 401(k) plan (a tax-advantaged retirement plan) and matches the first 4 % of employees' contributions at a rate of 100%. CZ-USA also offers its full-time employees medical insurance coverage which exceeds what is required under federal law both in terms of benefits and cost.

h. Legal Proceedings

The Group may from time to time be subject to governmental, regulatory and legal or arbitral proceedings and claims, including those described below. Other than the proceedings described below, there have been no governmental, regulatory and legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the 12 months prior to the date of this Report which may have, or have had a significant effect on the financial position or profitability of the Group.

Legal proceeding between Latin America Holding, a.s. as claimant against R&T Comércio de Importação e Exportação Ltda and CZ Brasil Indústria e Comércio de Armas e Munições Ltda as defendants

CZ Brasil was originally founded as a joint venture with local partner R&T with an intention to enhance the visibility of the Group on the Brazilian market. The project is no longer actively pursued by the Group. The joint venture with the former partner has resulted in a dispute after the executive director of CZ Brasil refused to consent to a transfer of CZUB's shares in CZ Brasil to a different Group company, Latin America Holding, a.s., as permitted by the terms of the joint venture agreement. As a result, Latin America Holding, a.s. brought suit against CZ Brasil and R&T, seeking consent to the share transfer. Brazilian courts held CZ Brasil's executive director's withholding of the consent unlawful and ordered him to give his consent to the transfer. As of the date of this Report, the consent is being enforced through an enforcement proceeding.

The court has partially ruled in favour of the petitioner and ordered R&T to execute the signature of the amendment of CZ Brasil's articles of association. R&T has not disputed the ruling and thus, the ruling came into force. As of the date of this Report, R&T has not fulfilled its obligation and the ruling is being enforced.

LEGAL DISPUTE BETWEEN CZUB AND R&T

In 2014, CZUB issued to R&T invoices related to the sale of products of CZUB, which were delivered during 2014. R&T failed to pay the invoices. As a result, CZUB brought suit against R&T for payment. The court has partially ruled in favour of CZUB as the petitioner and upheld its claim for automatic acceptance by R&T of the invoices (values of USD 116,231, USD 123,625 and USD 5,861.20) as the claimable debentures. The judgement amount is increased by the default interest rate of 1 per cent. per month until the court hearing, which took place on 16 September 2015. R&T has not disputed the ruling and thus, the ruling came into force. As of the date of this Report, R&T has not fulfilled its obligation, and the ruling is being enforced.

i. Research and Development

The Group's R&D and ability to innovate are crucial to its business, as the Group's customers, particularly military and law enforcement customers, demand innovative, reliable and state of the art products. The Group's technology leadership is also one of its key competitive advantages, and the Group's product innovations have formed the backbone of its success. The Group's substantial financial and human capital investments into R&D activities enabled the Group to substantially shorten its innovation cycle and offer products that are technological and functional class leaders in their respective categories faster than would have been possible a decade ago. In 2019 and 2018, the Group's R&D expenses amounted to CZK 97.5 million and 97.0 million, respectively; corresponding to an average of 1.6 % of the Group's revenues in 2019. In 2020, the Group's R&D expenses amounted to CZK 115 million; corresponding to 1.7 % of the Group's revenue in 2020.

The Group has one research and development team, which is split between two locations – Uherský Brod and Prague. The majority of the R&D team is part of CZUB and is based in Uherský Brod and the rest are part of CARDAM. The main goals of the Group's R&D are to improve the reliability, functionality, quality, safety and durability of the Group's products as well as to develop innovations for the Group's products. The Group's R&D also works to address the industry and technology trends towards a higher degree of product customization and personalisation, shorter product life cycles, modularity of design, the use of new materials (polymers and metals) and new production technologies, such as MIM and additive manufacturing and the integration of optical targeting systems and electronic systems. The core competencies of the Group's R&D include:

- Product development, product development management, mechanical design, additive manufacturing and experimental development;
- Applied research and development of the new technologies and materials such as metals, polymers and composites as well as coating systems;
- Mathematical simulations and development of algorithms;
- Electronics, mechatronics and safety systems; and
- Industry 4.0, which is a concept built around the concept of cyber-physical systems, combining mechatronic systems and digital services, and including, robotics and automations, automated communication, digital design and production management,

automated reporting, gradual smart connection of key production processes, digital tracing of product life and digitalization.

Most of the Group's product portfolio was introduced less than five years ago, three generations of assault rifles were introduced in the last 10 years. The Group also plans to launch new generations of products, including the CZ Scorpion EVO 4 submachine gun, the BREN HPR military assault rifle, the CZ P-11 hammer fired pistol and a new sport shooting centrefire rifle and has dozens of new products and product innovations in its R&D pipeline. In addition, the Group has a 33 % shareholding in CARDAM s.r.o. ("CARDAM") to further strengthen its production and product spectrum and to expand its technological expertise. CARDAM is a strategic investment, established together with the Czech Academy of Science in 2016, to comprehensively support the Group's R&D infrastructure. CARDAM provides complete engineering solutions for product development, new materials and surface treatment applications, and advanced manufacturing processes, with a focus on additive technologies.

In 2020, the Group's R&D team consisted of an average recalculated headcount of 82, including product designers, mathematical analysts, material specialists, advanced chief designers and project leaders, who utilize not only their know-how and knowledge, but also state-of-the-art R&D methods, laboratory equipment and resources to develop new firearms, new customer product customizations and applications, technologies, processes and methods for market-driven solutions. The Group also performs quality-related work in-house, which is designed to ensure that the Group's products maintain a consistently high quality standard. The Group's R&D efforts also benefit from the favourable political and social view of the defence industry and the production of firearms in the Czech Republic, where the Group's headquarters and its key production facility are based. The Group is a member of the Czech Defence and Security Industry Association, an umbrella association for companies from the military and security equipment segment. The Group is also a member of the Defence Section of the Czech Chamber of Commerce, which brings together the key Czech defence producers. The Group also supports and houses the SŠ-COPT Uherský Brod secondary school on site and provides vocational training on site, which also helps the Group to attract talent. Precision engineering and craftsmanship have a longstanding tradition in the Czech Republic, which is home to over 10 technical universities and one of the few secondary schools for gunsmiths and engravers in continental Europe, and 29 of the Czech Top 100 companies are in the manufacturing segment[13].

The Group designs and manufactures its firearms predominantly in-house and also in cooperation with, primarily, its military and law enforcement customers. For example, the Group developed both generations of the assault rifles CZ 805 BREN and CZ BREN 2 in cooperation with the Czech Army and a modified CZ BREN 2 in cooperation with the Groupe d'intervention de la Gendarmerie nationale, one of France's premier counterterror special forces. This provides the Group with deep insight into customers' requirements and preferences. The Group's strong R&D roots and culture enable the Group to quickly react to new trends in the firearms industry, such as the trend towards polymer frame pistols, as well as give the Group the ability to customize its products for the most sophisticated customers, in particular for military and law enforcement customers. The Group utilizes new technologies and materials such as polymers and composites, mathematical simulations and algorithm

[13] Source: Czech Top 100

development, moreover, "Industry 4.0," which is a concept built around the idea of cyber-physical systems, combining mechatronic systems and digital services, and including, robotics and automations, digital design and production management, digitalization and high-precision manufacturing processes, such as steel, aluminium and alloy metalwork.

The Group's technological leadership is demonstrated by the significant numbers of competitive sports shooters that use the Group's firearms to win awards. Among these is Eric Grauffel, who holds seven overall IPSC World Champion titles and eight European Champion titles, including the 2019 European Champions title, and Maria Guschina, who holds three overall IPSC World Champion titles.

j. Intellectual Property and Licences

The Group owns patents, utility models, industrial patterns, trademarks and know-how. All the mentioned intellectual property, including the CZ brand, is essential for the Group to successfully conduct its business and exercise its overall business strategy and without it, the Group could not operate on the market. The intellectual property has been accumulated by the Group companies over decades of development, production and sales of firearms and accessories and it is essential for the Group to be and remain profitable and it also defines its business model and competitive advantage. The Group's annual costs for renewals and updates of its intellectual property rights are approximately CZK 3.0 million. The Group's intellectual property is specifically protected in the following regions: Asia, Africa, Latin America, Europe and the U.S. The Group's key brands include CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS. The Group's intellectual property consists mainly of trademarks "CZ", "CZ-USA", "BREN", "DAN WESSON" and "ZBROJOVKA BRNO", including other related trademarks in various forms. The Group owns several designs of their products registered mainly in the EU and the United States. The Group's most important registered designs are those of the BREN and SCORPION model firearms and CZ P-09 and SHADOW model pistols. As of the date of the Report, there were ongoing patent proceedings for the Group's results of R&D (for example, there are patent applications pending in connection with CZ P-10, a trigger mechanism for automatic and semiautomatic pistols in certain regions while in the US, the patent number US 10,274,227 was granted. Additionally, European patent EP3374721 in connection with the CZ P-10 and firing pin mechanism for automatic and semiautomatic pistols was validated in Austria, Belgium, Switzerland and Lichtenstein, Germany, France, Italy, Poland, Slovakia, Turkey. The patent for sear for automatic and semiautomatic pistols was granted in Russia (application 2018120384) and the proceedings are undergoing in several other countries. There are ongoing other proceedings in relation to patents, trademarks and other intellectual property continuously created and exploited by the Group.).

Generally, where the research and development expense are underwritten by customers, such customers demand use rights to the resulting intellectual property. As a result, in order to maintain proprietary rights within the Group, the Group's research and development is mostly self-funded.

In certain cases, the Group grants licenses to its customers whereby the ability to produce certain components or to assemble the Group's products is licensed to such customers, for example, to HM ARZENÁL in relation to assembly and production of firearms in Hungary.

k. Environment and Climate Change

The Group is subject to, and must comply with, a variety of national and international laws and regulations regarding the protection of the environment, health and safety. These laws and regulations address, among other things, the identification, acceptance, treatment, storage, handling, transportation and disposal of hazardous and solid materials and waste, air and water emissions, soil and water contamination, noise, the prevention or minimization of climate change, and exposure of employees and others to hazardous materials or waste. In order to satisfy environmental responsibilities and to comply with environmental laws and regulations, the Group maintains policies relating to the environmental standards of performance for its operations and conducts programs to monitor compliance with various environmental regulations. In the normal course of the Group's manufacturing operations, it may become subject to governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment.

The Group's principal production facility in Uherský Brod, Czech Republic has been in operation for more than 80 years, but no comprehensive inspection has been carried out and contamination or other environmental impacts of the Group's past, present or future operations could be discovered for which no insurance coverage is in place. Historically, the Group identified soil and underground water contamination by chlorinated hydrocarbons and oils within its facility in Uherský Brod. This contamination was successfully remedied in full in 2018. The Group conducts further monitoring in two-year intervals. The Group also periodically reviews the probable and reasonably estimable environmental costs in order to create or update any environmental reserves.

CLIMATE CHANGE

In August 2018, Česká zbrojovka a.s. acquired certifications in accordance with the standards ISO 14 001:2015 and ISO 18001:2007 OHSAS for all its activities and operations. The OHSAS 18001:2007 standard will be replaced no later than in 2021 with ISO EN 45001:2018. The Company's SHE (Safety, Health, Environment) policy contains a commitment not only to environmental protection but also to the detection of potential OSH risks, management of employees' environmental impacts, and open and transparent communication with stakeholders and employees alike. The policy also includes commitments to keep improving the integrated SHE system, maintain active leadership in the area of employees' environmental impacts awareness, and act in a way that motivates everyone to remain attentive to the risks of environmental impacts. Employees are expected by the Company management to assume personal responsibility for acting in the interests of environmental protection and their own and their colleagues' safety and health.

The correct functioning of the implemented SHE system was demonstrated in 2019, again, by the absence of any threats to any of the environmental constituents that would stem from the activities of Česká zbrojovka a.s., a key operating company of the Group.

In 2020, an oil mist separator was tested for one CNC at the operation Production of main parts. During its operation, almost 100% of the dirt was caught and the cleaned oil was returned to the machine. The cost of filter disposal in machines such as hazardous waste has been reduced and the working environment has also been improved. All the changes introduced into the manufacturing processes place significant emphasis on the replacing of hazardous chemical substances and compounds with less hazardous alternatives.

Despite all the achievements in the areas of environmental protection and occupational safety, the Company strives to keep improving its record and identifying additional potential issues. All operations and departments are subject to environmental impact assessments every two years or sooner if a change is implemented. Such assessments include measures to eliminate any potentially adverse influences. An environmental impact assessment forms part of any purchase of machinery or equipment as well as of other activities if relevant.

The Company exercises regular monitoring of the amounts of chemicals stored and used. The information so acquired is used in analyses aimed at preventing serious incidents.

EMISSIONS

Pursuant to Section 10, paragraph 1, of Act No. 383/2012 of the Czech Legislative Code, Česká zbrojovka received a free allocation of emission permits for the emission trading period from 2013 to 2020 (the allocated amount gradually decreases). The emission permit allocation covers the volume of greenhouse gas emissions produced by the company's operations with approximately 1,000 permits remaining unused on the company's account at the end of each year. The volume of emissions is proportionate to the consumption of natural gas in the company's boiler room. At the end of 2020, the CZUB boiler room was excluded from emissions trading due to the decommissioning of one boiler by decision of the Ministry of the Environment.

WATER MANAGEMENT

In addition to drinking water, the Company also uses groundwater for its technological processes. Wastewater and rainwater are treated at the company's biological treatment plant and are then released in accordance with the relevant permit into a specified watercourse. Wastewater from the metallurgy operation pass through a preliminary neutralisation treatment.

WASTE MANAGEMENT

Produced waste is sorted to a high degree that, for example, has ensured that for three years running, the amounts of sorted wastepaper and plastic have exceeded the volume of solid municipal waste produced by the Company. Despite the Company's increasing production, the volume of hazardous waste remains stable over the long term. The volume of scrap metal is proportionate to production volumes.

The Group is involved in waste collection schemes EKO-KOM, REMA Systém and Ekolamp. This involvement makes the schemes accessible also to employees.

I. Auditors Remuneration in 2020

In CZK thous.	**CZG**	**Other Group companies**
Statutory Audit	2,655	4,950
Other services, of which:		
Assurance services	18,708	173
Tax advisory services	35	370
Other non-audit services	0	1
TOTAL (excl. VAT)	**21,398**	**5,494**

6. Diversity Policy

CZG pursues a diversity policy which results in a balanced set of persons in the Company's governing bodies with respect to a balance of male and female representatives, nationality, age, education, professional experience and expertise. Female members are represented in both Board of Directors as well as in the Supervisory Board. Female members represent 33% of Board of Directors and 33% of Supervisory Board members. The Group evaluates candiates for open positions, whether in the Board of Directors, Supervisory Board or in broader management group considering diversity principles in order to get the most benefits from the mixed background in respect of age, education and gender for the Group.

The diversity policy is part of the agenda of the Remuneration Committee under the Supervisory Board. The activities of the Remuneration Committee include, inter alia, ensuring and regularly reviewing the structure and composition of the governing bodies in order to reflect professional experience, technical knowledge, managerial skills and other requirements.

The diversity issues are part of the Code of Ethics https://www.czg.cz/about-us/#compliance-program, adopted by the Board of Directors of CZG in August 2020. The Code of Ethics defines the corporate and ethical values of conduct in CZG. By implementing this Code of Ethics, CZG commits to respecting the defined values and principles that form the basic framework for its business and social actions, conduct and behaviour. Among key ethical values stipulated in the Code of Ethics are:

WE RESPECT HUMAN RIGHTS AND FREEDOMS OF OUR EMPLOYEES

Equal opportunities, equal treatment, non-discrimination, respect for personal dignity, privacy and rights of every employee are essential to us. We do not tolerate unacceptable treatment of employees and create conditions for respectful interpersonal relationships.

WE BUILD GOOD INTERNAL RELATIONSHIPS

CZG strives to build strong and solid relationships with all its employees and all employees across the CZG Group and across all levels regardless of job positions. We create a work environment where all employees are treated with respect and dignity. We work to ensure personal development of employees, share knowledge and experience, and promote the use of new technologies.

CZG offers open internal training options in the areas of healthcare, occupational safety and health, benefits and healthy lifestyles as well as retraining courses that open the door to more demanding and better paid positions. In 2020, the Company implemented organisational changes conducive to the development of leadership. The ultimate objective is to attain as flat an organisational structure as possible with the help of targeted leaders coaching.

The Group is an active supporter of the school system, science and education including the promotion of the athletic and educational activities of pupils, students and young people in general. Česká zbrojovka a.s. is a long-term partner of the Secondary School – Technical Training School, established by the Zlín region and based within the premises of CZUB. Cooperation between the two entities sets an example not only within the region but nationally.

The Company offers to its employees the following benefits above the statutory requirements which support its commitment to work life balance:

- Financial bonus upon the birth of a child, a financial bonus upon reaching 50 years of age,
- Financial contribution towards a child's study expenses.

In 2019, Česká zbrojovka a.s., the main production company in the Group, received the Fair Employer of the Zlínský Region award. The award recognises excellence in 10 different areas: internal documentation, personnel conditions, forms of labour organisation, communicating with employees, healthcare, social care, personal development and education, caring for close ones, family-friendly activities, and social responsibility. More than 30% percent of the CZUB workforce are female. More than 15 percent of Česká zbrojovka employees are aged 55 or above. Česká zbrojovka a.s. is subject to a statutory quota of employed people with disabilities and it has been overreaching this target in the long run.

7. Risk Factors, Risk management and Internal Control

The risks presented herein have been divided into categories based on their nature. These categories are: (i) Risks related to the Group's business activities and industry, (ii) Risks related to the Group's financial situation, (iii) Legal and regulatory risks, (iv) Internal control risks and (v) Environmental, social and governance risks.

RISKS RELATED TO THE GROUP'S BUSINESS ACTIVITIES AND INDUSTRY

Risks related to COVID-19 pandemic

The Group faces various risks related to the ongoing COVID-19 health crisis. The COVID-19 pandemic could restrict access to capital and result in a long-term economic slowdown or recession that could negatively affect the Group's operating results. Restrictions on access to the Group's manufacturing facilities or on its support operations or workforce, or similar limitations for its suppliers, and restrictions or disruptions of transportation, port closures and increased border controls or closures, could limit the Group's ability to meet customer demand and have a material adverse effect on its financial condition, cash flows and results of operations. The Group has experienced interruptions to its supply chain and if these or other interruptions are long-lasting or spread to a wider supplier base, this could cause shortages in certain materials, parts and labour supplies that are key to the Group's commercial operations and therefore materially negatively impact the Group's business results. More information on COVID-19 and its effect on Group´s business can be found in Chapter *„Information concerning COVID-19"*.

Economic, social and political risks

The Group's performance is influenced by economic, social and political factors. Negative or uncertain economic conditions causing consumers to lack confidence in the general economic outlook and to reduce their discretionary spending can significantly reduce sales of the Group's products. Sustained uncertain or negative economic conditions and outlook can cause significant changes in market liquidity conditions. Economic conditions also affect governmental, political and budgetary policies as when facing the prospects of an economic downturn, governments often elect to adopt austerity measures aimed, among other things, at reducing government spending and as government support packages to address the economic consequences of COVID-19 will significantly increase government debt, governments may need to implement austerity measures in the future to reduce the debt burden. Austerity measures tend to affect especially discretionary spending, which, in peacetime, would very likely include defence spending.

The Group’s industry is highly competitive, and the success of the Group’s business depends on its ability to compete effectively

The Group’s industry is highly competitive, and the success of the Group’s business depends on its ability to compete effectively. The Group’s inability to compete effectively or any increases in competition in the firearms industry could adversely affect the Group’s ability to sell its products, its market share, its revenue and profitability, and ultimately the success of its business.

The Group’s acquisition of Colt may involve additional risks, increased costs and may not be successful

Management believes that the international expansion of the Group’s operations through acquisitions presents significant opportunities for further growth. On 11 February 2021, CZ-US Holdings, Inc. (“CZ-US Holdings”), a wholly-owned direct subsidiary of CZG, as buyer, CZ Acquisition II, LLC, a subsidiary of CZ-US Holdings entered into a agreement and plan of merger („Colt Agreement“) for the entire share capital of Colt, the indirect owner of the U.S. firearms manufacturer Colt’s Manufacturing Company LLC and its Canadian subsidiary, Colt Canada Corporation. Through this acquisition, the Group plans to establish a substantial production presence in the United States and to acquire Colt’s strong customer base. However, there is no assurance that the Group will receive all necessary approvals of the completion of the transaction from the relevant U.S. and Canadian authorities, including (i) an unconditional approval of the transaction by the U.S. Committee on Foreign Investment, (ii) a clearance in respect of the Investment Canada Act, (iii) an approval of the U.S. International Traffic in Arms Regulations, and (iv) an approval under the U.S. Hart-Scott-Rodino Antitrust improvements Act. If these conditions are not satisfied or waived on or before 30 June 2021, either party may terminate the Colt Agreement. Further, there is no assurance that the Group will be able to successfully integrate Colt’s operations into the Group, produce the expected benefits related to production of CZ designed products and that the acquisition of Colt will overall be successful. This may also adversely impact the Group’s ability to realise its strategic production and sales goals, especially on the U.S. market.

In addition, based on its due diligence of the target, the Group expects that the acquisition of Colt will involve substantial investments into Colt’s production capacities and capabilities and R&D activities in order to produce reliable and state of the art products and satisfy market demand. However, the Group cannot currently predict all of these costs, which may therefore be higher than the Group expects, thus adversely affecting Colt’s as well as the Group’s revenue and profitability and ultimately the Group’s financial position.

The Group may also face extra costs related to the U.S. National Labor Relations Act of 1935, under which Colt has a legal duty to bargain with its established labour unions with respect to employees’ wages, work hours and other conditions of employment. Colt’s current collective bargaining agreement is set to expire in March 2022 and the Group cannot predict the terms of the new agreement. Colt and the Group is therefore exposed to the risk of extensive demands by Colt’s labour unions, which may increase Colt’s labour costs and adversely affect its results of operations.

Further, Colt’s business is exposed to various risks in connection with its long-term business relationships and its customer base, in particular:

- Colt Canada Corporation, a subsidiary of Colt, has a major business partnership with the Canadian Government, which generated in the years 2019 and 2020 more than 70 % of the subsidiary's revenues. Notwithstanding that Colt Canada Corporation represents a minority of Colt's total revenues, it has been a stable and reliable source of profitability and therefore, termination of this relationship or any deterioration of could substantially affect financial performance of the subsidiary and Colt overall;
- Colt requires export permit licences from the relevant U.S. regulatory bodies. As the majority of its revenues in 2019 were generated outside the U. S., the denial or revocation of export licenses may cause Colt to be unable to enter into new contracts, prevent it from performing under existing contracts or require it to cease selling its products to certain customers or into certain countries entirely; and
- Colt builds and develops business relationships with global military and law enforcement agencies. In addition, significant portion of revenues has been historically generated by contracts with the U.S. government agencies and forces. Therefore, any deterioration of those relationships in future, could substantially affect Colt's financial performance.

These risks as well as other risks, currently unknown to the Group or during the due diligence undiscovered, may result in the acquisition of Colt not closing or the potential cost and revenue synergies as currently estimated by management not materialising. All of these risks may result in additional costs of the Group and have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

The planned construction of the Group's new production facility in the United States may be further delayed, not completed as currently planned or at all or not produce the benefits expected

Through the Little Rock Project, the Group has planned to establish a substantial production presence in the United States. The Group's management believes that the Little Rock Project will allow the Group to produce firearms for certain market segments it cannot serve effectively at the moment, due to its production being predominantly based in the Czech Republic. This relates to, namely, U.S. federal, state or local governments and agencies, which are to a large extent, ring-fenced by the Buy American Laws, and also to concealed carry firearms for the United States civilian market. In addition, the Group expects that the Little Rock Project will provide significant marketing benefits in the United States.

As of date of this Report, the Group has all the necessary internal approvals to start construction of the Little Rock Project. However, the Board of Directors of the Group decided in December 2020 to further postpone the process as the potential acquisition of Colt can potentially present a suitable medium-term substitute to the Little Rock Project and could provide the Group with the needed additional production capacity in the US. Therefore, depending on the completion of the acquisition and integration of Colt, the Group will review its strategy of establishing production presence in the U.S. The Group currently estimates that the Colt acquisition could result in the Little Rock being postponed by approximately three to five years. This may result in, among other things, one-off costs related to the suspension Little Rock Project, an increase of costs required for the Little Rock Project's future implementation and a potential write down of the investments already incurred in the Little Rock Project and potential future reallocation of costs for Colt's based production in Hartford, Connecticut.

However, the implementation of the Little Rock Project is associated with a variety of risks typical for such projects. These include, in particular, delays in obtaining, or conditions imposed by, regulatory approvals and licenses including approvals from federal, state or local authorities; plant design errors; environmental pollution; non-performance by third party contractors; increases in materials or labour costs; and major incidents and/or catastrophic events such as fires, floods, explosions, earthquakes or storms, as well as the COVID-19 pandemic. These risks, individually or in combination, have and may further delay or prevent the completion of the Little Rock Project and/or cause significantly higher costs than budgeted. The Group continuously monitors the development and potential impacts of COVID-19 on the Little Rock Project, and although no modification of the Little Rock Project has been made other than the postponement in connection with the potential acquisition of COLT, various developments, such as shut-downs of the project site or the unavailability of workforce or financing, would require modifications of the plan, which could significantly influence the implementation of the project.

Furthermore, the Group can provide no certainty that the Little Rock Project, even if completed, will enable the Group to realize all intended strategic goals, such as to successfully sell firearms to the U.S. federal agencies in compliance with the Buy American Laws, due to the heavy competition, and also to efficiently produce concealed carry firearms for the civilian market, due to the higher costs in the United States, potential lack of skilled labour, different structure and quality of the United States supply chain and other factors which are essential to the successful operation of the Little Rock Project. The project is regularly evaluated by the management to assess how these risks should be reflected in the Group's financial statements.

The Group is exposed to the risk of rising protectionism in international trade

The Group derives a substantial portion of its revenues from exports outside of the Czech Republic. 95.2 % of the Group's revenues in 2020 were generated from sales outside the Czech Republic, 66.1 % of the Group's revenues were generated in the United States, and most of these relate to products produced in and exported from the Czech Republic. The Group's performance may therefore be adversely affected by factors that adversely affect international trade, including the level of tariffs and trade barriers or other protectionist measures such as Buy American Laws.

Since the beginning of 2018, the United States has announced a series of international trade measures, which individually or in aggregate could have a material adverse impact on the global economy, international trade or industries and markets where the Group operates. The United States has imposed tariffs and threatened to impose further tariffs on a variety of products and materials imported from various foreign countries. For example, in January 2018, the United States began to impose tariffs on certain products, which were later expanded to include a 25 % tariff on imports of steel and a 10 % tariff on imports of aluminium. Retaliatory tariffs have been announced by many of the United States' trading partners, including China, the United Kingdom, Canada, India and the EU. In 2019, the Czech Republic proposed a 7 % digital tax, which was reduced to a proposed 5 % digital tax in 2020, to be paid by large companies that do not have a registered office or branch in the Czech Republic, but do business through the digital economy. Activities such as targeted advertising campaigns, the use of versatile digital interface and the sale of user data would become taxed digital services. Then, on 24 January 2020, the United States filed an official protest and indicated that it could impose a retaliatory counter-measure should the proposed digital tax become law in the Czech Republic. On 5 June 2020, the Office of the United States Trade Representative initiated investigations with respect to digital services taxes adopted or under consideration by Austria, Brazil, the Czech Republic, the EU, India, Indonesia, Italy, Spain, Turkey, and the United

Kingdom and is seeking public comments in connection with these investigations. On 12 June 2020, the United States left talks with the Organisation for Economic Co-operation and Development on a new global tax framework for technology companies. These and any additional changes in the United States' trade policy could trigger additional retaliatory action by affected countries, resulting in so-called 'trade wars', increased costs for goods imported into the United States, which may reduce customer demand for these products if the parties having to pay those tariffs increase their prices, or in trading partners limiting their trade with the United States.

Given the proportion of exports into the United States, the Group is particularly exposed to the risk of the United States increasing or imposing tariffs or other barriers, including protectionist measures, on imports of firearms. Any introduction or increase of import tariffs on firearms by the United States and other countries into which the Group exports its products may increase the price of the Group's products to the customer, which could adversely affect the competitiveness of the Group's products and the Group's market share in such market, and/or decrease the Group's revenues and profitability derived from export to such countries. Any introduction or increase of other protectionist measures by the United States against China and/or other countries or by other countries into which the Group exports its products may result in trade war escalation and retaliation and can make it difficult or impossible to sell the Group's products into such countries, which could adversely affect the Group's market share in such markets, and decrease the Group's revenues derived from export to such countries and, consequently, have a significant adverse effect on the Group's business, results of operation and financial position.

The introduction of new technologies may change the nature of the Group's competitive landscape

The introduction of new technologies may change the nature of the Group's competitive landscape. The Group is exposed to the risk of insufficient resources for research and development in the future as well as the risk of errors or defects in new versions of its products or the risk that the Group may be unable to timely anticipate new technological trends, each of which may delay the Group's ability to bring its products to market or result in after-sales commitments, the costs of which the Group may not be able to recover. Further, despite these efforts and costs, there can be no assurance that the Group will be able to adapt new technological trends, that its research and development activities will result in viable products or that these products will meet market expectations. If these risks materialize, they could adversely affect the Group's revenue and profitability, market share and reputation of its products and brands.

The Group primarily depends on a single production facility

The Group's principal production facility in Uherský Brod, Czech Republic, is critical to the Group's operations. The Group primarily depends on a single production facility. Any failure, breakdown, outage or other event causing disruption of the operation of this facility for even a short period of time may materially adversely affect the Group's ability to produce and ship its firearms and to provide service to its customers. The Group's business interruption insurance may be insufficient to compensate the Group for losses that may occur.

The cooperation of the Group with HM ARZENÁL pursuant to a framework agreement on technology transfer cooperation may not produce the benefits expected and enforcement of the agreement may be time-consuming and difficult

The cooperation of the Group with HM ARZENÁL Zrt., a Hungarian company fully owned by the state of Hungary, pursuant to a framework agreement on technology transfer cooperation, which permits HM ARZENÁL Zrt. to manufacture, under a defined license agreement, some of the Group's firearm models and certain related components and sell them in Hungary, may not produce the benefits expected by the Group and any enforcement of the agreement may be time-consuming and difficult.

