CZG - Česká zbrojovka Group SE

(incorporated as a European Company (Societas Europaea) in the Czech Republic)

THIS DOCUMENT IS A PROSPECTUS (the "**Prospectus**") which has been prepared for the purpose of the admission of 29,838,000 ordinary registered book-entry shares of CZG - Česká zbrojovka Group SE (the "**Company**"), established and existing under the laws of the Czech Republic, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, identification number ("**Id. No.**") 29151961, legal entity identifier: ("**LEI**"): 315700O990GR61YDGF96, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. H 962, each with a nominal value of CZK 0.1 and fully paid up, comprising the entire issued share capital of the Company as of the date of this Prospectus (the "**Shares**") to trading on a regulated market with listing on the Prime Market operated by Burza cenných papírů Praha, a.s. established and existing under the laws of the Czech Republic, having its registered office at Rybná 14/682, 110 00 Prague 1, Czech Republic, Id. No. 471 15 629, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. B 1773, (the "**PSE**" or the "**Prague Stock Exchange**"), (the "**Admission**").

There will be no public offering of the Shares in any jurisdiction based on this Prospectus. The Prospectus does not constitute an offer to sell, or solicitation of an offer to buy, the Shares in any jurisdiction.

The Prospectus has been prepared pursuant to Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (the "**Prospectus Regulation**"), and Commission Delegated Regulation (EU) 2019/980 supplementing the Prospectus Regulation (the "**Delegated Regulation**").

The Prospectus has been approved by the Czech National Bank (the "**CNB**") as competent authority under the Prospectus Regulation, decision reference number 2020/065578/570, file. no. S-Sp-2020/00020/CNB/572 dated 28 May 2020, which became final and effective on 30 May 2020. The CNB only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and its approval should not be considered as an endorsement of the Shares or the Company's profitability.

Application has been made by the Company to the PSE to admit the Shares to trading on a regulated market with listing on the Prime Market of the PSE. The Company expects the Admission will take place on or around 1 June 2020, under the ticker symbol CZG. However, no assurance can be made that the application for the Admission will be approved.

For the purposes of the admission of the Shares to the regulated market, the Prospectus will be valid for twelve months from the date on which its approval by the CNB became final and effective. The Prospectus is valid until 28 May 2021. The Issuer is obliged to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies occurring prior to the Admission.

The Shares are registered with the Central Securities Depository, established and existing under laws of the Czech Republic, having its registered office at Rybná 682/14, 110 00 Prague 1, Czech Republic, Id. No. 250 81 489, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. B 4308 (*Centrální depozitář cenných papírů, a.s.*) (the "**CSD**"). Following the Admission, the Shares will be traded on the Prime Market of the PSE in Czech crowns and settled and cleared through the CSD.

The date of this Prospectus is 28 May 2020.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

General Notices

This document comprises a Prospectus for the purposes of the Prospectus Regulation and the Delegated Regulation. The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable inquiries, confirms that this Prospectus contains all material information with respect to the Company and all its consolidated subsidiaries (together with the Company, the "**Group**") and the Shares (including all information which, according to the particular nature of the Company and of the Shares, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and of the rights attaching to the Shares), that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any such information of the expression of any such opinions or intentions misleading.

No person has been authorized to give any information or to make any representations in connection with the Admission other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by or on behalf of the Company.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor, material mistake or material inaccuracy relating to this Prospectus occurs or arises prior to Admission. The Prospectus and any supplement thereto will be subject to approval by the CNB and will be made public in accordance with the Prospectus Regulation.

The contents of this Prospectus are not to be construed as legal, business or tax advice.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or any of its representatives that any recipient of this Prospectus should purchase the Shares.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Shares in any jurisdiction. The distribution of this Prospectus may be restricted by law in certain jurisdictions. Neither the Company nor any of its representatives are making any representation regarding that this Prospectus may be lawfully distributed in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution. No action has been taken by the Company or any of its representatives is making any representation which is intended to permit a public offering of Shares or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Shares may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Prospectus comes must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus. In particular, there are restrictions on the distribution of this Prospectus in the United States and the United Kingdom.

This Prospectus may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone where such disclosure would be unlawful.

Market, economic and industry data

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute management's estimates, using underlying data from independent third parties. The Company obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including the following studies:

- AP News: Gun background checks are on pace to break record in 2019; available at https://apnews.com/da575d623f5d4030a8b368e75ed634a4;
- Ballistic Best Magazine: CZ Scorpion EVO 3 S1: Ballistic's Best 'Pistol-Caliber Carbine', dated 21 September 2018; available at https://www.ballisticmag.com/2018/09/21/best-cz-scorpion-evo-3-s1-carbine/ ("**Ballistic Best**");
- Bureau of Alcohol, Tobacco, Firearms and Explosives (the "**ATF**"): Firearms Commerce in the United States: Annual Statistical Updates 2019; available at https://www.atf.gov/firearms/docs/report/2019-firearms-commerce-report/download) ("**ATF 2019 Update**");
- Bureau of Alcohol, Tobacco, Firearms and Explosives (the "**ATF**"): Firearms Commerce in the United States: Annual Statistical Updates 2018 Interim (available at https://www.atf.gov/file/137681/download) ("**ATF 2018 Interim Update**");
- BIS Research: Global Small Arms Market (Value and Volume) (2019) ("**BIS Small Arms Market Report**");
- Czech Top 100 ("**Czech Top 100**"); available at https://www.czechtop100.cz/ (accessed on 13 January 2020);
- European Commission (2013): Firearms in the European Union ("**Firearms in the EU Report**"); available at https://ec.europa.eu/commfrontoffice/publicopinion/flash/fl_383_en.pdf (accessed on 5 September 2019);
- Eurostat, Statistics Explained, "Labour productivity and unit labour costs, 2018" ("**Eurostat Labour**"); available at https://ec.europa.eu/eurostat/web/products-datasets/-/nama_10_lp_ulc.
- Eurostat, Statistics Explained, "Database table: Personnel in the criminal justice system " ("**Eurostat Police**"); available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Police,_court_and_prison_personnel_statistics&stable=0&redirect=no;
- Federal Bureau of Investigation ("**FBI**"): Crime in the United States; available at https://ucr.fbi.gov/crime-in-the-u.s (accessed on 13 June 2019);
- Federal Bureau of Investigation: National Instant Criminal Background Check System ("**NICS Firearms Checks**"); available at https://www.fbi.gov/services/cjis/nics#Reports-%20Statistics (accessed on 13 June 2019);
- Flemish Peace Institute: Firearms and Violent Deaths in Europe (June 2015); available at https://vlaamsvredesinstituut.eu/wp-content/uploads/2019/03/firearms_and_violent_deaths_in_europe_web.pdf (accessed on 15 January 2019);
- Guns News Daily: The World's Most Copied Pistol: CZ75; available at https://gunnewsdaily.com/cz-75-review/ (accessed on 5 September 2019) ("**Guns News Daily: Most Copied**");
- Guns News Daily: 10 Best Handguns for Home Defence (in 2019 and beyond); available at https://gunnewsdaily.com/best-home-defense-handgun-pistol/ (accessed on 5 September 2019) ("**Guns News Daily: 10 Best Handguns**");
- On Target Magazine: 2019 Editor's Choice Award – CZ P-10S Optics Ready ("**On Target Magazine**"); available at https://ontargetmagazine.com/2020/01/2019-editors-choice-award-cz-p-10s-optics-ready/ (accessed on 13 January 2020);

- Organisation for Economic Co-operation and Development ("**OECD**"), Directorate for Science, Technology and Innovation: Main Science and Technology Indicators 2017; available at https://www.oecd.org/sti/msti.htm;
- Police of the Czech Republic ("**Czech Police**": Numbers of police officers since 1993 ("**Czech Police Numbers**"; available at https://www.policie.cz/clanek/pocty-policistu-od-roku-1993.aspx (accessed on 13 June 2019);
- Police of the Czech Republic: Weapons Statistics ("**Czech Police Statistics**"); available at https://www.policie.cz/clanek/statisticke-udaje-o-zbranich.aspx (accessed on 13 June 2019);
- Small Arms Survey ("**SAS**"): Estimating Global Civilian-Held Firearms Numbers Briefing Paper (June 2018) ("**SAS Civilian**");
- Small Arms Survey: 2007: Guns and the City; available at http://www.smallarmssurvey.org/publications/by-type/yearbook/small-arms-survey-2007.html ("**SAS 2007**");
- Small Arms Survey: Law Enforcement Firearms Numbers Briefing Paper (June 2018) ("**SAS Law Enforcement**");
- Small Arms Survey: Estimating Global Military-Owned Firearms Numbers Briefing Paper (June 2018) ("**SAS Military**");
- Stockholm International Peace Research Institute ("**SIPRI**"): SIPRI Military Expenditure Database (2019);
- The Truth About Guns: CZ Wins TTAG's Editor's Choice Award for CZ Scorpion Evo 3 S1, dated 21 January 2016; available at https://www.thetruthaboutguns.com/cz-wins-ttags-editors-choice-award-for-cz-scorpion-evo-3-s1/ ("**TTAG**");
- The World Bank: Health, Nutrition and Population Statistics, Population estimates and projections, 2019 (available at https://datacatalog.worldbank.org/dataset/population-estimates-and-projections); and
- United States Department of Labor: News Release: Unemployment Insurance Weekly Claims, dated 26 March 2020 (available at https://www.dol.gov/ui/data.pdf).

Third party publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information and such information is not intended to be used as the sole basis for any business decision. The Company has not independently verified any of the data from third party sources nor has it ascertained the underlying economic assumptions relied upon therein. The Company confirms that all such data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. All information contained in this Prospectus is subject to change based on various factors, including those discussed in "*Risk Factors*".

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Information regarding forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements", especially with respect to the Group's future financial results, plans, or expectations regarding the Group's business and management, the Group's future growth or profitability and general economic and regulatory conditions and other matters affecting the Group. These forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. They appear in a number of places throughout this Prospectus, involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Board of Directors' or the Group's intentions, beliefs or current expectations concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates and the general economic outlook. In particular, the statements under the headings "*Summary*", "*Risk Factors*", "*Industry*", "*The Group's Business*" and "*Operating and Financial Review*" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. They reflect the Company's current views of future events and are based on the Company's assumptions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements.

Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. Except as required by the Prospectus Regulation (including in circumstances where the Prospectus Regulation may require a supplement to this Prospectus to be published) and other applicable regulations, the Company and the Board of Directors expressly disclaim any obligation or undertaking to update these forward-looking statements contained in the Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law or the listing rules of the Prague Stock Exchange.

No incorporation of website information

The contents of the Company's or other Group members' websites or any website directly or indirectly linked to the Company's websites or other websites cited in this Prospectus do not form part of this Prospectus and have not been scrutinized or approved by the CNB and investors should not rely on them.

Trademarks

The Group has proprietary rights to trademarks used in this Prospectus which are important to its business, many of which are registered under applicable intellectual property laws. Solely for convenience, trademarks and trade names referred to in this Prospectus appear without the "®" or "™" symbols, but such references are not intended to indicate, in any way, that the Group will not assert, to the fullest extent possible under applicable law, its rights or the rights of the applicable licensor to these trademarks and trade names. The Company does not intend the use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of the Company by, any other companies. Each trademark, trade name or service mark of any other company appearing in this Prospectus is the property of its respective holder.

Definitions and glossary

Certain technical terms used in this Prospectus are defined and explained in "*Glossary of Technical Terms*".

Tax Warning

The tax legislation of an investor's home state and the Czech Republic as the Company's country of incorporation may have an impact on the income received from the Shares. Holders of the Shares should therefore consult their own tax advisors regarding the tax implications of acquiring, holding or transferring the Shares. Only qualified tax advisors are in a position to adequately consider the particular tax situation of individual investors.

The disposal of the Shares generally results in the recognition of a capital gain or loss equal to the difference between the sale price and the acquisition cost. Unless a relief under the relevant double taxation treaty or an exemption from Czech income tax applies, capital gains realised upon disposal of Shares are generally subject to Czech income tax.

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SUMMARY

A. Introduction and warnings

This summary should be read as an introduction to this prospectus (the "**Prospectus**"). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor and not just the summary. An investor could lose all or part of the invested capital.

Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Civil liability attaches only to those persons who have tabled this summary, including any translation thereof, but only where this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such securities.

This Prospectus has been prepared for the purpose of the admission of 29,838,000 ordinary registered book-entry shares of CZG - Česká zbrojovka Group SE (the "**Company**", each with a nominal value of CZK 0.1 and fully paid up, comprising the entire issued share capital of the Company as of the date of this Prospectus (the "**Shares**") to trading on a regulated market with listing on the Prime Market operated by Burza cenných papírů Praha, a.s., established and existing under the laws of the Czech Republic, having its registered office at Rybná 14/682, 110 00 Prague 1, Czech Republic, Id. No. 471 15 629, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. B 1773 (the "**PSE**" or the "**Prague Stock Exchange**"), (the "**Admission**"). The international securities identification number ("**ISIN**") of the Shares is: CZ0009008942.

The Prospectus was approved by the Czech National Bank (the "**CNB**") as the competent authority pursuant to Article 31 of the Prospectus Regulation (Regulation (EU) 2017/1129) under decision reference number 2020/065578/570, file no. S-Sp-2020/00020/CNB/572, dated 28 May 2020, which entered into force on 30 May 2020. Contact details of the CNB are as follows: telephone: +420 224 411 111 or +420 800 160 170, address Na Příkopě 28, Prague 1, Postal Code 115 03, Czech Republic, www.cnb.cz.

B. Key information on the issuer

Who is the issuer of the securities?

The issuer of the Shares is the Company (CZG - Česká zbrojovka Group SE). The legal form of the Company is a European Company (*Societas Europaea*) incorporated in and operating under the laws of the Czech Republic and applicable EU laws, in particular Czech Act no. 627/2004 Coll., on the European company, as amended and Czech Act No. 90/2012 Coll., on commercial companies and business cooperatives, as amended and Council Regulation (EC). No 2157/2001 of 8 October 2001 on the Statute for a European company (SE).

The business of the Group is primarily governed by Czech Act No. 119/2002 Coll., on firearms and ammunition, as amended, the U.S. Gun Control Act of 1968, the U.S. National Firearms Act of 1934, the U.S. Arms Export Control Act of 1976, Czech Act No. 228/2005 Coll., on control of trade in products whose possession is restricted for security reasons in the Czech Republic, Czech Act No. 38/1994 Coll., on international trade in military materiel.

The primary activity of the Company is to be a holding company for the Group. 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. It markets and sells its products under the CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS brands. The Group is headquartered in the Czech Republic and has production facilities in the Czech Republic and the United States.

The sole shareholder of the Company is Česká zbrojovka Partners SE, incorporated as a European Company (*Societas Europaea*) in the Czech Republic, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, Id. No. 05851777, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. H 1879, LEI: 3157003YXPXM8ML04Q29, telephone: +420 222 814 610, e-mail: info@czpartners.cz (the "**Sole Shareholder**"). Accordingly, the Sole Shareholder directly exercises ultimate control over the Company. The majority shareholder of the Sole Shareholder is European Holding Company, SE ("**EHC**") which holds 90% of the share capital and voting rights in the Sole Shareholder. EHC is owned and controlled by Mr. René Holeček, who controls 100% of the share capital in EHC. The remaining 10% of the Sole Shareholder's share capital is held as follows: (i) 5% by Mr. Lubomír Kovařík, (chairman of the Company's board of directors and president of the Group), (ii) 2.5% by Mr. René Holeček, chairman of the Company's supervisory board (resulting in Mr. René Holeček's indirect shareholding in the Company and the Sole Shareholder of 92.5% of share capital and voting rights), and (iii) 2.5% by Mr. Jan Drahota, vice-chairman of the Company's board of directors and Group head of finance.

The key managing directors of the Company are the members of its board of directors ("**Board of Directors**"): Lubomír Kovařík, Jan Drahota, Ladislav Britaňák, Alice Poluchová, David Aguilar, Jana Růžičková and Andrej Chrzanowski.

The auditor of the Company is Deloitte Audit s.r.o., a company incorporated under the laws of the Czech Republic, having its registered seat at Italská 2581/67, Vinohrady, Prague 2, Postal Code 120 00, Czech Republic, Id. No. 496 20 592.

The Group operates its principal production facility in Uherský Brod, Czech Republic. The impact of coronavirus COVID-19 ("**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. At the same time it had to temporarily cease production of Dan Wesson products in Norwich, NY facility in the United States.

What is the key financial information regarding the issuer?

The following financial information is taken or derived from the audited consolidated financial statements of the Company as of and for the years ended 31 December 2019, 2018 and 2017, together with the notes thereto (the "**Audited Financial Statements**"). The Audited Financial Statements have been audited and prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") as adopted by the European Union (the "**EU**"). Where financial information in the following tables is labelled "audited", this means that it has been taken from the Audited Financial Statements.

The design, production, assembly and sale of firearms and tactical accessories are reported in the Group's production, purchase and sale of firearms and accessories segment (the "**Firearms and Accessories Segment**"). The Group's other revenues and expenses from transactions that are not reported as part of the Firearms and Accessories Segment, such as revenues from temporary non-firearm production using the Group's excess production capacities from time to time, are reported in its other segment (the "**Other Segment**").

In 2019, the Group's shareholder decided to spin-off all of the Group's assets related to the production of automotive and aviation components (the "**Automotive and Aviation Business**"), other than certain buildings, to CZ-AUTO SYSTEMS a.s., a newly established entity controlled directly by the Sole Shareholder, which is not part of the Group. The spin-off was completed on 31 March 2020 with the decisive date of the spin-off as of 2 January 2020. As a result of the decision, the Automotive and Aviation Business was classified as discontinued operations in the Company's consolidated statement of profit or loss and other comprehensive income for 2019, with comparative amounts for 2018 and 2017 restated for the reclassification of discontinued operations. In the Company's consolidated statement of financial position as of 31 December 2019, being part of the Audited Financial Statements, the assets and liabilities of the Automotive and Aviation Business are shown as assets and liabilities for distribution to owners, respectively. The cash flow statement for 2019, 2018 and 2017 includes the cash flows for both continuing and discontinued operations.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2019, 31 December 2018 and 31 December 2017

	For the year ended 31 December		
	2019	**2018[1]**	**2017[1]**
		(CZK thousands)	
Revenues from the sale of own products, goods and services	5,958,742	5,339,581	4,555,483
Thereof: Production, Purchase and Sale of Firearms and Accessories Segment	5,876,851	5,249,393	4,481,413
Thereof: Other Segment	81,891	90,188	74,070
Operating profit	**943,710**	**661,155**	**561,999**
Profit before tax	**912,455**	**714,443**	**635,628**
Profit for the period from continued operations	**734,119**	**568,606**	**504,500**
Post-tax profit from discontinued operations	**15,192**	**32,307**	**33,517**
Profit for the period attributable to:			
Owner of the parent	743,276	588,221	520,070
Non-controlling interests	6,035	12,692	17,947
Net earnings per share attributable to the owner of the parent company (CZK '000 per share)			
Basic	25	20	17
Diluted	25	20	17

[1] All comparative amounts for the year ended 31 December 2018 and 31 December 2017 have been restated to reflect the reclassification of discontinued operations.