An increase in firearms and accessories sales to military and law enforcement customers could result in increased uncertainty in the timing of the Group's performance and increased competition from more established producers of firearms

The Group's military and law enforcement customers include federal, state or local governments and agencies which are generally required to purchase equipment by way of international or national tendering procedures. The share of sales to military and law enforcement customers fluctuates over the years, but according to management estimates, in 2018-2020, it represented up to 15 to 35 % of consolidated revenues during the period. As the Group intends to increase its focus on sales to these customers, it expects that an increasing percentage of the Group's revenue will be subject to such tendering procedures and related contract negotiations. This trend could cause the Group's revenue to be increasingly volatile and uncertain with respect to the timing of orders as contracts with military and law enforcement customers are often large in size and a single large contract can represent a relatively large share of annual sales for the Group, with delivery concentrated in a relatively short timeframe, which creates pressure on the production flexibility and brings potential revenue volatility. Revenue is not recognized until delivery of the product or service has occurred and title and risk of loss have passed to the customer. This may extend the period during which inventory is carried and may result in uneven distribution of revenue from these contracts between periods. Therefore, the timing of a high-volume order could have a material impact on revenue for the financial period in which it is made and make period-to-period comparisons of the Group's results of operations less meaningful in the short term. The timing and volume of contract sales ultimately depend on factors that are beyond the Group's control. There are many competing factors that influence how federal, state or local governments and agencies allocate their budgets. These factors include both internal fiscal concerns and external fiscal, political and economic factors, including specific security situations in customer localities. The Group cannot be certain that contract orders will continue at consistent levels or at all. Fluctuations in the timing and volume of contract sales could adversely affect the Group's business and the comparability of the Group's quarterly results.

Furthermore, the Group's ability to compete in these tenders depends to a large extent upon the effectiveness and innovation of its research and development team, the Group's ability to offer better contract performance than its competitors at a lower cost and the Group's capacity with respect to facilities, equipment and personnel to undertake the contracts for which it competes. Some of the Group's competitors are subsidiaries of large corporations or government organizations and may have financial and other resources that are substantially greater than those available to the Group. In addition, these competitors may have a greater ability to lobby governments to ensure that they receive a portion of limited government defence budgets, which may reduce the amount that governments can spend on small firearms and, by extension, the amount they can use to purchase the Group's products. The Group is also subject to risks associated with the substantial expense, time and effort required to prepare bids and proposals for competitively awarded contracts that may ultimately not be awarded to the Group. Even if successfully awarded, the Group cannot exclude the possibility that a competitor may challenge such award, or that such challenge may ultimately be successful, or that at least during the time needed to resolve such challenge, the Group's operations under substantial uncertainties and incur additional costs.

The Group's success depends in large part on its ability to attract and retain skilled workforce at competitive wage levels

The Group's main production facility in Uherský Brod, a town of approximately 16,500 inhabitants, is situated in a rural region. The Group is exposed to the risk that a large employer will begin to compete with the Group for labour in Uherský Brod or in any of the regions where the Group's facilities are located, increased workforce mobility and a trend towards workers relocating to larger cities, changes in attitude towards firearms or change in work habits in general could disrupt the labour conditions and result in decreased productivity or increased labour costs for the Group. Moreover, if the COLT's contemplated acquisition is successful, the Group could be exposed to a similar risk in respect of the COLT's workforce located in West Hartford, Connecticut, which is traditionally highly unionised under the U.S. International Union United Auto Workers, competing steadily for a new workforce.

In addition, the Group plans in case of commencement of the Little Rock Project to employ up to 300 workers in the planned production facility in Little Rock, Arkansas, United States over the first five years of its operation and may employ additional workers in its other production locations. The City of Little Rock has around 200,000 inhabitants. However, the area has only limited manufacturing history and a low number of companies operating in the area of manufacturing and (more importantly) machining. This could therefore pose a significant risk for the Group to find enough skilled workers for its operations. In addition, the Group may not find as favourable labour conditions in Little Rock as at its other production location in Uherský Brod, both because of higher wage levels and the lack of a skilled workforce and, as a result, may face, among other things, higher cost of in job training, competition for skilled labour, higher labour costs or shortages of skilled employees, which could adversely affect the Group's ability to successfully implement the Little Rock Project or its growth strategy in general.

RISKS RELATED TO THE GROUP'S FINANCIAL SITUATION

Financial risks of the Company are discussed in the Notes to the Consolidated Financial Statements.

The Group's ability to export its products is influenced by availability of trade finance products.

The Group identifies developing markets as one of the potential growth areas for its future firearms and accessories sales. Due to the generally higher credit risk in those markets, the Group often seeks trade finance products such as letters of credit and bank guarantees in order to mitigate such risks and facilitate the foreign trade in general. However, the possibility to carry out the export is not dependant just on obtaining an export license by the Group but also on how the particular trade is viewed by financiers. The banks often apply additional requirements to finance firearms trade because the banks might be discouraged by their customers, regulators, other stakeholders or the general public from financing exports of firearms to specific countries or territories or from facilitating firearms trade in general. In addition, political developments also affect the ability of the Group to obtain export financing for exports to politically sensitive countries. Consequently, even if the requisite export license has been granted and all legal requirements have been complied with, the trade financing for any individual export case may be unavailable. The Group may be unable to obtain trade financing at reasonable terms or at all and consequently, the Group would not be able to carry out the export in a particular country.

The inability of the Group to obtain trade financing in time and on reasonable terms may cause the Group to postpone or decline entering into new contracts, prevent it from performing under existing contracts or require it to cease selling its products to certain customers or into certain countries entirely, which would have in the future a material adverse effect on the Group's revenue, financial condition and results of operations.

LEGAL AND REGULATORY RISKS

A large portion of the Group's revenue depends on obtaining and maintaining export licenses

A large portion of the Group's revenue depends on obtaining export licenses. The delay, denial or revocation of export licenses could have a material adverse effect on the Group's revenue, financial condition and results of operations.

The Group's operations depend on obtaining and maintaining licenses and permits necessary for the operation of its business.

In the Czech Republic, the Group conducts its business operations under the Trade License issued by the Czech Trade Licensing Office and the Arms License issued by the Czech police. Although both licenses have been issued for an indefinite period of time, each of them can be revoked if the Group fails to comply with numerous applicable laws and regulations. Both of the aforementioned licenses require compliance with extensive statutory requirements, regarding, for example, the integrity of responsible persons and the members of the executive bodies of the relevant entities, the maintenance of an evidence of firearms, the security measures ensuring the maintenance of proper conditions for securing firearms or ammunition against abuse, loss or theft and other statutory requirements. Furthermore, Act No. 119/2002 Coll., on firearms and ammunition, as amended (the "Czech Weapons Act") stipulates that if an arms license is revoked on grounds of a violation of the act, a new arms license may only be obtained five years after the revocation. A license revocation would therefore have severe impacts on the Group and its ability to continue its operations and, consequently, its financial position. A failure by the Group to comply with applicable laws and regulations may also result in fines.

The Group also produces firearms in the United States and is therefore also subject to numerous federal, state and local laws and regulations in the United States, including the rules and regulations of the United States Bureau of Alcohol, Tobacco, Firearms and Explosives (the "ATF"). If the Group fails to comply with ATF rules and regulations, the ATF may impose fines on the Group, or limit the Group's activities in the United States. In addition, the Group will have to apply for relevant licenses for the Little Rock Project and it cannot provide any assurance that all needed licenses will be obtained in time or at all.

Compliance with all applicable laws and regulations is costly and time consuming. Violation of any of these laws, regulations, and protocols could cause the Group to incur fines and penalties and may also lead to restrictions on the Group's ability to produce and sell firearm products which could significantly influence its financial performance and financial position. In addition, these laws, and regulations as well as their interpretation by regulatory authorities, may change at any time. There can be no assurance that such changes to the laws and regulations or to their interpretations will not adversely affect our business.

The Group's performance is influenced by actual or expected changes in firearms control legislation.

Most countries in the world allow civilians to purchase and possess firearms subject to various constraints and regulations imposed by firearm control legislation. Firearm control legislation regulates various activities relating to firearms and ammunition, such as selling firearms and ammunition by or through licensed dealers, as well as acquiring, possessing, owning, using, carrying, handling, trading, repairing, manufacturing, distributing, transporting, importing and exporting, training with, storing, collecting, and disposing of such firearms and ammunition. Firearm control legislation in different countries greatly differ in the degree of restrictiveness, but a major distinction between different national regimes is whether civilian gun ownership is seen as a right (permissive regime) or a privilege (restrictive regime).

Changes in firearm control legislation may adversely affect the Group's operations by limiting the types of firearms products that the Group can produce and/or sell, making it more difficult or cumbersome for distributors or end users to transfer and own the Group's products, or imposing additional costs on the Group or its customers including additional administrative hurdles such as psychological tests, and cool-off periods in connection with the production and/or sale of its firearms products. For example, in May 2020, Canada announced a ban on assault-style weapons.

Federal and state legislatures in the U.S. frequently consider legislation relating to the regulation of firearm, including amendment or repeal of existing legislation. Existing laws may also be affected by future judicial rulings and interpretations. These possible changes to existing legislation or the enactment of new legislation may seek to restrict the make-up of a firearm, including limitations on magazine capacity; mandate the use of certain technologies in a firearm; remove existing legal defences in lawsuits; or ban the sale and, in some cases, the ownership of various types of firearms and accessories. If such restrictive changes to legislation develop, the Group could find it difficult, expensive or even impossible to comply with them, impeding new product development and distribution of existing products. In addition, gun-control activists may succeed in imposing restrictions or an outright ban on private gun ownership in the United States. Such restrictions could have a material adverse effect on the Group's business, operating results and financial condition.

In addition, speculation surrounding increased gun control in the U.S. at the federal, state and local level (prompted by the U.S. presidential, congressional, and state elections, such as the 2020 U.S. presidential election or other developments) and heightened fears of terrorism and crime can affect customer demand for the Group's products. Often, such concerns result in an increase in near-term consumer demand and subsequent softening of demand when such concerns subside. Inventory levels in excess of customer demand may adversely impact operating results.

In 2017, the EU adopted Directive (EU) 2017/853 of the European Parliament and of the Counsel of 17 May 2017 (the "Gun Ban Directive", partly as a reaction on the misuse of firearms for criminal purposes and terrorist acts. In particular, the Gun Ban Directive broadens the category of prohibited weapons and obliges competent authorities to regularly monitor holders of authorizations to possess weapons. The Czech Republic has not yet implemented the Gun Ban Directive despite the fact that the deadline for its implementation expired in September 2018. However, pressure from the EU on the Czech Republic and other member states which have not yet implemented the Gun Ban Directive is rising, and in July 2019, the European Commission issued a reasoned opinion urging the Czech Republic and other member states which failed to transpose the Gun Ban Directive into their respective national laws to do so as soon as possible. On 3 December 2019, the European Court of Justice dismissed a lawsuit the Czech Republic had filed against the Gun Ban Directive. As a result, the Ministry of Interior of the Czech Republic has commenced the preparatory works on a new Czech weapons act that should also implement the Gun Ban Directive. The new law is expected to enter into force in 2022. The new law will likely increase gun control in the Czech Republic in compliance with the relevant EU directives, but its impact on the firearms industry is not yet clear as the draft legislation is still in the preparatory phase and has not yet been introduced in the Czech Parliament for approval. The Group and its customers will have to comply with the new legislation, and this could impact its firearms and accessories sales in the European civilian market and therefore influence the Group’s financial performance and financial position.

The Group may be unable to protect its intellectual property or may unintentionally infringe intellectual property rights of third parties

The Group’s success and ability to compete depend on its ability to protect its intellectual property. Particularly the brands CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS, trademarks “CZ”, “CZ-USA”, “BREN”, “DAN WESSON” and “ZBROJOVKA BRNO”, and other related trademarks and the designs of the BREN and SCORPION model firearms and CZ P-09 and SHADOW model pistols are crucial for customers’ recognition of the Group’s products and for the marketing and sales efforts. The Group relies on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements and other contractual provisions to protect its intellectual property, but these measures may provide only limited protection. However, the Group’s intellectual property rights could still be infringed and/or a third party could circumvent the Group’s intellectual property rights by registering patents, utility models or other intellectual property for products which closely emulate the Group’s products without directly infringing on the Group’s intellectual property rights.

Furthermore, given the increasing complexity of production technologies and the importance of fast product innovation, there is a risk that Group may unintentionally infringe intellectual property rights, in particular patents, trademarks and design rights, of third parties. In the case of such infringement, the Group may be liable for damages as well as litigation costs and may have to withdraw products already produced from the market or purchase a license to use such rights, and such license may not be available on reasonable terms, if at all.

The Group’s failure to enforce and protect its intellectual property rights or an unintentional infringement of intellectual property rights of third parties could reduce the Group’s firearms and accessories sales, erode margins or damage its reputation.

The Group is exposed to risks from product liability

The Group is exposed to risks from product liability, in particular from lawsuits by customers alleging defective product design, defective manufacture and/or failure to provide adequate warnings and seeking punitive as well as compensatory damages.

In particular, the Group’s management is monitoring developments in an ongoing U.S. case related to a different firearms manufacturer. In November 2019, the U.S. Supreme Court declined to review a case related to the Protection of Lawful Commerce in Arms Act (the “PLCAA”) enacted by the U.S. Congress in October 2005, which protects firearms manufacturers and dealers from liability when their legally manufactured and lawfully sold products are later used in criminal acts, subject to certain exceptions. The U.S. Supreme Court’s decision allows the family members of victims of gun violence to move forward with their suit against a gun manufacturer for damages and could ultimately erode the protections of the PLCAA. Though the Group still believes that the likelihood of success of an action for monetary damages against the Group in the United States significantly decreased after the U.S. Congress enacted the PLCAA, there can be no assurance that plaintiffs will not seek damages from the Group in the United States or elsewhere.

Even if the Group is ultimately successful in defending against any such claims, it may incur significant defence costs. Also, there can be no assurance that the PLCAA will not be repealed, amended or reinterpreted in the future.

Because the nature and extent of liability based on the production or sale of allegedly defective products is uncertain, particularly as to firearms, the Group’s resources may not be adequate to cover future product liability and product related occurrences, cases or claims, in the aggregate, and such cases and claims may have a material adverse effect upon the Group’s reputation and financial condition. Though certain Group entities maintain product liability insurance, for example, for liability to third parties caused by a faulty product, those insurance policies have limits and a large part of the costs of a complete recall of a product from the market would not be covered by the relevant product liability insurance.

INTERNAL CONTROL RISKS

The nature of the Group’s business is highly susceptible to corruption, fraud or other improper activities

The Group’s operations and its participation in various tendering procedures, make the Group highly susceptible to corruption and its management, employees or agents may engage in misconduct, fraud or other improper activities. The Group is exposed to the risk that management, employees or agents, including foreign sales representatives cause export of defence articles or technical data without an export license, pay bribes in order to obtain business, fail to comply with applicable government procurement regulations, violate the government requirements concerning the protection of classified information and misappropriation of government or third-party property and information, which would result in the Group’s suspension or debarment from contracting with the governments, as well as the imposition of fines and penalties, which would cause material harm to the Group’s business and its reputation. The Group has implemented programs, controls and code of conduct that should limit the risk of corruption, fraud or other improper activities that may have adverse impact on the Group.

The Group only recently became a public company and may be adversely affected by this transition or a failure by the Group to comply with the additional requirements

CZG became a public company in October 2020. This transition involved, in particular, changes in the Company’s corporate governance, financial and non-financial reporting requirements as well as the implementation of an internal compliance framework and function. Following the admission of the Company's shares on the Prague Stock Exchange, the Company became for the first time subject to the legal requirements of a company listed on the regulated market of the Prague Stock Exchange. This is still a new situation for the Company and the Company has needed to develop the expertise necessary to comply with the numerous regulatory and other requirements applicable to public companies, including requirements relating to corporate governance, listing standards, more detailed financial and non-financial disclosure requirements (for example with respect to the timely publication of financial results or inside information), and securities and potential investor relations issues, which require significant management attention and result in increased costs. In addition, the Group's management had to evaluate the internal control system independently with new materiality thresholds, and to implement necessary changes to its internal control system. Failure to respond to these additional requirements without difficulties or inefficiencies and compliance violations could result in sanctions imposed by regulatory authorities as well as cause the Group to incur significant additional costs and expose the Company to civil litigation and penalties. The Group has implemented procedures and controls that should address compliance with reporting requirements for publicly listed companies.

The Group is exposed to disruptions in its information technology and to cyber-attacks

The Group depends on its information technology and data processing systems for the efficient operation of its business, and a significant malfunction or disruption in the operation of the systems could disrupt the Group's business. Breakdowns and interruptions in the Group's information technology systems could jeopardize their operation, causing errors in the execution of transactions, inefficient processes, loss of customers and other business interruptions.

The Group uses its information technology systems to collect and store confidential and sensitive data, including information about the Group's business, customers and employees. The remote communication features used by the Group are sensitive to both wilful and unintentional security breaches. In the event of a security breach that allows third parties to access such confidential information, the Group could be subject to lawsuits, fines and other means of regulatory enforcement.

The Group's assets are exposed to the risk of cyber attacks, or threats of intentional disruption, which are increasing in terms of sophistication and frequency, with the consequence that such cyber-incidents may remain undetected for long periods of time. The Group has experienced a malware attack and an occurrence of invoice fraud in the past and, while these have not had a material impact on the Group, there can be no assurance that similar incidents will not occur again in the future and that they will not have a material adverse impact on the Group's reputation, business, financial condition, liquidity or results of operations. The measures taken by the Group may not prevent all instances of cyber-attacks. In case of a severe cyber-attack, the Group's operations could be temporarily disrupted, which could have a material adverse effect on the Group's reputation, business, financial condition, liquidity and results of operations. The Group's management pays high attention to cyber risks. The Group has been continuously implementing procedures and controls that should limit the cyber risk.

Environmental, social and governance risks

The Group's performance is sensitive to social and political pressures due to the controversial nature of firearms. Despite efforts of the Group to counter an illicit trade in the Group's firearms, there can be no assurance that future incidents involving an illicit trade in, or use of, firearms produced by the Group or related allegations or investigations would not have an adverse effect on the Group's reputation, will not adversely affect the Group's business, results of operations, financial condition, cash flows and prospects, as a result of social or political pressure or otherwise.

Internal risk management system

The Company applies strict monitoring in both the selection and subsequent cooperation with suppliers. Suppliers are asked to accept and adhere to the Company's Code of Conduct. Compliance with the Code of Conduct is monitored and assessed regularly and non-compliance results in the severing of cooperation with the non-compliant supplier/customer. The Group and its subsidiaries apply strict verification procedures to suppliers as well as wholesale and retail customers.

The Company also extended its activities in the area of monitoring final products and their condition to include product audits at assembly. The Company implemented the PFMEA risk analysis for new products in order to eliminate errors in both manufacturing processes and processing of design and technological documentation. The Company maintains its focus on process stability in implementing new technologies and machinery by applying statistical process control.

Cybersecurity, as desribed above, is one the key priorities of CZG. Within the Group, cybersecurity comes under the remit of Česká zbrojovka a.s. The Group's ICT strategy focuses on implementing shared solutions, the core objectives of which include data protection and support for the Group's business activities. The strategy also includes harmonisation of technologies across the Group, definition of shared best practices, implementation of a unified document management system, and monitoring and integration of data from machinery and equipment for purposes of increasing efficiency. CZG has also implemented a guideline governing the processing and protection of personal data.

In 2020, the Group joined the "Platform for cooperation of strategic defence industry companies of the Czech Republic and the state", which was created by the Czech Ministry of Defence. The goal of the Platform is to strengthen the resilience of strategic defence industry companies against hybrid threats, including cyber threats, via consultations, education and exercises.

Internal control and risk management related to financial accounting and reporting process

The Group uses various technical and governance measures in order to maintain 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 the 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 controls over 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 different accounting software to keep their books, the main subsidiaries use SAP/3 and Infor/Syteline. For the consolidation process, the Group uses MS Excel which has several controls embedded to verify the completeness and accuracy of data inputs.

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 takes place online through the approval process in SAP R/3’s accounting system.

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 superior. Access is provided according to the employee’s job 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 systém 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 documentation of accounts reconciliation is documented on the annual basis. Moreover, the management review of monthly accounts compared to prior year and also budgeted figures is performed in a thorough way.

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. Apart from the annual audit, the external auditor also performed limited review of the interim consolidated financial statements prepard for six months ended 30 June 2020.

8. Basic Information about CZG - Česká zbrojovka Group SE

BASIC INFORMATION ABOUT THE COMPANY

Legal name:----------------------------- CZG - Česká zbrojovka Group SE

Legal form:------------------------------ European Company (Societas Europaea - SE)

Address: --------------------------------- Opletalova 1284/37, Nové Město, 110 00 Praha 1

Registered at: ------------------------- Prague Municipal Court, Division H, Insert 962

IČO: -------------------------------------- 291 51 961

DIČ: -------------------------------------- CZ29151961

LEI: -------------------------------------- 315700O990GR61YDGF96

telephone: ----------------------------- +420 222 814 617

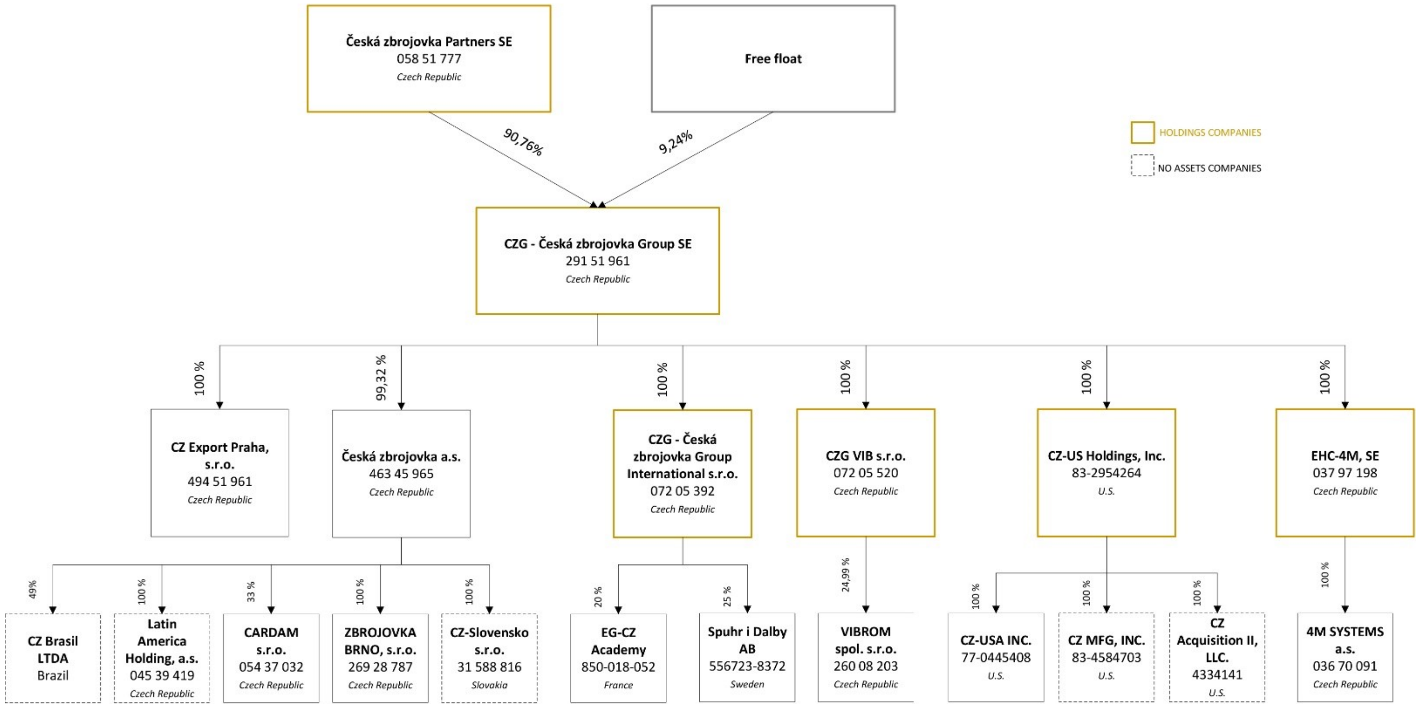
email: ----------------------------------- info@czg.cz

Date of incorporation: --------------- 2013

According to article 2 of CZG'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.

9. Organizational Chart and Group's Entities

The following chart shows the Group structure as of December 31, 2020.



GROUP COMPANIES

The description below provides certain information with respect to the selected key operational and/or material companies of the Group:

ČESKÁ ZBROJOVKA A.S. ("CZUB")

CZUB IS THE MAIN OPERATING COMPANY OF THE GROUP AND IS BASED IN UHERSKÝ BROD.

CZ-USA INC. ("CZ-USA")

CZ-USA IS A FULLY OWNED SUBSIDIARY OF CZ-US HOLDINGS, INC. 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 WHERE CZ-USA HAS A LONG-STANDING RELATIONSHIP WITH TWO LARGE MANUFACTURERS WHICH ARE NOT PART OF THE GROUP.

DUE TO UNITED STATES REGULATIONS, CZ-USA DOES NOT SELL DIRECTLY TO THE END CUSTOMERS BUT RATHER SELLS ITS PRODUCT THROUGH WHOLESALERS AND OTHER MERCHANTS.

CZ EXPORT PRAHA, S.R.O. ("CZ EXPORT")

CZ EXPORT IS A FULLY OWNED SUBSIDIARY OF THE COMPANY BASED IN UHERSKÝ BROD, CZECH REPUBLIC. THE COMPANY SPECIALIZES IN THE INTERNATIONAL TRADE 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.

VIBROM SPOL. S R.O. ("VIBROM")

VIBROM IS A STRATEGIC EQUITY INVESTMENT OF THE GROUP BASED IN TŘEBECHOVICE POD OREBEM, CZECH REPUBLIC. IT SPECIALIZES IN POWDER INJECTION MOULDING (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) OR CERAMIC POWDER INJECTION MOULDING (CIM) PARTS. THE COMPANY UTILIZES MODERN AND INNOVATIVE TECHNOLOGY AND A SYSTEM OF 100% QUALITY CONTROL (3D MEASUREMENT, DEFECTOSCOPY STATION) AND IS A HOLDER OF AN ISO 9001 CERTIFICATE. THE IMPORTANCE OF VIBROM FOR THE GROUP LIES IN THE ONGOING TREND TOWARDS AN INCREASING NUMBER OF MIM PARTS IN THE FIREARMS AND THE RESULTING NEED TO SECURE CLOSE COOPERATION BETWEEN PRODUCTION AND R&D UNITS. THE SHAREHOLDING IN VIBROM ENABLES THE GROUP TO HAVE CLOSE COOPERATION WITH A MIM SPECIALIST WITHOUT HAVING TO INVEST IN DEVELOPING ITS OWN MIM TECHNOLOGY AND EXPERTISE.

CARDAM s.r.o. ("CARDAM")

CARDAM IS A PARTIALLY OWNED SUBSIDIARY OF CZUB BASED IN DOLNÍ BŘEŽANY, CZECH REPUBLIC, WITH CZUB OWNING 33% OF CARDAM'S SHARE CAPITAL. BESIDES CZUB, THE FOUNDING MEMBERS AND SHAREHOLDERS OF CARDAM ARE THE INSTITUTE OF PHYSICS OF THE CZECH ACADEMY OF SCIENCES AND FOUNDRY BENEŠ AND LÁT. 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 CENTRE OF RESEARCH AND DEVELOPMENT FOR ADDITIVE MANUFACTURING AND ADVANCED SURFACE TREATMENT.

ZBROJOVKA BRNO, s.r.o. ("Zbrojovka Brno")

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. ZBROJOVKA BRNO CURRENTLY PRODUCES MAINLY HUNTING RIFLES AND PROVIDES CUSTOMIZED SOLUTIONS FOR THE GROUP CUSTOMERS. CZUB INTENDS TO USE ZBROJOVKA BRNO AS THE CUSTOMIZATION CENTRE FOR ITS ONLINE FIREARMS CONFIGURATOR.

4M SYSTEMS a.s. ("4M SYSTEMS")

4M SYSTEMS IS A 100% OWNED SUBSIDIARY OF EHC 4M, SE BASED IN PRAGUE, CZECH REPUBLIC. THE REMAINING 45.74% SHARE WAS ACQUIRED BY EHC 4M, SE IN SEPTEMBER 2020 FROM THE MINORITY SHAREHOLDERS FOR CZK 3.3 MILLION. THE GROUP IS IN DISCUSSIONS WITH ITS FINANCING BANK REGARDING A POTENTIAL RECAPITALISATION OF 4M SYSTEMS IN ORDER TO PREPARE 4M SYSTEMS TO REALIZE THE COMMERCIAL POTENTIAL OF CERTAIN MILITARY AND LAW ENFORCEMENT CONTRACTS. 4M SYSTEMS OPERATIONS INCLUDE THE DESIGN, PRODUCTION AND SALE OF TACTICAL EQUIPMENT FOR ARMED FORCES SUCH AS THE MILITARY, POLICE, CUSTOMS, PRISON SERVICE, BORDER GUARDS ETC. 4M SYSTEMS ENHANCES THE ABILITY OF THE GROUP TO OFFER ITS CUSTOMERS A BROADER SCOPE OF PRODUCTS IN COMPLEX ORDERS SUCH AS REARMAMENTS.

SPUHR I DALBY AB ("SPUHR")

THE SWEDISH MANUFACTURER OF OPTICAL MOUNTING SOLUTIONS FOR WEAPONS SPUHR IS A 25.0% OWNED SUBSIDIARY LOCATED IN LÖDDEKÖPINGE, SWEDEN. THE STAKE WAS ACQUIRED IN MAY 2020. SPUHR’S PRODUCT PORTFOLIO CONSISTS OF OPTICAL MOUNTS, ACCESSORIES AND UPGRADE KITS FOR WEAPONS, MAKING IT HIGHLY COMPLEMENTARY TO ČESKÁ ZBROJOVKA’S CORE BUSINESS. THE SPUHR MOUNTS AND ACCESSORIES ARE USED BY MANY MILITARY AND LAW ENFORCEMENT UNITS AROUND THE WORLD. SPUHR ALSO OFFERS A POPULAR HUNTING SERIES OF PRODUCTS.