Consolidated Statement of Financial Position as of 31 December 2019, 31 December 2018 and 31 December 2017

	For the year ended 31 December		
	2019	**2018**	**2017**
		(CZK thousands)	
Total assets	**7,548,575**	**7,485,754**	**6,305,267**
Total equity	**3,468,961**	**3,309,375**	**3,410,648**
Total liabilities	**4,079,614**	**4,176,379**	**2,894,619**
Total liabilities and equity	**7,548,575**	**7,485,754**	**6,305,267**

Consolidated Cash Flow Statement for the years ended 31 December 2019, 31 December 2018 and 31 December 2017

	For the year ended 31 December		
	2019	**2018**	**2017**
		(CZK thousands)	
Net cash flow from operating activities	**505,116**	**929,053**	**390,657**
Net cash flow from investing activities	**(435,275)**	**(385,632)**	**(312,615)**
Net cash flow from financing activities	**(535,718)**	**478,847**	**(97,687)**
Net change in cash and cash equivalents	**(465,313)**	**1,022,268**	**(19,645)**
Opening balance of cash and cash equivalents	**1,345,628**	**323,360**	**343,005**
Closing balance of cash and cash equivalents	**880,315**	**1,345,628**	**323,360**

What are the key risks that are specific to the issuer?

The most material risk factors specific to the Group include in particular:

- The Group faces various risks related to the ongoing COVID-19 health crisis. 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, repetitive over the time 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.

- The Group's performance is influenced by adverse changes in general economic conditions. 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 that government support packages to address the economic consequences of COVID-19 will significantly increase government debt, and that 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.

- 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 planned construction of the Group's new production facility in Little Rock, Arkansas, United States (the "**Little Rock Project**"), may be delayed, not completed as currently planned or at all or not produce the benefits expected.

- The Group is exposed to the risk of rising protectionism in international trade. 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 firearm import tariffs by the United States or 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 exports to such countries.

- 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. 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 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 government, 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.

- 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. Violation of any of the respective 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. The Group may be unable to protect its intellectual property or may unintentionally infringe intellectual property rights of third parties. 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 revenues, erode margins or damage its reputation.

- 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 could have an adverse effect on the Group's reputation and, through social and political pressure, will not adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

C. Key information on the securities

What are the main features of the securities?

The Shares consist of 29,838,000 ordinary registered book-entry shares of the Company with a par value of CZK 0.1 each. The currency of the Shares is Czech koruna (CZK). The Shares are registered with the CSD. The ISIN of the Shares is CZ0009008942. The Shares are fully fungible and rank *pari passu* in all respects. Under Czech Act No. 90/2012 Coll., on commercial companies and cooperatives, as amended and the Company's articles of association (the "**Articles of Association**"), each of the Company's shareholders has, *inter alia*, the following rights:

- The pre-emptive right to subscribe to a pro *rata portion* of the shares if the registered share capital of the Company is increased by cash contributions into the Company unless that pre-emptive right is restricted or limited by a general meeting of shareholders (the "**General Meeting**") resolution.

- The pre-emptive right to subscribe to a *pro rata* portion of any preference or convertible bonds unless that pre-emptive right is restricted or limited by a General Meeting resolution.

- The right to participate in the Company's profit and liquidation balance to the extent approved at a General Meeting.

- The right to attend and vote at a General Meeting.

- The right to request and receive information from the Company at a General Meeting relating to the Company or its subsidiaries if such information is necessary to assess items on the agenda of the General Meeting or to exercise shareholder rights at the General Meeting.

- The right to make proposals and counter-proposals in relation to items on the agenda of a General Meeting.

- The right to challenge the validity of resolutions of the General Meeting in a court action against the Company within three months following the date on which the Company's shareholders became aware of the resolution of the General Meeting or could have become aware of the resolution of the General Meeting.

- The right to request a copy of the General Meeting minutes from the Board of Directors.

In the event of insolvency of the Company, investors may recover less than their initial investment or may not be able to recover any amounts at all.

In the event of the Company's liquidation, the liquidation balance, if any, will be distributed to the holders of the Company's shares in proportion to the paid nominal amount of their respective shares in the Company.

The Shares are freely transferable.

If certain statutory conditions are met, a direct or indirect acquisition of control in the Company may also be subject to prior merger clearance by the Czech Office for Protection of Competition, or the European Commission, as applicable.

Any transfer of the Shares is effective once registered with the CSD or in follow-up records maintained by a CSD participant (as the case may be). Any shareholder instruction to open or close a securities account with the CSD and acquire or dispose of Shares must be submitted by the shareholder to the CSD through a CSD participant. A list of CSD participants is published on the CSD's website www.cdcp.cz.

The Company does not have a dividend policy stipulated in its Articles of Association.

The Company paid out dividends to shareholders in the amount of CZK 560.0 million in 2019, CZK 255.0 million in 2018 and CZK 90.0 million in 2017. By resolution of the Board of Directors on 7 May 2020, the Board of Directors proposed to the Sole Shareholder to approve a dividend payment in the amount of CZK 328.3 million.

Dividends, if and when declared, are distributed to shareholders on a pro-rata basis proportionately to their participation in the share capital of the Company. Each Share gives its owner the right to receive dividends. The Company will pay any dividends in CZK.

Where will the securities be traded?

Application for admission of the Shares to trading on a regulated market has been made to the PSE to list the Shares on its Prime Market. The Company expects that the Admission will take place on or around 1 June 2020. The Company expects that the Shares will be listed, under the ticker symbol CZG.

Is there a guarantee attached to the securities?

No guarantee is attached to the Shares.

What are the key risks attached to the securities?

The most material risk factors specific to the Shares contained in the Prospectus include in particular:

- Substantial future offerings of the Shares or of equity or equity-linked securities may adversely affect the market price of the Shares and dilute the shareholders' interests.

- There has been no prior public market for the Shares and an active and liquid market for the Shares may not develop.

D. Key information on the offer of the shares to the public and the admission to trading on a regulated market

Under which conditions and timetable can I invest in the shares?

There will be no public offering of the Shares in any jurisdiction based on this Prospectus.

As there will be no offer based on the Prospectus, there will be no dilution resulting from the Admission.

The fees and expenses to be borne by the Company in connection with the preparation of the Prospectus and the Admission, including but not limited to, the CNB's fees, fees related to the Admission, advisors' fees and expenses and the costs of printing and distribution of documents and other transaction costs are estimated to amount to approximately CZK 20 million (including VAT). There will be no expenses charged by the Company to any person in connection with the Admission.

Who is the offeror and/or the person asking for admission to trading?

There will be no entity offering the Shares in any jurisdiction based on this Prospectus.

Why is this prospectus being produced?

This Prospectus is being produced solely in connection with the Admission.

There will be no public offer of the Shares in any jurisdiction based on the Prospectus.

There will be no cash proceeds received by the Company in connection with the Admission.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Company as of and for the years ended 31 December 2019, 2018 and 2017, together with the notes thereto (the "**Audited Financial Statements**").

The Audited Financial Statements included in this Prospectus have been audited and prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") as adopted by the European Union (the "**EU**"). The Group's date of transition to IFRS was 1 January 2016.

Unless stated otherwise, the financial data concerning the Group presented herein for the years ended 31 December 2019, 2018, and 2017 originates from, or has been calculated on the basis of, the Audited Financial Statements. Certain financial information and operating data presented in the Prospectus has been excerpted from, prepared or calculated based on sources other than the Audited Financial Statements, such as management accounts and schedules prepared on the basis of accounting records by the Group for its internal purposes. Such data has not been subject to any audit or review procedures carried out by independent certified auditors and the Company has been indicated as their source.

Interim financial data concerning the Group presented herein for the periods ended 31 March 2020 has been derived from the unaudited internal management information as of and for the three months period ended 31 March 2020. Such management information has not been audited or reviewed.

In this Prospectus references to "**2019**", "**2018**" and "**2017**", are to the financial year ended 31 December 2019, the financial year ended 31 December 2018, and the financial year ended 31 December 2017, respectively, and references to "as of" any of these periods ended shall mean as of 31 December 2019, 31 December 2018, and 31 December 2017, respectively.

In 2019, the Group's shareholder decided to spin-off all of the Group's assets related to the production of automotive and aviation components (the "**Automotive and Aviation Business**"), other than certain buildings, to CZ-AUTO SYSTEMS a.s., a newly established entity controlled directly by the Sole Shareholder and not part of the Group. The spin-off was completed on 31 March 2020 with the decisive date of the spin-off as of 2 January 2020. As a result of the decision, the Automotive and Aviation Business was classified as discontinued operations in the Company's consolidated statement of profit or loss and other comprehensive income for 2019, with comparative amounts for 2018 and 2017 restated for the reclassification of discontinued operations. In the Company's consolidated statement of financial position, as of 31 December 2019, the assets and liabilities of the Automotive and Aviation Business are shown as assets and liabilities for distribution to owners, respectively. The Company's cash flow statement for 2019, 2018 and 2017 includes the cash flows for both continuing and discontinued operations.

The design, production, assembly and sale of firearms and tactical accessories are reported in the Group's production, purchase and sale of firearms and accessories segment (the "**Firearms and Accessories Segment**"). The Group's other revenues and expenses from transactions that are not reported as part of the Firearms and Accessories Segment, such as revenues from temporary non-firearm production using the Group's excess production capacities from time to time, are reported in its other segment (the "**Other Segment**").

Recently Adopted Accounting Standards

The Group implemented IFRS 9 (Financial instruments) as of 1 January 2018. In relation to hedge accounting, the Group decided that, starting from 1 January 2018, hedge accounting would be governed by IAS 39 rather than by the existing regulation in IFRS 9. The implementation of IFRS 9 did not result in a change in the classification or measurement of financial liabilities. IFRS 9 introduces an expected loss model for determining impairment losses, the Group assessed the impact of the new rules for determining impairment losses to be insignificant.

The Group adopted IFRS 15 (Revenue from Contracts with Customers) retrospectively from 1 January 2018. The implementation of IFRS 15 did not result in any changes in the recognition of revenue from contracts with customers.

The Group adopted IFRS 16 (Leases) retrospectively from 1 January 2019, but has not restated comparatives for the 2018 and 2017 reporting periods in the Audited Financial Statements, as permitted under the specific transitional provisions in the standard. As a result of the adoption of IFRS 16, the Group recognized additional short- and long-term lease liabilities in the aggregate amount of CZK 34.7 million as of 1 January 2019. See note 3.1 to the Audited Financial Statements.

Non-IFRS financial measures

This Prospectus 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**"), see "*Selected Historical Financial Information—Other Historical Financial and Operating Data*".

Currency presentation

All references to the "euro", "EUR" or "€" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. All references in this document to "Czech koruna" or "CZK" are to the lawful currency of the Czech Republic. All references in this document to "USD," "U.S. dollar" or "$" are to the lawful currency of the United States.

Rounding

Certain data in this Prospectus, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Prospectus may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100%.

RISK FACTORS

Any investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should carefully consider risk factors associated with any such investment in the Shares, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below, and consult with their respective legal, financial or other advisors.

The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to the Group that are currently not known to the Group, or that the Group currently deems immaterial, could individually or cumulatively also have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, prospects, reputation and, if any such risk should occur, the price of the Shares may decline and investors could lose all or part of their investment. Prospective investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this Prospectus and their personal circumstances.

The risks presented herein have been divided into seven 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, (v) Environmental, social and governance risks, (vi) Risks related to the nature of the Shares, and (vii) Risks related to the Admission. Within each category, the risk factors are presented in order of priority reflecting their estimated materiality on the basis of an overall evaluation of the criteria set out in the Prospectus Regulation (assessing probability of the occurrence of a risk and the expected magnitude of the negative impact) are presented first. However, the order of the categories does not represent any evaluation of the materiality of the risks within that category, when compared risks in another category.

RISK RELATED TO THE COMPANY AND THE GROUP

Risks related to the Group's business activities and industry

The Group faces various risks related to the ongoing COVID-19 health crisis, which could have material adverse effects on the Group's retail and wholesale sales, production and supply chain.

The Group faces various risks related to the ongoing COVID-19 health crisis. In December 2019, a novel strain of coronavirus COVID-19 ("**COVID-19**") was 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 have increased in certain markets during the first quarter of 2020 and since the COVID-19 outbreak, demand in the USA has been comparable to or 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. In 2019, the Group produced more than 85% of its products (firearms) at this facility. 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 in the United States, and each of these countries has been affected by the pandemic and taken measures to try to contain it. There is considerable uncertainty regarding such measures 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 can 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. Risks related to the Group's supply chain are described in the Risk Factor titled *"—The Group may experience difficulty in obtaining goods from its suppliers.*"

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. 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 weeks, 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, since the President declared a national emergency over the COVID-19 pandemic on 13 March 2020, more than 38.6 million Americans have filed for unemployment benefits (as of 16 May 2020), marking the highest level of job loss in the United States since the Great Depression (*Source*: U.S. Department of Labor). 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. Risks related to the availability of trade finance products are described in the risk factor titled "*—The Group's ability to export its products is influenced by availability of trade finance products*." 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. Risks related to negative economic conditions are described in the risk factor titled "*—The Group's performance is influenced by adverse changes in general economic conditions*". In addition, the value of CZK relative to both EUR and USD has declined since the COVID-19 pandemic began. Risks related to foreign exchange rates are described in the risk factor "*—The Group's business is subject to foreign exchange risk*."

The Group continues to monitor the rapidly evolving situations 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 Group's performance is influenced by adverse changes in general economic conditions.

The Group's results of operations have been influenced, and will continue to be influenced, by the general state of the global economy and as a result, the Group's income and results of operations depend, to a certain extent, on the performance of the global economy (including overall growth rates). Demand for the Group's products can be significantly reduced in an economic environment characterized by high unemployment, cautious consumer spending, lower corporate earnings, government budget issues and lower business investment. 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. Such changes could impact access to funding and associated funding costs, which could reduce the Group's earnings and cash flows. Additionally, the Group's investment management activities could be adversely affected by changes in the equity and bond markets, which could negatively affect earnings.

The large part of the Group's customer base are government entities. Consequently, 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 that government support packages to address the economic consequences of COVID-19 will significantly increase government debt, and that 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. For instance, an economic downturn affecting member states of the North Atlantic Treaty Organization ("**NATO**") could undermine their political will to comply with the pledge to spend at least 2% of gross domestic product annually on defence and by that directly affect the Group's sales in the military and law enforcement markets. As a result, a downturn in economic conditions could have an adverse effect on the sale of the Group's products to both the civilian market and the military and law enforcement market.

In addition, the difficult economic environment may adversely affect the ability of the Group's customers or other contracting parties (including financial institutions acting as hedge counterparties) to fulfil their contractual obligations to the Group, which could result in write-offs of the Group's receivables or other claims.

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

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 American Outdoor Brands Corporation (Smith & Wesson), Blaser GmbH, Browning International S.A., Colt's Manufacturing Company, Daniel Defence Inc., Fabbrica Di Armi Pietro Beretta SPA, Heckler & Koch GmbH, Fabrique Nationale de Herstal, FRATELLI TANFOGLIO S.R.L, Glock Gesellschaft m.b.H., HS Produkt d.o.o. (Springfield Armory), Israel Weapon Industries (IWI), Kalashnikov Concern, OF Mossberg & Sons, Remington Outdoor Company, SAKO Limited, Savage Arms Inc. (Vista Outdoors), SIG SAUER GmbH & Co. KG, Singapore Technologies Engineering Ltd., STI International Inc., Sturm, Ruger & Company, and Taurus Holdings Inc. In recent years, several established companies including Remington Outdoor Company and Colt 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.

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 a 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 and with an 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 (collectively, the "**Buy America Laws**").

The Group's inability to compete effectively or any increases in competition in the small 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 planned construction of the Group's new production facility in the United States may be delayed, not completed as currently planned or at all or not produce the benefits expected.

The Group has budgeted USD 60.0 million to USD 70.0 million (equivalent to CZK 1,496.6 million to CZK 1,746.0 million at an exchange rate of 24.943 CZK/USD as of 31 March 2020) to fund, in whole or in part, capital expenditures and other costs associated with the construction of a new production facility in Little Rock, Arkansas, United States (the "**Little Rock Project**"). Through the Little Rock Project, the Group plans 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 America 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.

Construction of the Little Rock Project is planned to begin in the second half of 2020. The Group plans to have the main technology necessary for producing firearms, such as pistols, semi-automatic and fully-automatic firearms in-house in the Little Rock Project production facility before the end of 2021 and a fully functioning facility in 2022. The facility will manufacture, warehouse and distribute the company's high-end, precision firearms, while employing up to 300 workers over the next five years.

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, see *"—The Group faces various risks* *related to the ongoing COVID-19 health crisis, which could have material adverse effects on the Group's retail and wholesale sales, production and supply chain*." These risks, individually or in combination, may prevent or delay 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, 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 assurance that the Little Rock Project, even if completed, will enable the Group to realize the intended strategic goals, such as to successfully sell firearms to the U.S. federal agencies in compliance with the Buy America 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. In addition, the products to be produced in the facility, which include mainly new firearms, such as the CZ P-10 micro, the CZ Scorpion EVO 4 and the CZ P-11, are subject to series production and any delay in introducing these products to the market may adversely affect the Group's revenue. These risks, individually or in combination, may prevent the Group from achieving targeted results and/or cause the Company to write down assets attached to the Little Rock Project.