EG-CZ ACADEMY ("ACADEMY")

ACADEMY IS A PARTIALLY OWNED SUBSIDIARY OF CZG-ČESKÁ ZBROJOVKA GROUP INTERNATIONAL S.R.O. BASED IN QUIMPER, FRANCE. CZG-ČESKÁ ZBROJOVKA GROUP INTERNATIONAL S.R.O. OWNS A 20% SHAREHOLDING IN ACADEMY. IN JULY 2020, THE REGISTERED CAPITAL OF ACADEMY WAS INCREASED FROM EUR 5,000 TO EUR 500,000. ACADEMY WAS FOUNDED IN COOPERATION WITH ERIC GRAUFFEL, THE SEVEN-TIME WORLD IPSC CHAMPION. ACADEMY AIMS TO PROVIDE A NEW EXPERIENCE IN INDOOR SHOOTING. IT OPERATES A MODERN TRAINING FACILITY PROVIDING ITS MEMBERS (FROM SPORT SHOOTERS TO GOVERNMENT BODIES) WITH ACCESS TO ALL TYPES OF MODERN SHOOTING DISCIPLINES. ACADEMY SERVES AS A MARKETING TOOL FOR THE GROUP AND ITS IMPORTANCE LIES MAINLY IN ITS IMPACT ON INCREASING BRAND AND PRODUCT AWARENESS AND LOYALTY.

a. Business and Value Creation Model

CZG´s vision is to become an industry leader, military and law enforcement partner and premium brand. The Group strives to play a key role in the expected consolidation of the firearms industry while acting responsibly and giving back to society. By following a business model built upon three value creation phases, knowledge is constantly transformed into sustainable and innovative solutions, creating added value for all stakeholders. This comprehensive approach to value creation is embodied in the brand values Product, People and Strategy and communicated transparently to all stakeholders.

PRODUCT

RECOGNIZED BRAND, FOCUS ON TECHNOLOGY

UNIQUE VALUE OFFERING, STABLE MOVE TOWARDS HIGH END POSITIONING

PEOPLE

SUBSTANTIAL EXPERIENCE IN THE FIREARMS INDUSTRY

ABLE TO PROMPTLY RESPOND TO CUSTOMERS' UNIQUE REQUIREMENTS FOR ITS PRODUCTS

STRATEGY

CONTINUE TO OUTPERFORM COMPETITORS AND MARKET

GROW BOTH ORGANICALLY AND VIA M&A

INCREASE PRESENCE IN MILITARY AND LAW ENFORCEMENT SEGMENT

CZG´s long-term value creation model is based on the balanced effort to achieve efficiency and growth through utilization of resources as well as capital efficiency improvement. We create value by:

- Fuelling growth through continuous innovation and R&D,
- The Group's manufacturing focuses primarily on the production of parts with a high added value and a high proportion of the Group's own knowhow,
- Improving production efficiency and sales effort,
- CZG is one of the largest exporters in the Czech Republic (22nd place by export volumes in 2019 and 2020)
- Allocating resources and capital with discipline and clear strategic priorities, also through acquisitions,
- Leveraging the expertise and enhance corporate social responsibility as a voluntary commitment to pursue Group´s business in a way that is heedful of both the environment and the society in which the Company operates

DEVELOP

- Research and development partnership with the Institute of Physics of the czech Academy of Science
- Strategic investments into companies to develop and produce components and materials

PRODUCE AND SELL

- Manufacturing, R&D, design, tender and other facilities and departments
- Production facilities in Europe and USA
- 150 disributors in approximately 100 countries

BOOST THE OFFER

- Design, manufacture and sale of tactical gear for military and law enforcement
- Defence materiel trade
- Strategic investments into optics to develop first in class products for most demanding clients

LEVERAGE THE EXPERTISE

- Shooting academy
- Marketing tool to increase brand loyalty
- Financing, training and support for buyers

10. Shares and Shareholding Structure

As of 31 December 2020, the CZG´s share capital was CZK 3,263,800 and was fully paid up. It was divided into 32,638,000 ordinary registered book-entry shares with 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 authorised but unissued capital. 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 Czech Companies Act. According to the Articles of Association, each share of the Company entitles to one vote at the General Meeting

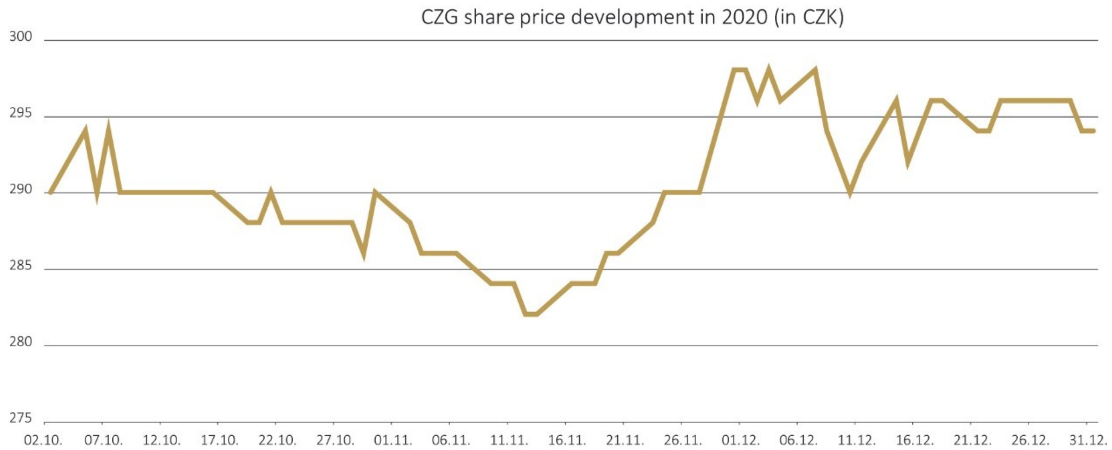
With effect from 1 June 2020, the shares of CZG – Česká zbrojovka Group SE have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares. During September 2020, the Group finalized its IPO and as of 2 October 2020, its shares are traded on the Prime Market of the Prague Stock Exchange with a free float of 9.24%.

In October 2020, CZG completed the underwriting of its shares in a public offering, resulting in gross proceeds at CZK 812,000 thousand designated to finance the Group’s growth. In addition to the primary component, the Group’s shareholder, Česká zbrojovka Partners SE, granted an over-allotment option to sell additional up to 280,000 shares in the amount up to CZK 81,200,000, this option was finally utilized in the amount of 215,859 shares.

Information about shares

Market	PSE, Prime Market
No. of issued shares (pieces)	32 638 000
Market Capitalization (31 December 2020)	CZK 9,595,572,000
Ticker	CZG
BIC	BAACZGCE
ISIN	CZ0009008942
Bloomberg ticker	CZG CP Equity
Reuters ticker	CZG.PR
Indices	PX, PX-GLOB, PX-TR, PX-TRnet

Chart – Trading of CZG´s shares in the PSE in 2020



Source: Bloomberg

OWNERSHIP

As of 31 December 2020, the majority shareholder of the Company was Česká zbrojovka Partners SE, incorporated as a European Company (Societas Europaea) in the Czech Republic, (the "Major Shareholder"), who holds 90.76 % of the shares and voting rights in CZG, while the remaining 9.24 % of CZG´s shares are in free-float. The majority shareholder of the Major Shareholder is European Holding Company, SE ("EHC") which holds 90 % of the share capital and voting rights in the Major Shareholder. EHC is 100% owned and controlled by Mr. René Holeček. The remaining 10 % of the Major Shareholder's share capital is held as follows: (i) 5 % by Mr. Lubomír Kovařík, chairman of the CZG's Board of Directors and President of the Group, (ii) 2.5 %. by Mr. René Holeček, chairman of the CZG's Supervisory Board (resulting in Mr. René Holeček's total direct and indirect shareholding in the Company, including through holdings in the Major Shareholder, of 83.95 % of share capital and voting rights of the company), and (iii) 2.5 %. by Mr. Jan Drahota, vice-chairman of CZG's Board of Directors and Group head of finance.

INVESTOR RELATIONS

In the period since the IPO, CZG 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. CZG is dedicated to open and pro-active communication with its shareholders and has implemented a schedule of investor communications events, all of which is fully compliant with market standards for listed companies.

a. Information about Shares Held by the Key Management and Members of the Board of Directors and Supervisory Board

As of the date of this Annual Report, following members of the statutory bodies and management of the Company held shares either directly or indirectly in the Company:

Direct shareholdings:

As of 31 December 2020, one member of the Board of Directors held 1,033 shares issued by CZG. The shares were acquired prior to his appointment to the Board of Directors of CZG.

As of 31 December 2020, members Supervisory Board did not hold any shares issued by CZG.

Indirect shareholdings:

The major shareholder of the Company, Česká zbrojovka Partners SE holds 90.76 % of the shares and voting rights in CZG. The majority shareholder of the major shareholder is EHC which holds 90 % of the share capital and voting rights in the major shareholder. EHC is 100% owned and controlled by Mr. René Holeček. The remaining 10 % of the major shareholder's share capital is held as follows: (i) 5 % by Mr. Lubomír Kovařík, chairman of the CZG's Board of Directors and President of the Group, (ii) 2.5 %. by Mr. René Holeček, chairman of the CZG's Supervisory Board (resulting in Mr. René Holeček's total direct and indirect shareholding in the Company, including through holdings in the major shareholder, of 83.95 % of share capital and voting rights of the company), and (iii) 2.5 %. by Mr. Jan Drahota, vice-chairman of CZG's Board of Directors and Group head of finance.

Accordingly, the major shareholder directly exercises ultimate control over the Company. The control of the major shareholder over the Company is based on its ownership of 90.76 % of the share capital and voting rights.

b. Other Legal Requirements

This summary is based on the requirements set forth in Section 118(5)(a) through (k) of the Capital Markets Act.

As of 31 December 2020, the CZG´s share capital was CZK 3,263,800 and was fully paid up. It was divided into 32,638,000 ordinary registered book-entry shares with 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 authorised but unissued capital. 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 Czech Companies Act. According to the Articles of Association, each share of the Company entitles to one vote at the General Meeting

The transferability of CZG´s shares is not restricted.

Information on significant direct and indirect sharesholdings is described in the Chapter 5.a. *Information about shares held by the key management and members of Board of Directors and Supervisory Board*.

No special rights are attached to any of CZG´s shares.

The voting rights attached to CZG´s shares are not restricted.

CZG is not aware of any agreements between its shareholders that might restrict or limit the transferability of its shares or voting rights.

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 appointed for a period of five years and may be reappointed. The Supervisory Board may recall a member of the Board of Directors at any time. The Board of Directors appoints its Chairman and two Deputy Chairmen 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 election of and recalling of members of the Board of Directors and for adoption of the amendments of the Articles of Association.

The CZG's Board of Directors has no special powers.

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 any contracts with members of its Board members 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.

CZUB Management Shareholding Plan

In the years 2014 to 2019, CZUB had a management shareholding plan in place. In 2020, two current members of CZUB's Board of Directors own Class B book entry registered shares, representing in total 0.68 % of CZUB's equity. The remaining members of CZUB's board of directors had sold their shareholdings to the Company in 2019. CZUB has a call option on those Class B shares at a pre-defined strike price which represents a proportionate increase of equity over a certain period of time (over the course of holding period). CZUB or the Group have already exercised this call option right several times, most recently in October 2019.

Employee Share Option Plan

The Company is currently evaluating the implementation of an employee equity or share options plan for the management and key employees of the Group in order to further align interests of management, employees and shareholders. The contemplated number of shares to be allocated for such a plan is not expected to exceed 10 % of the Company's equity, and the Company considers a 3 to 5 year horizon for vesting of share options as an optimal minimum. Such a plan is to be implemented in 2021.

c. Important agreements concerning shares

The major shareholder directly exercises ultimate control over the Company. The control of the major shareholder over the Company is based on its ownership of 90.76 % of the share capital and voting rights. The major shareholder is a Czech holding company with the shareholding in the Company being its only material asset. CZG uses standard statutory mechanisms to prevent the major shareholder's potential misuse of its position and control over the Company, including the statutory instrument of the report on relations between the related entities. Management of the Company is not aware of any arrangements, the operation of which could result in a change in control.

d. Material contracts

COLT ACQUISITION AGREEMENT

On 11 February 2021, CZ-US Holdings, a wholly-owned direct subsidiary of the Company, as buyer, CZ Acquisition II, LLC, a subsidiary of CZ-US Holdings, into a sale and purchase agreement for the entire share capital of COLT, the indirect owner of the U.S. firearms manufacturer Colt's Manufacturing Company LLC and its Canadian subsidiary, Colt Canada Corporation.

Subject to the terms and conditions of the COLT Acquisition Agreement, the Group shall acquire the entire share capital of COLT for an upfront purchase price of USD 220 million in cash and 1,098,620 newly issued ordinary shares of the Company. The purchase price may be further increased in case certain pre-defined EBITDA performance criteria of the Group for the years 2021, 2022 and 2023 are reached. This earn-out part would consist of approximately up to 1,098,620 newly issued shares of the Company. The agreement includes customary warranties and interim period covenants. The Company currently intends to finance approximately USD 150 million excluding interest, of the purchase price from the net proceeds from the issue of the bonds, the remaining part from the CZG's existing cash resources, including the proceeds from the CZG's initial public offering which took place in 2020.

FRAMEWORK AGREEMENT ON TECHNOLOGY TRANSFER COOPERATION

On 6 March 2018, the Group, acting through CZ EXPORT, entered into a framework agreement on technology transfer cooperation with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state. The Framework Agreement sets out a legal framework for the conclusion of four separate production. Contracts, all of which have been executed between the parties, each for the transfer, assembly and production of the Group's firearms, namely up to 200,000 firearm units of (i) CZ P-07, (ii) CZ P-09, (iii) CZ Scorpion EVO 3 A1, and (iv) CZ BREN 2, with an expected total value of more than EUR 100 million.

The Production Contracts establish the legal framework allowing HM ARZENÁL to put into operation a sufficiently equipped own factory in Hungary suitable for the serial production of the above-mentioned firearms and to manufacture several components related to the production of the production firearms. According to the Framework Agreement, the main commercial purpose of the transaction for HM ARZENÁL is to allow for the rearmament of the Hungarian armed forces and law enforcement agencies with the production firearms produced by HM ARZENÁL using the Group's technology. HM ARZENÁL may also sell production firearms to third parties either pursuant to agreements made on a government to government basis or with the Group's prior written approval. The Group's aim is to fully service the Hungarian military and law enforcement market for small arms from its portfolio.

Pursuant to the production contracts, the cooperation between the parties consists of two consecutive stages. The first stage has already been finished. During the first stage, the parties aimed to sufficiently equip and put into operation the factory and to train HM ARZENÁL's workers. During the first stage HM ARZENÁL also agreed to start its own production of the production firearms, first exclusively from the components supplied by the Group and, after the factory is equipped with the necessary equipment, also partly from the components manufactured in the factory by HM ARZENÁL. The second stage, which is the serial production of the production firearms, was scheduled to begin after the successful completion of the first stage.

The production contracts have been concluded for a fixed term of five years with an automatic extension for an additional period of five years unless the parties agree on its termination.

The first stage had already been finished and the second stage has been put in motion. The factory has been built and equipped with the necessary machinery. HM ARZENÁL's workers have already mastered the gun assembly of the production firearms from components supplied by the Group and HM ARZENÁL is preparing to manufacture the components.

FRAMEWORK AGREEMENT WITH THE MINISTRY OF DEFENCE OF THE CZECH REPUBLIC

In April 2020, the Czech Ministry of Defence and CZUB have entered into a framework agreement for the supply of up to 39,000 small arms. The deal is worth up to CZK 2.35 billion (exclusive of value-added tax) and covers the period until 2025. The final price will depend on the number of the weapons the ministry will order within narrower purchase order contracts in accordance with the military's needs. It includes up to 16,182 BREN 2 modular assault rifles, 21,280 CZ P-10 pistols, 1,646 CZ 805 G1 grenade launchers and 94 Scorpion carbines. As of the date of this Report, the Ministry of Defence placed four orders under the Czech Army Framework Agreement in the total amount of CZK 381.99 million (including value-added tax), which shall be delivered in the second half of 2021.

CZUB BONDS

In 2016, CZUB issued CZK 1.5 billion floating rate bonds due January 2022, followed by a second tranche in the amount of CZK 750.0 million issued in January 2017 and sold to investors in 2018 (with corresponding impact in the financial statements), increasing the total nominal amount to CZK 2.25 billion (the "CZUB Bonds"). The CZUB Bonds are redeemable by CZUB in 2021 at par and bear interest at a floating rate of 6M PRIBOR plus margin in the amount of 1.70 per cent. per annum. The CZUB Bonds are listed on the Regulated Market of the PSE.

The terms and conditions of the CZUB Bonds impose certain restrictions on CZUB regarding the disposal of its assets, incurrence of financial indebtedness, pledging, mortgaging or otherwise encumbering its property, carrying out transactions with related parties and payment of dividends or other distributions to its shareholders. In particular, CZUB is prohibited from declaring or paying dividend, make any other distribution of profit, return capital, provide loan or credit, and/or repay any debt, in each case to any of its shareholders, if CZUB's consolidated net debt-to-EBITDA ratio would exceed 3.0 as a result of any such payment or transaction. Because dividends from CZUB represent an important source of revenues for the Company, the ability of the Company to pay dividends to its shareholders would depend also on the level of consolidated indebtedness of CZUB. Apart of the above-described indebtedness covenant, the terms and conditions of the CZUB Bonds contain a change of control clause, subject to which CZUB must give notice of a change of control event (such an event being at such time as Mr. René Holeček ceases to directly or indirectly own at least 51 per cent. of CZUB or otherwise loses control over CZUB) and all holders of the CZUB Bonds shall have the option to request redemption of their CZUB Bonds within 45 days after the change of control notification.

e. Dividend Policy

On 17 September 2020, the Board of Directors of CZG adopted a dividend policy pursuant to which, as from the financial year ended 31 December 2020 onwards and subject to (i) the availability of sufficient distributable cash; and (ii) shareholder approval, the Company intends to target an annual distribution of 33 % of its consolidated net profit for the year based on its consolidated annual financial statements.

DIVIDEND PAID IN 2020

The AGM in 2020 was held on 8 June 2020 as a resolution of the sole shareholder Česká zbrojovka Partners SE. The sole shareholder approved the annual audited financial statements of the Company for the year 2019 and decided on the distribution of the Company's profit for 2019 as follows:

Profit for 2019 in the amount of	CZK 1,002,064,644.46 is divided as follows:
Dividend	CZK 328,218,000.00 (or CZK 11 per share)
Transfer to retained earnings of previous	CZK 673,846,644.46

11. Corporate Governance Principles

a. Corporate Governance Code

The corporate governance structure of the Company complies with the applicable laws, including the Czech Companies Act. Under Czech law, the Company is not required to comply with any corporate governance code. The Company intends to comply with the Czech companies corporate governance code issued by the Czech Institute of Directors in September 2018 (the "CG Code") 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. The Company currently complies with the CG Code, except for certain principles as follow:

- The Articles of Association allow for the per rollam voting at the General Meeting as one of the measures implemented during the COVID-19 pandemic;
- Mr. Aquilar holds several external advisory board member positions in the U.S. The Company does not consider such positions conflicting.
- Mrs. Růžičková holds several board positions in the companies related to Mr. René Holeček, a majority shareholder of Česká zbrojovka Partners SE, a major shareholder of CZG. Mrs. Růžičková intends to leave such positions in the future; and
- Only one member of the audit committee (out of three members) is currently a member of the Supervisory Board and the Company finds this sufficient at the moment, but the Company is actively looking for an addition to the Audit Committee with strong accounting and/or audit credentails and independent status in order to further strengthen the position of the Audit Committee.

b. Compliance and Anti-Bribery policy

CZG established a comprehensive compliance management system in order to prevent any violation of the relevant legislation or of CZG's internal policies. The compliance system also includes an anti-bribery policy, Code of Ethics and Code of Conduct[14]. Policy priorities of the compliance system are set by the board of directors of CZG.

Under its compliance system, CZG's board of directors appoints an employee of the Group as a compliance officer. The compliance officer is obliged to, in particular, (i) oversee the proper functioning of the compliance system, (ii) revise internal policies of CZUB, (iii) implement systems to obtain relevant information related to compliance, and (iv) deliver relevant information related to compliance and the compliance system to the Board of Directors of

[14] For further information and documents see https://www.czg.cz/about-us/#compliance-program

CZG. CZG also implemented a so-called 'whistleblowing' system for the notification of information relevant for the compliance system by CZUB's employees or any other third party.

The Code of Ethics of CZG sets out the fundamental ethical obligations for employees of the Group, in particular, the obligation to (i) act in line with applicable law, (ii) avoid any acts which may be related to bribery, (iii) avoid any conflicts of interest, and (iv) protect the good standing of CZG.

The anti-bribery policy of CZG sets the main course of behaviour of Groups's employees in relation to corruption activities. Its fundamental principles include:

- The Group does not tolerate any acts related to providing, offering, promising, accepting or requesting unauthorized benefits in the form of money, gifts or other advantages in connection with business or work-related activities of the respective individual in order to obtain or keep benefits for oneself or a third party;
- The management of CZG actively acts against any manner of corruption and prevents any suspicious activities which could be labelled as corruption;
- The Group´s employees are obligated to avoid any conflict of interest, in particular, such conflicts of interest that lie in the participation of the Group´s employees in the business relations of the Group on the side of the suppliers or purchasers which would result in unfair personal benefit;
- Accepting or offering of gifts or any similar advantages exceeding the relevant thresholds is forbidden (except for sponsorship and charity activities).

Similar compliance management system has been in place at CZUB, a key operating company of the Group.

12. General Meeting Principles

GENERAL MEETING

The general meeting is the highest corporate body of the Company. The exclusive powers of the General Meeting under the Czech Companies Act and the Articles of Association include in particular:

- decisions on amendments to the Articles of Association;
- resolving on the increase or decrease of the registered share capital (or the authorisation of the Board of Directors to increase registered share capital);
- resolving on the possibility to set off a monetary receivable against issue price for shares;
- decisions on the increase of the registered share capital by means of non-monetary deposits;
- decisions on the issuance of preferred and convertible bonds
- decisions on the acquisition of the Company's own shares in such cases as set out in the applicable law;
- resolving on the winding-up of the Company and liquidation, including the appointment and removal of the liquidator and approval of the liquidation balance distribution;
- decisions on the exclusion or restriction of the pre-emptive right to an acquisition of preferred or convertible bonds or on exclusion or limitation of the pre-emptive right to a subscription of new shares;
- decisions on changing the class or type of shares and on changes to the rights vested in specific share classes;
- election and recall of members of the Supervisory Board;
- election and recall of members of the Audit Committee;
- decisions on the Company's transformation;
- approving the listing or delisting of the Company's shares;
- approval of the service contracts for members of the Supervisory Board, and decisions on any other payments;
- appointment of the auditor who is to audit the Company's financial statements and other documents if required by law;
- granting of prior approval to provide financial assistance;
- approval of annual, extraordinary or consolidated financial statements and, in cases stipulated by the law, interim financial statements, as well as decisions on the distribution of profit or coverage of loss, and the determination of the profit share for the members of the Company's bodies; and
- approving a transfer of or creation of security over an enterprise of the Company or its part which would lead to significant change in structure of the enterprise, or business objectives or activities of the Company.

CALLING THE GENERAL MEETING

The General Meeting takes place at least once each accounting period and must be called by the Board of Directors so that it convenes within six months after the end of the Company's previous accounting period (on or before 30 June). The Board of Directors may call the General Meeting whenever it deems it necessary. The Board of Directors must call the General Meeting if:

- the Board of Directors receives a request from the Supervisory Board in accordance with the Czech Companies Act or a request from the Qualified Shareholders;
- the accumulated losses of the Company based on its financial statements, after having been reduced by expending all of the Company's disposable resources, equal or exceed (or may reasonably be expected to equal or exceed) 50% of the Company's registered share capital; or
- there is another material reason.

The General Meeting may be called by the Supervisory Board if required by the Company's interests or if the Company has no Board of Directors or if the elected Board of Directors has neglected its obligations for a long period and the General Meeting has not been called.

NOTICE AND COURSE OF GENERAL MEETINGS

The invitation to the General Meeting must be published at the Company's website at least 30 days prior to the General Meeting. The provisions of the Czech Companies Act governing the formal requirements for the convening of the General Meeting may be waived if so agreed by all shareholders of the Company.

If shareholders request that the General Meeting be called, the invitation to the General Meeting must be given at least 15 days before the date of the General Meeting. If a substitute General Meeting is called, the invitation to the General Meeting must be given by the fifteenth calendar day from the previously scheduled date of the General Meeting at the latest; the General Meeting shall in such a case be held within six weeks from the same date. The invitation shall contain all information required by law and the Articles of Association. If the agenda of the General Meeting calls for a change of the Articles of Association, the Company shall permit each shareholder to review the proposed change in the period prescribed by the invitation, free of charge.

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 Czech Companies 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.

All notices of General Meetings must be published on the Company's website www.czg.cz and in the Commercial Bulletin.

QUORUM

Under the Articles of Association, resolution may be adopted at the General Meeting only if shareholders are present (either in person or by proxy) whose shares have a total nominal value amounting to more than 50 per cent of the share capital of the company as of the respective Record Date (as defined below). However, a substitute General Meeting may adopt resolutions irrespective of the number of the Company's shareholders present.

Resolutions of the General Meeting generally require the approval of a majority of the votes of the Company's shareholders present at the General Meeting.

The following decisions of the General Meeting require a majority of at least two thirds of the votes of the Company's shareholders present at the General Meeting: an amendment to the Articles of Association or resolutions that indirectly amend the Articles of Association (for example, a resolution on an increase or decrease in the Company's registered capital);

- authorization of the Board of Directors to decide on an increase of the Company's registered capital;
- winding-up of the Company and distributing the Company's liquidation balance;
- approving a transfer of or creation of security over an enterprise of the Company or its part which would lead to significant change in structure of the enterprise, or business objectives or activities of the Company;
- resolving on the possibility to set off a monetary receivable against issue price for shares; and
- decisions on the issuance of preferred or convertible bonds by the Company.

The decision of the General Meeting approving an agreement for the settlement of loss incurred by the Company as a result of a breach of the duty of due care by a member of the Company's corporate body requires a majority of at least two thirds of the votes of all shareholders.

The following decisions of the General Meeting require a majority of at least three quarters of the votes of the Company's shareholders present at the General Meeting:

- restriction or limitation of the shareholders' preferred right to subscribe for a pro rata portion of new shares or for preferred or convertible bonds of the Company;
- increase of the Company's registered share capital by in-kind contributions; and
- distribution of the Company's profit to a person who is not a shareholder of the Company.

Resolutions passed at the General Meeting with a majority of at least three quarters of the votes of the Company's shareholders present at the General Meeting by shareholders holding the class of the Shares affected by such resolutions are required for (i) a change of a class of the Shares; (ii) a change of rights attached to the Shares; (iii) a conversion of registered Shares to bearer Shares and vice versa; (iv) a delisting of the Shares; and (v) approving restrictions or limitations of the Shares' transferability.

A merger or demerger of the Company must be approved by a resolution passed at the General Meeting with a majority of at least three quarters of the votes of the Company's shareholders present at the General Meeting by shareholders holding each class of Shares. A transfer of all of the Company's assets to its shareholder must be approved by a resolution passed at the

General Meeting with a majority of at least ninety per cent of the votes of all shareholders of the Company.

In certain cases, set out in the Czech Companies Act, the resolution of the General Meeting must take the form of a notarial deed.

PARTICIPATION AT THE GENERAL MEETING AND VOTING RIGHTS

At the General Meeting, each shareholder of the Company has equal rights, including equal voting rights, subject to certain exceptions set out in the Czech Companies Act. According to the Articles of Association, each share of the Company entitles to one vote at the General Meeting.

Only shareholders registered in the CSD as a shareholder of the Company on the seventh calendar day before the General Meeting ("Record Date") may attend the General Meeting. The Board of Directors shall obtain the shareholder's ledger extract as of the Record Date.

Under the Czech Companies Act, a shareholder of the Company may not exercise voting rights at the General Meeting if, inter alia:

- the shareholder has not paid the subscription price for the shareholder's Shares when due;
- the General Meeting is voting whether the Company's registered share capital will be increased by this shareholder's in-kind contribution; and
- the general meeting is to decide on whether the shareholder or a person acting in concert with the shareholder should be relieved of the fulfilment of an obligation, and/or whether the shareholder should be recalled from office as a member of a company body for violating an obligation in the performance of his or her office.

At the General Meeting, each of the Company's shareholders may be represented by: (i) a proxy on the basis of power of attorney; or (ii) an administrator engaged by a shareholder and registered in the depository system as a person authorized to execute the shareholder's rights. A power of attorney for the proxy must be in writing with official verified signatures. A form of the power of attorney will be published by the Company prior to each General Meeting on its website www.czg.cz and will be available at the registered office of the Company.

PER ROLLAM DECISION-MAKING

Voting at the General Meeting shall take place by means of electronic device, ballot cards or by other suitable manner as decided by the person who called the General Meeting. Also, the Articles of Association allow for per rollam voting which entails exercise of voting and other shareholder rights in writing without the personal participation of shareholders at the General meeting. Per rollam decision-making consists of three steps: (i) distribution of the proposed decisions together with the relevant supporting documents to the shareholders; (ii) delivery of the shareholders' opinion, subject to time limit of 20 days. If the shareholder fails to deliver his consent on the proposed decisions, he is deemed to have not agreed with the proposed decisions; and (iii) announcement of the voting results and the date of adoption of the relevant shareholders' decisions.

In the case that the shareholders or their representatives participate and vote on the General Meeting via technical means, the shareholders are required to provide the Company with the electronic copies of the abovementioned identification documents, together with a copy of the ID or passport of such shareholder or representative.

The Articles of Association also allow to participate and vote on the General Meeting via direct two-way remote transmission enabling real-time communication between the General Meeting and the shareholders not physically present at the General Meeting, subject to certain limitations arising out of technical aspects of such manner of holding the meeting (e.g., impossibility to verify the General Meeting's decision by a notary if required by law).

13. Management of the Company

GENERAL OVERVIEW

The Company has a two-tier board system consisting of the Board of Directors and the Supervisory Board. 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 in their management of the Company and resolves on matters defined in the Czech Corporations Act and the Articles of Association, particularly matters with material impact on the value of the ownership interests in the Company. Under the Czech Corporations Act, the Supervisory Board may not make management decisions.