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. 77.1% of the Group's revenues in 2019 were generated from sales outside the Czech Republic, 50.7% 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 America 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 European Union (the "**EU**"). In 2019, the Czech Republic proposed a 7% digital tax 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. 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. 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 small firearms industry is continuously developing new technologies. Key current trends in the small firearms industry include the use of non-traditional materials, such as polymers, application of modularity in weapon design, greater use of electronics for monitoring and control, improved aiming devices with lasers and automation of the production process. In order to be able to meet customer demand and effectively compete with other small firearms manufacturers, the Group must devote significant resources to research and development. This may entail substantial labour and time commitments and result in significant cost. In 2019, 2018 and 2017, the Group spent CZK 97.5 million, CZK 97.0 million and CZK 104.0 million, respectively, on research and development.

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 the 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 to 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. In 2019, the Group produced more than 85% of its firearms at this facility. The Group does not have any other significant production capacity which could substitute this facility. The production facility in Uherský Brod could suffer damage or interruption from human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar events. In addition, the production facility is located in vicinity of a river, increasing the Group's susceptibility to the risk that flooding could significantly harm the operations of this facility. Any failure, breakdown, outage or other event causing disruption of the operation of this facility for even a short period of time may 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.

On 6 March 2018, CZ Export Praha, s.r.o. ("**CZ EXPORT**"), a member of the Group, entered into a framework agreement on technology transfer cooperation (the "**Framework Agreement** ") with HM ARZENÁL Zrt. ("**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 contracts between CZ EXPORT and HM ARZENÁL, namely the (i) Contract for Transfer, Assembly and Production of Firearm CZ P-07, (ii) Contract for Transfer, Assembly and Production of Firearm CZ P-09, (iii) Contract for Transfer, Assembly and Production of Firearm CZ Scorpion EVO 3, and (iv) Contract for Transfer, Assembly and Production of Firearm CZ BREN 2 (contracts under (i) – (iv) jointly the "**Production Contracts**" and each separately a "**Production Contract**"). Pursuant to the agreements, HM ARZENÁL is permitted to manufacture, under a defined license agreement, some of the Group's firearm models and certain related components and sell them in Hungary. The Company believes that the Production Contracts, if successfully implemented, could help the Group penetrate the Hungarian military and law enforcement firearms market and to have an additional high quality capacity supplier partner without the necessity to invest significant resources into increasing its own production capacity.

However, no assurance can be given that the Production Contracts will produce the benefits expected. For a variety of reasons beyond the Group's control, HM ARZENÁL may not be able to make the manufacturing facility fully operational in time, produce the relevant firearms and components in the quality or quantity expected, or find customers for its products. If the Framework Agreement is not successfully implemented, the Group's own production capacity might not be sufficient to meet the demand for the Group's products, which would constraint the Group's growth.

As HM ARZENÁL is a state owned company, the Group may face challenges in enforcing its contractual rights against it if HM ARZENÁL were to breach contractual terms under the Framework Agreement or the agreements implemented thereunder.

As a result, there is a risk that the Framework Agreement and the agreements implemented thereunder will not produce the benefits expected by the Company and could adversely affect the Group's business, results of operations, financial condition, cash flows, prospects and reputation.

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 2017-2019, it represented up to 40% of consolidated sales 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.

In addition, the Group currently plans to employ up to 300 workers over the next five years in the planned production facility in Little Rock, Arkansas, United States 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.

Expansion of the Group's operations through acquisitions, joint ventures or other strategic initiatives may involve additional risks and may not be successful.

The Group has in the past considered and intends to continue to evaluate potential acquisitions of competitors or players in the key complementary segments such as ammunition production, optics and optoelectronics, as well as mergers, joint venture investments or strategic alliances. Currently, the Group has only limited experience with acquisitions, joint ventures or other strategic initiatives. Any such transactions, if consummated, may be transformative in nature and could be material to the Group's operations.

If the Group engages in these transactions, it will be exposed to various inherent risks, including:

- accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of targets;
- unanticipated expenses and potential delays related to integration of the acquired companies;
- the potential loss of key personnel of an acquired or combined business;
- the Group's ability to achieve projected economic and operating synergies;
- difficulties maintaining uniform standards, controls, procedures and policies;
- unanticipated changes in business and economic conditions affecting an acquired business;
- the potential strain on the Group's financial and managerial controls and reporting systems and procedures;
- the diversion of the Group's management's attention from its existing business.

The Group's limited experience with acquisitions and similar strategic transactions could exacerbate these risks. As a result of these risks, the Group may not experience the anticipated benefits of these transactions, which would result in significant costs.

The Group may experience difficulty in obtaining goods from its suppliers.

The Group relies on suppliers to provide it with certain specialized materials, including high-quality and specially treated steel, super-alloys, springs and other small components. For instance, the CZ 75, one of the Group's key products, is composed of more than 40 components obtained from the Group's suppliers. Even small components may affect the functionality and user experience of the product.

A failure by any of the Group's individual parts suppliers to deliver the products and materials in the expected quality, quantity, time and price could result in production interruptions for the Group, limited availability of its products, increase of costs, or product recalls. In an effort to keep the operation lean, the Group does not regularly maintain extra stock of all such components and raw materials, which further increases the Group's exposure to delays or interruptions of product part deliveries.

In addition, CZ-USA imports complete shotguns from Turkey where CZ-USA has a long-standing relationship with two large manufacturers which are not part of the Group. The shotguns represent approximately 10.5% of the total revenues of CZ-USA (corresponding to approximately 5.3% of the Group's total revenues in 2019). Due to the long manufacturing tradition, availability of quality wood and wood craftsmanship, the value proposition of Turkish manufacturers of shotguns is currently difficult to match by any producer outside Turkey. If the supply of shotguns from the Turkish manufactures to CZ-USA is discontinued for any reason, no assurance can be given that the Group would be able to find a substitute supplier without a significant delay. This could result in inability of the Group, mainly CZ-USA, to offer and sell shotguns as a product to its customers, which may, in turn, adversely impact its operations, reputation and financial performance and potentially financial conditions.

The Group may face difficulties aligning its capacity with demand.

From time to time, the Group has experienced capacity constraints and was temporarily unable to satisfy the demand for its firearm products on a timely basis. Capacity constraints impact the Group particularly in the United States, where the Group has had significant backorders throughout 2018 and 2019, and increasing capacity in the United States is one of the reasons for the Little Rock Project. Future significant increases in consumer demand for the Group's products or increased business from military and law enforcement customers may require the Group to further expand its production capacity, particularly through the purchase of additional production equipment and the addition of production space. The Group may not be able to increase its capacity in time to satisfy increases in demand that may occur from time to time, and the Group may not have adequate financial resources to increase capacity to meet demand. Capacity constraints may prevent the Group from satisfying customer orders and result in a loss of the market share to competitors that are not capacity constrained. The Group may also suffer excess capacity and increased overhead costs, particularly if the Group increases its capacity to meet actual or anticipated demand and that demand decreases or does not materialize.

Risks related to the Group's financial situation

The Group's business is subject to foreign exchange risk.

The Group's financial statements are denominated in CZK. The majority of the Group's revenue is denominated in EUR and USD, while the majority of the Group's costs, capital expenditures and investments are denominated in CZK. A potential depreciation of CZK by 10% towards EUR and USD would cause negative impacts on the Group's profit of CZK 90.9 million and CZK 37.1 million, respectively, as of 31 December 2019 (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). This currency mismatch represents significant foreign exchange exposure for the Group. Consequently, profit margins are significantly affected by currency fluctuations. CZK appreciation against EUR and USD potentially decreases the Group's profitability and CZK depreciation has the opposite/positive effect. Moreover, foreign exchange fluctuations impact the value of fixed assets (property, plant and equipment) held in the United States (CZK 231.0 million as of 31 December 2019), as the Group operates in foreign countries, mainly the United States. This is reflected in the translation risk. Fluctuations in the exchange rates between CZK and foreign currencies impact the translation value of assets denominated in foreign currencies. CZK depreciation increases the value of foreign held assets and CZK appreciation decreases this value. This effect further magnifies the impact of the exchange rate fluctuations and could therefore directly and significantly influence profitability of the Group's operations and its financial position.

The Group engages in hedging transactions to partially mitigate the foreign exchange risk. The usual hedging maturity is up to five years. At the same time, the Group has a few long-term contracts and thus the hedging contracts behave as so-called "Macro Hedging," meaning the future exposure is hedged, without the current existence of the particular contract. This can result in an over-hedged or under-hedged position in case the estimates of future foreign exchange exposure do not materialize. The Group expects to continue hedging activities in the future. Nevertheless, disruptions such as market crises and economic recessions may limit the availability and effectiveness of the Group's hedging instruments or strategies in relation to foreign exchange risk. In addition, any hedging transactions conducted in the form of derivative financial instruments may result in mark-to-market losses and thus directly negatively affect the Group's profitability and financial position. The materialization of any of these risks could adversely affect the Group's financial condition, results of operations and cash flows.

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.

The Group is exposed to interest rate risk.

The Group is exposed to interest rate risk because the Group has entered into variable-interest financing instruments, including the CZUB Bonds, which carry interest at a floating rate and, variable interest rate loans. Interest rate risk is the risk that fair values of or future cash flows from existing or future financial liabilities may fluctuate due to changes in market interest rates. For the year ended 31 December 2019, a 50 basis point change in the applicable interest rates, with all other variables remaining constant, would have had a CZK 11.3 million positive (in the case of lower interest rates) or negative (in the case of higher interest rates) on the Group's profit.

This interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative and non-derivative instruments as of 31 December 2019. Payables with a floating interest rate are subject to the analysis provided that the value of principal remains unchanged throughout the reporting period indicated based on a calculation of the average annual principal.

The Group is exposed to liquidity risk.

The Group is exposed to liquidity risk, a risk that the Group will not have sufficient available resources to meet its payables arising from financial contracts. Liquidity risk arises mostly in relation to the Group's cash flow generated and used for working capital and from financing activities, particularly for servicing the Group's debt, in terms of both interest and capital, and the Group's payment obligations relating to its ordinary business activities.

The following table includes assets and liabilities based on the residual maturity of undiscounted cash expenditure (residual maturity is the period from the balance sheet date and the date of contractual maturity) as of 31 December 2019. 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 December 2019	**Within 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Carrying amount**
Trade receivables....................	873,741	47,054	21,165	4,182	-	946,142
Long-term payables	-	-	-	-	-	-
Bank loans, bonds and overdraft loans	-	36,958	-	2,250,000	-	2,286,958
Finance lease payables............	1,543	1,543	3,087	3,159	-	9,332
Trade payables........................	283,862	3,154	601	3,075	0	290,692

Legal and regulatory risks

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

Export of firearms to foreign countries is subject to the regulation of the countries where the product is manufactured. As the majority of the Group's products are manufactured in the Czech Republic, a large majority of the Group's exports, for example handguns such as the CZ P-10 pistol series, rimfire rifles such as the CZ 457 series, centrefire rifles such as the CZ 557 series, semi-auto carbines such as the CZ Scorpion Evo 3 S1 and semi-auto rifles such as the CZ Bren 2 MS, are currently subject to Czech and EU export restrictions.

The Group spends considerable time and efforts to obtain export licenses, especially in the case of military firearms, this includes obtaining positive opinion from the Czech Ministry of Defence, the Ministry of the Interior, the General Directorate of Customs and Excise and the Ministry of Foreign Affairs and registration to the list maintained by the Czech Ministry of Industry and Trade. After an export license is granted, the Group has to maintain all conditions so that the license is not revoked. If a registered entity breaches the statutory conditions, or the transfer could disrupt public order or the security of the state or its inhabitants, the Czech Ministry of Trade and Industry may suspend the general registration for the transfer of military materiel within EU member states or revoke any license granted under the Act on Trade in Military Materiel. The denial or revocation of export licenses 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. For instance, in 2014 the EU imposed sanctions against Russia, including a firearms embargo, by adopting Council Decision 2014/512/CFSP, and Council Regulation (EU) No 833/2014, which remains in place as of the date of this Prospectus. Before the imposition of those sanctions, Russia was the Group's second most important market after the U.S., but with the imposition of those sanctions, that business ceased.

The delay, denial or revocation of export licenses could have in the future 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.

The Group is subject to regulation in the countries in which its products originate. In 2019, more than 85% of the Group's firearms originated in the Czech Republic. Therefore, the Group's firearm business is primarily regulated by Czech laws and regulations.

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 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'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.

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 makeup 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 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 Internal Affairs 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 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 may be adversely affected by the Company's transition to becoming a public company or a failure by the Company to comply with the additional requirements, which will be applicable to the Company following the Admission.

The Company's transition to become a public company will, in particular, involve 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, the Company will for the first time be subject to the legal requirements of a company listed on the regulated market of the Prague Stock Exchange. This is a new situation for the Company and the Company will need 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 which may be significantly higher than currently anticipated. In addition, the Group's management will have 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, including a termination of the trading of the Shares as well as cause the Group to incur significant additional costs and expose the Company to civil litigation and penalties.

The Group is exposed to disruptions in its information technology and 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 IT systems could jeopardize their operation, causing errors in the execution of transactions, inefficient processes, loss of customers and other business interruptions.

The Group uses the IT 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 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 and results of operations.

Environmental, social and governance risks

The Group's performance is sensitive to social and political pressures due to controversial nature of firearms.

Given their intrinsic ability to inflict harm on others, firearms are socially and politically controversial products. As a result, the production and sale of firearms is influenced by social and political pressures in addition to regulatory restrictions. For instance, the Group has been facing controversy recently for the alleged use of its high-powered hunting rifles (marketed under the brand name "**Safari Classics**") in South Africa and Mozambique in wildlife crimes. Although the investigations carried out by the United States House Committee on Foreign Affairs and several other U.S. governmental agencies have not concluded that the Group violated any laws in connection with the sale of the Safari Classics rifles, in January 2019, the Group discontinued the production of Safari Classics rifles to prevent their use for illicit purposes. Although the revenues from the sale of Safari Classics rifles accounted for less than 1% of the Group's total revenues in 2018 and the Group therefore believes that the discontinuation of the Safari Classics brand will not have any material adverse effect on the Group's business and results of operations, the Safari Classics investigations, and any similar investigations in the future, may have an adverse impact on the Group's reputation, which in turn could negatively impact the Group's revenues.

To integrate the core principles of ethical conduct in the Group's business, a code of ethics was adopted on 7 May 2020 and is supposed to be implemented for the entire Group. All the Group's employees and trading partners are required to comply with the code of ethics. However, 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 could have an adverse effect on the Group's reputation and, through social and political pressure, could adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

In addition, from time to time, the Group may be subject to informal private or public inquiries and/or formal proxy proposals by activists urging the Group to take certain corporate actions, any of which may not be aligned with the Group's best financial or operational interests. Such activities may adversely affect the Group's business in a number of ways, since responding to such inquiries or proposals could be costly, time consuming, disruptive to operations, and could meaningfully divert the attention of the Group's resources, including those of the management team and employees. For example, such activities could require the Group to retain the services of various professionals to advise on such matters, including legal, financial, and communications advisors, which could be costly. In addition, certain shareholder inquiries and proposals could create perceived uncertainties or concerns as to the Group's future operating environment, legislative environment, strategy direction, or leadership, and such uncertainties or concerns could result in the loss of potential business opportunities, harm the Group's ability to attract new investors, customers, and employees, harm or disrupt the Group's business and financial relationships, result in customer boycotts of the Group's products, and cause the share price to experience periods of decline, volatility, or stagnation. For example, certain activists could pressure financial institutions, customers, vendors, or other businesses and institutions with whom the Group maintains relationships to adopt actions that are not in the best interests of the Group, inconsistent with the legal operations of the Group's business, or contrary to the beliefs of the Group's core customers. Such activities could adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Environmental laws and regulations may impact the Group's business.

Despite the fact that the Group's principal production facility in Uherský Brod, Czech Republic, has been in operation for more than 80 years, no comprehensive inspection has been carried out to assess any structural, subsurface or environmental problems that may exist or arise and which could have an adverse impact on the value of the asset. Even when an inspection is undertaken, there is a risk that structural or environmental problems, such as ground water contamination, may not necessarily be observable. For example, the Group previously 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 costs associated with the remedial of the soil contamination has not been material; however, further 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 or available.

It is not possible to predict with certainty the impact of future environmental compliance requirements or of the cost of resolution of future environmental proceedings and claims, in part because the scope of the remedies that may be required is not certain and environmental laws and regulations are subject to modifications and changes in interpretation. Environmental regulations may become more burdensome in the future and any such development, or discovery of unknown conditions, may require the Group to make material expenditures or otherwise materially adversely affect the way the Group operates its business, as well as have a material adverse effect on the Group's results of operations, financial condition, or cash flows.

RISK RELATED TO THE SHARES

Risks related to the nature of the Shares

Exchange rate fluctuations may impact the market price and the value of the Shares, as well as any dividends or other income paid on the Shares for an investor whose principal currency is not CZK.

The Shares are denominated in CZK. An investment in the Shares by an investor in a jurisdiction other than the Czech Republic exposes the investor to foreign currency rate risk. Any depreciation of CZK in relation to such foreign currency, will reduce the value of the investment in the Shares or any dividends in foreign currency terms. Further, the Company declares and distributes dividends or other income, if any, in CZK. Exchange rate movements of CZK will therefore affect the value of these dividends or other income for investors whose principal currency is not CZK. This could affect the value of the Shares and of any dividends or other income paid on the Shares for an investor whose principal currency is not CZK.

The Company's ability to pay dividends on the Shares will depend on the availability of distributable profits and the Company's dividend policy may be subject to change.

The Company's ability to pay dividends is influenced by a number of factors, including the availability of distributable reserves, and the Company's ability to receive sufficient dividends from its subsidiaries. The payment of dividends to the Company by its subsidiaries is, in turn, subject to restrictions including regulatory requirements, restrictive covenants stipulated in financing arrangements and the existence of sufficient distributable reserves and cash in the Company's subsidiaries. Any inability of the Group's subsidiaries to pay or of the Company's to receive such distributions could reduce or restrict the Company's ability to fund other operations or to pay dividends to its shareholders.

In 2016 Česká zbrojovka a.s. ("**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 external investors in 2018 (with corresponding impact in the financials statements), increasing the total nominal amount of bonds issued to CZK 2.25 billion (the "**CZUB Bonds**") and pursuant to the terms of the CZUB Bonds, CZUB may not declare or pay dividends or make certain other distributions 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 distribution. As of 31 December 2019, CZUB's consolidated net debt-to-EBITDA ratio, calculated in accordance with the terms and conditions of the CZUB Bonds, was 1.5x. No assurance can be given that CZUB's consolidated net debt-to-EBITDA ratio will not reach or exceed the stipulated threshold in the future as a result of the Group's growth strategy, increased capital expenditures, acquisitions or other factors. If such situation occurs, CZUB would not be able to pay out dividends to the Company and, consequently, the ability of the Company to declare and pay dividends would be limited.

There is also risk that shareholders of the Company, at a general meeting of shareholders (the "**General Meeting**"), may also decide by a majority of at least two thirds of the votes cast at the General Meeting to issue preferred shares entitled to receive dividends or other payments that rank senior to dividends payable on the Shares. In this case, amounts paid on such preferred shares would decrease the Company's distributable profits and, accordingly, the amount of funds available to make dividend payments on the Shares. Therefore, to the extent the Company's distributable profits are insufficient to pay dividends on both the Shares and any preferred shares, the dividend on such preferred shares would be paid first and holders of the Shares may receive only a reduced dividend or no dividend at all.

As a result of the foregoing, the Company may not be able to make the currently planned distributions or maintain the targeted dividend growth or otherwise attain the targets set for the payment of dividends or the Company may change its approach to determining dividend payments as a result of any other circumstances which may occur in the future.

Shareholders in certain jurisdictions may not be able to participate in future equity offerings.

Czech law provides for pre-emptive rights to be granted to existing shareholders in the Company in the event of an issue of shares by the Company. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by shareholders in future offerings. In particular, holders of the Shares in the United States may not be entitled to exercise these rights, unless the Shares and any other securities that are offered and sold are registered under the U.S. Securities Act, or the Shares and such other securities are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Company cannot assure prospective investors that any exemption from such overseas securities law requirements would be available to enable U.S. or other shareholders to exercise their pre-emptive rights or, if available, that the Company will utilise any such exemption.

In the event of insolvency of the Company investors may recover less than their initial investment or may not be able to recover any amounts at all.

In the event of insolvency of the Company, the Shares would rank behind any debt claims against the Company in respect of any distributions made in the relevant proceedings and no distribution would be made in respect of the Shares unless all claims ranking senior to the Shares are satisfied. Accordingly, in the event of insolvency of the Company investors may recover less than their initial investment or may not be able to recover any amounts at all.

There can be no assurance of any returns in respect of any investment made in the Shares.

Investors increasingly use environmental, social and governance criteria in making investment decisions and may exclude the purchase of gun manufacturers stock, such as the Shares, under such criteria. For example, some investment managers have created several options for investors to exclude firearms manufacturers and retailers from their portfolio. If a greater number of investors exclude gun manufacturers from their investments, it would influence the demand for the Shares and could cause the Share price to decline or stagnate.

The fluctuation and decline of the prices of the Shares in the open market could lead to investors getting back less than what they invested or a total loss of their investment.

Risks related to the Admission

Substantial future offerings of the Shares or of equity or equity-linked securities may adversely affect the market price of the Shares and dilute the shareholders' interests.

Although the Admission does not involve an offering or placement of Shares or new shares, sales of Shares (or other equity or equity-linked securities) into the public market following the Admission, including by the Company and the Sole Shareholder, in a public offering, private placement or through the PSE, could adversely affect the market price of Shares. These sales could make it more difficult for the Company to sell equity or equity-linked securities in the future at a time and price that the Company deems appropriate. Issuance or sale of a substantial amount of equity or equity-linked securities, or the availability of a substantial amount of equity or equity-linked securities for sale, could cause declines in or increase the volatility of the market price of the Shares.

The General Meeting may authorize the Board of Directors to increase the share capital of the Company by up to 50% of the current share capital of the Company without approval of the General Meeting.

In addition, the Company may raise additional capital by offering additional equity or equity-linked securities, including global depositary receipts, commercial paper, medium-term notes, senior or subordinated notes, series of preferred shares or ordinary shares. The issuance of equity or equity-linked securities may dilute the economic and voting rights of existing shareholders, if made without granting pre-emptive or other subscription rights, or reduce the price of the Company's Shares, or both. Any decision by the Company to issue additional securities depends on market conditions and other factors beyond the Company's control, and therefore the Company cannot predict or estimate the amount, timing or nature of any such future issuances. Thus, prospective investors bear the risk of the Company's future offerings reducing the market price of the Shares and diluting their interest in the Company.

There has been no prior public market for the Shares and an active and liquid market for the Shares may not develop.

There has been no public market for the Shares and all of the Company's Shares are currently held by the Sole Shareholder. As the Company will apply for the Shares to be admitted to trading on the Prime Market of the Prague Stock Exchange, but does not (and neither does the Sole Shareholder) intend to offer or sell any Shares in the context of the Admission an active liquid trading market will not develop after the Admission until a substantial number of Shares has been sold to the market (through PSE, in over the counter trades or through a subsequent (public) offering, if any) or, even if and when developed, be sustained after that. For as long as a liquid trading market in the Shares does not develop, a clearing price for the Shares may not develop, and sales or purchase of even minor volumes of Shares may result in significant Share price movements and volatility. Until a substantially liquid market for the Shares develops, the price of the Shares and the ability to sell the Shares will be adversely affected.

In addition, the securities market in the Czech Republic is substantially smaller, less liquid and significantly more volatile than major securities markets in the United States or the United Kingdom. According to the PSE website, as of the date of this Prospectus, only 17 issuers had their shares traded on the regulated markets of the Prague Stock Exchange, total equity market capitalisation was only CZK 22.1 billion and the share trading volume of shares listed on the PSE was CZK 108.8 billion of shares in the year 2019. The small number of listed companies and low trading volumes tend to decrease the liquidity and increase the volatility of the Czech securities market. Accordingly, there may not be a liquid market for the Shares and the trading price of the Shares may be subject to significant volatility.

Trading in the Shares may be suspended or halted.

The Prague Stock Exchange may suspend or cease trading in the Shares in a number of circumstances, such as if the Company failed to comply with certain reporting obligations or in the event of market manipulation. Suspension of trading in the Shares would prevent the investors in the Shares from selling the Shares and realizing any income from such sales.

THE ADMISSION

The Prospectus has been prepared solely for the purpose of the Admission. There will be no public offer of the Shares in any jurisdiction based on the Prospectus.

There will be no cash proceeds received by the Company as a result of the Admission.

The fees and expenses to be borne by the Company in connection with the preparation of the Prospectus and the Admission including but not limited to the CNB's fees, fees related to the Admission, advisors' fees and expenses and the costs of printing and distribution of documents and other transaction costs are estimated to amount to approximately CZK 20 million (including VAT)). There will be no expenses charged by the Company to any person in connection with the Admission.

Possible public offering of the Shares

The Company and/or its shareholders may consider conducting a public offering of its shares (the "**Public Offering**") in the future.

The Company envisages that subject to, among others, favourable market conditions, the Public Offering will be carried out in the period between the third quarter of 2020 and the second quarter of 2021.

The Public Offering may consist of both the issue of new shares and the sale of existing shares in the Company.

The Public Offering may consist of a public offering in the Czech Republic and of private placement to institutional investors in certain offer jurisdictions in reliance on applicable exceptions from the registration and prospectus delivery requirements (including the registration requirements under the U.S. Securities Act of 1933, as amended).

DIVIDEND POLICY

Dividends, if and when declared, are distributed to shareholders on a pro-rata basis proportionately to their participation in the paid-up share capital of the Company. Each fully paid Share gives its owner the right to receive dividends. The Company will pay any dividends in CZK.

The Company does not have a dividend policy stipulated in its Articles of Association.

The Company paid out dividends to shareholders in the amount of CZK 560.0 million in 2019, CZK 255.0 million in 2018 and CZK 90.0 million in 2017. By resolution of the Board of Directors on 7 May 2020, the Board of Directors proposed to the Sole Shareholder to approve a dividend payment in the amount CZK 328.3 million.

The Company is a holding company that does not conduct any business operations of its own. As a result, the Company is dependent upon cash dividends and distributions and other transfers from its subsidiaries to have sufficient cash flow to make dividend payments. However, the ability of the Company's subsidiaries to pay out dividends or make other distributions may be limited by covenants stipulated in their financing arrangements. Most importantly, pursuant to the terms and conditions of the CZUB Bonds (with a maturity date of 27 January 2022) (see "*The Group's Business—Material Contracts and Financing Arrangements—CZUB Bonds*"), CZUB may not declare or pay dividends or make certain other distributions to any of its shareholders if its consolidated net debt-to-EBITDA ratio (calculated in accordance with the terms and conditions of the CZUB Bonds) would exceed 3.0 as a result of any such payment or distribution. As of 31 December 2019, CZUB's consolidated net debt-to-EBITDA ratio, calculated in accordance with the terms and conditions of the CZUB Bonds, was 1.5x.

For each year, the amount of dividend is set by a decision of the General Meeting on the basis of the Company's annual or extraordinary financial statements approved by the General Meeting. The payment of any dividends is therefore within the discretion of the General Meeting and will depend upon, among other things, the Company's earnings, financial condition, future outlook, capital requirements, level of indebtedness or contractual restrictions with respect to the payment of dividends.

The ability of the Company to declare a dividend is subject to limits imposed by Czech corporate law, in particular:

- The amount to be distributed as a dividend to shareholders must not exceed the amount of distributable net retained profit of the Company. The distributable net retained profit of the Company is calculated based on the Company's unconsolidated audited financial statements prepared in accordance with Czech GAAP as laid down in Decree 500/2002 Coll., Czech accounting standards. Czech GAAP differs from IFRS in material respects. When determining the net retained profit, the net profit or loss for the financial year must be adjusted for retained profit/loss carryforwards from the prior financial year and withdrawals from, or contributions to reserves (retained earnings) and other established funds in accordance with the Czech Companies Act and the Articles of Association.
- The General Meeting may not approve the distribution of dividends if this would result in the Company's insolvency or if the Company's equity, as shown in the annual or extraordinary financial statements, would fall below the amount of the subscribed registered capital increased by the amount of the funds which cannot be distributed pursuant to the Czech Companies Act or the Articles of Association.

The decision of the General Meeting on dividends taken in violation of the statutory limitation described above would be considered as if not taken.

The dividend is payable within three months (unless the General Meeting decided otherwise) from the day on which the General Meeting approved the dividend distribution to shareholders registered in the CSD as a shareholder of the Company on the seventh calendar day before the General Meeting. A right to dividends is individually transferable commencing on the day on which the General Meeting passed the resolution on dividends distributions. Dividends are not refundable, unless the person to whom the dividend was paid out knew or should have known that the payment of dividend was made in breach of the conditions for dividends payments pursuant to the Czech Companies Act.

The Czech Companies Act does not provide for any time limit after which entitlement to dividends lapses. Subject to various exceptions, Czech law provides a statutory period of limitation of three years from the date on which an obligation is due.

There are no dividend restrictions or specific procedures for shareholders resident outside the Czech Republic claim dividends. For a description of withholding tax on dividends applicable to non-Czech residents, see section "*Taxation—Income taxation of dividends, decreases of registered share capital and distributions of share premium*".

CAPITALIZATION AND INDEBTEDNESS

The following tables set forth the Group's total capitalization and indebtedness as of 31 March 2020, which was derived from the unaudited management accounts of the Company on an actual basis. This table should be read in conjunction with "*Operating and Financial Review*" and the Audited Financial Statements and the related notes thereto, which appear elsewhere in this Prospectus.

Since 31 March 2020, there have been no material changes in the total capitalization and indebtedness of the Group.

Capitalization

	As of 31 March 2020 *(CZK thousands)*
Total current debt[1]	**532,093**
of which:	
Guaranteed[2]	32,045
Secured	500,048
Unguaranteed / Unsecured	0
Total non-current debt (excluding current portion of long – term debt)[3]	**2,253,362**
of which:	
Guaranteed	0
Secured	0
Unguaranteed / Unsecured	2,253,362
Shareholder's equity	
Share capital	2,984
Legal reserve	0
Other reserves[4]	2,795,232
Total equity	2,798,216
Total capitalization	5,583,671

Net Indebtedness

	As of 31 March 2020 *(CZK thousands)*
A. Cash and cash equivalents	1,420,525
B. Trading securities	0
C. Liquidity (A) + (B)	1,420,525
D. Current Financial Receivable	0
E. Current bank debt[5]	532,093
F. Current portion of non-current debt	0
G. Other current financial debt	0
H. Current Financial Debt (E) + (F) + (G)	532,093
I. Net Current Financial Indebtedness (H) - (D) - (C)	(888,432)
J. Non-current bank loans[6]	0
K. Bonds issued	2,253,362
L. Other non-current loans	0
M. Non-current Financial Indebtedness (J) + (K) + (L)	2,253,362
N. Net Financial Indebtedness (I) + (M)	1,364,930

[1] Represents short term bank loans and overdrafts
[2] Guarantee issued by the Group on behalf of 4M SYSTEMS short term loans
[3] Bank loans and borrowings
[4] Comprising capital funds and accumulated profits minus sum of Non-controlling interests
[5] Comprising Short-term bank loans and overdrafts.
[6] Comprising Bank loans and borrowings except issued bonds.

SELECTED HISTORICAL FINANCIAL INFORMATION

The financial information contained in the following tables is taken or derived from the Audited Financial Statements. Additional financial information relating to certain operational information is taken or derived from the Company's accounting records or internal reporting system.

The following discussion should be read together with the Audited Financial Statements and the independent audit opinion thereon, included in this Prospectus beginning on page F-1. The Audited Financial Statements were prepared in accordance with IFRS.

Deloitte Audit s.r.o., independent auditors, have audited and issued unqualified audit opinion with respect to the Audited Financial Statements.

Certain financial information (including percentages) in the following tables has been rounded according to established commercial standards. As a result, the aggregate amounts (sum total or sub totals or differences or if numbers are put in relation) in the following tables may not correspond in all cases to the aggregate amounts of the underlying (unrounded) figures appearing elsewhere in this Prospectus. Furthermore, these rounded figures may not add up exactly to the total contained in the relevant tables. Financial information presented in parentheses denotes the negative of such number presented. In respect of financial information set out in this Prospectus, a dash ("—") signifies that the relevant figure is not available, while a zero ("0") signifies that the relevant figure is available but either the figure was zero or was rounded to zero.

The design, production, assembly and sale of firearms and tactical accessories are reported in the Group's production, purchase and sale of firearms and accessories segment (the "**Firearms and Accessories Segment**"). The Group's other revenues and expenses from transactions that are not reported as part of the Firearms and Accessories Segment, such as revenues from temporary non-firearm production using the Group's excess production capacities from time to time, are reported in its other segment (the "**Other Segment**"). In 2019, the Group's shareholder decided to spin-off all of the Group's assets related to the production of automotive and aviation components (the "**Automotive and Aviation Business**"), other than certain buildings, to CZ-AUTO SYSTEMS a.s., a newly established entity controlled directly by the Sole Shareholder. The spin-off was completed on 31 March 2020 with the decisive date of the spin-off as of 2 January 2020. As a result of the decision, the Automotive and Aviation Business was classified as discontinued operations in the consolidated statement of profit or loss and other comprehensive income for 2019, with comparative amounts for 2018 and 2017 restated for the reclassification of discontinued operations. In the consolidated statement of financial position, as of 31 December 2019, the assets and liabilities of the Automotive and Aviation Business are shown as assets and liabilities for distribution to owners, respectively. The cash flow statement for 2019, 2018 and 2017 includes the cash flows for both continuing and discontinued operations.

The following discussion of the Group's results of operations also makes reference to certain non-IFRS financial measures. The Company presents non-IFRS financial information because its management uses such information in monitoring the Group's business and because management believes that it is frequently used by analysts, investors and other interested parties in evaluating companies in the Group's or similar industries and it may contribute to a more comprehensive understanding of the Group's business. Prospective investors should bear in mind that these non-IFRS financial measures are not financial measures defined in accordance with IFRS, may not be comparable to other similarly titled measures used by other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS. See "Presentation of Financial and Other Information—Non-IFRS financial measures."