The Supervisory Board may form committees from among its members and delegate decision making power to any such committees as permitted by law. The committees' respective tasks, authorizations and processes are determined by the Supervisory Board. As provided for by the Supervisory Board's rules of procedure, the Supervisory Board has formed a remuneration committee, an acquisition committee and a regulatory and ethical matters committee. Pursuant to the Articles of Association, the Company formed an Audit Committee members of which are elected by the General Meeting.

The Board of Directors represents the Company in all matters, unless such matter is specifically entrusted to the Supervisory Board or the General Meeting, and is responsible for the Company's management and day-to-day operations and acts on the Company's behalf. The business address of each member of the Board of Directors is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, the Czech Republic.

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 appointed for a period of five years and may be reappointed. The Supervisory Board may recall a member of the Board of Directors at any time. The Board of Directors appoints its Chairman and two Deputy Chairmen from amongst its members.

The Board of Directors constitutes a quorum if a majority of its members is present or otherwise takes part in a meeting. The Board of Directors adopts a decision by a majority vote of all its members. In case of a tie vote, the vote of the Chairman decides. Members of the Board of Directors may participate in the meetings through telephone or other remote means. When necessary, a decision may be made by the Board of Directors without holding a meeting.

In accordance with the Articles of Association, meetings of the Board of Directors are called by the Chairman or a Deputy Chairman of the Board of Directors or, in their absence, by any member of the Board of Directors, at least once a month. The Board of Directors shall convene upon the request of any member of the Board of Directors or the Chairman of the Supervisory Board.

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
Lubomír Kovařík	Chairman of the Board of Directors / President	17 January 2020	17 January 2025
Jan Drahota	Vice-Chairman of the Board of Directors / Group Head of Finance	17 January 2020	17 January 2025
Alice Poluchová	Vice-Chairman of the Board of Directors / CEO of CZ-USA	17 January 2020	17 January 2025
Andrej Chrzanowski[15]	Member of the Board of Directors	17 January 2020	17 January 2025
David Aguilar	Member of the Board of Directors	17 January 2020	17 January 2025
Jana Růžičková	Member of the Board of Directors/ Corporate Secretary	17 January 2020	17 January 2025
Ladislav Britaňák	*Member of the Board of Directors*	*17 January 2020*	*24 November 2020*
Jan Zajíc	Member of the Board of Directors	24 November 2020	24 January 2025

LUBOMÍR KOVAŘÍK

Chairman of the Board of Directors, President of the Group

Mr. Kovařík graduated from Military Air Force University and also completed 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 in the company 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 Chief Executive Officer of CZUB. Since 2018, he has been President and Chairman of the board of directors of the Major Shareholder.

Mr. Kovařík is primarily responsible for the Group's strategic business development and its key commercial efforts in the areas of military and law enforcement and public affairs.

[15] Andrej Chrzanowski resigned from his position in the Board of Directors with the effect of 31 March 2021. For more information see the Subsequent Events"

JAN DRAHOTA

Vice-Chairman of the Board of Directors, Group Head of Finance

Mr. Drahota studied Finance at the University of Economics, Prague and holds a Master of Business Administration degree from the University of Chicago, Booth School of Business. Before joining the Group at the level of the Major Shareholder in 2014, Mr. Drahota worked for about 15 years in the financial markets and investment banking field, spending most of his career in 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 is currently 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).

Mr. Drahota is primarily responsible for finance functions across the Group's companies and implementation of the Group's strategy, including its merger and acquisition initiatives.

ANDREJ CHRZANOWSKI

Member of the Board of Directors, Group Head of R&D and Technical Functions

Mr. Chrzanowski graduated from the Mechanical Engineering department at the Czech Technical University in Prague in 2002. From 2002 to 2006, he held technical and managerial positions in the research and development centre of Ingersoll Rand in the Czech Republic. From 2006 to 2013, he was the Technical Director of the Czech company Wikov. From 2013 to 2015, he was the Technical Director at CZUB. Since 2016 to 2019, he served as the Chief Executive Officer of CARDAM, and since 2018 he has been a member of the supervisory board of the Major Shareholder and member of the Academy Assembly of the Czech Academy of Sciences.

Mr. Chrzanowski is primarily responsible for R&D and technical functions across the Group.

JAN ZAJÍC

Member of the Board of Directors

Jan Zajíc graduated in Economics and Management at 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, the 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 the 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 is 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.

ALICE POLUCHOVÁ

Vice-Chairman of the Board of Directors

Mrs. Poluchová has a Master's degree in Management from the Business College of the Silesian University, Karviná, Czech Republic. She joined the Group directly after her graduation in 1995, as the Export Sales Manager in the Czech Republic. She relocated to the United States in 1998 and became the Vice President and Treasurer of the newly established CZ-USA. In 2004 she was appointed to the positions of President and Chief Executive Officer of CZ-USA. Mrs. Poluchová has been instrumental in the growth of CZ-USA, which has helped transform the Group into a sizeable player in the small arms market. She has established a strong team that is continuously growing the Group's presence and recognition in the United States.

Mrs. Poluchová represents the North American activities in the Board of Directors of the Group.

DAVID AGUILAR

Member of the Board of Directors

Mr. Aguilar retired from his career in the U.S. Government's service on 31 March 2013 where he served 35 years with U.S. Customs and Border Protection and the United States Border Patrol, acquiring a wealth of knowledge and experience in border law enforcement and 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 U.S. largest 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 Defence 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.

Mr. Aguilar acts as an independent, non-executive member of the Board of Directors.

JANA RŮŽIČKOVÁ

Member of the Board of Directors

Mrs. Růžičková graduated from the University of Economics in Prague. She has been engaged in several companies which belong to the portfolio of the EHC (majority shareholder of the Major Shareholder) since 1996 and the Group specifically, since 1997. 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.

The table below sets forth principal activities performed by members of the Board of Director outside the Company where these are significant with respect to the Company:

Name	Position held
Lubomír Kovařík	Česká zbrojovka Partners SE – chairman of the board of directors
Jan Drahota	Česká zbrojovka Partners SE – member of the board of directors Česká zbrojovka Defence SE – chairman of the board of directors ČEPS, a.s. – member of the supervisory board ČEPS, a.s. – member of the audit committee DCF Partners, s.r.o. – executive hypo360.cz, SE – member of the board of directors Zero Emissions Debt Finance, a.s. – statutory director Zero Emissions Debt Finance, a.s. – chairman of the administrative board
Andrej Chrzanowski	Česká zbrojovka Partners SE – supervisory board member Knoflíkářský průmysl Žirovnice a.s. – supervisory board member Moran Investment, a.s. – supervisory board member Nadace RUDOLF – administrative board member CZ-SKD Solutions a.s. - Supervisory Board member
Jan Zajíc	ITeuro, a.s. – chairman of the supervisory board
Alice Poluchová	None
David Aguilar	U.S. Border Patrol Foundation – board of directors member Global Security and Innovative Strategies – principal Homeland Security Dialogue – forum advisory board member University of Houston – Borders, Trade, and Immigration Institute External Advisory Board member Drone Aviation Holding Corp-chairman of the board SAP NS2 advisory board member Aviation Holding Corp-board of directors member
Jana Růžičková	AUTO-CZ International a.s. - member of the supervisory board Minezit SE - sole member of the board of directors RAIL CARGO a.s. - sole member of the board of directors CZ AGRO Servis a.s. - member of the supervisory board M&H Management a.s. - statutory director Kykulin Trade a.s. - sole member of the board of directors Silesia Invest SE - sole member of the board of directors IT eCompany Management a.s. - member of the supervisory board

CHANGES IN THE BOARD OF DIRECTORS IN 2020

Mr. Jan Zajíc, who is also the Chairman of the Board of Directors and CEO of the Group’s subsidiary Česká zbrojovka a. s., became the new member of the Group’s Board of Directors with effect from November 24, 2020. In the Group's Board of Directors, he replaced Ladislav Britaňák who resigned from this position as at the same date.

SUPERVISORY BOARD

The Supervisory Board is an independent body of the Company that primarily oversees the Board of Directors. The Supervisory Board may not, under the Czech Corporations Act and the Articles of Association make management decisions. However, certain key decisions of the Board of Directors are subject to prior approval of the Supervisory Board. The business address of each member of the Supervisory Board is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, the Czech Republic.

The Articles of Association provide that the Supervisory Board consists of three members that are elected and recalled by the General Meeting. A member of the Supervisory Board is appointed for a period of five years. A member of the Supervisory Board may be reappointed. The General Meeting may recall a member of the Supervisory Board at any time. The Supervisory Board appoints its Chairman from amongst its members. Members of the Supervisory Board cannot simultaneously be a member of the Board of Directors.

The Supervisory Board constitutes a quorum if a majority of its members is present or otherwise takes part in a meeting. The Supervisory Board adopts a decision by a majority vote of all its members. Members of the Supervisory Board may participate in the Supervisory Board meetings through telephone or other remote means. When necessary a decision may be made by the Supervisory Board without holding a meeting.

In accordance with the Articles of Association, meetings of the Supervisory Board are called by the Chairman of the Supervisory Board. Members of the Supervisory Board are required to attend General Meetings.

The following table sets out the name and principal position of each member of the Supervisory Board:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
René Holeček	Chairman of the Supervisory Board	17 January 2020	17 January 2025
Vladimír Dlouhý	Member of the Supervisory Board	17 January 2020	17 January 2025
Věslava Piegzová	Member of the Supervisory Board	17 January 2020	17 January 2025

RENÉ HOLEČEK

Chairman 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 become an entrepreneur and industrialist investor. He was part of the landmark privatization of Třinecké železárny and since then he 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 around the business to become one of the leading small arms manufacturers worldwide. Since 2014, he controls the vast majority of the Company's shares.

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 at 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 he 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. Simultaneously, he was a member of the Czech Parliament and vice-chairman of 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. Between 1997 and 2010, he served as a Senior Advisor to ABB Group, covering Central Europe and later the Czech Republic exclusively. He also served as a non-executive director, for KSK Power Ventur, Hyderabad, India. Currently, he is also a member of the Advisory Board for Meridiam Infrastructure, Paris, France, and of the Supervisory Board of Kooperativa, Prague, Czech Republic. Since 2014, 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 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 he 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.

Mr. Dlouhý is an author of numerous publications.

VĚSLAVA PIEGZOVÁ

Member of the Supervisory Board

In 1978, Mrs. Piegzová graduated from the VŠB, 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 and later became a leader of the team responsible for the implementation of the financial and controlling systems. In 1996, she was appointed as chief financial officer of Vesuvius CR, a producer of isostatic pressed refractory for steel industry. At the same time, she began an MBA programme 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 also a member of the management board. From 2005 to 2006, she also served as the General Manager of Barrandov Studios, which also belonged to the TŘINECKÉ ŽELEZÁRNY, a. s. group. From 2007 to 2010, Mrs. Piegzová became chief financial officer and chairman of the board of directors of České loděnice a.s. in Děčín, a former ship-building company. Then in 2010, she became CFO at České loděnice to Barkmet a.s., also a ship-building company. In 2013, Mrs. Piegzová joined CZUB as its chief financial officer and later became the Vice-Chairman of its board of directors. In 2020, Mrs. Piegzová became a member of the Supervisory Board.

The table below sets forth principal activities performed by members of the Supervisory Board outside the Company where these are significant with respect to the Company:

Name	Position held
René Holeček	RAIL CARGO a.s. – supervisory board member TRX, s.r.o. – executive Minezit SE – supervisory board member Silesia Invets SE – supervisory board member EHC – supervisory board member Česká zbrojovka Partners SE – supervisory board member Česká zbrojovka Defence SE – supervisory board member BAZADO s.r.o. – partner
Vladimír Dlouhý	Goldman Sachs – International Advisor for Central Eastern Europe Czech Chamber of Commerce – President Meridiam Infrastructure – Advisory Board member Kooperativa pojišťovna, Vienna Insurance Group – supervisory board member Nadace BOHEMIAE, in liquidation – member of the Administrative Board Výzkumný ústav pro podnikání a inovace, z.ú. – member of the Administrative Board Nadace Academia Medica Pragensis - auditor, Tatra Aerospace, a.s. – member of the Board of Directors
Věslava Piegzová	CZ-AUTO SYSTEMS a.s. – supervisory board member

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 Opletalova 1284/37, Nové Město, 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.

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.

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
Věslava Piegzová	Chairman 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	17 January 2025

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 and 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 international professional organization Association of Chartered Certified Accountants. In addition to providing audit services, he focuses primarily on IFRS and transfer pricing advice.

TOMÁŠ MACHUČA

Member of the Audit Committee

Mr. Machuča graduated from the Faculty of Law at Masaryk University in Brno, in 2013 and from the Faculty of Management and Economics at Tomas Bata University in Zlín, in 2017. After his studies at Faculty of Law, he started his career as a company lawyer at CZUB. He currently holds the position of Head of the Legal Department and also acts as corporate secretary. In addition, he is responsible for corporate compliance and the protection of personal data at CZUB.

As of the date of this Report, the members of the Audit Committee did not perform any principal activities outside the Company where these are significant with respect to the Company, with the exception of Věslava Piegzová stated above.

Remuneration Committee

The key function of the Remuneration Committee is to ensure integrity and fairness of the remuneration system for senior management of the Group.

Committee for the Assessment of Strategic Investments

The key task of the Committee for the Assessment of Strategic Investments is to approve and review proposals of the senior management for potential M&A transactions and/or joint venture initiatives in order to ensure the industrial logic and desired financial benefits for the Group.

Regulatory and Ethics Committee

The Regulatory and Ethics Committee is responsible for implementing the Code of Ethics and the Code of Conduct within the Group and for overseeing compliance with the Code of Ethics and the Code of Conduct.

Conflicts of Interest

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

14. Related Party Disclosures

REPORT OF THE BOARD OF DIRECTORS OF CZG - ČESKÁ ZBROJOVKA GROUP SE,
WITH ITS REGISTERED OFFICE AT OPLETALOVA 1284/37, NOVÉ MĚSTO, 110 00 PRAGUE 1
COMPANY ID: 291 51 961

ON RELATIONS BETWEEN RELATED PARTIES FOR THE YEAR 2020

According to Section 82 of Act No. 90/2012 Coll., On Business Corporations, the Board of Directors of CZG - Česká zbrojovka Group SE (hereinafter referred to as the "Company"), with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID 291 51 961, acting with due managerial care, took all possible steps to identify the controlling entities and entities controlled by the controlling entity with the following result:

1. CONTROLLING ENTITY

The Board of Directors states that the directly controlling 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.

Česká zbrojovka Partners SE owns more than 10% of the Company's shares.

Česká zbrojovka Partners SE controls CZG - Česká zbrojovka Group SE through its voting rights at the General Meeting of the Company.

The direct controlling entity of Česká zbrojovka Partners SE is European Holding Company, SE, which performs influence over the Company through Česká zbrojovka Partners SE.

The role of controlled entity within the holding entity:

CZG – Česká zbrojovka Group SE is a part of holding entity in which it is focused on production and sale of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian uses.

Method and Means of Control

Česká zbrojovka Partners SE as a majority shareholder exercises its control over CZG – Česká zbrojovka Group SE through the General Meeting of Shareholders, it is has one representative in the Supervisory Board and 0 representative in the audit committee.

Overview of mutual relations with the controlling entity:

In 2020, the following transactions took place between CZG - Česká zbrojovka Group SE and Česká zbrojovka Partners SE:

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020, on the basis of which the Company provides Česká zbrojovka Partners SE with accounting services. CZG - Česká zbrojovka Group SE paid an approved dividend in 2020 for the year 2019.

2. SUBSIDIARIES

Česká zbrojovka as, with its registered office at Svat. Čecha 1283, 688 01 Uherský Brod, company ID: 463 45 965

CZ Export Praha, s.r.o, with its registered office at Uherský Brod, Svat. Čecha 1283, 688 27, company ID: 494 51 961

EHC-4M, SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 037 97 198

CZG VIB s.r.o., with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID 072 05 520

CZG-Česká zbrojovka Group International s.r.o., with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 072 05 392

CZ-US HOLDINGS, INC., a company incorporated and existing under the laws of the United States of America, with its registered office at State of Kansas, 750 Commerce Plaza II, 7400 West 110th Street, City of Overland Park, County of Johnson, State of Kansas, 66210, No. C 83-2954264.

Overview of mutual relations with subsidiaries:

ČESKÁ ZBROJOVKA A.S.

In 2020, Česká zbrojovka a.s. paid the approved dividend for 2019.

On 31 October 2019, two agreements on the assignment of receivables were concluded between Česká zbrojovka a.s. as the assignor and the Company as the assignee with a maturity on 30 June 2020. The liability was paid by the Company on 20 April 2020.

On 26 November 2019, an Agreement on the provision of services was concluded with effect from 1 January 2020, on the basis of which the Company provides consulting services to Česká zbrojovka a.s.

On 24 November 2020, a Contract on the sublease of a vehicle for a definite period until 31 December 2020 was concluded.

On 30.12.2020, a Contract on the sublease of the vehicle for a definite period until 31 October 2021 was concluded.

CZ EXPORT PRAHA, S.R.O.

On 31 December 2019, an Agreement on the provision of services was concluded with effect from 1 January 2020, on the basis of which the Company provides consulting services to CZ Export Praha, s.r.o.

The company CZ Export Praha, s.r.o. paid the approved dividend for 2019 in 2020.

EHC-4M, SE

On 31 January 2020, a Service Agreement was concluded with effect from 1 February 2020, on the basis of which the Company provides accounting services to EHC-4M, SE.

On 29 July 2020, a loan was provided to EHC-4M, SE based on a Loan Agreement due on December 31, 2025.

On 31 August 2020, a loan was provided to EHC-4M, SE based on a Loan Agreement due on 31 December 2025.

On 14 September 2020, a loan was provided to EHC-4M, SE based on a Loan Agreement due on 31 December 2025.

On 19 October 2020, a loan was provided to EHC-4M, SE based on a Loan Agreement due on 31 December 2025.

CZG VIB S.R.O.

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020, on the basis of which the Company provides accounting services to CZG VIB s.r.o.

CZG-ČESKÁ ZBROJOVKA GROUP INTERNATIONAL S.R.O.

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020, on the basis of which the Company provides accounting services to CZG-Česká zbrojovka Group International s.r.o.

On 6 May 2020, an Agreement on the voluntary additional equity contribution was concluded.

On 7 July 2020, an Agreement on the voluntary additional equity contribution was concluded.

On 31 December 2020, a loan was provided to CZG-Česká zbrojovka Group International s.r.o. on the basis of a Loan Agreement due on 31 December 2025.

CZ-US HOLDINGS, INC.

On 9 March 2020, a loan was provided to CZ-US HOLDINGS, INC based on the Loan Agreement due on 31 December 2025.

On 7 December 2020, a loan was provided to CZ-US HOLDINGS, INC based on the Loan Agreement due on 31 December 2025.

On 29 December 2020, a loan was provided to CZ-US HOLDINGS, INC based on a Loan Agreement due on 31 December 2025.

3. RELATED COMPANIES

4M SYSTEMS A.S.

On 31 December 2019, an Agreement on the provision of services was concluded with effect from 1 January 2020, on the basis of which the Company provides consulting services to 4M SYSTEMS a.s.

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020 on the basis of which the Company provides accounting services to 4M SYSTEMS a.s.

ČESKÁ ZBROJOVKA DEFENSE SE

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020, on the basis of which the Company provides accounting services to Česká zbrojovka Defense SE.

AUTO-CZ INTERNATIONAL A.S.

On 31 January 2020, an Agreement on the provision of services was concluded with effect from 1 February 2020, on the basis of which the Company the Company provides accounting services to AUTO-CZ International a.s.

EUROPEAN HOLDING COMPANY, SE

On 31 January 2020, a Service Agreement was concluded with effect from 1 February 2020, on the basis of which the Company provides accounting services to European Holding Company, SE.

Other relations between the controlling entity and the entities controlled by the controlling entity are not known to the Board of Directors.

No other agreements were concluded between the companies in the Group, except for those relating to the transactions listed above.

In addition to the above, there were no acts committed in the last accounting period which were initiated or in the interest of the controlling entity or its controlled entities, if such conduct concerned assets exceeding 10% of the controlled entity's equity as determined in the last financial statements.

Assessment of advantages and disadvantages arising from the relations between related parties

CZG - Česká zbrojovka Group SE benefits from the relations between related parties as a result of the significant transactions mentioned above. The controlled has advantages from relations with related parties arising mainly from various synergies and benefits concerning the ability to use processes and access to financial knowledge, customer information and technical knowledge of the individual parties. The Board of Directors of CZG - Česká zbrojovka Group SE is not aware of any disadvantages arising from relations between related parties. The Company's Board of Directors is also not aware of any risks for the Company that would result from these relations.

Assessment of Detriment arising from the relations between related parties

The Board of Directors of CZG – Česká zbrojovka Group SE believes that there has been no detriment resulting from the relations between related parties.

In Prague on 10 March 2021

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Jana Růžičková

Member of the Board of Directors

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Jan Drahota

Vice-Chairman of the Board of Directors

15. Declaration of Persons Responsible the Annual Report

To the best of our knowledge, we believe that this consolidated financial report gives a fair and true view of the Group's financial position, business activities and results for the year ended 31 December 2020, and outlook for the development of Group's financial situation, business activities and results.

Prague, 30 April 2021

Signed on behalf of the Board of Directors:

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Lubomír Kovařík

Chairman of the Board of Directors

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Jan Drahota

Vice-Chairman of the Board of Directors

16. Standalone Financial Statements for the Year Ended 31 December 2020

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020

		31 Dec 2020		2 Jan 2020
		CZK '000	CZK '000	CZK '000
		Brutto	Netto	Netto
	TOTAL ASSETS	**3 987 620**	**3 987 620**	**3 075 634**
B.	**Fixed assets**	**3 207 432**	**3 207 432**	**2 995 174**
B.III.	***Non-current financial assets***	**3 207 432**	**3 207 432**	**2 995 174**
B.III.1.	Equity investments - controlled or controlling entity	3 030 773	3 030 773	2 934 097
B.III.2.	Loans and borrowings - controlled or controlling entity	176 659	176 659	61 077
C.	**Current assets**	**779 682**	**779 682**	**80 460**
C.II.	***Receivables***	**28 160**	**28 160**	**57 637**
C.II.1.	**Long-term receivables**	**21 914**	**21 914**	**31 449**
C.II.1.2.	State - tax payables and subsidies	-	-	8 000
C.II.1.5.	*Receivables - other*	**21 914**	**21 914**	**23 449**
C.II.1.5.4.	Sundry receivables	21 914	21 914	23 449
C.II.2.	***Short-term receivables***	**6 246**	**6 246**	**26 188**
C.II.2.1.	Trade receivables	4 989	4 989	3
C.II.2.4.	*Receivables - other*	**1 257**	**1 257**	**26 185**
C.II.2.4.3.	State - tax receivables	1 187	1 187	-
C.II.2.4.4.	Short-term prepayments made	70	70	-
C.II.2.4.6.	Sundry receivables	-	-	26 185
C.III.2.	Other current financial assets	-	-	-
C.IV.	***Cash***	**751 522**	**751 522**	**22 823**
C.IV.1.	Cash on hand	53	53	2
C.IV.2.	Cash at bank	751 469	751 469	22 821
D.	**Other assets**	**506**	**506**	**-**
D.1.	Deferred expenses	506	506	-

		31 Dec 2020	2 Jan 2020
		CZK '000	CZK '000
	TOTAL LIABILITIES & EQUITY	**3 987 620**	**3 075 634**
A.	**Equity**	**3 947 746**	**3 001 036**
A.I.	***Share capital***	**3 264**	**2 984**
A.I.1.	Share capital	3 264	2 984
A.II.	***Share premium and capital funds***	**2 340 455**	**1 528 735**
A.II.1.	Share premium	811 720	-
A.II.2.	*Capital funds*	**1 528 735**	**1 528 735**
A.II.2.1.	Other capital funds	1 528 735	1 528 735
A.IV.	***Retained earnings (+/-)***	**1 141 099**	**1 469 317**
A.IV.1.	Accumulated profits or losses brought forward (+/-)	1 141 099	1 469 317
A.V.	***Profit or loss for the current period (+/-)***	**462 928**	-
B. + C.	**Liabilities**	**16 147**	**74 594**
B.	**Reserves**	**4 807**	**-**
B.IV.	Other reserves	4 807	-
C.	**Payables**	**11 340**	**74 594**
C.II.	***Short-term payables***	**11 340**	**74 594**
C.II.4.	Trade payables	7 008	1 474
C.II.6.	Payables - controlled or controlling entity	-	14 373
C.II.8.	*Other payables*	**4 332**	**58 747**
C.II.8.3.	**Payables to employees**	2 426	-
C.II.8.4.	Social security and health insurance payables	895	-
C.II.8.5.	State - tax payables and subsidies	1 011	1 019
C.II.8.7.	Sundry payables	-	57 728
D.	**Other liabilities**	**23 727**	**4**
D.1.	Accrued expenses	23 727	-
D.2.	Deferred income	-	4

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

		Period from 1 Feb 2020 to 31 Dec 2020 CZK '000	Period from 1 Feb 2019 to 31 Dec 2019 CZK '000
I.	Sales of products and services	40 396	-
A.	Purchased consumables and services	**84 727**	**18 234**
A.2.	Consumed material and energy	1 275	-
A.3.	Services	83 452	18 234
D.	Staff costs	**33 100**	**-**
D.1.	Payroll costs	26 264	-
D.2.	Social security and health insurance costs and other charges	**6 836**	**-**
D.2.1.	Social security and health insurance costs	6 836	-
E.	Adjustments to values in operating activities	**-**	**-7 400**
E.3.	Adjustments to values of receivables	-	-7 400
F.	Other operating expenses	**4 968**	**7**
F.3.	Taxes and charges	7	2
F.4.	Reserves relating to operating activities and complex deferred expenses	4 807	-
F.5.	Sundry operating expenses	154	5
*	**Operating profit or loss (+/-)**	**-82 399**	**-10 841**
IV.	Income from non-current financial assets - equity investments	612 669	1 049 564
IV.1.	Income from equity investments - controlled or controlling entity	612 669	1 049 564
G.	Costs of equity investments sold	-	42 336
VI.	Interest income and similar income	**1 762**	**6 973**
VI.2.	Other interest income and similar income	1 762	6 973
VII.	Other financial income	1 224	2 461
K.	**Other financial expenses**	70 328	2 393
*	**Social security and health insurance payables**	**545 327**	**1 014 269**
**	**State - tax payables and subsidies**	**462 928**	**1 003 428**
L.	Income tax	**-**	**1 363**
L.1.	Due income tax	-	1 363
**	**Profit or loss net of tax (+/-)**	**462 928**	**1 002 065**
***	**Profit or loss for the current period (+/-)**	**462 928**	**1 002 065**
*	**Net turnover for the current period**	**656 051**	**1 058 998**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Share premium and capital funds	Accumulated profits or losses brought forward	Profit or loss for the current period	TOTAL EQUITY
	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000
Balance at 1 February 2019	**2 984**	**1 755 961**	**1 026 905**	**349**	**2 786 199**
Distribution of profit or loss	-	-	347	-349	-2
Profit shares paid	-	-	-560 000	-	-560 000
Profit or loss for the current period	-	-	-	1 002 065	1 002 065
Balance at 31 December 2019	**2 984**	**1 755 961**	**467 252**	**1 002 065**	**3 228 262**
Distribution of profit or loss	-	-	1 002 065	-1 002 065	-
Balance at 1 January 2020	**2 984**	**1 755 961**	**1 469 317**	**-**	**3 228 262**
Effect of transformation – demerger by spin-off/amalgamation	-	-227 226	-	-	-227 226
Balance at 2 January 2020	**2 984**	**1 528 735**	**1 469 317**	**-**	**3 001 036**
Change in share capital – public subscription of shares	280	811 720	-	-	812 000
Profit shares paid	-	-	-328 218	-	-328 218
Profit or loss for the current period	-	-	-	462 928	462 928
Balance at 31 December 2020	**3 264**	**2 340 455**	**1 141 099**	**462 928**	**3 947 746**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

			Period from 2 Jan 2020 to 31 Dec 2020	Period from 01 Feb 2019 to 31 Dec 2019
			CZK '000	CZK '000
P.	**Balance of cash at period beginning - before merger**		**22 823**	**881 849**
	Cash acquired through merger		-	493
P	**Balance of cash at period beginning**		**22 822**	**882 342**
(A)	***Cash flows from operating activities***			
A.1	**Operating income**	**+**	**660 743**	**114 666**
A.1.1	Sales of products and services	+	36 715	-
A.1.3	Interest income	+	662	5 925
A.1.4	Profit shares received	+	612 669	107 208
A.1.5	VAT received	+	7 734	-
A.1.6	Other operating income	+	2 963	1 533
A.2	**Operating expenses**	**-**	**-175 418**	**-19 017**
A.2.1	Costs of material and tangible fixed assets	-	-1 654	-16
A.2.4	Costs of services	-	-78 278	-18 460
A.2.5	Staff costs	-	-24 809	-
A.2.6	Taxes and charges paid	-	-6 405	-541
A.2.9	VAT paid	-	-7 912	-
A.2.10	Other operating expenses	-	-56 360	-
A.3	**Exchange rate gains and losses on revaluation of foreign currencies**	**+-**	**-1 645**	**1 219**
A	**Net operating cash flows**	**+-**	**483 680**	**96 868**
(B)	***Cash flows from investing activities***			
B.1	Provided loans and borrowings	-	-111 885	-61 077
B.2	Proceeds from financial investments sold	+	-	563
B.3	Costs of acquisition of financial investments	-	-88 014	-210 873
B	**Net investment cash flows**	**+-**	**-199 899**	**-271 387**
(C)	***Cash flows from financial activities***			
C.1.2	Instalment of a received loan or borrowing	-	-	-125 000
C.2.1	Impact of changes in equity on cash	+	812 000	-
C.2.2	Profit shares paid	+-	-328 218	-560 000
C.2.3.	Other financial expenses	-	-38 864	-
C	**Net financial cash flows**	**+-**	**444 918**	**-685 000**
F	**Net increase/decrease in cash**		**728 699**	**-859 519**
R	**Balance of cash at period end**		**751 522**	**22 823**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

Company name:	**CZG - Česká zbrojovka Group SE**
Registered office:	**Opletalova 1284/37, Nové Město, 110 00 Prague 1**
Legal form:	**European society**
ID:	**291 51 961**

1. GENERAL INFORMATION

1.1. Establishment and characteristics of the company

CZG - Česká zbrojovka Group SE (hereinafter referred to as the "Company") was established as a European company by registration in the Commercial Register of the Municipal Court in Prague on 10 January 2013. The subject of the Company's business is production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act.

Decisive influence: Česká zbrojovka Partners SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, which owns a share of 90.76 %.

The financial statements have been prepared as of the balance sheet date of 31 December 2020.

1.2. Changes and amendments in the Commercial Register in the past accounting period

During 2020, the following changes took place in the Commercial Register:

- As of 17 January 2020, Mrs. Hana Balounová resigned from the position of a member of the Board of Directors
- As of 17 January 2020, Ing. Lubomír Kovařík was newly elected Chairman of the Board of Directors,
- As of 17 January 2020, Mr. Jan Drahota was newly elected Vice-chairman of the Board of Directors
- As of 17 January 2020, Ing. Jana Růžičková was newly elected member of the Board of Directors
- As of 17 January 2020, Ing. Andrej Chrzanowski was newly elected member of the Board of Directors
- As of 17 January 2020, Ing. Ladislav Britaňák was newly elected member of the Board of Directors
- As of 17 January 2020, Mrs. Alice Poluchová was newly elected Vice-chairman of the Board of Directors
- As of 17 January 2020, David Aguilar was newly elected member of the Board of Directors
- As of 17 January 2020, Ing. René Holeček was newly elected Chairman of the Supervisory Board
- As of 17 January 2020, Ing. Vladimir Dlouhý was newly elected member of the Supervisory Board
- As of 17 January 2020, Ing. Věslava Piegzová was newly elected member of the Supervisory Board
- As of 24 November 2020, Ing. Ladislav Britaňák resigned as member of the Board of Directors
- As of 24 November 2020, Ing. Jan Zajíc was newly elected member of the Board of Directors.

As of 6 October 2020, the registered capital was increased by subscribing 3,015,859 new shares with a nominal value of CZK 0.10, to a final value of CZK 3,263,800. The share premium per newly subscribed share amounted to CZK 289.90 per share, i.e. a total of CZK 811,720,000; see equity movements.

Board of Directors and Supervisory Board at the balance sheet date

	Function	Name
Board of Directors	Chairman of the Board	Ing. Lubomír Kovařík
	Vice Chairman of the Board	Jan Drahota
	Member of the Board	Ing. Jana Růžičková
	Member of the Board	Ing. Andrej Chrzanowski
	Vice Chairman of the Board	Alice Poluchová
	Member of the Board	David Aguilar
	Member of the Board	Ing. Jan Zajíc
Supervisory Board	Chairman of the Supervisory Board	Ing. René Holeček
	Member of the Supervisory Board	Ing. Vladimír Dlouhý
	Member of the Supervisory Board	Ing. Věslava Piegzová

1.3. Group identification

European Holding Company, SE is the entity that prepares the consolidated financial statements of the group. The consolidated financial statements of the Group can be obtained at the registered office of this company.

CZG - Česká zbrojovka Group SE also prepares consolidated financial statements according to the International Financial Reporting Standards (IFRS), as adopted by the EU.

2. ACCOUNTING METHODS

The Company's accounts are kept and the financial statements have been prepared in accordance with Act No. 563/1991 Coll. on Accounting, as amended, Decree No. 500/2002 Coll., which implements certain provisions of Act No. 563/1991 Coll. on Accounting, for accounting entities that are entrepreneurs accounting in the double-entry bookkeeping system, as amended, and Czech Accounting Standards for Entrepreneurs, as amended.

The accounting records are kept in compliance with general accounting principles, in particular the principle of valuing assets at historical cost (unless stated otherwise below), the principle of material and temporal accounting, the principle of prudence and the assumption of the entity's ability to continue as a going concern.

The company's financial statements have been prepared as of the balance sheet date of 31 December 2020 for the period from 2 January 2020 to 31 December 2020.

As a result of the demerging process of CZG - Česká zbrojovka Group SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 291 51 961, registered in the Commercial Register kept by the Municipal Court in Prague, file number H 962, as a demerging company, in the form of a demerger by spin-off with subsequent amalgamation, part of the assets of CZG - Česká zbrojovka Group SE, specified in the project of a demerger by spin-off with subsequent amalgamation dated 28 February 2020, was transferred to AUTO-CZ International a.s., with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1 , company ID: 085 47 301, registered in the Commercial Register kept by the Municipal Court in Prague, file number B 24727, as a successor company.

Comparable data in the statements represent data from the opening balance sheet of CZG - Česká zbrojovka Group SE compiled as of 2 January 2020 for the balance sheet, and data from the profit and loss account and cash flow statement for the period of 11 months from 1 February 2019 to 31 December 2019. For this reason, the data in the income statement and cash flow statement are not fully comparable.

The financial statements have been prepared in Czech crowns.

2.1. Revaluation of non-current financial assets

Fixed financial assets are valued at cost, adjusted for any provisions. Asset disposals are valued using the FIFO method (the first cost for valuing an asset addition is used as the first cost for the valuation of a disposal of the asset).

2.2. Receivables

Receivables are valued at nominal value upon origination, purchased receivables are valued at cost.

2.3. Conversion of data in foreign currencies into Czech currency

Accounting operations in foreign currencies performed during the year are accounted for at the exchange rate of the Czech National Bank valid on the date of the accounting event.

As of the balance sheet date, foreign currency assets and liabilities are translated at the CNB exchange rate in force on the balance sheet date.

2.4. Changes in accounting policies compared to the previous accounting period

There were no changes in accounting methods in 2020.

2.5. Cash flow statement

The cash flow statement was prepared using the direct method. Cash equivalents are short-term liquid assets that can be easily and promptly converted to a known amount of cash and for which no significant changes in value are expected in time.

Cash and cash equivalents can be analyzed as follows:

(data in thousands of CZK)

	31.Dec 2020	**2. Jan 2020**
Cash in hand and cash in transit	53	2
Cash at bank	751 469	22 821
Total cash and cash equivalents	**751 522**	**22 823**

Cash flows from operating, investment or financing activities presented in the cash flow statement are not offset.

3. ADDITIONAL INFORMATION

3.1. Intangible fixed assets (IFA)

None

3.2. Tangible fixed assets (TFA)

None

3.3. Non-current financial assets

Shares - controlled entity

92.64% at Česká zbrojovka, a.s.

Date of acquisition:	21 October 2013, 13 March 2014, 21 December 2018, 31 October 2019, 14 January 2020
Nominal value:	CZK 700
Number of shares:	634,729 pcs
Acquisition price as of 31 December 2019:	CZK 2,384,857,687.80
Acquisition price as of 31 December 2020:	CZK 2,182,666,343.00

Table of movement:

Date	Share movement	Total share%	Share balance
31 Dec 2019		92.33%	2 384 857 687.80
01 Jan 2020	-225 225 867.80*		2 159 631 820.00
14 Jan 2020	14 410 392.00	92.64%**	2 174 042 212.00
01 April 2020	14 410 392.00	92.64%**	2 182 666 343.00

** The share in the registered capital without own shares held by Česká zbrojovka a.s. is 99.32%
* Change on CZ-AUTO SYSTEMS spin-off

100% in EHC-4M, SE

Date of acquisition:	17 December 2015, 20 June 2016
Nominal value:	3,480 CZK
Number of shares:	1,000 pcs
Purchase price:	CZK 2,700,000

100% in CZ-US HOLDINGS, INC.

Date of acquisition:	28 December 2018
Investment of CZ-USA:	30 August 2019
Investment amount:	CZK 564,892,000

100% in CZ Export Praha s.r.o.

Date of acquisition:	17 June 2019
Purchase price:	CZK 185,069,000

100% in CZG-Česká zbrojovka Group International s.r.o. (formerly CZG Tisem s.r.o.)

Date of acquisition:	17 June 2019
Purchase price:	CZK 266,000
Additional equity contribution	CZK 73,641,320

100% in CZG VIB s.r.o.

Date of acquisition:	17 June 2019
Purchase price:	CZK 21,538,000

Loans and credits - controlled or controlling entity

Loan to CZ-US HOLDINGS, INC.

Principal:	USD 6,820,000 (CZK 145,859,340) USD 2,700,000 as of 2 January 2020

Loan to CZG-Česká zbrojovka Group International s.r.o.

Principal:	CZK 1,000,000 (CZK 0 as of 2 January 2020)

Loan to EHC-4M, SE

Principal:	CZK 29,800,000 (CZK 8,000,000 as of 2 January 2020 reported on the line C.II.1.2. Receivables – controlled or controlling entity)

Financial lease: Contract for the leasing of a movable property – operational vehicle leasing

Pledged non-current financial assets:

CZG – Česká zbrojovka Group SE has pledged its equity investment in EHC-4M, SE on the basis of the Contract for the Pledge of Shares in Certificate Form concluded on 29 June 2016 in favour of Česká spořitelna, a.s. as a collateral for the Agreement on the Provision of a Credit Line of 2 May 2016 concluded between Česká spořitelna a.s. and 4M SYSTEMS s.r.o. (subsidiary of EHC-4M, SE). On 12 July 2018, CZG – Česká zbrojovka Group SE concluded a contract with Česká spořitelna, a.s. for the adjustment of mutual relations between the guarantor and the bank, no. RD/372/16/LCD.

Non-current assets, the valuation of which is significantly higher than its valuation in accounting – none.

Revaluation of long-term financial assets - none

3.4. Long - term receivables

Long-term receivables from related parties, other than from provided loans

None.

Other long-term receivables

CZG - Česká zbrojovka Group SE records the following long-term receivables:

Share transfer agreements dated 31 July 2019, receivables arising from the purchase price and related interest and fees in the total amount of CZK 21,914 thousand (CZK 23,449 thousand as of 2 January 2020), due on 30 June 2024.

The receivables relate to CZUB Management Shareholding Plan. In the years 2014 to 2019, CZUB had a management shareholding plan in place. Two current members of CZUB's board of directors own Class B book entry registered shares, representing in total 0.68% of CZUB's equity. The remaining members of CZUB's board of directors had sold their shareholdings to the Company before 30 June 2020. CZG has a call option on those Class B shares at a pre-defined strike price which represents a proportionate increase of equity over a certain period (over the course of holding period).

3.5. Short - term receivables

Overdue receivables - none.

Receivables with a maturity of more than 5 years - none.

Receivables covered by a pledge - none

Short-term receivables from loans - none.

Other short - term receivables

CZG-Česká zbrojovka Group SE records the following short-term receivables in the total amount CZK 0 thousand (CZK 26,185 thousand as of 2 January 2020) arising from the following contracts:

A share transfer agreement dated 15 July 2019, receivable arising from the purchase price and related interest and fees in the amount of CZK 0 thousand (CZK 11,734 thousand as of 2 January 2020) due on 30 June 2024.

Contracts for assignment of a receivable dated 31 October 2019 in the total amount CZK 0 thousand (CZK 14,450 thousand as of 2 January 2020) due on 30 June 2020

3.6. Equity

Changes in equity

Changes in equity are included in the statement of changes in equity.

Item in thousand CZK	Opening balance	Change	Closing balance
Registered capital	2 984	280	3 264
Share premium	0	811 720	811 720
Other capital funds	1 528 735	0	1 528 735
Retained earnings	1 469 317	673 847	1 141 099
Profit or loss from the previous period	0	-1 002 065	0
Profit or loss for the current period		462 928	462 928
Equity	**3 001 036**	**946 710**	**3 947 746**

The Board of Directors of CZG - Česká zbrojovka Group SE proposes to distribute the profit for the accounting period ending 31 December 2020 by partial payment of dividends to shareholders, in accordance with the Company's dividend policy and to transfer the remaining profit to the retained earnings account of previous years.

3.7. Subsidies, investment instruments, reserves, research and development

Reserve - other reserve for annual remuneration resulting from employment contracts of employees in the total amount of CZK 4,807K as at 31 December 2020 (CZK 0 K to 2 January 2020).

3.8. Short - term payables

Overdue payables - none.

Payables with a maturity of more than 5 years - none.

Payables covered by a pledge - none.

Payables and remuneration of statutory bodies

Social security contributions before maturity: CZK 440 thousand (CZK 0 thousand as of 2 January 2020)

Health insurance payables before maturity: CZK 4 556 thousand (CZK 0 thousand as of 2 January 2020)

State - tax payables and subsidies before maturity: CZK 1 011 thousand (CZK 0 thousand as of 2 January 2020)

Other short-term payables

Company CZG-Česká zbrojovka Group SE keeps a record of short-term payables in the total amount CZK 0 thousand (CZK 57,728 thousand as of 2 January 2020) under the Share Transfer Agreement dated on 31 October 2019 due on 30 June 2020.

3.9. Accured expenses

As of 31 December 2020, accrued expenses are related to the payment of fees to banks associated with the implementation of the IPO. As of 2 January 2020, there are no such items.

3.10. Revenues from ordinary activities

The company had revenues mainly from:

- sales of services - provision of specialized consulting services within a wider group
- interest on bank accounts
- dividends from Česká zbrojovka a.s. and CZ Export Praha, s.r.o.

The costs arose mainly from:

- purchased economic and legal services
- salaries of employees and the statutory bodies
- other financial expenses

In 2020, the Company completed the subscription of its shares as part of a public offering. The implementation of share subscription was associated with costs of services, fees to banks and extraordinary remuneration to employees, company management and statutory bodies.

3.11. Employees, management and statutory bodies

As of 31 December 2020, the entity has 19 employees (12 as of 2 January 2020).

Remuneration to members of statutory bodies was granted.

in thousand	31 Dec 2020		31 Dec 2019	
CZK	Total number of employees	Of which statutory body	Total number of employees	Of which statutory body
Number of employees	19	9	0	0
Salaries and rewards to statutory bodies	26 264	17 540	0	0
Social security and health insurance	6 836	4 305	0	0
Social costs	0	0	0	0
Total-staff costs	**33 100**	**21 845**	**0**	**0**

Loans, guarantees and other benefits to members of the company's bodies, incl. former, were not provided.

3.12. Related party transactions and relationships

<u>Long - term receivables from related parties</u>

As at 31 December 2020, the company records long-term receivables from subsidiaries from granted loans and advances in the total amount of CZK 176,659K (January 2, 2020: CZK 69,076K).

Provided loans provided in the amount of CZK 29,800 thousand are due on 31 December 2025.

Provided loans provided in the amount of CZK 145,859 thousand are due on 31 December 2025.

The provided loan in the amount of CZK 1,000 thousand is due on 31 December 2025.

<u>Short - term liabilities to related parties</u>

The company CZG - Česká zbrojovka Group SE records short-term liabilities in the total amount of CZK 0 (January 2, 2020: CZK 14,373K).

3.13. Events that occurred after the balance sheet date

By issuing shares on the public market, the Company became a public interest company on 6 October 2020. As such, it is obliged to keep accounts in accordance with International Accounting Standards (IFRS) as adopted by the EU with effect from 1 January 2021 in accordance with Section 19a of Act 563/1991 Coll., on accounting.

On 11 January 2021, the subsidiary company CZ-US HOLDINGS, INC., signed the final agreement to acquire a 100% stake in Colt Holding Company LLC (Colt), the parent company of American arms manufacturer Colt's Manufacturing Company LLC, as well as its subsidiary Colt Canada Corporation. The acquisition will be financed from the existing cash resources of CZG - Česká zbrojovka Group, including the free cash from the first initial public offering (IPO) and the issue of bonds. The entire transaction is subject to regulatory approval and settlement is expected in the first half of 2021.

On 16 February 2021, the Company provided to the subsidiary CZ-US HOLDINGS, INC. a loan of USD 5 million.

On 2 May 2016, the Company provided a guarantee for a loan to 4M SYSTEMS a.s., the guarantee was extended on 24 February 2021.

On 23 March 2021, CZG issued 500,000 pcs of bonds in nominal value CZK 10,000, with floating rate of 6M PRIBOR + 1.80% p.a. in the anticipated aggregate nominal amount of CZK 5,000,000,000 due on 23 March 2027. The issue price was set at 100% of the nominal value of the bonds. The public offering was finalized on 10 March 2021. The bonds were admitted to trading on the regulated market of the Prague Stock Exchange.

Mr. Andrej Chrzanowski, member of the Board of Directors of CZG, resigned from his position as of 31 March 2021.

The General Meeting adopted decisions outside its meeting (decision per rollam) to increase the Company’s registered capital by a monetary contribution by up to CZK

109,862 from the current amount of registered capital of CZK 3,263,800 to the total amount of CZK 3,373,662.

In line with the adopted dividend policy to distribute one third of its consolidated net profit for the year, the Company will propose a dividend payment of CZK 7.5 per share from the consolidated net profit for 2020. The dividend proposal is subject to approval of the General Meeting of Shareholders.

COVID-19

Since 1 January 2020, there has been a spread of the new coronavirus, which causes COVID-19, and it is expected to have a significant impact on the global economy. This situation has caused considerable volatility in international financial markets. Following the outbreak of this epidemic, governments around the world have begun to take swift actions changing over time, including regulations on social distancing, mandatory closures for a limited period of time, and restrictions on movement between countries, which have a very significant impact on various industries.

The Company carefully assesses the effect of the pandemic on all key stakeholders and strives for adequate risk management, especially with regards to employees, the supply chain and customers. After initial substantial uncertainty during March and April 2020, the situation has stabilized and the Company is achieving the results forecasted as before the coronavirus expansion. However, the current COVID-19 pandemic has a significant impact on the global economy, and although the Company's current economic performance in 2020 is not adversely affected by the coronavirus pandemic, it is not possible to estimate all potential effects of the global economic downturn on the Company.

After considering all available information and measures taken up to the date of issue of these financial statements, the Company has concluded that it has sufficient resources to continue as a going concern in the foreseeable future.

There were no events after the balance sheet date, other than those listed in the notes to financial statements, that would be significant to the fulfillment of the purpose of the annual report.

17. Independent Auditor´s report

Deloitte.

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"THE REPORT BELOW REPRESENTS THE AUDITOR'S REPORT THAT RELATES SOLELY AND EXCLUSIVELY TO THE OFFICIAL ANNUAL REPORT PREPARED IN THE XHTML FORMAT."

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
CZG - Česká zbrojovka Group SE

Having its registered office at: Opletalova 1284/37, Nové Město, 110 00 Prague 1

Opinion on the Financial Statements and Consolidated Financial Statements

We have audited the accompanying financial statements of CZG - Česká zbrojovka Group SE (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2020, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We have audited the accompanying consolidated financial statements of the CZG - Česká zbrojovka Group SE consolidation group (hereinafter also the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated balance sheet as of 31 December 2020, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

The accompanying financial statements give a true and fair view of the financial position of CZG - Česká zbrojovka Group SE as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the CZG - Česká zbrojovka Group SE consolidation group as of 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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	
As of 31 December 2020, sales of firearms amounted to CZK 6,695 million of the total revenue of CZK 6,820 million (Note 5.1 to the consolidated financial statements). These sales form the most significant part of sales of products and sales of goods. 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 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 the 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. We also applied a confirmation procedure to selected related customers.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which describes the fact that the comparative information in the financial statements represents information from the opening balance sheet of CZG - Česká zbrojovka Group SE prepared as of 2 January 2020 in the case of the balance sheet, and information from the profit and loss account and cash flow statement for the period of 11 months from 1 February 2019 to 31 December 2019. For this reason, the information in the profit and loss account and in the cash flow statement is not fully comparable. Our opinion is not modified in respect of this matter.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the 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 financial statements and the consolidated financial statements does not cover the other information. In connection with our audit of the 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 financial statements and the consolidated financial statements or our knowledge obtained in the audit of the 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 financial statements and the consolidated financial statements is, in all material respects, consistent with the 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 and Supervisory Board for the Financial Statements and the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements and the consolidated financial statements in accordance with accounting regulations applicable in the Czech Republic (the financial statements) and in accordance with International Financial Reporting Standards as adopted by the EU (the consolidated financial statements) and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements and the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements and the consolidated financial statements, including the disclosures, and whether the 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 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.

Report on Other Legal and Regulatory Requirements

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 28 July 2020 and our uninterrupted engagement has lasted for 7 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the 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 27 April 2021 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 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 and the consolidated financial statements included in the consolidated annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 on the European Single Reporting Format that apply to the financial statements (the "ESEF Regulation").

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of the 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 financial statements and the consolidated financial statements included in the consolidated annual 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 financial statements and the consolidated financial statements included in the consolidated annual 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 consolidated annual 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 financial statements and consolidated financial statements for the year ended 31 December 2020 included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 30 April 2021

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Martin Tesař
registration no. 2030

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18. Subsequent Events

On February 11, 2021, CZG signed a definitive agreement to acquire 100 % of the outstanding equity interest in Colt Holding Company LLC, the parent company of U.S. firearms manufacturer, Colt's Manufacturing Company LLC as well as its Canadian subsidiary, Colt Canada Corporation. Subject to the terms and conditions of the definitive agreement, CZG shall acquire a 100 % stake in Colt for upfront cash consideration of USD 220 million and the issuance of 1,098,620 pieces of newly issued CZG common stock. The agreement also provides for potential earnout consideration of up to 1,098,620 of newly issued CZG common stock if defined EBITDA thresholds are achieved in years 2021–2023. The acquisition is to be financed from the Company's existing cash resources, including recent IPO proceeds, and from the bond issuance. The transaction is subject to regulatory approval but is anticipated to close in the second quarter of 2021. On 30 March 2021, the Company´s General Meeting adopted decisions outside its meeting (decision per rollam) and granted an instruction to the Board Of Directors of the Company to ensure the carrying out of all neccessary steps in relation to a transaction involving the acquisition of 100% of Colt.

On 23 March 2021, CZG issued 500,000 floating rate notes with coupon of 6M PRIBOR + 1.80 % p.a. in the anticipated aggregate nominal amount of CZK 5,000,000,000 due 2027. The issue price was set at 100 % of the nominal value of the notes. The public offering was finalized on 10 March 2021. The notes were admitted to trading on the regulated market of the Prague Stock Exchange.

Mr. Andrej Chrzanowski, a member of the Board of Directors of CZG, resigned from his position as of 31 March 2021.

General Meeting adopted decisions outside its meeting (decision per rollam) to increase the Company's registered capital by a monetary contribution by up to CZK 109,862 from the current amount of registered capital of CZK 3,263,800 to the total amount of CZK 3,373,662.

In line with the adopted dividend policy to distribute one third of its consolidated net profit for the year, the Company will propose a dividend payment of CZK 7.5 per share from the consolidated net profit for 2020. The dividend proposal is subject to approval of the General Meeting of Shareholders.

19. Glossary and Alternative Performance Measures

a. 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 presents the following Alternative Performance Measures: underlying EBITDA from continued operations, underlying EBITDA margin from continued operations, 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. 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 amortisation are non-monetary charges, the assets being depreciated and amortised 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.

	As of and for the year ended 31 December	
In CZK thous.	**2020**	**2019**
Underlying EBITDA from continued operations	1,470,703	1,314,333
Underlying EBITDA margin from continued operations	21.6%	22.1 %
Net income margin	10.0%	12.3 %
Net financial debt at the end of the period	561	1,547,629
Net leverage ratio (x)	0	1.2x

UNDERLYING EBITDA FROM CONTINUED OPERATIONS

The Group calculates underlying EBITDA from continued operations based on the figures included in the Audited Financial Statements. Underlying EBITDA from continued operations is defined as post-tax profit for the period less post-tax profit from discontinued operations plus income tax less other financial income plus other financial expenses less interest income plus interest expenses plus expense from derivatives transactions less income from derivatives transactions plus depreciation and amortization.

UNDERLYING EBITDA MARGIN FROM CONTINUED OPERATIONS

Underlying EBITDA margin from continued operations is defined as underlying EBITDA from continued operations as a percentage of revenues from the sale of own products, goods and services. Underlying EBITDA margin from continued operations allows for a comparison of one company's performance relative to others in its industry.

The following is a reconciliation of Post-tax profit for the period to underlying EBITDA from continued operations for the periods indicated.

	For the year ended 31 December	
In CZK thous.	**2020**	**2019**
Post-tax profit for the period	**676,571**	**749,311**
Post-tax profit from discontinued operations.	0	(15,192)
Profit for the period from continued operations	**676,571**	**734,119**
Income tax	174,452	178,336
Interest income	(17,280)	(16,918)
Interest expense	76,504	85,842
Depreciation and amortization	393,496	370,601
Other financial income	(295,566)	(74,066)
Other financial expenses	361,271	87,955
Income from derivatives transactions	(138,854)	(352,063)
Expense from derivatives transactions	240,109	300,527
Underlying EBITDA from continued operations	**1,470,703**	**1,314,333**

NET INCOME MARGIN

Net income margin is defined as profit for the period from continued operations as a percentage of revenue from the sale of own products, goods and services, each as shown in the consolidated statement of profit or loss and other comprehensive income in the Audited Financial Statements and the Unaudited Interim Financial Statements. Net income margin is used in ratio analysis to determine the proportional profitability of a business.

NET FINANCIAL DEBT AT THE END OF THE PERIOD

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 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. The following table sets forth the Group's net financial debt for the periods indicated.

	As of 31 December	
(CZK thousands)	**2020**	**2019**
Bank loans and borrowings	2,252,246	2,252,688
Short-term bank loans and overdrafts	19,548	36,958
Lease payables (current and non-current)	87,375	63,486
Less: Cash and cash equivalents	*(2,358,608)*	*(805,503)*
Net financial debt at the end of the period	**561**	**1,547,629**

NET LEVERAGE RATIO

Net leverage ratio is defined as the ratio of net financial debt at the end of the period to underlying EBITDA from continued operations for the period.

The terms underlying EBITDA from continued operations, underlying EBITDA margin from continued operations, Net income margin, Net financial debt at the end of the period and Net leverage ratio do not represent the terms of the same or similar names as may be defined by any documentation for any financial liabilities of the Group.

b. 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. Besides CZUB, the founding members and shareholders of CARDAM are the Institute of Physics of The Czech Academy of Sciences and foundry Beneš and Lát. 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 centre of research and development for additive manufacturing and advanced surface treatment.
CZ-US HOLDINGS Inc.	CZ-US HOLDINGS is a fully owned subsidiary of the Group based in Kansas City, Kansas, United States. The company is a holding company which does not conduct any business operations of its own and has no employees. The main asset of the company is its direct shareholdings in CZ-USA and CZ MFG, Inc. The importance of CZ-US HOLDINGS will grow gradually with implementation of the Little Rock Project as the Group plans to use tax consolidation for the United States tax purposes and also financing of the United States activities via CZ-US HOLDINGS.
CZ-USA Inc.	CZ-USA is a fully owned subsidiary of CZ-US HOLDINGS 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 the end customers but rather sells its product through wholesalers and other merchants.
CZ MFG, Inc.	CZ MFG is a newly established entity, fully owned subsidiary of CZ-US HOLDINGS. CZ MFG was established in order to implement the Little Rock Project.
CZ Brasil	CZ Brasil is a subsidiary of CZUB based in Brazil. CZ Brasil is no longer an active company. CZ Brasil was originally founded as a joint venture with its local partner R&T with the intention to enhance the visibility of the Group on the Brazilian market. The project is no longer actively pursued by the Group.
CZ Export Praha, s.r.o.	CZ EXPORT is a fully owned subsidiary of the Company based in Uherský Brod, Czech Republic. The company specializes in the international trade 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.
CZG International	CZG International is a fully owned subsidiary of the Company based in Prague, Czech Republic. CZG 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.
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 and is based in Uherský Brod. The Group effectively owns 99.32% of the outstanding share capital of CZUB while the remaining outstanding share capital is owned by CZUB's management. Due to the dual share structure, the Group controls 100% of voting rights of CZUB.
Česká zbrojovka Partners SE	The majoriy shareholder of the Company. A 90% stake is controlled by EHC. The remaining is held as follows: (i) 5% by Mr. Lubomír Kovařík, (ii) 2.5% by Mr. René Holeček (resulting in Mr. René Holeček's indirect shareholding in the Company and Česká zbrojovka Partners SE of 83.95% of share capital and voting rights), and (iii) 2.5% by Mr. Jan Drahota.
EG-CZ Academy	Academy is a partially owned subsidiary of CZG-Česká zbrojovka Group International s.r.o. based in Quimper, France. CZG owns a 20% shareholding in Academy. Academy was founded in cooperation with Eric Grauffel, the seven-time World IPSC Champion. Academy aims to provide a new experience in indoor shooting. It operates a modern training facility providing its members (from sport shooters to government bodies) with access to all types of modern shooting disciplines. Academy serves as a marketing tool for the Group and its importance lies mainly in its impact on increasing brand and product awareness and loyalty.
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 54.26% shareholding in 4M SYSTEMS a.s.

European Holding Company, SE The majority shareholder of Česká zbrojovka Partners SE which holds 90% of the share capital and voting rights in Česká zbrojovka Partners SE. EHC is owned and controlled by Mr. René Holeček, who controls 100% of the share capital in EHC.

Spuhr i Dalby AB SPUHR is a renowned Swedish manufacturer of class leading optical mounting solutions for weapons. The Group acquired a minority stake (25%) in SPUHR on 6 May 2020. SPUHR was founded in 2007 and has its own factory in Löddeköpinge.

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 moulding (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) or ceramic powder injection moulding (CIM) parts. The company utilizes modern and innovative technology and a system of 100% quality control (3D measurement, defectoscopy station) and is a holder of an ISO 9001 certificate.

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. Zbrojovka Brno currently produces mainly hunting rifles and provides customized solutions for the Group customers. CZUB intends to use Zbrojovka Brno as the customization centre for its online firearms configurator.

4M SYSTEMS a.s. 4M SYSTEMS is a 100% owned subsidiary of EHC 4M based in Prague, Czech Republic. The remaining 45.74% share was acquired by EHC 4M in September 2020 from the minority shareholders for CZK 3.3 million. The Group is in discussions with its financing bank regarding a potential recapitalisation of 4M SYSTEMS in order to prepare 4M SYSTEMS to realize the commercial potential of certain military and law enforcement contracts. 4M SYSTEMS operations include the design, production and sale of tactical equipment for armed forces such as the military, police, customs, prison service, border guards, etc. 4M SYSTEMS enhances the ability of the Group to offer its customers a broader scope of products in complex orders such as rearmaments.

OTHER COMPANIES

Latin America Holding, a.s., Česká zbrojovka CZ Auto a.s. and CZ - Slovensko s.r.o. are special purpose vehicles which do not conduct any business operations, have no material assets or liabilities and no employees.