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December		
	2019	**2018[(1)]**	**2017[(1)]**
	(CZK thousands)		
Revenues from the sale of own products, goods and services	5,958,742	5,339,581	4,555,483
Other operating income	101,515	49,466	18,210
Changes in inventories of finished goods and works in progress	52,096	1,943	237,599
Own work capitalized	104,974	103,919	116,209
Raw materials and consumables used	(2,885,982)	(2,490,602)	(2,074,732)
Services	(820,386)	(814,033)	(841,026)
Personnel costs	(1,080,522)	(1,045,645)	(954,008)
Depreciation and amortization	(370,601)	(365,189)	(349,644)
Other operating expenses	(116,126)	(118,285)	(146,092)
Operating profit	**943,710**	**661,155**	**561,999**
Interest income	27,882	13,231	44,038
Interest expense	(85,842)	(47,246)	(30,896)
Other financial income	373,252	246,920	323,132
Other financial expenses	(346,569)	(159,659)	(263,073)
Share in the profit of associates	22	42	428
Profit before tax	**912,455**	**714,443**	**635,628**
Income tax	(178,336)	(145,837)	(131,128)
Profit for the period from continued operations	**734,119**	**568,606**	**504,500**
Post-tax profit from discontinued operations	**15,192**	**32,307**	**33,517**
Post-tax profit for the period	**749,311**	**600,913**	**538,017**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash Flow Hedges – remeasure of effective portion of hedging instruments	148,023	(403,353)	253,764
Foreign currency translation of foreign operations	(7,128)	18,290	(45,059)
Other comprehensive income:	**140,895**	**(385,063)**	**208,705**
Comprehensive income for the period	**890,206**	**215,850**	**746,722**
Profit attributable to owner of the parent			
Profit for the period from continued operations	728,084	555,914	486,553
Profit for the period from discontinued operations	15,192	32,307	33,517
Profit for the period attributable to owner of the parent	743,276	588,221	520,070
Profit attributable to non-controlling interest			
Profit for the period from continued operations	6,035	12,692	17,947
Total comprehensive income for the period attributable to:			
Shareholder of the parent company	882,840	211,153	721,973
Non-controlling interests	7,366	4,697	24,749
Net earnings per share attributable to the owner of the parent company (CZK '000 per share)			
Basic	25	20	17
Diluted	25	20	17

[(1)] *All comparative amounts for the year ended 31 December 2018 and 31 December 2017 have been restated to reflect the reclassification of discontinued operations.*

Consolidated Statement of Financial Position

	As of 31 December		
	2019	2018	2017
		(CZK thousands)	
ASSETS			
Non-current assets			
Property, plant and equipment	1,994,748	2,108,476	1,980,045
Intangible assets	834,242	922,433	1,009,446
Long-term receivables	45,322	48,348	52,856
Equity-accounted securities and investments	17,160	644	602
Deferred tax asset	1,464	0	0
Goodwill	280,686	280,686	280,686
Total non-current assets	**3,173,622**	**3,360,587**	**3,323,635**
Current assets			
Inventories	1,747,427	1,772,415	1,746,802
Trade receivables	915,799	579,422	382,712
Current tax receivables	7,385	5,234	17,228
Other receivables	137,080	101,722	86,343
Financial derivatives	236,486	258,450	425,187
Cash and cash equivalents	805,503	1,345,628	323,360
Assets held for sale and for distribution to owners	525,273	62,296	0
Total current assets	**4,374,953**	**4,125,167**	**2,981,632**
Total assets	**7,548,575**	**7,485,754**	**6,305,267**
EQUITY AND PAYABLES			
Capital and funds			
Share capital	2,984	2,984	2,984
Capital funds	1,533,118	1,393,554	1,778,617
Accumulated profits	1,921,501	1,884,709	1,562,753
Equity attributable to the shareholder of the Company	**3,457,603**	**3,281,247**	**3,344,354**
Equity attributable to the shareholder of the Company	3,457,603	3,281,247	3,344,354
Non-controlling interests	11,358	28,128	66,294
Total equity	**3,468,961**	**3,309,375**	**3,410,648**
Non-current liabilities			
Bank loans and borrowings	2,252,688	2,253,987	1,526,862
Other payables	0	125,000	125,000
Lease payables	57,313	1,918	4,828
Deferred tax liability	248,033	254,752	365,518
Provisions	25,053	36,276	36,687
Other long-term payables	905	899	1,642
Total Non-current liabilities	**2,583,992**	**2,672,832**	**2,060,537**
Current liabilities			
Trade payables	284,906	323,711	312,637
Short-term bank loans and overdrafts	36,958	32,253	29,968
Lease payables	6,173	2,910	2,844
Provisions	45,837	37,061	36,104
Current tax payables	70,127	43,911	84,254

Other payables	394,387	431,206	252,004
Financial derivatives	339,252	570,199	116,271
Liabilities related to assets held for sale and for distribution to owners	317,982	62,296	0
Total Current liabilities	**1,495,622**	**1,503,547**	**834,082**
Total liabilities	**4,079,614**	**4,176,379**	**2,894,619**
Total liabilities and equity	**7,548,575**	**7,485,754**	**6,305,267**

Consolidated Cash Flow Statement

	For the year ended 31 December		
	2019	**2018**	**2017**
		(CZK thousands)	
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax	932,129	751,731	673,650
Adjustments for non-cash transactions	**508,201**	**356,290**	**28,186**
Depreciation/amortisation of non-current assets	412,904	406,689	389,648
Change in allowances and provisions	28,534	9,063	49,248
Loss from the sale of non-current assets	(3,688)	(437)	(1,086)
Interest expense and interest income	63,023	38,883	(15,458)
Adjustments for other non-cash operations (deficit and damage on assets and inventories, unrealised profits/losses, remeasurement of derivative transactions)	7,428	(97,908)	(394,166)
Net cash flow from operating activities before changes in working capital	**1,440,330**	**1,108,021**	**701,836**
Change in working capital	**(678,604)**	**40,160**	**(201,403)**
Change in receivables and deferred expenses/ accrued income	(454,246)	(76,283)	(2,396)
Change in payables and accrued expenses/ deferred income	(134,519)	152,669	19,354
Change in inventories	(89,839)	(36,226)	(218,361)
Cash generated by operations	**761,726**	**1,148,181**	**500,433**
Interest paid	(75,555)	(42,495)	(37,382)
Interest received	16,911	14,193	48,101
Income tax paid for ordinary activity	(197,966)	(190,826)	(120,495)
Net cash flow from operating activities	**505,116**	**929,053**	**390,657**
Cash flows from investing activities			
Acquisition of non-current assets	(274,356)	(396,666)	(313,934)
Income from the sale of non-current assets	4,488	11,034	1,319
Acquisition of subsidiaries	(164,293)	-	-
Income from the sale of subsidiaries	(1,114)	-	-
Net cash flow from investing activities	**(435,275)**	**(385,632)**	**(312,615)**
Cash flows from financing activities			
Proceeds from issued bonds	-	750,000	-
Repayments of loans and borrowings	(216,500)	(39,180)	(11,881)
Proceeds of loans and borrowings	254,759	28,494	11,762
Changes in equity	*(573,977)*	*(260,467)*	*(97,568)*
Dividends paid to shareholders	(560,000)	(255,000)	(90,000)
Dividends paid to non-controlling interests	(13,977)	(5,467)	(7,568)
Net cash flow from financing activities	**(535,718)**	**478,847**	**(97,687)**

Net change in cash and cash equivalents	**(465,313)**	**1,022,268**	**(19,645)**
Opening balance of cash and cash equivalents	**1,345,628**	**323,360**	**343,005**
Effects of exchange rate changes on cash and cash equivalents	564	-	-
Closing balance of cash and cash equivalents	**880,315**	**1,345,628**	**323,360**

Other Historical Financial and Operating Data

This Prospectus 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 Prospectus presents the following Alternative Performance Measures defined in this Prospectus: EBITDA, EBITDA margin, net financial debt and net leverage ratio. The Company has included the Alternative Performance Measures in the Prospectus 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. 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.

	For the year ended 31 December		
	2019	**2018**	**2017**
	(CZK thousands, unless otherwise indicated)		
EBITDA[(1)]	1,341,016	1,113,647	972,130
EBITDA margin[(2)]	22.5%	20.9%	21.3%
Net income margin[(3]	12.3%	10.6%	11.1%
Net financial debt at the end of the period[(4)]	1,547,629	945,440	1,241,142
Net leverage ratio (x)[(5)]	1.2x	0.8x	1.3x

(1) The Group's management considers EBITDA to be a key performance indicator in evaluating the Group's business. As described above, EBITDA is not a measure of performance defined or recognized under IFRS. The Group calculates EBITDA based on the figures included in the Audited Financial Statements. EBITDA is defined as profit for the period from continued operations *plus* income tax and depreciation and amortization *less* interest income *plus* interest expenses.

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

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

(4) 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. The following table sets forth the Group's net financial debt for the dates indicated. Net financial debt is used by the Group to assess its indebtedness to financial institutions, including banks, leasing companies and bond investors.

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

The following is a reconciliation of profit for the period to EBITDA for the periods indicated.

	For the year ended 31 December		
	2019	**2018**	**2017**
	(CZK thousands)		
Profit before tax..	**734,119**	**568,606**	**504,500**
Income tax	178,336	145,837	131,128
Depreciation and amortization	370,601	365,189	349,644
Interest income	(27,882)	(13,231)	(44,038)
Interest expense	85,842	47,246	30,896
EBITDA	**1,341,016**	**1,113,647**	**972,130**

	For the year ended 31 December		
	2019	**2018**	**2017**
	(CZK thousands, unless otherwise indicated)		
Bank loans and borrowings	2,252,688	2,253,987	1,526,862
Short-term bank loans and overdrafts...	36,958	32,253	29,968
Lease payables (current and non-current)	63,486	4,828	7,672
....			
Less: Cash and cash equivalents	*(805,503)*	*(1,345,628)*	*(323,360)*
Net financial debt at the end of the period	**1,547,629**	**945,440**	**1,241,042**

OPERATING AND FINANCIAL REVIEW

The following discussion should be read together with the Audited Financial Statements, and the independent audit opinions thereon, included in this Prospectus beginning on page F-1. See "Selected Historical Financial Information" and "Presentation of Financial and Other Information". The following discussion of the Group's results of operations also makes reference to certain non-IFRS financial measures. See "Selected Historical Financial Information—Other Historical Financial and Operating Data".

Overview

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. The Group is headquartered in the Czech Republic and has production facilities in the Czech Republic and the United States. It has over 80 years of history. The Company is the holding company of the Group.

In 2019, the Group generated CZK 6.0 billion of revenues and CZK 1.3 billion of EBITDA. In 2019, 22.9% of revenues were generated in the Czech Republic, 50.7% in the United States and 14.0% in the EU (excluding the Czech Republic). In 2019, the Group sold 374,276 firearms to customers in 90 countries on six continents. In 2019, the Group had an average of 1,619 full-time equivalent employees, which were based in the Czech Republic and the United States.

The design, production, assembly and sale of firearms and tactical accessories are reported in the Group's production, purchase and sale of firearms and accessories segment (the "**Firearms and Accessories Segment**"). The Group's other revenues and expenses from transactions that are not reported as part of the Firearms and Accessories Segment, such as revenues from temporary non-firearm production using the Group's excess production capacities from time to time, are reported in its other segment (the "**Other Segment**"). In 2019, the Group's shareholder decided to spin-off all of the Group's assets related to the production of automotive and aviation components (the "**Automotive and Aviation Business**"), other than certain buildings, to CZ-AUTO SYSTEMS a.s., a newly established entity controlled directly by the Sole Shareholder. The spin-off was completed on 31 March 2020 with the decisive date of the spin-off as of 2 January 2020. The Group has not and will not receive any consideration from the Sole Shareholder for the disposed assets. The disposal is intended to enable the Group to focus its attention on the Firearms and Accessories Segment. As a result of the decision, the Automotive and Aviation Business was classified as discontinued operations in the consolidated statement of profit or loss and other comprehensive income for 2019, with comparative amounts for 2018 and 2017 restated for the reclassification of discontinued operations. In the consolidated statement of financial position, as of 31 December 2019, the assets and liabilities of the Automotive and Aviation Business are shown as assets and liabilities for distribution to owners, respectively. The cash flow statement for 2019, 2018 and 2017 includes the cash flows for both continuing and discontinued operations.

Unless otherwise specified, all amounts in respect of the Group's results of operations in this Operating and Financial Review relate to the Group's continuing operations only.

Key Factors Affecting Comparability between Periods

Acquisitions from the Sole Shareholder

In June 2019, the Group acquired the Sole Shareholder's interests in CZ Export Praha, s.r.o. ("**CZ EXPORT**"), CZG VIB s.r.o ("**CZG VIB** "), CZG-Česká zbrojovka Group International s.r.o. (formerly CZG Tisem s.r.o.) ("**CZG International**") and VIBROM spol. s. r.o. ("**VIBROM**"). See "*General Information on the Company and the Group—Pre-Admission Reorganization*." On a combined basis, these companies contributed less than 10% to the Group's 2019 revenues and less than 5% to the Group's 2019 EBITDA, disregarding the intragroup transactions, in particular, sales of firearms by CZUB to CZ EXPORT, which are then resold by CZ EXPORT to HM ARZENÁL under the Framework Agreement, and also production and sales of MIM parts from VIBROM to Group companies, mainly CZUB, as components for its productions of firearms.

Key Factors Affecting the Group's Results of Operations

Firearm Sales

The Group's revenues are derived through the manufacture and sale of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian use and through related licencing and services. The revenues the Group generates therefore generally depend primarily on the demand for the Group's products and the product mix and also on the prices for the Group's products.

The following table sets forth a breakdown of the Group's firearm unit sales for the periods indicated.

	For the year ended 31 December		
	2019	**2018**	**2017**
Number of Firearm units sold by the Group			
(excluding unregistered air rifles) **...**	**374,276**	**402,055**	**324,428**

Civilian market

The majority of the Group's firearms sales are made to civilian markets worldwide, with the U.S. market being the single most important geographic market in which the Group sells its products (mainly through wholesalers). The U.S. accounted for 50.7% of the Group's revenues in 2019. The Group has been steadily growing its sales outside the Czech Republic, particularly to the U.S. and the EU (excluding the Czech Republic), which has enabled the Group to exceed the overall growth in the small firearms market worldwide (according to the BIS Small Arms Market Report, the global small firearms market grew by 3.0% in 2018 in terms of the number of firearm units sold, compared to a 23.8% increase in the number of firearm units sold by the Group in 2018), see "*Industry*"). The Group's management believes that the Group is well positioned to continue to outperform overall market growth due to its robust product mix, competitive cost base and overall value offering.

Sales in the civilian market are driven by the buying habits of civilian customers, which are affected not only by disposable financial resources and trends such as the increasing number of sporting shooters and purchases for personal defence, which impacts the mix of products sold by the Group, but also by the political environment and actual and expected regulation of the purchase, possession and use of firearms in the customers' home markets. The fear of the potential implementation of stricter regulation of the purchase of the Group's products in the markets in which the Group operates may result in an initial demand spike while the regulation is being considered, followed by a drop in demand upon its implementation, as demonstrated in the U.S. Based on ATF data, firearms production in the United States experienced an increasing trend that is observable beginning in 2014, which peaked in 2016, a presidential election year, when approximately 11.5 million firearms were produced. After a significant drop in 2017, when the total production in terms of units fell by 27.6% to 8.3 million firearms, there was a recovery in the number of units produced (4% more units produced in 2018 as compared to the previous year). Management believes the drop in demand and production overcapacity after 2016 was likely due to front-loading of the firearms purchases as consumers believed more restrictive firearm possession regulation would come into force. See "*Risk Factors—Legal and regulatory risks—The Group's performance is influenced by actual or expected changes in firearms control legislation.*"

Military and Law Enforcement market

The majority of the Group's sales to military and law enforcement customers in 2019 were to customers who are federal, state or local governments and agencies of NATO member countries. The most important geographical markets for military and law enforcement sales in 2019 were the Czech Republic, Hungary and Slovakia. The Group's results of operations can be significantly affected both by the overall defence and security policies of federal, state or local governments and agencies, and more specifically, by the current procurement and budget priorities of those agencies. There are many competing factors that influence how military and law enforcement customers allocate their budgets. These factors include both internal fiscal concerns and external fiscal, political and economic factors. While changes in defence or security policies can have an impact on the Group's business in the longer term, the procurement priorities of military and law enforcement customers can affect the Group's results of operations over the short to medium term. Although most sales to military and law enforcement customers are pursuant to long-term programs and contracts, delays by such customers in placing orders under contracts, reductions or changes in timing of funding, changes in the size of orders or changes in specifications may occur. Such budget constraints are even more evident in developing countries due to their lower gross domestic product. Sales to developing countries are often also less predictable than sales to developed countries. In addition, while relatively rare, from time to time military and law enforcement customers may terminate arms procurement contracts, and it has occurred that even though the Group won a tender process, the customer did not enter into a contract with the Group following completion of the tender process. Any delays or changes by military and law enforcement customers may have a material negative impact on the Group's revenues and results of operations in the period in which they occur.

Product mix and procurement and service contracts

The Group's results of operations in any period are affected by the product mix and, in respect of sales to military and law enforcement customers, terms of the individual procurement contracts in effect in any period. The revenues and margins the Group generates vary widely by product. In recent years, demand for the Group's products in the civilian market has shifted. While civilian demand for some of the Group's products, mainly hunting and centrefire rifles, has slowed, civilian demand for handguns, in particular, pistols, has grown as a result of the increasing number of sporting shooters and personal defence purchases. In 2019, the Group terminated production of airguns for sports shooters.

The price and terms the Group is able to negotiate for its products in procurement contracts with military and law enforcement customers are significantly affected by the defence and security policies and the procurement and budget priorities of federal, state or local governments and agencies. In addition, the Group's unit costs tend to decrease over the first few years of production of a new product as a result of improving efficiency in the manufacturing process. Consequently, margins for a specific product tend to increase and then stabilize over the life of the product. The Group's revenues and margins are also affected by how favourable to the Group the terms of individual contracts with its customers are, which terms may vary within such contracts depending on certain variables. The resulting mix of products coupled with the nature of contract terms (particularly the pricing terms the Group is able to negotiate with its customers), can have an effect on the Group's revenues and profitability from period to period.

Competition and Regulatory Environment

The small firearms industry is highly competitive, and competition presents an ongoing threat to the success of the Group's business, particularly in the civilian market. The global market for small firearms is highly fragmented and includes hundreds of companies of various sizes and market power. According to the BIS Small Arms Report, the market is observing new entrants with new technologies, which further decreases the stability of the global small firearms industry. Some firearms types, mainly polymer framed pistols, remain under quite fierce competitive pressure reflected in the very aggressive pricing policies of some of the Group's competitors. The Group competes primarily with respect to price, quality, customer service, delivery performance and innovation. The level of competition affects the Group's ability to set prices, including its ability to pass through cost increases to its customers. Consequently, competition has a direct impact on the Group's results of operations. Strong competition could reduce the Group's sales volumes and adversely impact its prices and margins. It could also require the Group to spend more on sales, marketing and research and development. In addition, increased competition and any resulting pricing pressure may result in the Group incurring impairment charges, if the carrying value of an asset is no longer recoverable as a result of a change in market conditions. See "*Risk Factors—Risks related to the Group's business activities and industry—The Group's industry is highly competitive, and the success of the Group's business depends on its ability to compete effectively.*"

In addition, any introduction or increase of import tariffs on firearms by the United States and other countries into which the Group exports its products or any introduction or increase of sanctions or embargos related to 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 exporting to such countries. For instance, the Group has been impacted by sanctions against Russia imposed by the EU beginning in 2014, including a firearms embargo. Before the imposition of those sanctions, Russia was the Group's second most important market after the U.S., but with the imposition of these sanctions, that business ceased. See "*Risk Factors—Risks related to the Group's business activities and industry—The*

Group is exposed to the risk of rising protectionism in international trade." and "*Risk Factors—Legal and regulatory risks—A large portion of the Group's revenue depends on obtaining export licenses.*"

Currency exchange rate fluctuations and hedging

The Group's functional currency is CZK. The significant majority of the Group's revenues are denominated in USD and to lesser extent in EUR, while most of the Group's costs, capital expenditures and investments are denominated in CZK as the Group's primary manufacturing facilities are currently operated in the Czech Republic.

This currency mismatch represents significant foreign exchange exposure for the Group. Fluctuations in currency rates can influence the Group's operating and financial result. As a significant portion of the Group's sales is denominated in USD and EUR, an appreciation of CZK against EUR or USD generally has a negative impact on the Group's revenues and CZK depreciation against EUR or USD typically has a positive effect on the Group's revenues.