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.

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

Bolt-action 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.

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

Centrefire rifle a rifle loaded with cartridges which have a primer located in the centre of the cartridge case head.

Handguns pistols and revolvers.

Locked breech one of the wide-spread designs of firearm mechanisms used to slow down the opening of the breech to ensure flawless function.

Long guns all firearms except pistols and revolvers.

Magazine-fed a firearms' design in which ammunition is drawn from a magazine.

MIM	Metal injection moulding 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 moulding. The moulding process allows high volume, complex parts to be shaped in a single step.
Rimfire rifle	a rifle in which the firing pin strikes the rim of the cartridge case to ignite the primer.
Striker-fired	one of the most common pistol fire-action systems that eliminated the use of the hammer. Striker-fired pistols use a spring that provides energy to the firing pin that initiates the cartridge primer.
Submachine gun	self-loading automatic or semi-automatic firearm with detachable magazine commonly chambered in pistol cartridges. Primarily designed for military and law enforcement use. Depending on region-specific legislation available for civilian use in semi-auto variants.
Tactical accessories	firearms accessories, tactical and ballistic equipment and apparel.

GLOSSARY OF OTHER TERMS

IFRS	International Financial Reporting Standards are accounting standards issued by the IFRS Foundation and the International Accounting Standards Board.
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 in the blue chip shares in the Czech and foreign companies on the Prague Stock Exchange.
PSE	Prague Stock Exchange (PSE) is the main organizer of the securities market in the Czech Republic.

20. Consolidated Financial Statements under International Financial Reporting Standards as Adopted by the European Union for the Year Ended 31 December 2020

Consolidated Statement of Profit or Loss and other comprehensive income for the year ended 31 December 2020

		2020	2019
Continued operations	**Note**	**CZK '000**	**CZK '000**
Revenues from the sale of own products, goods and services	6	6 819 673	5 958 742
Other operating income	7	50 431	101 515
Changes in inventories of finished goods and works in progress		-380 396	52 096
Own work capitalised		123 511	104 974
Raw materials and consumables used	8	-2 736 016	-2 885 982
Services	10	-1 094 683	-820 386
Personnel costs	9	-1 260 091	-1 080 522
Depreciation and amortisation	19	-393 496	-370 601
Allowances	12	71 691	736
Other operating expenses	11	-144 305	-116 862
Operating profit		**1 056 319**	**943 710**
Interest income	14	17 280	16 918
Interest expense	15	-76 504	-85 842
Other financial income	14	295 566	74 066
Other financial expenses	15	-361 271	-87 955
Income from derivatives transactions	16	138 854	352 063
Expense from derivatives transactions	16	-240 109	-300 527
Share in the profit of associates	20	20 888	22
Profit before tax		**851 023**	**912 455**
Income tax	17,18	-174 452	-178 336
Profit for the period from continued operations		**676 571**	**734 119**
Discontinued operations			
Post-tax profit from discontinued operations	4	**0**	**15 192**
Post-tax profit for the period		**676 571**	**749 311**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash Flow Hedges – remeasure of effective portion of hedging instruments		274 923	148 023
Foreign currency translation of foreign operations		-50 402	-7 128
Other comprehensive income:		**224 521**	**140 895**
Comprehensive income for the period		**901 092**	**890 206**
Profit attributable to owner of the parent			
Profit for the period from continued operations		672 948	728 084
Profit for the period from discontinued operations		0	15 192
Profit for the period attributable to owner of the parent		672 948	743 276
Profit attributable to non-controlling interests			
Profit for the period from continued operations		3 623	6 035
Total comprehensive income for the period attributable to:			
Shareholder of the parent company		896 055	882 840
Non-controlling interests		5 037	7 366
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	37	21	25
Diluted	37	21	25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020

	Note	31 Dec 2020 CZK '000	31 Dec 2019 CZK '000
ASSETS			
Non-current assets			
Property, plant and equipment	19.3	2 050 783	1 994 748
Intangible assets	19.1	770 194	834 242
Long-term receivables	24	303 260	45 322
Equity-accounted securities and investments	20	110 524	17 160
Deferred tax asset	18	3 281	1 464
Goodwill	19.2	280 686	280 686
Total non-current assets		**3 518 728**	**3 173 622**
Current assets			
Inventories	21	1 622 702	1 747 427
Trade receivables	23	585 885	915 799
Current tax receivables		44 938	7 385
Other receivables	22	127 120	137 080
Financial derivatives	32	529 570	236 486
Cash and cash equivalents	25	2 358 608	805 503
Assets held for sale and for distribution to owners	4	0	525 273
Total current assets		**5 268 823**	**4 374 953**
Total assets		**8 787 551**	**7 548 575**
EQUITY AND PAYABLES			
Capital and funds			
Share capital	26	3 264	2 984
Capital funds	27	1 642 107	1 641 721
Share premium	26	722 944	0
Cash flow hedging funds	27	161 794	-111 045
Foreign exchange translation funds	27	-47 960	2 442
Accumulated profits		2 027 994	1 921 501
Equity attributable to the shareholder of the Company		**4 510 143**	**3 457 603**
Equity attributable to the shareholder of the Company		4 510 143	3 457 603
Non-controlling interests		12 543	11 358
Total equity		**4 522 686**	**3 468 961**
Non-current liabilities			
Bank loans and borrowings	29	2 252 246	2 252 688
Lease payables	30	75 939	57 313
Deferred tax liability	18	324 601	248 033
Provisions	13	7 443	25 053
Other long-term payables		307	905
Total non-current liabilities		**2 660 536**	**2 583 992**
Current liabilities			
Trade payables		417 503	284 906
Short-term bank loans and overdrafts	29	19 548	36 958
Lease payables	30	11 436	6 173
Provisions	13	81 274	45 837
Current tax payables		23 286	70 127
Other payables	28	727 691	394 387
Financial derivatives	32	323 591	339 252
Liabilities related to assets held for sale and for distribution to owners	4	0	317 982
Total current liabilities		**1 604 329**	**1 495 622**
Total liabilities		**4 264 865**	**4 079 614**
Total liabilities and equity		**8 787 551**	**7 548 575**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital Note 26	Capital funds Note 27	Share premium Note 26	Cash flow hedging funds Note 27	Foreign exchange translation funds Note 27	Accumulated profits	Equity attributable to the shareholder of the parent company	Non-controlling interests	Total equity
	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000
Balance at 31 December 2018	**2 984**	**1 638 710**	**0**	**-254 726**	**9 570**	**1 884 709**	**3 281 247**	**28 128**	**3 309 375**
Profit for the period from continued operations	0	0	0	0	0	728 084	728 084	6 035	734 119
Profit for the period from discontinued operations	0	0	0	0	0	15 192	15 192	0	15 192
Other comprehensive income	0	0	0	146 625	-7 061	0	139 564	1 331	140 895
Total comprehensive income for the period	**0**	**0**	**0**	**146 625**	**-7 061**	**743 276**	**882 840**	**7 366**	**890 206**
Dividends	0	0	0	0	0	-560 000	-560 000	-13 977	-573 977
Transactions under common control	0	0	0	0	0	-145 363	-145 363	0	-145 363
Change in non-controlling interests and treasury holdings	0	3 011	0	-2 944	-67	-1 121	-1 121	-10 159	-11 280
Balance at 31 December 2019	**2 984**	**1 641 721**	**0**	**-111 045**	**2 442**	**1 921 501**	**3 457 603**	**11 358**	**3 468 961**
Profit for the period from continued operations	0	0	0	0	0	672 948	672 948	3 623	676 571
Other comprehensive income	0	0	0	273 192	-50 085	0	223 107	1 414	224 521
Total comprehensive income for the period	**0**	**0**	**0**	**273 192**	**-50 085**	**672 948**	**896 055**	**5 037**	**901 092**
Dividends	0	0	0	0	0	-328 218	-328 218	-4 049	-332 267
Impact of the spin-off of the investment in CZ-AUTO – Note 4	0	0	0	0	0	-207 291	-207 291	0	-207 291
Share issue – Note 26	280	0	811 720	0	0	0	812 000	0	812 000
Costs of IPO	0	0	-88 776	0	0	0	-88 776	0	-88 776
Change in non-controlling interests and treasury holdings	0	386	0	-353	-317	-30 946	-31 230	197	-31 033
Balance at 31 December 2020	**3 264**	**1 642 107**	**722 944**	**161 794**	**-47 960**	**2 027 994**	**4 510 143**	**12 543**	**4 522 686**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 Dec 2020 CZK '000	31 Dec 2019 CZK '000
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		830 135	932 129
Adjustments for non-cash transactions		**321 672**	**508 201**
Depreciation/amortisation of non-current assets	19	393 496	412 904
Change in allowances and provisions	12,13	-53 824	28 534
Loss from the sale of non-current assets		-791	-3 688
Interest expense and interest income	14,15	73 036	63 023
Adjustments for other non-cash operations (deficit and damage on assets and inventories, unrealised profits/losses, remeasurement of derivative transactions)		-90 245	7 428
Net cash flow from operating activities before changes in working capital		**1 151 807**	**1 440 330**
Change in working capital		**729 021**	**-678 604**
Change in receivables and deferred expenses/ accrued income	22,23,24	95 187	-454 246
Change in payables and accrued expenses/ deferred income	28	470 117	-134 519
Change in inventories	21	163 717	-89 839
Cash generated by operations		**1 880 828**	**761 726**
Interest paid		-87 891	-75 555
Interest received		9 141	16 911
Income tax paid for ordinary activity	17	-213 839	-197 966
Net cash flow from operating activities		**1 588 239**	**505 116**
Cash flows from investing activities			
Acquisition of non-current assets	19	-330 657	-274 356
Income from the sale of non-current assets		1 481	4 488
Acquisition of subsidiaries	3.4	0	-164 293
Income from the sale of subsidiaries		0	-1 114
Acquisition of investment in an associate	20	-69 823	0
Net cash flow from investing activities		**-398 999**	**-435 275**
Cash flows from financing activities			
Proceeds from issued bonds	29	0	0
Repayments of loans and borrowings	29	-17 410	- 216 500
Proceeds from loans and borrowings	4,29	0	254 759
Proceeds on issue of shares	26	722 944	0
Changes in equity		**-332 267**	**-573 977**
Dividends paid to shareholders	34	-328 218	-560 000
Dividends paid to non-controlling interests		-4 049	-13 977
Net cash flow from financing activities		**373 267**	**-535 718**
Net change in cash and cash equivalents		**1 553 105**	**-465 313**
Impact of the spin-off of the investment in CZ-AUTO	4	-74 812	0
Opening balance of cash and cash equivalents	25	**880 315**	**1 345 628**
Effects of exchange rate changes on cash and cash equivalents		-9 402	564
Closing balance of cash and cash equivalents	25	**2 358 608**	**880 315**

CZG - ČESKÁ ZBROJOVKA GROUP SE

Consolidated Financial Statements

under International Financial Reporting Standards as Adopted by the European Union

for the Year Ended 31 December 2020

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1. PARENT COMPANY

CZG - Česká zbrojovka Group SE (hereinafter the "Consolidating Entity" or the "Company") is a joint stock company recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961. The Company, together with its subsidiaries, is one of the leading European producers of firearms for military and law enforcement, personal defense, hunting, sport shooting and other civilian use. The Group markets and sells its products mainly under CZ (Česká zbrojovka a.s.), CZ-USA, Dan Wesson, Brno Rifles and 4M Systems brands.

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

Shareholder	Ownership percentage as of	
	31 Dec 2020	31 Dec 2019
Česká zbrojovka Partners SE	91%	100%

Since 2017, the majority owner of the Consolidating Entity has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, Prague 1.

The Consolidating Entity and consolidated entities are part of a larger consolidation group of the ultimate parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, Prague. Ultimate owner of the entities is Mr. René Holeček.

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

Board of Directors	
Chairman:	Lubomír Kovařík
Vice-chairman:	Jan Drahota
Vice-chairman:	Alice Poluchová
Member:	Jan Zajíc
Member:	Andrej Chrzanowski
Member:	David Aguilar
Member:	Jana Růžičková
Supervisory Board	
Chairman:	René Holeček
Member:	Věslava Piegzová
Member:	Vladimír Dlouhý

The consolidation group (hereinafter the "Group") comprises the Company and the consolidated entities of the Group (subsidiaries). The consolidation group includes the Company and entities controlled by the Company, i.e. entities in which the Company holds more than 50 % of voting rights.

Information in these financial statements is presented in thousands of Czech crowns (CZK '000), which is also the functional currency.

2. IDENTIFICATION OF THE GROUP AND SIGNIFICANT EVENTS IN THE CURRENT REPORTING PERIOD

2.1. Identification of the Group

Entity	Principal activity	Place of foundation and business operation	Method of accounting	Share of the Group in Equity	
				31 Dec 2020	31 Dec 2019
CZG - Česká zbrojovka Group SE	Holding company	Prague, Czech Republic	full	91 %	100 %
CZ USA HOLDINGS INC.	Holding company	Kansas City, USA	full	100 %	100 %
CZ-USA, LLC	Purchase and sales of firearms and ammunition	Kansas City, USA	full	100 %	100 %
CZ-MFG, LLC	Production	Little Rock, USA	full	100 %	100 %
CZ Acquisition II, LLC	Holding company	Delaware, USA	full	100 %	-
EHC 4 M, SE	Lease of real estate	Prague, Czech Republic	full	100 %	100 %
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	100 %	54 %
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	99 %	99 %
Česká zbrojovka CZ-AUTO a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	-	99 %
CZ - Slovensko s. r. o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	99 %	99 %
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	99 %	99 %
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49 %	49 %
Latin America Holding, a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	99 %	99 %
CZ Export Praha, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100 %	100 %
CZG - Česká zbrojovka Group International s.r.o.	Lease of real estate	Prague, Czech Republic	full	100 %	100 %
CZ-AUTO SYSTEMS a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	-	100 %
EG-CZ Academy	Academy	Quimper, France	equity	20 %	20 %
CZG VIB s.r.o.	Lease of real estate	Prague, Czech Republic	full	100 %	100 %
VIBROM, spol. s r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25 %	25 %
Spuhr i Dalby AB	Production of scope mounts	Löddeköpinge, Sweden	equity	25 %	-
CARDAM s.r.o.	Research and Development Center	Dolní Břežany, Czech Republic	equity	33 %	33 %

In 2020, new entity was included in the consolidation group: Spuhr i Dalby AB (entity was acquired in May 2020). Česká zbrojovka a.s. is the major entity in the Group. In the text below, the term 'Group' refers to the consolidation group. In 2020, share of the Group in Equity in the company 4M SYSTEMS a.s. increased from 54 % to 100 %.

2.2. Significant Events in the Current Reporting Period

Impact of COVID-19 on the Group

The Group operates its principal production facility in Uherský Brod, Czech Republic. The impact of coronavirus COVID-19 on the Group's production has been limited so far. The Group has not experienced major interruptions of its production process in its main production facility; initially, production was closed for one day to evaluate the government recommendations and implement adequate measures and subsequently daily production was slowed for approximately two months, but has since returned to full production capacity. At the same time, the Group had to temporarily close its manufacturing facility in Norwich, New York, beginning on 22 March 2020, cease production of its Dan Wesson products and, effective 11 April 2020, reduce its workforce in the U.S. by 35 employees. In May and June 2020, the facility gradually started to re-hire employees and restart production and, as of 31 December 2020, there were 29 employees at Dan Wesson. As a result of the closure and increased demand for Dan Wesson products in the U.S., the Group had sold its entire stock of Dan Wesson products by August 2020 and, despite the restart of production in its Norwich, N.Y. facility, is not currently able to satisfy the continued increased demand for Dan Wesson products in the U.S.

Risks related to the Ongoing COVID-19 Health Crisis

The Group faces various risks related to the ongoing COVID-19 health crisis. In December 2019, a novel strain of coronavirus COVID-19 reported to have surfaced in Wuhan, China. On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. The rapid spread of COVID-19 has resulted in authorities implementing numerous measures to try to contain COVID-19, such as travel bans and restrictions, quarantines, shelter in place orders, curfews and shutdowns and these measures have adversely impacted and may further impact the majority of economic sectors including portions or all of the Group's workforce and operations, the operations of its customers, and those of its respective vendors and suppliers. To date, the COVID-19 pandemic has caused significant financial market volatility and uncertainty and international supply changes, which have already significantly depressed global business activities and could restrict access to capital and result in a long-term economic slowdown or recession that could negatively affect the Group's operating results. The Group's sales increased in certain markets during the first six months of 2020 and since the COVID-19 outbreak and the start of civil unrest in May 2020, demand in the U.S. has been higher than demand in previous years, however, the Group is unable to assess whether or for how long the increased or stable demand in those markets will last and believes this may be a temporary effect. In addition, due to the near halt of passenger air flights from and/or to key markets of the Group, the Group has had to switch from using the excess cargo capacity of passenger air flights to more costly specialised cargo plane flights. Consequently, the cost of transportation of the Group’s products has increased substantially. The Group operates its principal production facility in Uherský Brod, Czech Republic. This facility is critical to the Group's operations. The Group does not have any other significant production capacity which could substitute this facility. If significant portions of the Group's workforce based in Uherský Brod were unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, the Group's operations would be materially adversely impacted.

The Group has significant manufacturing operations in the Czech Republic and an important distribution centre as well as the Dan Wesson manufacturing facility in the United States. Both the Czech Republic and the United States have been affected by the pandemic and taken measures to try to contain it. As part of such measures, the Group has had to temporarily close its manufacturing facility in Norwich, New York, as of 22 March 2020, cease production of its Dan Wesson products and, effective 11 April 2020, reduce its workforce in the U.S. by 35 employees. In May and June 2020, the facility gradually started to re-hire employees and restart production and, as of 31 December 2020, there were 29 employees at Dan Wesson. As a result of the closure and increased demand for Dan Wesson products in the U.S., by August 2020, the Group had sold its entire stock of Dan Wesson products and, despite the restart of production in its Norwich, N.Y. facility, is not currently able to satisfy the continued increased demand for Dan Wesson products in the U.S.

There is considerable uncertainty regarding measures taken to try to contain the pandemic and potential future measures, including region and/or town closures/quarantines, forced and/or voluntary facility closures, reductions in operating hours, labour shortages and real time changes in operating procedures to accommodate social distancing guidelines. Restrictions on access to the Group's manufacturing facilities or on its support operations or workforce, or similar limitations for its suppliers, and restrictions or disruptions of transportation, port closures and increased border controls or closures, could limit the Group's ability to meet customer demand and have a material adverse effect on its financial condition, cash flows and results of operations. There is no certainty that measures taken by governmental authorities will be sufficient to mitigate the risks posed by COVID-19, and the Group's ability to perform critical functions could be harmed.

The Group has experienced interruptions to its supply chain and if these or other interruptions are long-lasting or spread to a wider supplier base, this could cause shortages in certain materials, parts and labour supplies that are key to the Group's commercial operations and negatively impact the Group's business results. Additionally, the COVID-19 pandemic may impact distribution and logistics providers' ability to operate or may increase their operating costs. For example, the Group has traditionally used cargo services on passenger flights provided by airlines as a complementary product. As passenger flights have been dramatically reduced, the Group has had to use alternative logistics solutions, in particular dedicated cargo flights, which tend to be more expensive than the services used in the past. These supply chain effects may have an adverse effect on the Group's ability to meet consumer demand and could result in an increase in the Group's costs of production and distribution, including increased freight and logistics costs and other expenses. While there have been intensifying efforts to contain the spread of COVID-19 by the governments of the countries and territories affected, the extent to which the COVID-19 outbreak impacts the Group's results is highly uncertain and depends on future developments, including new information that emerges concerning the severity of the COVID-19 pandemic and the actions to contain the outbreak or treat its impact, among others.

The COVID-19 pandemic and the containment measures taken could impact the Group's business globally, including through store closures or reduced operating hours or decreased retail traffic because consumers are staying at home. Store closures by the Group, its wholesale customers or distributors globally have been required in certain markets and additional store closures may be required and there can be no assurance as to how long these closures may remain in effect or as to whether they may need to be reinstated following a resurgence in the number of infections. Furthermore, even after reopening, there can be no assurance as to the time required to regain operations and sales at prior levels.

In addition, the Group's business is sensitive to reductions in discretionary spending by consumers. In recent months, the COVID-19 pandemic has also significantly increased economic and demand uncertainty, and has led to disruption and volatility in the global capital markets, which could lead to a decline in discretionary spending by consumers and business failures or insolvencies, including of the Group's wholesale customers and distributors, and which could in turn impact, possibly materially, the Group's business, sales, financial condition and results of operations. In the United States, the unemployment rate was at 3.5% in February 2020[1], since the U.S. president declared a national emergency over the COVID-19 pandemic on 13 March 2020, the unemployment rate reached 4.4% in March and then 14.7% in April 2020, the largest one-month increase and the highest rate in the history of the official government data (started in 1948)10. Subsequently, in July 2020, the unemployment rate in the United States decreased slightly to 10.2%10. Uncertain or negative outlook on general economic conditions can cause significant changes in market liquidity conditions, which could impact the Group's access to funding and associated funding costs, which could reduce the Group's earnings and cash flows. The Company cannot predict the degree to, or the time period over which, the Group's sales and operations will be impacted by the COVID-19 pandemic, and the effects could be material. It is likely that the COVID-19 pandemic will cause an economic slowdown, and it is possible that it could cause a global recession.

The Group continues to monitor the rapidly evolving situation and guidance from international and domestic authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside the Group's control that require the Group to adjust its operating plan. The ultimate magnitude of the COVID-19 pandemic, including the extent of its impact on the Group's financial and operational results, which could be material, will be determined by the length of time that the pandemic continues, its effect on the demand for the Group's products and services and the supply chain, as well as the effect of governmental regulations imposed in response to the pandemic. The Group cannot, at this time, predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

The COVID-19 outbreak has posed significant challenges to CZG´s business activities in the reported period. CZG implemented various measures to keep its business and operations going and provide the highest possible protection to its employees in all production plants. The Company has bought protective equipment (face masks, respirators, disposable gloves and disinfection), vitamins for its employees, provided psychological support and extended the spacing at the workplaces. The closed work teams up to 10 employees were created. The work shifts were cut and shortened so that the workers in each shift did not meet in the changing rooms and had an additional time for personal hygiene and disinfection. The Company increased the frequency of cleaning and disinfection of all contact surfaces.

The Group's management, having considered all information available and measures adopted by the date of the issuance of this report, concludes that Group has adequate resources to continue its operations for the foreseeable future. For this reason, the Group continues to adopt going concern basis in preparing its consolidated financial statements.

[1] Source: U.S. Bureau of Labor Statistics

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Newly-adopted Standards and Interpretations

In the current year, the Group has applied the below amendments to IFRS Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective in the EU for an accounting period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework.

Amendments to IFRS 3 – Definition of a business

The Group has adopted the amendments to IFRS 3 *Business Combinations* for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 – Definition of material

The Group has adopted the amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

Amendments to IFRS 9 and IFRS 7 – Interest Rate Benchmark Reform

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments were not relevant to the Group given that it does not apply hedge accounting to its benchmark interest rate exposures.

Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IFRS 16 *Leases*** – Covid-19-Related Rent Concessions – adopted by the EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020),
- **Amendments to IFRS 4 *Insurance Contracts*** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*** – Interest Rate Benchmark Reform — Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The Group does not expect that the adoption of these amendments to the existing standards will have a material impact on the financial statements of the Group in future periods.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 17 *Insurance Contracts*** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 *Business Combinations*** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 *Presentation of Financial Statements*** – Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2** – Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 *Property, Plant and Equipment*** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*** – Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018-2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

3.2. Statement of Compliance

The statutory financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

3.3. Basis of Preparation

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.

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 Group applies Level 2 to financial instruments - derivatives.

Going concern

The Group has, at the time of approving the financial statements, a reasonable expectation that 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.

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 to affect its 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 unrealized 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 Accounting and Reporting

In 2020, no changes in the Group's general accounting policies were made, with the exception of new standards as disclosed in Note 3.1.

The Group has changed the presentation of following transaction in the financial statement.

Item	Actual presentation	Previous presentation
Gains/losses from currency derivative transactions	Income/Expense from derivative transactions	Other financial income/expense
Interest on interest rate swap	Income/Expense from derivative transactions	Interest expense
Cash flow hedging funds	Cash flow hedging funds	Capital funds
Foreign exchange translation funds	Foreign exchange translation funds	Capital funds
Allowances	Allowances	Other operating income/expense

Balances presented for 2019 period were adjusted to correspond with 2020 balances.

	Actual presentation	Previous presentation
	2019	**2019**
Allowances	736	-
Other operating expenses	-116 862	-116 126
Interest income	16 918	27 882
Interest expense	-85 842	-85 842
Other financial income	74 066	373 252
Other financial expenses	-87 955	-346 569
Income from derivatives transactions	352 063	-
Expense from derivatives transactions	-300 527	-
Total	**-31 277**	**-31 277**

	Actual presentation	Previous presentation
	2019	**2019**
Capital funds	1 641 721	1 533 118
Cash flow hedging funds	-111 045	-
Foreign exchange translation funds	2 442	-
Total	**1 533 118**	**1 533 118**

3.3.2. 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 aquiree 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 recognizes any difference between consideration provided and carrying value of acquired net assets to retained earnings. In 2019, the impact of transactions under common control (acquisition of CZ Export Praha, s.r.o., CZG VIB s.r.o. and CZ Tisem s.r.o.) to the Group retained earnings was CZK -145,363 thousand. The balance is separately disclosed in the Consolidated statement of changes of equity.

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.

The Group assesses whether the value of the investment in an associate is impaired due to one or a series of events occurring after the initial recognition of the investment (i.e. losses incurred by the associate, indications of impairment of associate assets). The impairment of the investment is assessed by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. 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.

In 2020 and 2019, the primary source of revenues of the Group was the sale of own products of Česká zbrojovka a.s.

3.7. Sale of Products and Related Additional Services

Products 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 tied to the volume of purchases in a defined period.

The revenue is recognized at the moment of its satisfaction occurs, which is when the customer takes control over the products or goods. The moment is defined namely 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 (namely 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 namely include work on delivered tools or material (machining, sharpening). 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.

In case of service supplies, the performance obligation is satisfied when a customer takes control over 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 to win a contract are charged to expenses if they are insignificant or if the depreciation period of the asset comprising the costs to win a contract is shorter than one year.

Licences are provided based on licence agreements. In respect of provided licences, the performance obligation is to allow other entities to use the trademark or any other copyright of Česká zbrojovka a.s. 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, (at this point of time the fixed part of the price is recognized as revenue, share on sales achieved is recognized when the sale is performed by the customer).

Income from sale of rights to access licenses (royalties) are recognized over time, it is not presented as revenue as it does not arise in the course of the ordinary activities of the Group.

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 net carrying amount of the financial asset.

3.10. Leases

The Group implemented a new standard - IFRS 16 Leases - using the modified retrospective approach as of 1 January 2019.

The Group as a Lessor

The Group is not a lessor in any contract that would qualify as a finance lease. Income from lease contracts classified as an operating lease in which the Group acts as a lessor is recognised on a straight-line basis over the term of the contract.

The 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 remeasure 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 in the line Property, plant and equipment.

The Group 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. Functional currency in USA subsidiaries is USD and CZK in Czech subsidiaries. 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. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are 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). The value of capitalised interest in individual years was as follows: CZK 1,684 thousand in 2020 and CZK 1,632 thousand in 2019.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.13. Government Grants, 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.

Out of the consolidation group, only Česká zbrojovka a.s. used subsidies in 2019 and 2020. The effect of subsidies on the Group's income and expenses in individual years was as follows: CZK 0 thousand in 2020 and CZK 823 thousand in 2019. Česká zbrojovka a.s. further used tax relief arising from investment incentives and employment of selected persons as disclosed in Note 17.

3.14. Employee Benefits

The Group does not operate its own private pension and retirement benefit plans. 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. In USA, the Group operates a so called NQDC Plan (A Non-Qualified Deferred Compensation Plan) enabling 10 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).

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.

3.15. Taxation

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

3.15.1. 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 consolidated 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 Company is domiciled.

3.15.2. 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.

3.15.3. 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.

3.16. Non-Current Assets Held for Sale or Distribution to Owners and Discontinued Operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and the fair value less cost to sell. The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is considered to be met only if the sale is highly probable and the asset or group of assets are ready for immediate sale in their present condition. The Company management has to take steps leading to the sale of the asset or groups of asset so that the sale is completed within one year of the date of classification of the asset or group of assets as held for sale.

A non-current asset (or a disposal group) is classified as held for distribution to owners if the Group undertakes to distribute the asset (or the disposal group) to owners. In order to do so, assets must be available for immediate distribution in their existing condition and the distribution must be highly probable, i.e. an activity directed to the completion of the distribution must be started; it is also expected that the distribution will be completed within one year from the classification date.

Non-current assets or disposal groups classified as held for distribution to owners and related liabilities are measured at the lower of the carrying amount or the fair value less cost to sell and are recognised separately in the statement of financial position.

A discontinued operation is the Group's part classified as held for sale or distribution to owners which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of the separate principal field or territory of operation; or
- Is a subsidiary acquired exclusively to be sold.

The Group recognises its profit or loss after tax arising from discontinued operations as a separate item in profit or loss and other comprehensive income. Other information relating to discontinued operations is stated in Note 4.

3.17. Property, Plant and Equipment – Tangible Fixed Assets

Tangible fixed assets are recognised at acquisition cost net of accumulated depreciation and accumulated impairment losses.

Purchased tangible fixed assets are carried at cost upon acquisition. The cost includes the direct costs of acquisition, transportation costs, customs duty and other costs related to acquisition.

Tangible fixed 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 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)
Buildings	16 - 50
Machinery and equipment	4 - 52
Furnaces, cranes, conveyors	16 - 50
Tools	2 - 4
Vehicles	5 - 10
Office equipment	4
Furniture and fixtures	2 - 20

Land owned by the Group, tangible assets under construction and a collection of firearms are not depreciated.

Right of use assets are 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 Group 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.

3.18. Intangible Assets

3.18.1. Intangible Assets Acquired Separately

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 as follows:

	Number of years (from – to)
Development	4
Software	2 – 4
Licenses, patents and other valuable rights	2 – 6
Contractual customer relationships	10
Other intangible fixed 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 estimate 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.

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 as a result of 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 fixed 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 recognized 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 income accounts to match the relating expenses.

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 comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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 cost of conversion 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.

Provisions recognised by the Group principally relate to legal disputes, contractual penalties, warranties and employee benefits.

3.22.1. Warranties

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.

3.23. 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'. Equity instrument except for shares in subsidiaries and associates are subsequently measured at fair value. 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).

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.

In 2020 and 2019, the Groups'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 and for investment in associates, the Group determines an impairment loss by means of the so-called 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 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 the expected losses for each group of receivables is based on historical experience and 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.

For investment in associates, the impairment loss is calculated, if there is objective evidence of impairment, by comparing its recoverable amount with its carrying amount. When assessing the existence of objective evidence, the Group mainly considers existing or potential financial difficulty of the associate, breach of contract, delinquency in payments or potential bankruptcy. The recoverable amount is determined based on estimated future cash flows discounted to their present value.

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 isheld 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 39 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 consolidated statement of other comprehensive income/ statement of profit or loss.

3.25.3.1. Other Financial Liabilities

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

3.25.3.2. Bonds

Group's key operating entity Česká zbrojovka a.s. issued book-entry bearer bonds in 2016. The bonds are listed on the regulated market of the Prague Stock Exchange. Issued bonds are initially recognised at fair value net of transaction costs and presented under non-current liabilities. Subsequent to initial recognition, the Group measures the issued bonds at their amortised cost using the effective interest rate method.

3.25.3.3. 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:

- 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 2019 and 2020.

3.25.3.4. 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 is 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.

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 recognized in profit or loss and presented as Income/ Expense for derivative transactions in the Consolidated statement of profit or loss and other comprehensive income.

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 Group 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 parent 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 (other than interest rate swaps which are always classified by the Group as held for trading) 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 Group 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 currency forwards are measured at fair value as of the end of the reporting period and this fair value is reported under gains or losses from measurement 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 Income from derivative transactions /Expenses 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. Non-controlling Interests

The Group recognises non-controlling interests under the equity of consolidated controlled entities classified as shares in the share capital, capital funds, profit funds, profit or loss of prior years and profit or loss for the period.

3.29. Use of Estimates

The presentation of financial statements in line with IFRS requires the Group'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 Group 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 (Sections 3.17., 3.18., Note 19);
- Impairment of inventory is based on the expected production and price development (Section 3.21., Note 21);
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Section 3.24., Note 23);
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as of 31 December 2020 (Sections 3.23, 3.24., 3.25., 3.26.,3.27., Note 32);
- Impairment of intangible assets with an undeterminable 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 (Section 3.19., Note 19.1 and 19.2).

3.30. 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:

- Firearm regulation: stricter regulation of firearms may have an adverse impact on the Group's financial results in 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 the key success factor; however, it is related to the need of ongoing investments. If investments cannot be used successfully in commerce the Group's financial performance would be adversely impacted;
- Potential expansion: The Group plans significant investments in the expansion of production capacities in the USA. If the company fails to use the new capacities it would have an adverse effect on the Group's financial results.
- Loss of key employees
- Political risks: Political development may result in the restriction of the option to supply weapons to selected regions. Such development could have an adverse impact on the Group's financial performance.

- Fluctuations of exchange and interest rates including changes in the benchmark risk-free rate: the Group is active on various markets and its financial performance may be impacted 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.

4. ASSETS AND LIABILITIES HELD FOR DISTRIBUTION TO OWNERS AND DISCONTINUED OPERATIONS

In 2019, the Group owner decided to spin-off production of automotive and aviation components outside the Group. As of 31 December 2019, the spin-off assets and liabilities are recognised as assets and liabilities held for distribution to owners and discontinued operations under IFRS 5. The spin-of assets and liabilities are recognized using their carrying value. The spin-off activity was classified as discontinued operation as it represents a significant segment for the Group, which is transferred outside of the Group within one year. The spin-off was performed in January 2020.

The carrying amount of assets held for distribution to owners as of 31 December 2019 was CZK 525,273 thousand, the carrying value of the liabilities relating to these assets amounts to CZK 317,982 thousand.

Profit from discontinued operations recognised as a separate item in the profit or loss and other comprehensive income for the year ended 31 December 2019 was as follows:

Discontinued operation	**31 Dec 2019**
	CZK '000
Revenues from the sale of own products, goods and services	**471 492**
Other operating income	17 865
Changes in inventories of finished goods and works in progress	-17 284
Raw materials and consumables used	-232 255
Services	-63 047
Personnel costs	-131 542
Depreciation and amortisation	-42 303
Other operating expense	-11 977
Operating profit	**25 517**
Interest income	553
Interest expense	-5 616
Other financial income	978
Other financial expense	-1 758
Profit before tax	**19 674**
Income tax	-4 482
Profit for the period from discontinued operations	**15 192**

Assets held for distribution to owners and related liabilities recognised in the statement of financial position on separate lines include the following categories as of 31 December 2019:

	31 Dec 2019 CZK '000
ASSETS	
Non-current assets	
Property, plant and equipment	222 706
Intangible assets	1 259
Total non-current assets	**223 965**
Current assets	
Inventories	127 449
Trade receivables	98 844
Other receivables	203
Cash and cash on bank accounts	74 812
Total current assets	**301 308**
Total assets	**525 273**
EQUITY AND PAYABLES	
Capital and funds	
Accumulated profits	207 290
Total equity	**207 290**
Non-current liabilities	
Deferred tax liability	24 718
Provisions	1 216
Total non-current liabilities	**25 934**
Current liabilities	
Trade payables	30 219
Short-term bank loans, overdrafts	250 054
Provisions	5 109
Other payables	6 667
Total current liabilities	**292 049**
Total liabilities	**317 983**
Total liabilities and equity	**525 273**

The impact of discontinued operations on the individual categories of cash flows for the year ended 31 December 2019 were as follows: cash flow from operating activities CZK 94 234 thousand, cash flow from investment activities CZK -61 115 thousand, cash flow from financing activities CZK -5 616 thousand.

5. 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. In previous periods differences in Group's products were chosen by the management as a key factor to identify the Group's operating and reportable segments. In previous periods the Group reported three separate operating segments – Production, Purchase and Sale of Firearms and Accessories; Production of Automotive Components; and the Aero and Other segments. As specified in Note 4, the production of components for automotive and aviation industry represented discontinued operations as of 31 December 2019 and aggregate financial information relating to these two previously identified reportable segments is reported in Note 4. As of 31 December 2020, the Production, Purchase and Sale of Firearms and Accessories represents the only activity of the Group and related revenues and expenses represent substantially all revenues and expenses of the Group. However, the Group might have revenues (and related expenses) from transactions not reported to the management as part of the Production, Purchase and Sale of Firearms and Accessories (such as revenues from non-firearms related production on temporarily available production capacities of the Group). Such activities are presented as Other in Note 5.1. and represent a marginal source of revenues of the Group (less than 2.0 %).

As of 31 December 2020, substantially all assets and liabilities relate to the Production, Purchase and Sale of Firearms and Accessories. The value of income and expenses is based on IFRS measurement and recognition principles.

5.1. Segment Revenues and Results

Revenues and profit by individual segments and reconciliation to the corresponding amounts reported in the Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2020 (in CZK ‘000):

	Production, purchase and sale of firearms and accessories	**Other**	**Total**
Revenues from the sale of own products, goods and services	6 695 001	124 672	6 819 673
Depreciation and amortisation	386 631	6 865	393 496
Profit before Taxes	840 777	10 246	851 023

Revenues and profit by individual segments and reconciliation to the corresponding amounts reported in the Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2019 (in CZK ‘000):

	Production, purchase and sale of firearms and accessories	**Other**	**Total**
Revenues from the sale of own products, goods and services	5 876 851	81 891	5 958 742
Depreciation and amortisation	366 442	4 159	370 601
Profit before Taxes	904 456	7 999	912 455

5.2. Geographical Information

The table below specifies income from the sale of own products, goods and services arising from continued operations by the most significant countries (CZK ‘000):

Sales to external customers		
	2020	**2019**
Czech Republic (home country)	327 419	1 366 980
USA	4 506 751	3 018 113
Europe (except for the Czech Republic)	936 257	832 787
Africa	414 641	132 712
Asia	390 575	312 833
Other	244 030	295 317
Total	**6 819 673**	**5 958 742**

The Group has production facilities in the Czech Republic and in the USA. Out of the total carrying value of Property, plant and equipment of CZK 2,050,783 thousand as of 31 December 2020 (2019: 1,994,748 CZK thousand), the value of items located in the USA is CZK 181,167 thousand as of 31 December 2020 (2019: 230,976 CZK thousand), the remaining is in the Czech Republic. No material intangibles were located outside the Czech Republic, also Goodwill relates to Czech operations only.

6. REVENUES

The table below shows a breakdown of the Group's sales arising from continued operations by type (CZK '000):

	2020	2019
Sale of goods	886 880	1 115 063
Sale of services	85 878	78 039
Sale of own products	5 846 915	4 659 367
Sale of a licence	-	106 273
Total	**6 819 673**	**5 958 742**

Sale of own products includes sale of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian uses. Sale of goods includes ammunition and some tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian uses.

The Group did not have a customer with a share on its consolidated revenues exceeding 10 % threshold in 2020. In 2019 the Group had only one customer with a share exceeding 10 % of its consolidated revenues. The revenues from this customer amounted CZK 763,368 thousand.

As of 31 December 2020, 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 disclose information on revenues arising from the existing contracts agreed for less than a year.

7. OTHER OPERATING INCOME

The table below shows a breakdown of the Group's other operating income arising from continued operations in individual years (CZK '000):

	2020	2019
Contractual penalty	525	279
Royalties	19 497	5 567
Rental income	8 801	1 883
Grants	1 198	1 228
Reimbursement from the insurance company	2 061	1 232
Reimbursement from employees, claims from suppliers etc.	3 386	480
Profit/loss from the sale of fixed assets	790	-327
Other	14 173	91 173
Total	**50 431**	**101 515**

8. RAW MATERIAL AND CONSUMABLES USED

The table below shows a breakdown of consumption and costs of goods sold arising from continued operations in individual years (CZK '000):

	2020	2019
Costs of goods sold	576 117	815 825
Material consumption	2 063 434	1 971 079
Energy consumption	96 465	99 078
Total	**2 736 016**	**2 885 982**

9. PERSONNEL COSTS

Breakdown of personnel expenses arising from continued operations (CZK ‘000):

	2020	2019
Average recalculated headcount	1 673	1 619
Wages and bonuses to members of the Company's bodies	953 716	811 234
Social security and health insurance	278 003	241 423
Social costs	28 372	27 865
Total	**1 260 091**	**1 080 522**

The information about key management personnel compensation is provided in Note 34.

10. SERVICES

The breakdown of services of the Group arising from continued operations in individual years is as follows (CZK ‘000):

	2020	2019
Maintenance of machinery and buildings, cleaning	41 588	36 100
Freight expenses relating to sale	162 806	88 423
Commission from sale	281 374	39 358
External services	94 137	50 160
Promotion, advertising and exhibitions	80 209	104 195
Postage, freight and telecommunication expenses	81 049	59 104
Other rental	25 440	23 788
Travel expenses	15 817	36 091
Repairs	55 437	60 823
Advisory, legal services, translations, expertise	109 591	158 607
Car leases	7 639	10 534
Employment agency	945	31 863
Recycling and waste handling	3 331	3 376
Services related to firearms and services of immaterial nature	26 647	36 300
Other	108 673	81 664
Total	**1 094 683**	**820 386**

The expenses disclosed under Other rental and Car leases represent lease expenses relating to low-value assets and short-term leases.

11. OTHER OPERATING EXPENSES

The table shows the composition of other operating expenses of the Group arising from continued operations in individual years is as follows (CZK ‘000):

	2020	2019
Taxes and levies	5 154	4 821
Change in provisions	17 867	3 647
Gifts	5 625	9 245
Fines and penalties	102	552
Insurance	44 800	18 222
Write-off of receivables	12 233	8 860
Damage compensation	11 081	460
Liquidation of inventories	22 987	15 191
Legal disputes	-	4 364
Loss from the sale of material	3 520	20 930
Other operating expenses	20 936	30 570
Total	**144 305**	**116 862**

12. ALLOWANCES

Allowances constituting an impairment of assets and their changes were as follows (CZK ‘000):

Allowances for:	Balance at 31 Dec 2018	Charge for allowances	Release of allowances	Impact of FX rate fluctuations	Discontinued operations	Balance at 31 Dec 2019	Charge for allowances	Release of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2020
Non-current assets	-7 075	-13 820	3 581	-	-	-17 314	-16 547	8 381	-	-25 480
Inventories	-207 288	-87 911	72 390	-	25 495	-197 314	-42 730	106 842	-	-133 202
Prepayments made for inventories	-3 564	-1 325	619	-	-	-4 270	-	760	-	-3 510
Receivables – statutory	-19 348	-960	9 286	-	-	-11 022	-659	1 434	12	-10 235
Receivables – other	-12 117	-1 172	4 090	592	-	-8 607	-8 594	13 502	-	-3 699
Short and long-term prepayments made	-	-9 996	-	-	-	-9 996	-	9 996	-	-
Total	-249 392	-115 184	89 966	592	25 495	-248 523	-68 530	140 915	12	-176 126

Substantially all impairment losses are reported within the segment Firearms and Accessories, as disclosed in the Note 5.1. Net change in allowances is presented under Allowances line in the Consolidated statement of profit or loss and other comprehensive income.

The charge for allowances and release of allowances items included charge for and release of allowances relating to discontinued operations in the amount of CZK 8,402 thousand as of 31 Deceber 2019 that were recognised as part of Profit/loss from discontinued operations in the consolidated profit or loss or other comprehensive income.

13. PROVISIONS

The table below shows changes in current provisions (CZK '000):

Provisions	Balance at 31 Dec 2018	Charge of provisions	Release of provisions	Balance at 31 Dec 2019	Discontinued operations	Impact of exchange rate fluctuations	Continued operations 2019 total	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Balance at 31 Dec 2020
Legal disputes	-2 600	-	-	-2 600	-	-	-2 600	-	2 600	-	-
Warranty repairs	-	-11 200	-	-11 200	-	-6	-11 206	-3 860	4 972	40	-10 054
For outstanding vacation days	-1 331	-4 815	3 918	-2 228	336	-	-1 892	-47 969	45 621	-	-4 240
For employee benefits - bonuses	-33 119	-50 713	48 931	-34 901	4 773	-	-30 128	-80 157	43 900	-	-66 385
Other	-11	-	-	-11	-	-	-11	-584	-	-	-595
Total	**-37 061**	**-66 728**	**52 849**	**-50 940**	**5 109**	**-6**	**-45 837**	**-132 570**	**97 093**	**40**	**-81 274**

The table below shows changes in non-current provisions (CZK '000):

Provisions	Balance at 31 Dec 2018	Charge of provisions	Release of provisions	Balance at 31 Dec 2019	Discontinued operations	Impact of exchange rate fluctuations	Continued operations 2019 total	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Balance at 31 Dec 2020
Legal disputes	-17 250	-	250	-17 000	-	-	-17 000	-	17 000	-	-
Warranty repairs	-7 551	-30	6 820	-761	-	-	-761	-	-	-	-761
For outstanding vacation days	-	-	-	-	-	-	-	-	-	-	-
For employee benefits - bonuses	-10 482	-25 974	28 941	-7 515	1 216	-	-6 299	-390	-	-	-6 689
For the risks of legal disputes etc. in the area of business	-1 000	-	-	-1 000	-	-	-1 000	-	1 000	-	-
Other	7	-	-	7	-	-	7	-	-	-	7
Total	**-36 276**	**-26 004**	**36 011**	**-26 269**	**1 216**	**-**	**-25 053**	**-390**	**18 000**	**-**	**-7 443**

The provisions for legal disputes relate to pending legal cases and lawsuits against the Group. The provision for warranty repairs is the management's best estimate concerning the future outflow of resources embodying economic benefits required in relation to warranty repairs of the Group under local legislation regulatingthe 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.

The provision for employee benefits represents the accruals for outstanding vacation days, retirement bonuses upon the employee's entitlement to old-age, premature old-age or disability pensions and bonuses on the occasion of the 50th birthday. The terms for providing such bonuses are regulated by the Collective Agreement for the respective year and their amount depends, *inter alia*, on the length of employment at the Group. This provision is also created for unpaid remuneration of the respective period.

14. INTEREST INCOME AND OTHER FINANCIAL INCOME

Interest Income and Other financial income from continued operations in individual years (CZK '000):

	2020	2019
Interest income - other	17 280	16 918
Exchange rate gains	295 053	75 191
Other financial gains/ (losses)	513	-1 125
Total	**312 846**	**90 984**

15. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Interest expense and Other financial expenses from continued operations in individual years (CZK '000):

	2020	2019
Interest expenses - other	76 504	85 842
Banking fees	10 714	11 415
Exchange rate losses	349 411	76 210
Other financial expenses	1 146	330
Total	**437 775**	**173 797**

Interest expenses - other for 2020 include interest on lease contracts in the amount of CZK 972 thousand (2019: CZK 600 thousand).

16. INCOME AND EXPENSES FROM DERIVATIVE TRANSACTIONS

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

	2020	2019
Interest income - swap	-	52 877
Income from derivative transactions	138 854	299 186
Total	**138 854**	**352 063**

	2020	2019
Interest expenses - swap	13 812	41 913
Expenses from derivative transactions	226 297	258 614
Total	**240 109**	**300 527**

17. INCOME TAX

Income tax expense arising from continued operations in the individual years (CZK '000):

	2020	2019
Current tax	162 880	191 445
Deferred tax	11 572	-13 109
Total	**174 452**	**178 336**

Income tax expenses related to discontinued operations are specified in Note 4.

The table below shows the reconciliation of the profit or loss before tax arising from continued operations with income tax arising from continued operations (CZK '000) in individual years:

	2020	%	2019	%
Profit before tax	851 023		912 455	
Income tax calculated using parent entity tax rate (19%)	161 694	19,0%	173 366	19,0%
Tax non-deductible expenses (permanent)	3 231	0,4%	5 551	0,6%
Tax deduction for professional practice	-132	0,0%	-573	-0,1%
R&D projects deduction	-10 499	-1,2%	-4 332	-0,5%
Tax relief (disabled employees)	-1 155	-0,1%	-1 103	-0,1%
Impact of different tax rates of US subsidiaries	4 636	0,5%	1 624	0,2%
Other	16 677	2,0%	3 803	0,4%
Income tax/ effective tax rate	**174 452**	**20,5%**	**178 336**	**19,5%**

18. DEFERRED TAX

The Group calculated deferred tax is as follows (CZK '000):

	31 Dec 2020		31 Dec 2019	
Deferred tax components	**Deferred tax asset**	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**
Difference between the net and tax book value of fixed assets	-	-181 316	-	-162 388
Difference in allocating revaluation (business combination)	-	-144 930	-	-184 786
Other temporary differences:				
Allowance for inventories	25 309	-	37 490	-
Consolidation adjustments (unrealised profit)	5 717	-	18 774	-
Provisions	11 389	-	16 375	-
Allowance for receivables	703	-	1 670	-
Derivative instruments (impact on equity)	-	-38 192	26 296	-
Other	-	-	-	-
Total	43 118	-364 438	100 605	-347 174
Deferred tax asset	**3 281**		**1 464**	
Deferred tax liability		**-324 601**		**-248 033**

The amount of deferred tax liability as of 31 December 2019 does not contain a deferred tax liability related to discontinued operations (see note 4) in amount CZK 24,718 thousand.

19. NON-CURRENT ASSETS

19.1. Intangible Fixed Assets

COST

Year ended 31 December 2020 with the opening balance as of 31 December 2019. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Additions	Disposals	Transfer	Decrease in cost/ transfers - subsidy	Impact of exchange rate fluctuations	Closing balance
Trademark and logos	233 000	-	-	-	-	-	233 000
Development	215 134	53 741	-	2 399	-35	-131	271 108
Software	192 475	1 717	-184	-	-	-	194 008
Licenses, patents and other valuable rights	61 628	356	-1	11 875	-	-647	73 211
Contractual customer relations	864 727	-	-	-	-	-	864 727
Other intangible fixed assets	71 005	2 136	-829	-14 274	-	-82	57 956
Prepayments made for intangible fixed assets	420	-	-420	-	-	-	-
Intangible fixed assets under construction	29 653	31 844	-20 881	-	-	-	40 616
Total	**1 668 042**	**89 794**	**-22 315**	**-**	**-35**	**-860**	**1 734 626**

Year ended 31 December 2019 with the opening balance as of 31 December 2018. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Additions	Disposals	Decrease in cost/ transfers - subsidy	Impact of exchange rate fluctuations	Transfer to assets held for sale	Closing balance
Trademark and logos	233 000	-	-	-	-	-	233 000
Research and development	193 282	23 980	-1 169	-	-	-959	215 134
Software	185 834	10 604	-1 621	-	-	-2 342	192 475
Licenses, patents and other valuable rights	64 394	778	-3 422	-	-	-122	61 628
Contractual customer relations	864 727	-	-	-	-	-	864 727
Other intangible fixed assets	68 964	2 463	-1 055	-	633	-	71 005
Intangible fixed assets under construction	21 702	26 282	-18 331	-	-	-	29 653
Prepayments made for intangible fixed assets	12	1 355	-947	-	-	-	420
Total	**1 631 915**	**65 462**	**-26 545**	**-**	**633**	**-3 423**	**1 668 042**

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2020 with the opening balance as of 31 December 2019. Amounts in the table are presented (CZK '000).

GROUP	Opening balance	Amortisation	Disposals	Impact of exchange rate fluctuations	Transfer	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	233 000
Development	-127 809	-22 858	-	51	-933	-151 549	119 559
Software	-141 443	-12 655	184	-	-	-153 914	40 094
Licenses, patents and other valuable rights	-30 727	-5 553	1	504	-9 236	-45 011	28 200
Contractual customer relations	-497 218	-86 473	-	-	-	-583 691	281 036
Other intangible fixed assets	-34 826	-2 746	404	82	10 169	-26 917	31 039
Prepayments made for intangible fixed assets	-	-	-	-	-	-	-
Intangible fixed assets under construction	-1 777	-2 286	713	-	-	-3 350	37 266
Total	**-833 800**	**-132 571**	**1 302**	**637**	**-**	**-964 432**	**770 194**

Year ended 31 December 2019 with the opening balance as of 31 December 2018. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Amortisation	Sales, liquidation, disposal	Impact of exchange rate fluctuations	Allowance for intangible FA	Transfer to assets held for sale	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	-	233 000
Development	-106 121	-25 058	2 542	-	-	-131	-127 809	87 325
Software	-133 044	-11 422	1 793	-	-	-1 112	-141 443	51 032
Licenses, patents and other valuable rights	-29 191	-5 112	3 470	-	-	-16	-30 727	30 901
Contractual customer relations	-410 746	-86 472	-	-	-	-	-497 218	367 509
Other intangible fixed assets	-28 945	-4 364	-	-951	-566	-	-34 826	36 179
Intangible fixed assets under construction	-563	-1 409	195	-	-	-	-1 777	27 876
Prepayments made for intangible fixed assets	-12	-	12	-	-	-	-	420
Total	**-708 622**	**-133 837**	**8 012**	**-951**	**-566**	**-1 259**	**-833 800**	**834 242**

Amortisation in 2019 includes amortisation relating to discontinued operations in the amount of CZK 473 thousand which was recognised as part of the profit or loss from discontinued operations in the consolidated profit or loss or other comprehensive income. The intangible assets under construction represent mainly in-progress development for software and research and development assets.

Further to expenditures for development in amount of CZK 53,360 thousand recognized as intangible assets, the Group has recognized research expenditure of CZK 43,251 thousand as an expense in 2020.

Intangible assets also include intangible assets with indefinite useful lives. This principally relates to trademarks and logos with the carrying amount of CZK 233,000 thousand. 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 of 31 December 2020 and 31 December 2019, no impairment was identified.

19.2. Goodwill

Goodwill presented in the statement of financial position in the amount of CZK 280,686 thousand (2019: CZK 280,686 thousand) relates to the acquisition of Česká zbrojovka a.s. in 2014.

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 for 2021-2025 (the average anticipated growth of sales 7 %, 2019: 12 %); on the grounds of prudence, the values for 2025 are also used for periods following 2025. 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. In 2020, this value was set at 9.2 % (2019: 9.0 %).

19.3. Property, Plant and Equipment

COST

Year ended 31 December 2020 with the opening balance as of 31 December 2019. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Additions	Disposals	Transfer	Impact of exchange rate fluctuations	Closing balance
Land	120 373	-	-	-	-2 954	117 419
Buildings	1 053 878	20 683	-296	24 209	-2 032	1 096 442
Machinery, instruments and equipment	2 957 990	278 429	-152 662	590	-6 999	3 077 348
Other tangible fixed assets	40 069	224	-6 564	-24 605	-1 795	7 329
Prepayments made for tangible fixed assets	58 054	123 952	-128 314	-	-	53 692
Tangible fixed assets under construction	76 014	332 262	-259 719	-	-2 155	146 402
Total	**4 306 378**	**755 550**	**-547 555**	**194**	**-15 935**	**4 498 632**

Machinery, instruments and equipment and Buildings as of 31 December 2020 include rights of use resulting from lease contracts in the amount of CZK 107,360 thousand (2019: CZK 102,297 thousand). Additions to the rights of use resulting from lease contracts amounted to CZK 10,131 thousand in 2020 (2019: CZK 68,396 thousand). These namely include lease contracts for warehouses and office space, cars and office technical equipment.

Buildings balance includes premises subject to operating lease. The carrying value of premises subject to operating lease amounted to CZK 24,209 thousand as of 31 December 2020 (2019: CZK 31,609 thousand).

In 2019, the Group had acquired a land by the way of non-monetary grant. The land was recognized at its fair value, with a corresponding recognition of a liability.

Year ended 31 December 2019 with the opening balance as of 31 December 2018. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Additions	Disposals	Impact of exchange rate fluctuations	Transfer to assets held for distributions to owners	Closing balance
Land	66 219	54 154	-	-	-	120 373
Buildings	1 044 954	7 425	-	1 499	-	1 053 878
Machinery, instruments and equipment	3 584 978	182 662	-126 035	1 128	-684 743	2 957 990
Other tangible fixed assets	7 030	33 075	-36	-	-	40 069
Tangible fixed assets under construction	41 133	178 438	-143 434	394	-517	76 014
Prepayments made for tangible fixed assets	10 184	155 433	-102 914	-	-4 650	58 054
Total	**4 754 498**	**611 188**	**-372 419**	**3 021**	**-689 910**	**4 306 378**

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2020 with the opening balance as of 31 December 2019. Amounts in the table are presented in (CZK ‘000).

GROUP	Opening balance	Depreciation	Disposals, sales, liquidation	Impact of exchange rate fluctuatio ns	Closing balance	Carrying amount
Land	-	-	-	-	-	117 419
Buildings	-485 403	-36 209	252	617	-520 743	575 699
Machinery, instruments and equipment	-1 811 981	-210 302	114 885	2 700	-1 904 698	1 172 650
Other tangible fixed assets	-1 851	-154	19	-	-1 986	5 343
Prepayments made for tangible fixed assets	-3 204	-3 911	5 245	-	-1 870	51 822
Tangible fixed assets under construction	-9 191	-10 349	988	-	-18 552	127 850
Total	**-2 311 630**	**-260 925**	**121 389**	**3 317**	**-2 447 849**	**2 050 783**

Year ended 31 December 2019 with the opening balance as of 31 December 2018. Amounts in the table are presented in (CZK ‘000).

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of exchange rate fluctuations	Transfer to assets held for distributions to owners	Closing balance	Carrying amount
Land	-	-	-	-	-	-	120 373
Buildings	-456 672	-28 747	574	-558	-	-485 403	568 475
Machinery, instruments and equipment	-2 158 938	-241 041	121 423	-630	467 205	-1 811 981	1 146 009
Other tangible fixed assets	-1 709	-142	1	-	-	-1 851	38 219
Tangible fixed assets under construction	-4 505	-7 638	2 952	-	-	-9 191	66 823
Prepayments made for tangible fixed assets	-2 096	-1 499	390	-	-	-3 204	54 849
Total	**-2 623 920**	**-279 067**	**111 348**	**-1 188**	**467 205**	**-2 311 630**	**1 994 748**

Depreciation in 2019 includes depreciation relating to discontinued operations in the amount of CZK 41,830 thousand which is recognised as part of the profit or loss from discontinued operations in the consolidated profit or loss or other comprehensive income. Depreciation for 2020 includes depreciation of rights of use arising from lease contracts in the amount of CZK 14,475 thousand (2019: CZK 12,732 thousand).

20. INTEREST IN ASSOCIATES

In May 2020, the Group has purchased a 25 % share in Spuhr i Dalby AB, a Swedish manufacturer of optical solutions for a consideration of CZK 69,823 thousand. At the date of the transaction, the carrying amount of the Group's interest in the associate could be summarized as follows:

	6 May 2020 CZK '000
Net assets of the associate	218 263
Proportion of the Group's interest (25%)	54 566
Goodwill	15 257
Carrying amount	**69 823**

The carrying amount of all equity-accounted investments has changed as follows in the year ended 31 December 2020.

	31 December 2020 CZK '000
Beginning of the period	17 160
Purchase of share in Spuhr i Dalby	69 823
Share on profit/ (loss) of equity accounted investments	20 888
Other	2 653
End of the period	**110 524**

21. INVENTORIES

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

	31 Dec 2020	31 Dec 2019
Material	385 842	321 616
Production in progress and semi-finished products	314 317	292 604
Finished products	595 237	943 122
Goods	257 313	187 618
Prepayments made for inventories	69 993	2 467
Total	**1 622 702**	**1 747 427**

The valuation 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 12) 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, centerfire rifles, semi-automatic rifles, semi-automatic carabines, submachine guns, assault rifles, battle rifles, sniper rifles and accessories.

22. OTHER RECEIVABLES

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

	31 Dec 2020	31 Dec 2019
Short-term prepayments made	53 360	22 509
Other receivables	55 109	72 605
Estimated receivables	2 206	17 733
Deferred expenses and accrued income	16 445	24 233
Total	**127 120**	**137 080**

23. TRADE RECEIVABLE

The aging structure and impairment losses recognized for short term trade receivables is as follows (CZK ‘000):

	31 Dec 2020			31 Dec 2019			
	Receivables	Allowance	Net receivables	Receivables	*Out of which customer HM Arzenal*	Allowance	Net receivables
Up to 3 months	562 135	2 606	559 529	561 012	*281 526*	-	561 012
3-6 months	25 656	40	25 616	157 215	*148 630*	61	157 154
6-12 months	498	7	491	198 037	*197 134*	404	197 633
More than 1 year	11 531	11 282	249	19 164	-	19 164	-
Total	**599 820**	**13 935**	**585 885**	**935 428**	***627 291***	**19 629**	**915 799**

The value of trade receivables past their due dates as of 31 December 2020 was CZK 96,160 thousand (2019: CZK 669,779 thousand).