In order to mitigate the foreign exchange risk and the impact of foreign exchange fluctuations on its operating results, the Group engages in hedging by entering into derivative transactions, including currency contracts, put options, call options, currency swaps and forward contracts. Due to the lack of long term contracts, the Group hedges its expected future foreign currency exchange rate exposure, rather than its exposure under specific underlying contracts, which is referred to as "macro hedging". This can result in an over-hedged or under-hedged position in case the estimates of future foreign exchange exposure do not materialize. In addition, to the extent these hedges do not qualify for cash flow hedge accounting (under which changes in fair values of the derivatives are recognized in other comprehensive income) changes in the fair values of the derivatives are recognized directly as income or loss in the consolidated statement of profit or loss and other comprehensive income and thus directly affect the Group's results of operations. The Group's net income from derivative transactions was CZK 40.6 million in 2019, CZK 82.7 million in 2018 and CZK 174.7 million in 2017. See "*Risk Factors—Risks related to the Group's financial situation—The Group's business is subject to foreign exchange risk.*" In addition, the combined financial impact of the foreign currency derivatives which qualified for the hedge accounting, together with the foreign currency translation of foreign operations represented CZK 140.9 million in 2019, CZK (385.1) million in 2018 and CZK 208.7 million in 2017.

Personnel costs

With its main production facility located in the Czech Republic, the Group benefits from the relatively low cost of labour in the country. However, improving economic conditions in recent years in the Czech Republic have created upward pressure on wages that has increased the Group's personnel costs. The Group has increased wages in the Czech Republic in line with this trend but also reduced its headcount in 2019 to partially offset the per employee cost. The Group had an average of 1,619, 1,718 and 1,682 full-time equivalent employees in 2019, 2018 and 2017, respectively.

Seasonality

The Group's business is driven by the timing of its customers' purchasing decisions, which, for military and law enforcement customers, are in turn driven by customers' annual budgets. Military and law enforcement customers' budgets are generally set on an annual basis. Further, customers operating with annual budgets are often required to spend their entire budgets within the annual period in which they are granted. As a result, subject to exceptions, the majority of their spending often occurs in the fourth quarter of the year, followed typically by significantly lower spending in the first quarter of the following year. This can result in a spike in orders in the fourth quarter of the year and increased pressure on the production capacity.

Key Income Statement Items

The consolidated statement of profit or loss and other comprehensive income items described below, other than the item "Post-tax profit from discontinued operations" reflect only the results of the Group's continuing operations.

Revenues from the sale of own products, goods and services

Revenues from the sale of own products, goods and services, or revenues, consist of revenues from the sale of own products, sale of goods, sale of licenses and sale of services. The Group's revenues are mainly derived from the sale of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian use. Revenue from the sale of licenses mainly related to the sale of a production license to CZ Export Praha, s.r.o. as a part of the framework agreement on technology transfer cooperation (the "**Framework Agreement**") with HM ARZENÁL (see "*The Group's Business—Material Contracts and Financing Arrangements—Framework Agreement on Technology Transfer Cooperation*"). However, HM ARZENÁL payments to the Group were overdue in the amount of EUR 12.7 million (equivalent to CZK 347.0 million at an exchange rate of 27.325 CZK/EUR as of 31 March 2020) as of 26 March 2020. In order to ensure optimal cash management, the receivable was assigned to the Sole Shareholder on 26 March 2020 for its net book value. As a result of the assignment, the Group did not recognize an allowance for these receivables in the Audited Financial Statements. For more detail, refer to note 21 of the Audited Financial Statements. As HM ARZENÁL paid the receivable in full to the Group on 1 April 2020, the Group and the Sole Shareholder agreed to reverse the assignment and set-off any payments previously agreed in connection with the assignment of the receivable.

Other operating income

Other operating income comprises various other operating income items, such as contractual penalties, rental income, grants, reimbursement from the insurance company, reimbursement from employees, claims from suppliers etc., proceeds from the sale of fixed assets, proceeds from the sale of material and other operating income.

Changes in inventories of finished goods and works in progress

Changes in inventories of finished goods and works in progress represents the change in the value of internally developed inventories (Group manufactured items that are completed and ready for sale) and work in progress (portion of Group manufactured items in various stages of production but not yet complete). Internally developed inventories and work in progress are valued at the actual purchase cost (material) *plus* the transformation costs (including direct payroll costs and the production overheads corresponding to regular production capacity), *net of* interest. The net realizable value of internally developed inventories and work in progress is the estimated selling price of such inventory *less* all estimated costs of completion and selling costs.

Own work capitalized

Own work capitalized represents the production cost of additions to tangible fixed assets that have been manufactured by the Group itself and consequently caused material, labour and other production costs. Tangible fixed assets manufactured by the Group are measured at internal cost including direct material and payroll expenses and production overheads.

Raw materials and consumables used

Raw materials and consumables used comprise the cost of raw material consumption, costs of goods sold and energy consumption for the products and services the Group sells. The main cost, material consumption, which represented 68.3% of raw materials and consumables used in 2019, relates to the consumption of raw materials such as metal, plastic and wood.

Services

Services comprise various expense items, such as maintenance of machinery and buildings, freight expenses relating to sales, commission from sales, external services, promotion, advertising and exhibitions, postage, freight and telecommunication expenses, rental expenses, travel expenses, repairs, advisory, legal and translation services, car leases expenses, employment agency expenses, recycling and waste handling, services related to firearms and services of immaterial nature and other services.

Personnel costs

Personnel costs include wages and bonuses and other employee benefits paid to the Group's employees and the members of its management boards, cost of social security and health insurance and other social costs.

Depreciation and amortization

Depreciation expenses include costs related to the depreciation of tangible assets, in particular buildings and machinery. Amortization expenses include costs related to the amortization of various intangible assets, in particular contractual customer relations, capitalized research and development ("**R&D**") costs and software. The Company expects that upon completion of the Little Rock Project, our depreciation and amortization expenses will increase significantly.

Other operating expenses

Other operating expenses comprise various other operating expense items, such as taxes and levies, change in provisions and allowances, gifts, fines and penalties, insurance, written-off receivables, damage compensation, liquidation of inventories, impairment of assets held for sale, loss from the sale of material and other operating expenses.

Financial income and expenses

Interest income/expenses

The Group's interest expenses largely relate to CZUB's outstanding bonds and to the Group's credit facilities. The Group's interest income mainly relates to interest earned on bank deposits and bonds and securities held for trading.

Other financial income/expenses

Other financial income/expenses consists of foreign currency exchange rate gains/losses, income/expenses from derivative transactions, primarily related to the Group's currency and interest rate hedges, expenses for banking fees and certain other minor financial income/expenses.

Income tax

Income tax includes current and deferred tax expense. Current taxes are recognized for taxable income of the financial year in which such income was generated in each tax jurisdiction in which the Group operates, as well as for additional tax payments or refunds relating to prior years. Deferred taxes are recognized for temporary differences between the carrying amounts of existing assets and liabilities in financial statements and their respective tax base.

The Group operates its business in various tax jurisdictions and, therefore, has to determine the income taxes considering the tax rates of the different tax jurisdictions. In the Czech Republic, corporations are subject to 19% corporate income tax.

Post-tax profit from discontinued operations

Post-tax profit from discontinued operations represents the net profit or loss of all operations and entities that qualify for treatment as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations." Profit from discontinued operations in the Group's Audited Financial Statements relates to the Group's former Automotive and Aviation Business.

Results of operations

The following tables set forth key items from the Group's consolidated statement of profit or loss and other comprehensive income for the periods indicated derived from the Audited Financial Statements.

	For the year ended 31 December		
	2019	2018	2017
		(CZK thousands)	
Revenues from the sale of own products, goods and services	5,958,742	5,339,581	4,555,483
Other operating income	101,515	49,466	18,210
Changes in inventories of finished goods and works in progress	52,096	1,943	237,599
Own work capitalized	104,974	103,919	116,209
Raw materials and consumables used	(2,885,982)	(2,490,602)	(2,074,732)
Services	(820,386)	(814,033)	(841,026)
Personnel costs	(1,080,522)	(1,045,645)	(954,008)
Depreciation and amortization	(370,601)	(365,189)	(349,644)
Other operating expenses	(116,126)	(118,285)	(146,092)
Operating profit	**943,710**	**661,155**	**561,999**
Interest income	27,882	13,231	44,038
Interest expense	(85,842)	(47,246)	(30,896)
Other financial income	373,252	246,920	323,132
Other financial expenses	(346,569)	(159,659)	(263,073)
Share in the profit of associates	22	42	428
Profit before tax	**912,455**	**714,443**	**635,628**
Income tax	(178,336)	(145,837)	(131,128)
Profit for the period from continued operations	**734,119**	**568,606**	**504,500**
Post-tax profit from discontinued operations	**15,192**	**32,307**	**33,517**
Post-tax profit for the period	**749,311**	**600,913**	**538,017**

Financial Year ended 31 December 2019 Compared to Financial Year ended 31 December 2018

Revenues from the sale of own products, goods and services

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

	For the year ended 31 December		Change
	2019	2018	%
		(CZK thousands)	
Czech Republic	1,366,980	1,093,615	25.0%
United States	3,018,113	2,830,049	6.6%
Europe (excl. the Czech Republic)	832,787	750,333	11.0%
Africa	132,712	137,929	(3.8)%
Asia	312,833	253,081	23.6%
Other	295,317	274,574	7.6%
Total	**5,958,742**	**5,339,581**	**11.6%**

Revenues increased by CZK 619.2 million, or 11.6%, from CZK 5.3 billion in 2018 to CZK 6.0 billion in 2019 despite a decrease in the number of firearm units sold and the increase was mainly due to the favourable product and customer mix with an increased share of higher value-added products, such as steel and aluminium frame handguns, rifles and military grade weapons.

Regionally, revenues in the Czech Republic increased by CZK 273.4 million, or 25.0%, from CZK 1,093.6 million in 2018 to CZK 1,367.0 million in 2019, mainly as a result of the successful sale of goods, mainly high calibre ammunition and tactical accessories, to the Group's customers in the Czech Republic. Revenues in the United States increased by CZK

188.1 million, or 6.6%, from CZK 2,830.0 million in 2018 to CZK 3,018.1 million in 2019. Revenues in Europe (excluding the Czech Republic) increased by CZK 82.5 million, or 11.0%, from CZK 750.3 million in 2018 to CZK 832.8 million in 2019. Revenues in Asia increased by CZK 59.8 million, or 23.6%, from CZK 253.1 million in 2018 to CZK 312.8 million in 2019. Revenues in Africa decreased by CZK 5.2 million, or 3.8%, from CZK 137.9 million in 2018 to CZK 132.7 million in 2019. Revenues in the rest of the world (Other) increased by CZK 20.7 million, or 7.6%, from CZK 274.6 million in 2018 to CZK 295.3 million in 2019.

Other operating income

Other operating income increased by CZK 52.0 million, or 105.2%, from CZK 49.5 million in 2018 to CZK 101.5 million in 2019.

Changes in inventories of finished goods and works in progress

Changes in inventories of finished goods and works in progress increased by CZK 50.1 million, or 2,581.2%, from CZK 1.9 million in 2018 to CZK 52.1 million in 2019.

Own work capitalized

Own work capitalized increased by CZK 1.1 million, or 1.0%, from CZK 103.9 million in 2018 to CZK 105.0 million in 2019.

Raw materials and consumables used

Raw materials and consumables used increased by CZK 395.4 million, or 15.9%, from CZK 2,490.6 million in 2018 to CZK 2,886.0 million in 2019. As a percentage of revenues, raw materials and consumables used increased from 46.6% in 2018 to 48.4% in 2019. This relative increase was attributable to a product mix with a higher share of steel and aluminium frame pistols, rifles and military grade weapons. As a result of the change in product mix, the Group increased the share of insourced components as compared to 2018.

Services

Services increased by CZK 6.4 million, or 0.8%, from CZK 814.0 million in 2018 to CZK 820.4 million in 2019. As a percentage of revenues, services decreased from 15.2% in 2018 to 13.8% in 2019. This was mainly caused by higher insourcing (including own employees versus agency workers) and a higher relative increase of revenues compared to the increase of services consumed.

Personnel costs

Personnel costs increased by CZK 34.9 million, or 3.3%, from CZK 1,045.6 million in 2018 to CZK 1,080.5 million in 2019. The increase was attributable to an increase in salaries in line with the overall economic environment in the Czech Republic. In addition, the increase related to additional hours worked due to the increase in insourcing of components, as discussed above. These increases were partially offset by a decrease in the average number of full-time equivalent employees from 1,718 in 2018 to 1,619 in 2019.

Depreciation and amortization

Depreciation and amortization increased by CZK 5.4 million, or 1.5%, from CZK 365.2 million in 2018 to CZK 370.6 million in 2019. 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 decreased by CZK 2.2 million, or 1.8%, from CZK 118.3 million in 2018 to CZK 116.1 million in 2019.

EBITDA

The Group's management considers EBITDA to be a key performance indicator in evaluating the Group's business. EBITDA is not a measure of performance defined or recognized under IFRS. See "*Presentation of Financial and Other Information—Non-IFRS financial measures.*" The Group calculates EBITDA as profit for the period from continued operations *plus* income tax and depreciation and amortization *less* interest income *plus* interest expenses. For a reconciliation of profit before tax to EBITDA see "*Selected Historical Financial Information—Other Historical Financial and Operating Data*."

EBITDA increased by CZK 227.4 million, or 20.4%, from CZK 1,113.6 million in 2018 to CZK 1,341.0 million in 2019. The increase in 2019 related to an improved product mix, which included an increased share of higher value-added products such as steel and aluminium frame handguns, rifles and military grade weapons. In addition, those products were sold to both military and law enforcement customers and civilian customers.

Less than 5% of EBITDA was attributable to the acquisition of CZ Export Praha, s.r.o, CZG VIB, CZG International and VIBROM.

Financial income and expenses

Net financial expenses increased by CZK 84.5 million, from net financial income of CZK 53.2 million in 2018 to net financial expenses of CZK 31.3 million in 2019. The increase was primarily a result of the sale of a second tranche of bonds by CZUB in an aggregate principal amount of CZK 750.0 million in 2018 to investors (increasing the total principal amount of the CZUB Bonds originally issued in 2016 to CZK 2.25 billion) and also by the increase of the CZK reference floating rate 6M PRIBOR. Interest income increased from CZK 13.2 million in 2018 to CZK 27.9 million in 2019, while interest expenses increased from CZK 47.2 million to CZK 85.8 million. Other net financial income decreased by CZK 60.6 million, or 69.4%, from CZK 87.3 million in 2018 to CZK 26.7 million in 2019.

Profit before tax

Profit before tax increased by CZK 198.0 million, or 27.7%, from CZK 714.4 million in 2018 to CZK 912.5 million in 2019. The increase in 2019 related to a favourable product mix, with an increased share of higher value-added products, such as steel and aluminium frame handguns, rifles and military grade weapons. In addition, those products were sold to both military and law enforcement customers and civilian customers.

Income tax

Largely as a result of the higher pre-tax profit, income tax increased by CZK 32.5 million, or 22.3%, from CZK 145.8 million in 2018 to CZK 178.3 million in 2019. In addition, the Group's effective tax rate decreased from 20.4% in 2018 to 19.5% in 2019.

Profit for the period from continued operations

Profit for the period from continued operations increased by CZK 165.5 million, or 29.1%, from CZK 568.6 million in 2018 to CZK 734.1 million in 2019.

Post-tax profit from discontinued operations

Post-tax profit from discontinued operations decreased by CZK 17.1 million, or 53.0%, from CZK 32.3 million in 2018 to CZK 15.2 million in 2019. This can be attributed to the challenging global market environment for both the automotive and the aerospace industries in 2019.

Post-tax profit for the period

Post-tax profit for the period increased by CZK 148.4 million, or 24.7%, from CZK 600.9 million in 2018 to CZK 749.3 million in 2019. The increase in post-tax profit for the period was driven by the strong performance of the Group's continued operations, which more than offset the decline in performance of the discontinued operations.

Financial Year ended 31 December 2018 Compared to Financial Year ended 31 December 2017

Revenues from the sale of own products, goods and services

Revenues increased by CZK 784.1 million, or 17.2%, from CZK 4.6 billion in 2017 to CZK 5.3 billion in 2018. The increase was the result of revenue increases in both continuing segments and in all geographic regions except Asia and Africa, and was driven in particular by an increase in the number of firearms sold, from 324,428 firearm units in 2017, to 402,055 firearm units in 2018, which represents an increase of 23.8%. The comparatively lower increase in revenues, as compared to the increase in the number of firearm units sold, resulted mainly from lower per unit sales prices as a result of the different product mix. The increase in the number of firearm units sold was mainly driven by higher sales of polymer-frame pistols, primarily in the civilian market in the U.S. as a result of customer demand for handguns. In addition, large-volume contracts with key military and law enforcement customers, including a sale of grenades and high calibre ammunition to the Czech Ministry of Defence in October 2018 and the commencement of military weapon deliveries to Hungary contributed to the revenue increase. In 2018, the Group also generated revenue in 2018 of CZK 108.7 million from the sale of a production license. Additionally, revenues in 2018 benefited from a favourable exchange rate impact from a weakening of the CZK.

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

	For the year ended 31 December		**Change**
	2018	**2017**	**%**
		(CZK thousands)	
Czech Republic	1,093,615	296,537	268.8%
United States	2,830,049	2,442,869	15.8%
EU (excl. the Czech Republic)	750,333	690,879	8.6%
Africa	137,929	476,328	(71.0)%
Asia	253,081	386,421	(34.5)%
Other	274,574	262,449	4.6%
Total	**5,339,581**	**4,555,483**	**17.2%**

Regionally, revenues in the Czech Republic significantly increased by CZK 797.1 million, or 268.8%, from CZK 296.5 million in 2017 to CZK 1,093.6 million in 2018, mainly as a result of an increase in the number of firearms sold to military and law enforcement customers in 2018 and a sale of grenades and high calibre ammunition to the Czech Ministry of Defence in October 2018. Revenues in the United States increased by CZK 387.2 million, or 15.8%, from CZK 2,444.9 million in 2017 to CZK 2,830.0 million in 2018 primarily driven by an increase in the number of firearm units sold to civilian customers in the U.S. Revenues in the EU (excluding the Czech Republic) increased by CZK 59.5 million, or 8.6%, from CZK 690.9 million in 2017 to CZK 750.3 million in 2018, primarily driven by the start-up of firearm revenues in Hungary as a result of the Framework Agreement with HM ARZENÁL of Hungary. Revenues in Africa and Asia decreased by 71.0% and 34.5%, respectively. Revenues in Africa and Asia were higher in 2017 due to one-time deliveries made in 2017 that were not repeated in 2018. Revenues in the rest of the world (Other) increased by 4.6%.

Other operating income

Other operating income increased by CZK 31.3 million, or 171.6%, from CZK 18.2 million in 2017 to CZK 49.5 million in 2018.

Changes in inventories of finished goods and works in progress

Changes in inventories of finished goods and works in progress decreased substantially by CZK 235.7 million, or 99.2%, from CZK 237.6 million in 2017 to CZK 1.9 million in 2018. The decrease was mainly related to stable amount of inventories and its structure between years 2017 and 2018.

Own work capitalized

Own work capitalized decreased by CZK 12.3 million, or 10.6%, from CZK 116.2 million in 2017 to CZK 103.9 million in 2018.

Raw materials and consumables used

Raw materials and consumables used increased by CZK 415.9 million, or 20.0%, from CZK 2,074.7 million in 2017 to CZK 2,490.6 million in 2018. Of that increase, CZK 259.0 million was attributable to an increase in the costs of goods sold and CZK 154.5 million was attributable to increased materials consumption, primarily as a result of the increase in the number of firearm units sold, as discussed above. As a percentage of revenues, raw materials and consumables used increased slightly, from 45.5% in 2017 to 46.6% in 2018.

Services

Services decreased by CZK 27.0 million, or 3.2%, from CZK 841.0 million in 2017 to CZK 814.0 million in 2018. As a percentage of revenues, services decreased, from 18.5% in 2017 to 15.2% in 2018.

Personnel costs

Personnel costs increased by CZK 91.6 million, or 9.6%, from CZK 954.0 million in 2017 to CZK 1,045.6 million in 2018. The increase was attributable to an increase in salaries in line with the overall economic environment in the Czech Republic, an increase in the number of employees in administration and production roles. The remaining increase was primarily due to an increase in other employee benefits.

Depreciation and amortization

Depreciation and amortization expenses increased by CZK 15.5 million, or 4.4%, from CZK 349.6 million in 2017 to CZK 365.2 million in 2018.

Other operating expenses

Other operating expenses decreased by CZK 27.8 million, or 19.0%, from CZK 146.1 million in 2017 to CZK 118.3 million in 2018. Of that decrease CZK 39.9 million was attributable to a decrease in change in provisions and allowances related to decreased inventories. An additional decrease of CZK 26.6 million was due to a decrease in expenses related to the liquidation of inventories resulting from a phase out of prior product lines and obsolete products. These decreases were partially offset by an increase of CZK 20.2 million due to impairments related to assets held for sale.

EBITDA

The Group's management considers EBITDA to be a key performance indicator in evaluating the Group's business. EBITDA is not a measure of performance defined or recognized under IFRS. See "*Presentation of Financial and Other Information—Non-IFRS financial measures.*" The Group calculates EBITDA as profit for the period from continued operations *plus* income tax and depreciation and amortization *less* interest income *plus* interest expenses. For a reconciliation of profit before tax to EBITDA see "*Selected Historical Financial Information—Other Historical Financial and Operating Data*."

EBITDA increased by CZK 141.5 million, or 14.6%, from CZK 972.1 million in 2017 to CZK 1,113.6 million in 2018. The increase in 2018 resulted from the increase in the number of firearm units sold, as discussed above, together with the favourable product mix as well as newly acquired key contracts with military and law enforcement customers.

Financial income and expenses

Net financial income decreased by CZK 20.0 million, or 27.3%, from CZK 73.2 million in 2017 to CZK 53.2 million in 2018. Interest income decreased from CZK 44.0 million in 2017 to CZK 13.2 million in 2018, while interest expenses increased from CZK 30.9 million to CZK 47.2 million. Other net financial income increased by CZK 27.2 million, or 45.3%, from CZK 60.1 million in 2017 to CZK 87.3 million in 2018.

Profit before tax

Profit before tax increased by CZK 78.8 million, or 12.4%, from CZK 635.6 million in 2017 to CZK 714.4 million in 2018.

Income taxes

Income taxes increased by CZK 14.7 million, or 11.2%, from CZK 131.1 million in 2017 to CZK 145.8 million in 2018. Income tax payable decreased slightly, however, this was more than offset by a decrease in deferred tax income.

Profit for the period from continued operations

Profit for the period from continued operations increased by CZK 64.1 million, or 12.7%, from CZK 504.5 million in 2017 to CZK 568.6 million in 2018.

Post-tax profit from discontinued operations

Post-tax profit from discontinued operations decreased by CZK 1.2 million, or 3.6%, from CZK 33.5 million in 2017 to CZK 32.3 million in 2018.

Post-tax profit for the period

Post-tax profit for the period increased by CZK 62.9 million, or 11.7%, from CZK 538.0 million in 2017 to CZK 600.9 million in 2018, for the reasons discussed above.

Liquidity and Capital Resources

Overview

Historically, the Group's liquidity requirements have been for debt service obligations, working capital requirements, capital expenditures and payment of dividends, and the Group expects these to also be its principal uses of liquidity going forward. The Group's principal sources of liquidity have been cash generated from its operating activities, borrowings under credit facilities and proceeds from the issuance of corporate bonds.

Cash Flows

The following table sets forth an overview of the Group's cash flows for the periods indicated. The table includes the cash flows for both continuing and discontinued operations.

	For the year ended 31 December		
	2019	**2018**	**2017**
		(CZK thousands)	
Net cash flow from operating activities	**505,116**	**929,053**	**390,657**
Of which related to:			
Continuing operations...	410,882	828,652	314,378
Discontinued operations	94,234	100,401	76,279
Net cash flow from investing activities	**(435,275)**	**(385,632)**	**(312,615)**
Of which related to:			
Continuing operations...	(374,160)	(330,632)	(273,904)
Discontinued operations	(61,115)	(55,000)	(38,711)
Net cash flow from financing activities......................................	**(535,718)**	**478,847**	**(97,687)**
Of which related to:			

Continuing operations	(530,102)	483,717	(92,319)
Discontinued operations	(5,616)	(4,870)	(5,368)
Net change in cash and cash equivalents	**(465,313)**	**1,022,268**	**(19,645)**
Opening balance of cash and cash equivalents	**1,345,628**	**323,360**	**343,005**
Closing balance of cash and cash equivalents	**880,315**	**1,345,628**	**323,360**

Cash flows from operating activities

Cash flow from operating activities (continuing operations) comprised an inflow of CZK 410.9 million in 2019 and an inflow of CZK 828.7 million in 2018. This decrease was mainly due to the increase of receivables, particularly related to delayed payments by a Group customer (the outstanding receivables from that customer were paid on 1 April 2020).

Cash flow from operating activities (discontinued operations) comprised an inflow of CZK 94.2 million in 2019 and an inflow of CZK 100.4 million in 2018. As a result, net cash flow from operating activities (continuing and discontinued operations) decreased by CZK 423.9 million, from CZK 929.1 million in 2018 to CZK 505.1 million in 2019.

Cash flows from operating activities (continuing operations) comprised an inflow of CZK 828.7 million in 2018 and an inflow of CZK 314.4 million in 2017. The change in operating cash flow was primarily due to increased profitability and better working capital management in 2018.

Cash flow from operating activities (discontinued operations) comprised an inflow of CZK 100.4 million in 2018 and an inflow of CZK 76.3 million in 2017.As a result, net cash flow from operating activities (continuing and discontinued operations) increased by CZK 538.4 million, from CZK 390.7 million in 2017 to CZK 929.1 million in 2018. This increase was mainly due to a positive movement in change in working capital, which resulted in cash inflows of CZK 40.1 million in 2018, compared to an outflow of CZK 201.4 million in 2017. This improvement in working capital was mainly due to the Group's efforts to decrease its inventory of finished goods, materials and unfinished products (CZK 237.6 million in 2017 and CZK 1.9 million in 2018) as part of the Group's active working capital management. The increase in operating profit also contributed to the increase in cash flow from operating activities.

Cash flows from investing activities

Cash flows from investing activities (continuing operations) comprised outflows of CZK 374.2 million in 2019 and CZK 330.6 million in 2018. The increase was mainly the result of the acquisition of CZ EXPORT, CZG VIB, CZG International and VIBROM from the Sole Shareholder, which amounted to a cash outflow of CZK 164.3 million in 2019, while there were no acquisitions of subsidiaries in 2018. Capital expenditures (defined by the Group as cash payments for the acquisition of non-current assets as reflected in the corresponding line item in the consolidated cash flow statement of the Audited Financial Statements), on the other hand declined, from CZK 396.7 million in 2018 to CZK 274.4 million in 2019. See "—*Capital Expenditures*" below.

Cash flow from investing activities (discontinued operations) comprised outflows of CZK 61.1 million in 2019 and CZK 55.0 million in 2018.

As a result, net cash flow from investing activities (continuing and discontinued operations) comprised outflows of CZK 435.3 million in 2019 and CZK 385.6 million in 2018.

Cash flow from investing activities (continuing operations) comprised cash outflows of CZK 330.6 million in 2018 and CZK 273.9 million in 2017. The decrease was mainly the result of higher capital expenditures. See "—*Capital Expenditures*" below.

Cash flow from investing activities (discontinued operations) comprised outflows of CZK 55.0 million in 2018 and CZK 38.7 million in 2017.

As a result, net cash flow from investing activities (continuing and discontinued operations) were cash outflows of 385.6 million in 2018 and CZK 312.6 million in 2017.

Cash flow from financing activities

Cash flow from financing activities (continued operations) was an outflow of CZK 530.1 million in 2019 and an inflow of CZK 483.7 million in 2018. The cash outflow in 2019 was primarily a result of a dividend payment of CZK 560.0 million. The cash inflow in 2018 was primarily a result of the sale of a second tranche of bonds by CZUB in an aggregate principal amount of CZK 750.0 million in 2018 to investors (increasing the total principal amount of the CZUB Bonds originally issued in 2016 to CZK 2.25 billion), which was partially offset by the payment of dividends of CZK 225.0 million.

Cash flow from financing activities (discontinued operations) were outflows of CZK 5.6 million in 2019 and CZK 4.9 million in 2018.

As a result, net cash flow from financing activities (continuing and discontinued operations) was an outflow of CZK 535.7 million in 2019 and an inflow of CZK 478.8 million in 2018.

Cash flow from financing activities (continuing operations) was an inflow of CZK 483.7 million in 2018 and an outflow of CZK 92.3 million in 2017. The cash inflow in 2018 was primarily a result of the sale of a second tranche of bonds by CZUB to investors as described above, which was partially offset by the payment of dividends of CZK 225.0 million. Dividends paid in 2017 amounted to CZK 90.0 million.

Cash flow from financing activities (discontinued operations) were outflows of CZK 4.8 million in 2018 and CZK 5.4 million in 2017.

As a result, net cash flow from financing activities (continuing and discontinued operations) was an inflow of CZK 478.8 million in 2018 and an outflow of CZK 97.7 million in 2017.

Capital Expenditures

Capital expenditures are defined as the Group's cash payments for the acquisition of non-current assets as reflected in the corresponding line item in the consolidated cash flow statement of the Audited Financial Statements.

Capital Expenditures in the financial years ended 31 December 2019, 2018, 2017

Capital expenditures amounted to CZK 274.4 million in 2019. This amount represents a decrease of CZK 122.3 million compared to 2018. There were several reasons for this decrease, mainly connected with the state of readiness for the potential capital expenditures in the Group's main production facility in Uherský Brod, as well as with the overall review of the production base of the Group in connection with the ongoing preparations of the Little Rock Project. Capital expenditures in 2019 related mainly to machinery and tools at the Group's main production facility in Uherský Brod. The machines purchased were multi-axle machining centres, such as those produced by Doosan and DMG Mori. The Group also its upgraded equipment for vacuum hardening with the purchase of a new oven.

Capital expenditures amounted to CZK 396.7 million in 2018. Capital expenditures in 2018 related mainly to the purchase of production machinery and tools at the Group's main production facility in Uherský Brod. The machines purchased were multi-axle machining centres from Heller and Chrion.

Capital expenditures amounted to CZK 313.9 million in 2017. Capital expenditures in 2017 related mainly to machinery and tools at the Group's main production facility in Uherský Brod. The machines purchased were multi-axle machining centres, such as those produced by Heller, Chiron and Doosan. The Group also purchased a roboised cell for the rifle stock production and polishing.

Current and Planned Capital Expenditures

In order to support the strong demand for the Group's firearms products in the United States, the Group plans to establish a new distribution and production platform in Little Rock, Arkansas. The Group's management believes that the Little Rock Project will allow the Group to more effectively serve U.S. markets than is currently possible with production predominantly based in the Czech Republic. See "*The Group's Business—Facilities and Production—Facilities—United States—Little Rock Project*".

The State of Arkansas has agreed to support the building of the production facility in Little Rock, Arkansas by granting to CZ-MFG, Inc. ("**CZ-MFG**"), a wholly-owned subsidiary of CZ-US HOLDINGS Inc. ("**CZ-US HOLDINGS**"), incentives with a total value in the range of USD 23.4 million (approximately CZK 583.7 million at an exchange rate of 24.494 as of 31 March 2020), including a training program, tax refund program and land donation program. The expected size of the Group's investment, including the incentives, is up to USD 60.0 million to USD 70.0 million (equivalent to CZK 1,496.6 million to CZK 1,746.0 million at an exchange rate of 24.943 CZK/USD as of 31 March 2020). The investments on the project so far amount to approximately USD 1 million and include mainly legal and other advisers' costs and fees in connection with letters of credit. Construction of the Little Rock Project is planned to begin in the second half of 2020 and the Group plans to have the main technology necessary for producing firearms, such as pistols, semi-automatic and fully-automatic firearms in-house in the Little Rock Project production facility before the end of 2021. See "*The Group's Business—Facilities and Production—Facilities—United States—Little Rock Project*". The Group is considering various financing options for its Little Rock Project, which may include the issuance of debt, equity or equity-linked instruments.

In addition, the Group's currently approved investments through 2021 thus far include approximately CZK 500 million relating primarily to upgrading the Group's logistic centre and to foundry upgrades at its main production facility in Uherský Brod. The Group believes that it will be able to fund these investments using cash flow generated by its operations.

The above discussion of the Group's capital expenditure plans and expectations contains forward looking statements which, although based on assumptions that the Group considers reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward looking statements. For a discussion of risks and uncertainties facing the Group as a result of various factors, see "*Important Information about this Prospectus—Information regarding forward-looking statements*" and "*Risk Factors*," in particular, "*Risk Factors—Risks related to the Group's business activities and industry—The planned construction of the Group's new production facility in the United States may be delayed, not completed as currently planned or at all or not produce the benefits expected.*"

Contractual Obligations

The following table sets forth the Group's contractual obligations as of 31 December 2019.

	Payments due by period			
	Up to 1 year	**More than 1 and up to 5 years**	**More than 5 years**	**Total**
	(CZK thousands)			
CZUB Bonds	-	2,250,000	-	2,250,000
Loan agreements and overdrafts	36,958	-	-	36,958
Finance lease payables	6,173	3,159	-	9,332
Trade payables	287,617	3,075	-	290,692
Total	**330,748**	**2,256,234**	**-**	**2,586,982**

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, which was 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 mature on 27 January 2022 and are redeemable at CZUB's option in 2021 at par and bear interest at a floating rate of 6M PRIBOR plus margin of 1.70% per annum. The CZUB Bonds are listed on the Regulated Market of the PSE (see "*The Group's Business—Material Contracts and Financing Arrangements—CZUB Bonds*").

On 12 November 2015, CZUB entered into a loan agreement with Komerční banka, a.s., as original lender, arranger, agent and security agent, and Česká spořitelna, a.s., as original lender and arranger, for the purposes of debt refinancing, investments and financing of operating and corporate needs (the "**Loan Agreement**"). The terms of the Loan Agreement were amended in December 2019 in order to align the terms with those of the CZUB Bonds. The loan originally consisted of a revolving credit line in the amount of CZK 700 million and two term loans in the aggregate amount of CZK 1.45 billion. As of 31 March 2020, EUR 18.3 million (equivalent to CZK 500.0 million at an exchange rate of 27.325 CZK/EUR as of 31 March 2020) was drawn under the revolving credit line. The interest rate applicable to the revolving credit line is calculated as the sum of PRIBOR, EURIBOR or LIBOR and a margin ranging between 0.80% to 1.10%, depending on the currency of the relevant drawing. The final repayment date of all the loans is 30 September 2021 (see "*The Group's Business—Material Contracts and Financing Arrangements—Loan Agreement*").

In addition, the Company and the members of the Group have available cash credit lines in an aggregate amount of CZK 40.0 million and USD 6.0 million from various banks and financial institutions, of which CZK 37.0 million were utilized as of 31 December 2019.

In addition to the contractual obligations shown in the table above, the Group had total purchase commitments of CZK 102.1million as of 31 December 2019 including committed payments for capital expenditures, inventories at consigned storage and an issued letter of credit in connection with the Little Rock Project.

The purpose of the contractual obligations table is to disclose the Company's known contractual obligations, including long-term debt obligations, lease obligations purchase obligations and other long-term liabilities reflected on the balance sheet. A purchase obligation' means an agreement to purchase goods or services that is enforceable and legally binding on the company that specifies all significant terms, including: fixed or minimum quantitates to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction**.**

Off-balance Sheet Arrangements

As of 31 December 2019, the Group had no significant off-balance sheet arrangements apart of derivatives used to hedge both foreign exchange and interest rate risks.

As of 31 December 2019, the Group recorded contingent liabilities related to option contracts entered into between the Company and members of the Company's statutory body for the resale/repurchase of the 14,275 Class B shares in the Company with a nominal value of CZK 700 per share owned by members of the Company's statutory body. The option may be exercised by the relevant members of the Company's statutory body from 31 December 2019. The shares have carried dividend rights since 2015 and members of the Company's statutory body owe CZK 14.1 million to the Company, including interest income, for the purchase of the shares. For more detail, refer to note29.3, of the Audited Financial Statements.

Quantitative and Qualitative Disclosures about Financial Risks

As a result of our business activities, the Group is exposed to various financial risks: market risk in the form of currency and interest rate risks and liquidity risk.