As described in Note 3.24.1., the Group applies a simplified approach to short-term trade receivables under which the life-time expected loss is recognised in all cases. To measure the expected life-time credit losses, trade receivables are grouped based on shared characteristics of credit risk and days past due. The life-time expected credit losses from trade receivables are estimated based on the Group’s historic experience with credit losses. As of 31 December 2019 the Group recognised an allowance against short-term receivables in the amount of 50 % of the receivable value for receivables past due for more than 180 days and 100 % of the receivable value for receivables past due for more than a year. In 2020, the Group started to calculate expected credit losses based on historical default rates. For each aging category of receivables, default rate was calculated as a weighted average of historical default rates in last 3 years. Using these default rates, allowance was recognised for each aging category as disclosed in the table above.

The Group has pledged short term receivables in favour of the Group’s creditors.

Receivable pledged in favour of the Group’s creditors as of 31 December 2020 (CZK ‘000):

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s. by Česká zbrojovka a.s.	965 369	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Citizens Bank & Trust Company by CZ-USA	288 632	Loan Agreement - Citizens Bank & Trust Company

*including receivables from related parties eliminated on consolidation

Receivables pledged in favour of the Group’s creditors as of 31 December 2019 (CZK ‘000):

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s. by Česká zbrojovka a.s.	1 350 456	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Citizens Bank & Trust Company by CZ-USA	167 144	Loan Agreement - Citizens Bank & Trust Company

*including receivables from related parties eliminated on consolidation

24. LONG TERM RECEIVABLES

Structure of long-term receivables in individual years is as follows (CZK '000):

	31 Dec 2020	31 Dec 2019
Receivables for subscribed share capital	-	1 510
Trade receivables	8 512	4 185
Long-term prepayments made	2 301	2 299
Accrued receivables	976	278
Other receivables	291 471	37 050
Total	**303 260**	**45 322**

For long-term receivables, impairment loss is determined for a period of 12 months unless the credit risk of the receivable deteriorates significantly. In this case, losses are determined as the expected losses before their due dates. Indicators of increased credit risk include namely violation of contractual terms. In 2020 and 2019, the Group did not report impairment of long-term receivables. Other Receivables include mainly loan provided to CZ-AUTO SYSTEMS a.s. in amount of CZK 250,000 thousand and interest in amount of CZK 2,260 thousand.

25. CASH AND CASH EQUIVALENTS

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

	31 Dec 2020	31 Dec 2019
Cash on hand	4 577	5 305
Cash at bank	2 354 031	800 198
Total	**2 358 608**	**805 503**

As stated in Note 4, as of 31 December 2019 assets held for distribution to owners included cash on hand and cash at bank in the amount of CZK 74,812 thousand. Cash and cash equivalents reported in the consolidated cash flow statement as of 31 December 2019 therefore amounted to CZK 880,315 thousand.

26. SHARE CAPITAL AND SHARE PREMIUM

In October 2020, the parent company has completed the underwriting of its shares in a public offering, resulting in gross proceeds at CZK 811,720 thousand designated to finance the Group's growth. Transaction costs directly attributable to the issue of new shares in amount of CZK 88,776 thousand were recognized in equity.

In addition to the primary component, the Groups's shareholder, Česká zbrojovka Partners SE, granted an over-allotment option to sell additional 280,000 shares in the amount up to CZK 81,200 thousand.

Following the completion of the underwriting, the share capital of the consolidating company comprises 32,638,800 ordinary registered shares. The shares are in the certificate form with a nominal value of CZK 0.1 per share. The difference between the net proceed from the issue and the book value of issued shares amounted to CZK 722,944 thousand was recognized as a share premium.

27. OTHER COMPONENTS OF SHAREHOLDERS EQUITY

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

	31 Dec 2020	31 Dec 2019
Capital funds	1 642 107	1 641 721
Share premium	722 944	-
Cash flow hedging funds	161 794	-111 045
Foreign exchange translation funds	-47 960	2 442
Total	**2 478 885**	**1 533 118**

Capital funds represent the amount of additional capital funds related to acquisition of 50 % of share in Česká zbrojovka a.s. in 2013.

28. OTHER PAYABLES

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

	31 Dec 2020	31 Dec 2019
Short-term prepayments received	407 750	102 769
Payables to shareholders	131	6
Payables to employees	85 963	85 156
Payables arising from social security and health insurance	28 331	27 543
Accrued payables	94 002	28 919
Other payables	67 233	110 626
Accrued expenses and deferred income	44 281	39 368
Total	**727 691**	**394 387**

As of 31 December 2020, the Group recorded the following current liabilities, which were secured by the pledge or guarantee in favour of the creditor:

Amount	Currency	Maturity date	Description of collateral or guarantee
300 000	CZK	28 Feb 2021	Customs guarantee
19 043	USD	30 Jun 2021	Bank guarantee
52 658	USD	31 Aug 2021	Bank guarantee
6 143	USD	31 Aug 2021	Bank guarantee
13 123	USD	31 Aug 2021	Bank guarantee
4 450	USD	15 Feb 2022	Bank guarantee
30 503	USD	15 Feb 2022	Bank guarantee
982 816	GBP	30 Sep 2021	Letter of credit
81 906	EUR	31 Jan 2021	Bank guarantee
24 572	EUR	1 Sep 2022	Bank guarantee
100 000	USD	15 Sep 2022	Bank guarantee
91 497	EUR	15 Feb 2021	Bank guarantee
390 076	USD	15 Mar 2021	Bank guarantee
230 024	USD	15 Mar 2021	Bank guarantee
112 629	USD	30 Jun 2021	Bank guarantee
82 254	USD	31 Mar 2021	Bank guarantee

As of 31 December 2019, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Amount	Currency	Maturity date	Description of collateral or guarantee
1 000 000	CZK	28 Feb 2020	Customs guarantee
300 000	CZK	28 Feb 2020	Customs guarantee
8 926	USD	15 Feb 2020	Bank guarantee
29 930	USD	15 Feb 2020	Bank guarantee
19 043	USD	30 Mar 2020	Bank guarantee
52 658	USD	31 Aug 2021	Bank guarantee
6 143	USD	31 Aug 2021	Bank guarantee
13 123	USD	31 Aug 2021	Bank guarantee
18 525	EUR	30 Sep 2020	Bank guarantee
24 812	USD	30 Sep 2020	Bank guarantee
27 029	USD	30 Sep 2020	Bank guarantee
200 000	EUR	20 May 2020	Bank guarantee
100 000	EUR	20 May 2020	Bank guarantee
100 000	EUR	20 May 2020	Bank guarantee

29. BANK LOANS AND FINANCIAL BORROWINGS

Intragroup loan recipients as of 31 December 2020 and 31 December 2019 included Česká zbrojovka a.s. and 4M SYSTEMS a.s. Payables arising from the loans are secured with a pledge of the receivables (as stated in Note 23) or a pledge of equity investments. As of 31 December 2020, the Company used external financing in the form of issued bonds and bank loans as follows (CZK ‘000):

				31 Dec 2020	31 Dec 2019
Bank	**Terms/ Conditions**	**Interest rate %**	**Aggregate limit as of 31 Dec 2020 (CZK '000)**	**Amount in CZK '000**	**Amount in CZK '000**
Komerční banka, a.s. a Česká spořitelna, a.s.	30 Sep 2021	1M Pribor + margin % p.a.	500 000	-	-
Issued bonds	27 Jan 2022	6M Pribor + margin % p.a.	2 250 000	2 250 000	2 250 000
Citizens Bank & Trust Company	30 Sep 2021	Prime lending rate + margin % p.a.	128 322	-	-
Česká spořitelna, a.s.	28 Feb 2021	1D Pribor + margin % p.a.	40 000	19 548	36 958
Total			**2 918 322**	**2 269 548**	**2 286 958**
Repayment in the following year				19 548	36 958
Repayment in future years				2 250 000	2 250 000

One of the Group companies, Česká zbrojovka a.s., increased the volume of issued bonds of 2017 in line with the Issuance Conditions from the original amount of CZK 1,500,000 thousand by CZK 750,000 thousand. The total volume of CZK 2,250,000 thousand is due in 2022. Česká zbrojovka a.s. does not expect to call the bonds in 2021.

The relating interest expenses are part of the effective interest rate. As of 31 December 2020, they amounted to CZK 71,416 thousand (CZK 86,217 thousand in 2019), of which CZK 20,343 thousand (CZK 38,710 thousand in 2019) includes outstanding interest expenses.

The costs related to the issue are part of the effective interest rate. The carrying amounts of issued bonds as of 31 December 2020 and 31 December 2019 was CZK 2,251,390 thousand and CZK 2,252,688 thousand, respectively.

Issued bonds bear a variable interest rate. Their fair value as of 31 December 2020 and 31 December 2019 did not substantially differ from their carrying amount.

In 2019, the Group obtained a financial borrowing of CZK 250 million from Česká zbrojovka Partners SE. The loan was spun off and became part of discontinued operations. The loan was repaid on 2 January 2020 by the Group to Česká zbrojovka Partners SE and the Group now has a receivable from CZ-AUTO SYSTEMS a.s.

The table below provides details for proceeds from financing activities and repayments related to financing activities.

	2020	2019
Net change in revolving loan from Česká spořitelna	-17 410	4 705
Proceed/(repayment) of the loan from European Holding Company, SE	-	-125 000
Repayment of the loan from Česká zbrojovka Partners SE	-	-91 500
Proceed of the loan from Česká zbrojovka Partners SE	-	250 054
Change in payables from financing	-17 410	38 259

30. LEASES

30.1. Group as a Lessor

The Group has recognized a revenue from operating lease in amount of CZK 8,801 thousand in 2020 (2019: 1,883 CZK thousand). The revenue from operating leases is presented as part of Revenues from the sale of own products, goods and services. The revenue does not include any variable portion not depending on rate or index.

30.2. Group as a Lessee

In line with its common practice, the Group holds part of machinery, cars and IT equipment under leases. The average lease term is 3-5 years.

Interest expenses 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 10., 15. and 19.3. respectively. Total cash outflows arising from lease contracts amounted to CZK 18,550 thousand in 2020 (2019: CZK 15,367).

31. 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 2020**	**31 Dec 2019**
Short-term portion		
Cash and cash equivalents	2 358 608	805 503
Trade receivables	585 885	915 799
Financial derivatives held for trading	34 048	63 695
Financial derivatives used for hedge accounting	495 522	172 791
Current tax receivables	44 938	7 387
Other short-term receivables	127 120	112 845
Total	**3 646 121**	**2 078 020**
Long-term portion		
Other long-term receivables	303 260	45 322
Total	**303 260**	**45 322**

Financial liabilities	31 Dec 2020	31 Dec 2019
Short-term portion		
Trade payables	417 503	284 906
Lease payables	11 436	6 173
Financial derivatives held for trading	69 846	86 416
Financial derivatives used for hedge accounting	253 745	252 836
Current tax payables	23 286	70 127
Other short-term payables	727 691	355 019
Short-term bank loans and borrowings	19 548	36 958
Total	**1 523 055**	**1 092 435**
Long-term portion		
Lease payables	75 939	57 313
Other payables and other long-term payables	307	905
Bank loans and borrowings	2 252 246	2 252 688
Total	**2 328 492**	**2 310 906**

32. DERIVATIVE INSTRUMENTS

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 forwads and FX 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 materialize. The IR risk is managed by plain vanilla interest rate swaps (“IRS”) with the maturity corresponding to the maturity of the external debt (currently bonds issued by entity Česká zbrojovka a.s.).

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 and USD (cash flow hedge). 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 Cash flow hedging funds. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the Income from derivative transactions /Expenses from derivative transactions line item. Fair value of derivative contracts is presented as Financial derivative assets ot liabilities in the Statement of financial position. Accounting for hedging derivatives is described in details in the Note 3.27.1. The Group expects to continue its hedging activities in the future.

32.1. Currency Contracts

Derivative instruments denominated in USD with the settlement date within 120 days are reported as trading derivatives, depending on the maturity of hedged receivables denominated in USD.

Derivative instruments denominated in EUR with the settlement date within 60 days are reported as trading derivatives, depending on the maturity of hedged receivables denominated in EUR.

The following table provides an overview of nominal values and positive or negative fair values of open trading currency derivatives as of 31 December (CZK '000):

	31 Dec 2020			31 Dec 2019		
		Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Put option	202 980	797	-	724 185	13 232	-
Call option	2 304 811	-	69 592	3 631 216	-	80 693
Currency swap	-	-	-	226 210	770	880
Forwards	812 173	33 250	254	576 681	3 308	4 843
Total	**3 319 964**	**34 047**	**69 846**	**5 158 292**	**17 310**	**86 416**

The following table provides an overview of nominal values and positive or negative fair values of open hedging derivatives as of 31 December (CZK '000):

	31 Dec 2020			31 Dec 2019		
		Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Interest rate swap	-	13 959	4 254			
Put option	6 311 029	112 153	-	7 905 051	125 143	-
Call option	6 311 029	-	210 533	7 905 051	-	237 029
Currency swap	1 981 629	3 821	31 714	418 025	5 168	-
Forwards	3 828 200	365 589	7 244	3 011 931	42 480	15 807
Total	**18 431 887**	**495 522**	**253 745**	**19 240 058**	**172 791**	**252 836**

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. 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").

The fair values determined by the Group are verified in view of the valuation of transactions obtained from individual counter-parties 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 Group 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 Group 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 amd currency SWAP at the end of the reporting period:

Open Currency Forwards		Average exchange rate		Foreign currency		Nominal value		Fair value
USD	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Due within 120 days (held for trading) - SWAP	-	22,425	-	5 000	-	112 125	-	-880
Due within 120 days (held for trading)	23,245	22,434	16 500	21 000	383 538	471 104	30 977	-3 670
Due in more than 120 days (held for hedging) - SWAP	-	22,615	-	5 000	-	113 075	-	61
Due in more than 120 days (held for hedging)	23,706	22,956	34 500	65 750	817 862	1 509 367	80 993	22 493
Due in more than 120 days (held for hedging) - USD/EUR	1,106	-	103 683	-	93 750	-	280 944	-
Due in more than 120 days (held for trading) - USD/EUR	-	1,133	-	5 000	-	4 412	-	770
EUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Due within 60 days (held for trading)	26,309	25,979	7 500	4 000	197 320	103 916	474	2 135
Due in more than 60 days (held for trading)	26,452	-	10 000	-	264 518	-	1 545	-
Due in more than 60 days (held for hedging)	26,473	26,272	24 000	60 000	635 363	1 576 293	-3 591	4 180
Due in more than 60 days (held for hedging) - SWAP	27,055	26,641	75 505	12 000	2 042 766	319 690	-27 892	5 107

Open Put Options		Average exchange rate		Foreign currency		Nominal value		Fair value
EUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Due within 60 days (held for trading)	26,073	25,897	7 734	12 500	201 649	323 713	797	5 785
Due within 60 days (held for hedging)	26,011	-	4 316	-	112 262	-	452	-
Due in more than 60 days (held for hedging)	26,141	26,115	236 150	311 100	6 173 153	8 124 375	111 701	125 143
Due in more than 60 days (held for trading)	-	26,380	-	16 000	-	422 080	-	7 446

The table below shows open foreign currency Call Options at the end of the reporting period:

Open Call Options		Average exchange rate		Foreign currency		Nominal value		Fair value
EUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Due within 60 days (held for trading)	26,069	25,915	12 174	17 200	317 368	445 743	-3 584	-688
Due within 60 days (held for hedging)	26,011	-	4 316	-	112 262	-	-1 542	-
Due in more than 60 days (held for hedging)	26,136	26,178	236 150	311 100	6 172 082	8 143 957	-208 991	-237 029
Due in more than 60 days (held for trading)	26,135	26,477	75 645	125 705	1 976 986	3 328 327	-66 009	-80 005

Derivates are included in Financial derivates and recorded as short-term as they are always assessed within one year. The table below shows maturity dates of individual financial derivates as of 31 December 2020 and 31 December 2019 based on their fair and nominal values (CZK '000):

		31 Dec 2020		31 Dec 2019	
Aging structure	**Type of transaction**	**Fair value in CZK '000**	**Nominal value in CZK '000**	**Fair value in CZK '000**	**Nominal value in CZK '000**
Within 3 months	trading	24 313	1 139 274	4 873	1 275 798
	hedging	37	344 648	6 823	266 805
3-6 months	trading	-78	494 317	111	613 086
	hedging	-733	2 350 101	11 978	1 410 393
6-12 months	trading	-6 320	318 352	81	853 298
	hedging	20 712	1 750 571	18 684	3 248 728
1-2 years	trading	-24 648	725 937	-17 482	1 091 614
	hedging	142 858	6 228 414	12 915	5 318 992
2-3 years	trading	-29 066	642 084	20 152	702 841
	hedging	92 872	5 907 749	-50 511	4 482 324
3-4 years	trading	-	-	-30 458	621 656
	hedging	25	533 561	-79 934	4 512 816
4-5 years	trading	-	-	-	-
	hedging	-27 953	1 316 843	-	-
6-7 years	trading	-	-	-	-
	hedging	13 959	-	-	-
Total		**205 978**	**21 751 851**	**-102 768**	**24 398 351**

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 summarizes the amount of hedged forecasted sales at the end of each period, change in the fair value of hedged cash flows and the balance remaining in the cash flow hedge reserve by 31 December (CZK '000):

	Volume of hedged sales	**Change in the value of hedged sales since the inception of the hedge**	**Balance in cash flow hedge reserve**
2020	18 431 887	201 012	201 012
2019	19 240 058	-138 400	-138 400

Changes in the fair value of hedging derivatives recognised in other comprehensive income and amount reclassified to profit or loss in respective years 2020 and 2019 can be analysed as follow:

	Change in the fair value of hedging instruments	**Recognized in OCI**	**Reclassified to profit or loss**
2020	321 823	339 412	-17 589
2019	279 617	182 744	96 873

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 "Recognized in OCI" contains also element of taxes – 19% tax rate used.

The reconciliation between opening and closing balances of the cash flow hedge reserve is provided on the following table:

	2020	2019
1 January	-138 400	-321 144
change in the fair value	321 823	279 617
reclassified to profit or loss	17 589	-96 873
31 December	201 012	-138 400

32.2. INTEREST RATE SWAPS

This interest rate swap contract obliges the Group for the exchange of the difference between the fixed and variable interest calculated on the agreed principal. 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. The fair value of the interest rate swap is shown in the table below.

Open interest rate swaps	Agreed fixed interest rate		Agreed principal		Fair value of payables		Fair value of receivables	
	2020	2019	2020	2019	2020	2019	2020	2019
	%	%	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000
Komerční banka, a.s.	0,740	-	500 000	-	-	-	-	-
Komerční banka, a.s.	0,677	0,677	1 200 000	1 200 000	4 254	-	-	46 385

The interest rate swap agreement is agreed with the financing bank for a period from 27 January 2016 to 27 January 2022. The interest rate swap falls due biannually, with the variable rate being the respective interbanking rate (6M PRIBOR). The Group shall pay the difference between the fixed and variable interest rates on a net basis. This interest rate swap is classified by the Group in 2020 as held for trading. As of the end of the reporting period, these transactions are remeasured at fair value.

All interest rate swaps are classified by the Group as held for trading with changes in the fair value recognised in profit or loss and presented as Income/ Expense from derivative transactions.

33. RISK MANAGEMENT

The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The policy of the Group is to enter into foreign exchange option contracts and interest rate swaps to manage its exposure to foreign currency associated with anticipated sales and interest rate risk.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, details are provided in the Note 32. There were no significant changes in the Group’s exposure to risky or its risk management in 2020 or 2019.

33.1. Currency Risk Management

The Group's exposure to the currency risk arises mainly from its expected sales in non-functional currencies representing more than 90 % of the Group's revenue. Exposure to exchange rate risks is governed by parameters approved based on currency forwards and options. The objective of the Group is to minimize 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:

In '000	Payables		Receivables and assets	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
EUR	2 397	1 048	10 185	36 807
USD	1 599	1 486	61 124	17 893

33.2. Sensitivity to Exchange Rate Fluctuations

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

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 % towards the respective currency. A 10 % depreciation of the Czech crown towards the respective currency resulted in a corresponding impact on the profit and the amounts disclosed below were reported with an opposite sign.

CZK '000	Impact of EUR		Impact of USD	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Profit	20 441	90 865	127 307	37 113

33.3. Interest rate risk management

The Group is exposed to the risk of interest rates changes as the Group borrows funds with variable interest rates. Interest expenses from issued bonds, that represent the most important portion of interest paying liabilities, are based on 6M PRIBOR rate. Amount of interest paying liabilities using other reference rates is not significant (Note 29). The Group has managed interest rate risk using interest rate swap agreements since 2014. This ensures the utilisation of hedging strategies which are economically most effective.

The Group's exposure to interest rates for financial assets and financial liabilities is disclosed below in detail in the part concerning liquidity risk management.

33.4. 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 50 basis points and all other variables remained constant, the profit or loss would change based on the values specified below. This primarily involves exposures of Česká zbrojovka a.s. towards interest rates for loans with a variable rate.

CZK '000	Impact of changes in interest rates	
	31 Dec 2020	31 Dec 2019
Profit or loss +/-	12 298	11 250

33.5. 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 table below includes assets and liabilities based on the residual maturity of undiscounted cash flows (residual maturity is the period from the end of the reporting period and the date of contractual maturity). Receivables and payables past their due dates are included in the 'Within 3 months' column. Trade receivables include short-term as well as long-term trade receivables.

31 Dec 2020	Within 3 months	From 3 to 6 months	From 6 months to 1 year	1 - 5 years	More than 5 years	Total
Trade receivables	573 360	25 656	804	8 512	-	608 332
Bank loans, bonds and overdraft loans	-	-	19 548	2 301 254	-	2 320 802
Lease payables	3 058	2 956	5 422	75 939	-	87 375
Trade payables	416 626	525	291	61	-	417 503

31 Dec 2019	Within 3 months	From 3 to 6 months	From 6 months to 1 year	1 - 5 years	More than 5 years	Total
Trade receivables	873 741	47 054	21 165	4 182	-	946 142
Bank loans, bonds and overdraft loans	-	36 958	-	2 372 670	-	2 409 628
Lease payables	1 543	1 543	3 087	57 313	-	63 486
Trade payables	283 862	3 154	601	3 075	-	290 692

The fair value of financial assets and financial liabilities approximates their carrying amount.

33.6. Credit Risk Management

Credit risk management of the Group is based on the ongoing monitoring of its customers creditworthiness and regular review of receivables aging.

The Group also evaluates credit risk losses related to Cash and Cash equivalents. The Group consider effect of losses as immaterial.

34. INFORMATION ON RELATED PARTIES

During the year ended 31 December 2020, the Group had following transactions with related parties:

Key management personnel:

In 2020, the key management personnel included all Board of Directors and Supervisory Board members. The short-term benefits provided to the key management personnel (including gross salary, annual bonuses, health and social insurance and additional pension insurance) amounted to CZK 42,548 thousand.

In 2019, services provided by key management personnel were paid for by the parent company Česká zbrojovka Partners SE, and were not recharged to the company or its subsidiaries.

The Group provided no other benefits (e.g. post-employment benefits, termination benefits or share-based payments) to its key management personnel in 2019 or 2020.

No motivational share programme has been implemented at the level of the Group.

The Group had the following outstanding balances as of 31 December 2020 and transactions in 2020 with its related parties:

		Payables as of 31 Dec 2020	Purchases 1 January - 31 Dec 2020	Receivables as of 31 Dec 2020	Sales 1 January - 31 Dec 2020
European Holding Company SE	ultimate parent company	-	-	5	60
Česká zbrojovka Partners SE	parent company	-	1 226	5	60
Česká zbrojovka Defence SE	subsidiary of parent company	-	-	5	60
Keriani a.s.	associate of parent company	515	9 241	2 299	9
Silesia Invest SE	company under ultimate control	-	-	1	16
EHC zdravotní s.r.o.	company under ultimate control	-	7	10 899	993
CZUB zdravotní s.r.o.	company under ultimate control	-	4 531	324	35
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	777	14 966	263 686	49 320
AUTO-CZ International a.s.	subsidiary of parent company	-	-	1	16
TRX, s.r.o.	company under ultimate control	85	840	-	-
M&H Management a.s.	company under ultimate control	-	-	5	60
ITeuro, a.s.	company under ultimate control	-	4 680	2 024	-
Total		**1 377**	**35 491**	**279 254**	**50 629**

Further to this, the Group paid out a dividend of CZK 328,218 thousand to Česká zbrojovka Partners SE.

The Group had the following outstanding balances as of 31 December 2019 and transactions in 2019 with its related parties:

		Payables as of 31 Dec 2019	Purchases 1 January - 31 Dec 2019	Receivables as of 31 Dec 2019	Sales 1 January - 31 Dec 2019
Česká zbrojovka Partners SE	parent company	5 618	40 043	-	-
Keriani a.s.	associate of parent company	1 040	6 842	2 299	-
Silesia Invest SE	company under ultimate control	-	-	-	20
EHC zdravotní s.r.o.	company under ultimate control	-	-	2 339	994
CZUB zdravotní s.r.o.	company under ultimate control	-	5 116	51	30
CZK-SKD Solutions a.s. (Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	1 913	1 581	-	-
TRX, s.r.o.	company under ultimate control	169	840	-	-
M&H Management a.s.	company under ultimate control	-	2 332	-	-
ITeuro, a.s.	company under ultimate control	639	5 649	-	-
Total		**9 379**	**62 403**	**4 689**	**1 044**

35. OFF BALANCE SHEET COMMITMENTS

As of 31 December 2019 and 31 December 2020, the Group issued no guarantees in respect of third-party liabilities.

As of 31 December 2020, the Group records no significant legal disputes where the Group acts as a defendant or investment, environmental and other off balance sheet commitments.

No motivational share programme has been implemented at the level of the Group. However, certain managers of Group company, namely Česká zbrojovka a.s., own shares of this company. The Company has a call option on those shares at a pre-defined strike price which represents a proportionate increase of equity over a certain period (over the course of holding period).

36. AUDITORS REMUNERATION

The table below shows a breakdown of auditors remuneration in 2020:

CZK '000	CZG - Česká zbrojovka Group SE	Other Group companies
Statutory Audit	2 655	4 950
Other services, of which:		
Assurance services	18 708	173
Tax advisory services	35	370
Other non-audit services	0	1
TOTAL (excl. VAT)	**21 398**	**5 494**

37. NET EARNINGS PER SHARE

Basic and diluted earnings from continued operations per share were determined as follows:

	2020	2019
Numerator (CZK '000)		
Profit after tax from continued operations attributable to the owner of the parent company	676 571	728 084
Profit after tax from discontinued operations attributable to the owner of the parent company	0	15 192
Denominator (average number of shares in '000)		
Basic	32 638	29 838
Diluted	32 638	29 838
Net earnings per share (CZK/share) from continued operations attributable to the owner of the parent company		
Basic	21	24
Diluted	21	24
Net earnings per share (CZK/share) from discontinued operations attributable to the owner of the parent company		
Basic	0	1
Diluted	0	1
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	21	25
Diluted	21	25

Is described in the Note 26, following the completion of the underwriting, the share capital of the consolidating company comprises 32,638,800 ordinary registered shares.

In 2019, the parent company's ordinary shares split before preparing the financial statements without any change in the share capital; specifically, 100 shares split into 29,838,000 shares.

38. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On February 11, 2021, the Group signed an agreement to acquire 100 % of the outstanding equity interest in Colt Holding Company LLC ("Colt"), the parent company of U.S. firearms manufacturer, Colt's Manufacturing Company LLC as well as its Canadian subsidiary, Colt Canada Corporation.
Subject to the terms and conditions of the definitive agreement, CZG shall acquire a 100 % stake in Colt for upfront cash consideration of $220 million and the issuance of 1,098,620 shares of newly issued CZG common stock. The agreement also provides for potential earnout consideration of up to 1,098,620 shares of newly issued CZG common stock if defined EBITDA thresholds are achieved in years 2021 - 2023. The transaction is subject to regulatory approval but is anticipated to close in the second quarter of 2021.

CZG – Česká zbrojovka Group SE issued 500,000 Notes with nominal value of CZK 5,000,000,000 on March 23, 2021. The issue price of the Notes subscribed in the public offer is 100 % of the nominal value of the Notes. The Notes were admitted to trading on the Regulated Market of the Prague Stock Exchange.

On 30 March 2021, the Company´s General Meeting adopted decisions outside its meeting (decision per rollam) and granted an instruction to the Board Of Directors of the Company to ensure the carrying out of all neccessary steps in relation to a transaction involving the acquisition of 100 % of Colt.

In line with the adopted dividend policy to distribute one third of its consolidated net profit for the year, the Company announced in March 2021 that it will propose a dividend payment of CZK 7.5 per share from the consolidated net profit for 2020. The dividend proposal is subject to approval of the General Meeting of Shareholders.

On 6 April 2021 the Company announced the decision of its General Meeting to increase the Company's registered capital by a monetary contribution by to CZK 109,862 from the current amount of registere capital of CZK 3,263,800 to the total amount of CZK 3,373,662.

On 31 March 2021 the Company informed that Mr. Andrej Chrzanowski, a member of the Board of Directors of CZG – Česká zbrojovka Group SE, resigned from his position as of 31 March 2021. The Board of Directors position will remain vacant until further notice.

In connection with the ongoing acqusition of Colt, the Group is currently reviewing its global manufacturing presence and capacities taking into consideration the newly acquired production assets in Hartford, CT. The potential Colt acquisition has already impacted the implementation of the Project Precision in Arkansas as the CZG BoD decided to postpone the project by 3 years at minimum due to the above mentioned.

Currently, the Group continues to believe the Project Precision will be implemented after this time, but a potential further delay or scaling down or even cancelling of the project would result in the potential write off of the costs incurred so far. The maximum amount of such impairment is around CZK 55,000 thousand and consists mainly of the cost so far incured for services and project documentation but the Group management will be able to finally re-assess the probability of such an event only after the Colt acquisition implementation.