Market Risks

Currency Risk

The Group operates internationally and is therefore exposed to currency risk arising from fluctuating exchange rates between various currencies, in particular exchange rate changes between the Czech koruna and the Euro and the U.S. dollar. The Group seeks to mitigate the impact of exchange rate fluctuations on its results of operations by using derivative instruments. See *"Key Factors Affecting the Group's Results of Operations—Currency exchange rate fluctuations and hedging*" and "*Risk Factors—Risks related to the Group's financial situation—The Group's business is subject to foreign exchange risk.*" For an overview of the net book value of the Group's monetary assets and liabilities denominated in foreign currencies and a sensitivity analysis with respect to the impact of currency exchange rate fluctuations on such assets and liabilities, see notes 30.1 and 30.2 of the Audited Financial Statements.

Interest Rate Risk

The Group is exposed to interest rate risk because the Group has entered into variable-interest financing instruments, including the CZUB Bonds, which carry interest at a floating rate, variable interest rate loans. Interest rate risk is the risk that fair values of or future cash flows from existing or future financial liabilities may fluctuate due to changes in market interest rates. The Group has managed interest rate risk using interest rate swap agreements since 2014. This ensures the utilization of hedging strategies which are most economically effective.

See *" The Group's Business— Material Contracts and Financing Arrangements—CZUB Bonds*" and "*Risk Factors—Risks related to the Group's financial situation—The Group's business is subject to interest rate risk.*" For more detail, refer to note 30.4 of the Audited Financial Statements.

Liquidity Risk

Liquidity risk is a risk that the Group will not have sufficient available resources to meet its payables arising from financial contracts. Liquidity risk arises mostly in relation to the Group's cash flow generated and used for working capital and from financing activities, particularly for servicing the Group's debt, in terms of both interest and capital, and the Group's payment obligations relating to its ordinary business activities. In order to ensure the Group's solvency as well as its financial flexibility, the Group monitors anticipated and actual cash flows, working capital levels and maturities of financial instruments and ensures that adequate borrowing facilities are maintained.

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. As a result of the current COVID-19 pandemic, the Group is carefully assessing the impact of the situation including the impact on its liquidity resources.

See *"Operating and Financial Review—Liquidity and Capital Resources*" and "*Risk Factors—Risks related to the Group's financial situation—The Group's business is subject to liquidity risk.*" For more detail, refer to note 30.5 of the Audited Financial Statements.

Significant Accounting Policies and Critical Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires the Group's management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities for future periods. On an ongoing basis, the Group's management evaluates the Group's estimates, assumptions and judgments.

The Group's management based its assumptions and estimates on parameters available when the Group's consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the Group's control. Such changes are reflected in the assumptions when they occur.

Significant accounting policies are discussed in the note 3 of the Audited Financial Statements.

INDUSTRY

The following discussion is based on certain historical and estimated market, economic and industry data, statistics and other information. This historical and estimated industry and market data was obtained or extrapolated by the Company from industry publications, generated by it through internal analysis and/or based on its analysis and review of third-party materials and reports. For additional information regarding the Company's use of industry and market data in the Prospectus, see "*Important Information about this Prospectus—Market, economic and industry data.*"

The Group designs, produces, assembles and sells firearms and tactical accessories for a wide range of customers. Key market segments include the civilian market segment and the military and law enforcement market segment. The Group sells its products worldwide, but the most important markets for the Group's products are the United States, the Czech Republic and the EU (excluding the Czech Republic) (each a "**Key Market**" and together, the "**Key Markets**").

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. As a traditional Czech firearms producer, the Group continues to have a particularly significant presence in the Czech Republic.

Key Market Segments for the Group

Firearms and Accessories Market

The Group produces a wide range of firearms including pistols, revolvers, assault rifles, submachine guns, grenade launchers, sniper rifles, shotguns, and rimfire 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 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 segment represents the largest consumer of small firearms with approximately 62.0% of volume demand and the military and law enforcement market segment represents approximately 38.0% of volume demand (*Source:* BIS Small Arms Market Report).

The following table sets forth the estimated size (historical and forecast) of the global small firearms market in monetary and volume terms for the period from 2017 to 2023:

Global small firearms market 2017-2023

	2017	**2018**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**CAGR(1)**
Market value *(in USD billions)*............	8.10	8.37	8.66	8.96	9.27	9.60	9.95	3.51%
Market volume *(in billions of units)*	1.01	1.05	1.09	1.13	1.17	1.21	1.26	3.79%

(1) Compound annual growth rate ("**CAGR**").
Source: BIS Small Arms Market Report.

BIS Research estimates that the small firearms market will show solid growth both in terms of market value and market volume and will achieve CAGRs of 3.51% and 3.79%, respectively, for the period from 2017 to 2023.

The following table sets forth the estimated value (historical and forecast) of the global firearms market by application for the period from 2017 to 2023:

Value of global firearms market 2017-2023, by application

	2017	2018	2019F	2020F	2021F	2022F	2023F	CAGR
				(USD billion)				
Civilian (personal defence)	2.50	2.59	2.68	2.78	2.88	2.99	3.10	3.66%
Hunting and shooting sports	1.48	1.52	1.56	1.60	1.65	1.70	1.75	2.49%
Military..........................	2.91	3.01	3.12	3.23	3.35	3.47	3.61	3.68%
Law enforcement	1.21	1.25	1.30	1.34	1.39	1.44	1.49	3.49%
Total.............................	**8.10**	**8.37**	**8.66**	**8.96**	**9.27**	**9.60**	**9.95**	**3.51%**

Source: BIS Small Arms Market Report.

In addition, BIS Research expects the civilian market segment to lead overall market growth in terms of the volume of units until 2023, closely followed by sales to militaries.

The following table sets forth the estimated value (historical and forecast) of the global firearms market by gun type for the period from 2017 to 2023:

Value of global firearms market 2017-2023, by gun type

	2017	2018	2019F	2020F	2021F	2022F	2023F	CAGR
				(billion units)				
Rifles	3.31	3.42	3.53	3.66	3.78	3.92	4.06	3.49%
Handguns.........................	2.52	2.61	2.70	2.80	2.90	3.01	3.12	3.68%
Shotguns	1.59	1.65	1.71	1.77	1.84	1.91	1.99	3.83%
Others	0.68	0.70	0.71	0.73	0.75	0.76	0.78	2.22%
Total................................	**8.10**	**8.37**	**8.66**	**8.96**	**9.27**	**9.60**	**9.95**	**3.51%**

Source: BIS Small Arms Market Report.

The following table sets forth the estimated value (historical and forecast) of the global firearms market by regions and application for the period from 2017 to 2023:

Value of global firearms market 2017-2023, by region and application

	2017	2018	2019F	2020F	2021F	2022F	2023F	CAGR
				(USD billion)				
North America[1]	**4.45**	**4.60**	**4.77**	**4.94**	**5.11**	**5.30**	**5.50**	**3.63%**
thereof: Civilian (personal defence)	*2.30*	*2.38*	*2.47*	*2.56*	*2.66*	*2.76*	*2.86*	*3.75%*
thereof: Hunting and shooting sports.................	*0.32*	*0.32*	*0.32*	*0.33*	*0.33*	*0.34*	*0.35*	*1.55%*
thereof: Military	*1.09*	*1.13*	*1.17*	*1.22*	*1.27*	*1.32*	*1.37*	*3.91%*
thereof: Law enforcement	*0.75*	*0.77*	*0.80*	*0.83*	*0.86*	*0.89*	*0.92*	*3.66%*
Europe[2]	**2.11**	**2.18**	**2.26**	**2.33**	**2.42**	**2.50**	**2.59**	**3.48%**
thereof: Civilian (personal defence)	*0.11*	*0.11*	*0.12*	*0.12*	*0.12*	*0.13*	*0.13*	*2.88%*
thereof: Hunting and shooting sports.................	*0.91*	*0.94*	*0.98*	*1.01*	*1.05*	*1.08*	*1.12*	*3.57%*
thereof: Military	*0.92*	*0.95*	*0.98*	*1.02*	*1.05*	*1.09*	*1.13*	*3.53%*
thereof: Law enforcement	*0.17*	*0.18*	*0.18*	*0.19*	*0.20*	*0.20*	*0.21*	*3.17%*
Asia-Pacific[3]	**0.82**	**0.85**	**0.88**	**0.92**	**0.95**	**0.99**	**1.03**	**3.81%**
thereof: Civilian (personal defence)	*0.03*	*0.03*	*0.03*	*0.03*	*0.03*	*0.03*	*0.03*	*2.17%*
thereof: Hunting and shooting sports.................	*0.04*	*0.05*	*0.05*	*0.05*	*0.05*	*0.05*	*0.05*	*2.03%*
thereof: Military	*0.58*	*0.60*	*0.63*	*0.65*	*0.68*	*0.71*	*0.74*	*4.00%*
thereof: Law enforcement	*0.17*	*0.18*	*0.18*	*0.19*	*0.20*	*0.20*	*0.21*	*3.87%*
Rest-of-the-World[4]	**0.882**	**0.85**	**0.88**	**0.92**	**0.95**	**0.99**	**1.03**	**3.81%**
thereof: Civilian (personal defence)	*0.07*	*0.07*	*0.07*	*0.07*	*0.07*	*0.07*	*0.07*	*2.28%*
thereof: Hunting and shooting sports.................	*0.20*	*0.21*	*0.21*	*0.22*	*0.22*	*0.23*	*0.23*	*2.32%*

Value of global firearms market 2017-2023, by region and application

	2017	2018	2019F	2020F	2021F	2022F	2023F	CAGR
thereof: Military	*0.32*	*0.33*	*0.34*	*0.34*	*0.35*	*0.36*	*0.37*	*2.74%*
thereof: Law enforcement	*0.13*	*0.13*	*0.13*	*0.14*	*0.14*	*0.14*	*0.15*	*2.31%*
Total.................................	**8.10**	**8.37**	**8.66**	**8.96**	**9.27**	**9.60**	**9.95**	**3.51%**

Source: BIS Small Arms Market Report.

(1) The United States and Canada.

(2) The United Kingdom ("**UK**"), Germany, France, Russia and the rest of Europe (including Italy, Denmark, Spain, Sweden, Norway, the Netherlands, Luxembourg and Switzerland, among others).

(3) China, South Korea, Japan, India and the rest of Asia-Pacific (including Taiwan, Thailand, Pakistan, Bangladesh, Australia, Mongolia, Singapore and Indonesia, among others)

(4) Latin America (including Brazil, Mexico, Argentina, Chile and Colombia, among others), the Middle East (including Turkey and Israel, among others) and Africa (including South Africa, Ethiopia, Egypt and Nigeria, among others).

BIS Research expects the developed firearms markets of North America and Europe to be driven by active participation in global anti-terrorism operations, military modernization programs and increased demand for self-defence weapons. In the Asia-Pacific region, BIS Research expects increasing regional conflicts, cross border insurgency and social disturbances to be some of the major factors driving the small arms market..

Market Drivers

Civilian Market

The civilian market segment 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.

According to SAS Civilian, there were approximately 1.0 billion firearms in civilian possession in 2017, representing a 15.7% increase as compared to SAS's previous study conducted in 2006 which estimated approximately 650 million firearms in civilian possession. In 2017, 84.6% of firearms were held by civilians (*Source:* SAS Civilian), 13.1% by militaries (*Source:* SAS Military) and 2.2% by law enforcement agencies (*Source:* SAS Law Enforcement).

The following table sets forth the split of civilian firearms holdings in 2017 by world regions:

Civilian Firearm holdings

	Millions of Units	% of total
United States..	393.3	45.9%
Asia...	247.9	28.9%
Europe	96.3	11.2%
Rest of Americas	74.8	8.7%
Africa..	40.0	4.8%
Oceania...	5.1	0.7%
Total..	**857.0**	**100.0%**

Source: SAS Civilian.

The following table sets forth the units of civilian-held firearms in 2017 in the eight countries with the largest civilian holdings:

Civilian Firearm holdings in countries with largest civilian holdings

	2006(1)	2017	% of total	% change
	Millions of units			
United States...	270.0	393.3	45.9%	45.7%
India..	46.0	71.1	8.3%	54.6%
China	40.0	49.7	5.8%	24.3%

Civilian Firearm holdings in countries with largest civilian holdings

	2006[(1)]	2017	% of total	% change
Pakistan	18.0	43.9	5.1%	143.9%
Russia	12.8	17.6	2.1%	37.5%
Brazil	15.3	17.5	2.0%	14.4%
Mexico	15.5	16.8	2.0%	8.4%
Germany	25.0	15.8	1.8%	(36.8)%
Total	**442.6**	**555.7**	**73.0%**	**25.6%**

Source: SAS Civilian.
(1) *Source:* SAS 2007.

Nearly 46% of civilian-held firearms are held by civilians located in the United States. The most populated Asian countries, India and China, follow with significant distance, representing 8.3% and 5.8% of global civilian firearms holdings, respectively. Among the eight countries with the largest number of firearms held by civilians, only Germany shows a decrease (of 36%) as compared to 2006.

Military and Law Enforcement Market

The Group's customers in the military and law enforcement market segment are federal, state or local governments and agencies. According to the BIS Small Arms Market Report, the military and law enforcement market segment 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. In 2017, the U.S. Department of Defense ("**DoD**") had the highest defence budget at USD 611 billion.

The following table sets forth the total military expenditures in selected world regions for the period from 2014 to 2018:

Total military expenditures 2014-2018

	2014	2015	2016	2017	2018	CAGR
			(USD billion)			
North America[(1)]	647.35	634.68	631.33	627.15	654.92	0.29%
Europe [(2)]	326.87	338.01	350.48	342.77	347.73	1.56%
Asia Pacific[(3)]	414.89	437.99	459.68	478.09	493.77	4.45%
World[(4)]	1,687.38	1,715.32	1,715.30	1,734.65	1,773.76	1.26%

Source: SIPRI Military Expenditure Database (2019).
(1) Includes Canada and the U.S.
(2) Includes all of Europe, the UK and Russia, except the former Yugoslavia.
(3) North Korea, Turkmenistan and Uzbekistan are not included.
(4) Cuba, Eritrea, North Korea, Somalia, Syria, Turkmenistan, Uzbekistan and the former Yugoslavia are not included.

World military expenditures grew steadily from 2014 to 2018, resulting in a CAGR of 1.3% for the period from 2014 to 2018. Military expenditures in North America, represented mainly by the United States military expenditures, were stable and represented approximately 36.8% of the global military spending in 2018.

The following table sets forth military expenditure as a share of gross domestic product ("**GDP**") in the United States, the Czech Republic and the EU (excluding the Czech Republic) for the period from 2014 to 2018:

Military expenditure as a share of GDP

	2014	2015	2016	2017	2018	Change *(basis points)*
United States[(1)]	3.5%	3.3%	3.2%	3.1%	3.2%	-32
Czech Republic	1.0%	1.0%	1.0%	1.0%	1.1%	15
European Union and UK[(2)]	1.3%	1.3%	1.3%	1.3%	1.4%	13

Source: SIPRI Military Expenditure Database (2019).
(1) All figures for the United States are for the financial year (1 October of the previous year to 30 September of the stated year) rather than calendar year.

(2) Figures for the EU are aggregated from data for the 27 members of the EU and the UK .

Based on data presented by SIPRI, both in the Czech Republic and the United States military expenditure as a share of GDP grew between 2014 and 2018, however, in the United States it grew at a slower pace than GDP in the same period. Military defence spending as a share of GDP in the EU remained stable from 2014 to 2018.

The United States

The United States is the Group's largest geographical market. In 2019, 50.7% of the Group's revenues were generated in the United States.

Based on SAS data, the Group believes the United States market is the largest firearms market in the world. Based on the Small Arms Survey conducted in 2007, there were 270.0 million firearms held by civilians in the United States in 2006, representing 89 firearms per 100 inhabitants. In 2017, however, there were 393.3 million firearms held by civilians in the United States, representing 121 firearms per 100 inhabitants, 1.0 million firearms held by law enforcement agencies, representing 0.3 firearms per 100 inhabitants, and 4.5 million firearms held by the military, representing 1.4 firearms per 100 inhabitants. Comparing the 2007 and 2017 SAS data, civilian holdings in the United States increased by 45.7% between 2006 and 2017.

Demand for Firearms in the United States

Civilian Market

Despite a lack of an official national firearms registration system in the United States, the number of applications for firearms purchases accompanied by criminal background checks, which are carried out by the National Instant Criminal Background Check System ("**NICS**"), indicate the civilian demand for firearms in the United States (*Source*: AP News). Demand for NICS background checks has been growing with a record setting 28.4 million background checks carried out in 2019, a 3.0% increase over the record set in 2016 (27.5 million) (*Source*: NICS Firearms Checks). However, it should be stressed, that while the number of NICS background checks is considered to be the best indicator of the civilian demand for firearms in the U.S., the applications include not only applications for purchases of new firearms, but also for secondary purchases by regulated retailers and do not account for firearm sales or transfers using approved alternate permits such as a concealed carry license. Further, the criminal background check procedure differs for individual states, which might bring additional inaccuracy to the data.

The following table sets forth the number of NICS firearms checks for the period from 2014 to 2019:

NICS Firearms Checks from 2014-2019

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**CAGR**
				(number)			
NICS Firearms Checks	20,968,547	23,141,970	27,538,673	25,235,215	26,181,936	28,369,750	6.2%
per 100 inhabitants	6.6	7.2	8.5	7.8	8.0	8.6	4.5%

Source: NICS Firearms Checks. These statistics represent the number of firearm background checks initiated through the NICS. They do not represent the number of firearms sold. Based on varying state laws and purchase scenarios, a one-to-one correlation cannot be made between a firearm background check and a firearm sale.

The number of NICS firearms checks increased at a CAGR of 6.2% from 2014 to 2019. Simultaneously, the number of firearms per inhabitant in the United States increased. The number of NICS firearms checks per 100 inhabitants increased from 6.6 in 2014 to 8.6 in 2019.

The number of civilian-held firearms in the United States is likely to be positively impacted by the rising popularity of shooting sports in the United States that is evidenced by the 15 million people who became new target and sport shooters between 2009 and 2016 (*Source:* Vista Outdoor Investor Presentation (August 2019)).

In addition, political developments drive demand for firearms in the United States. Based on ATF data, firearms production in the United States experienced an increasing trend that is observable beginning in 2014, which peaked in 2016 when approximately 11.5 million firearms were produced. After a significant drop in 2017, when the total production in terms of units fell by 27.6% to 8.3 million firearms, there was a recovery in the number of units produced (4% more units produced in 2018 as compared to the previous year). The Group's management believes the United States market is, to a large extent, influenced by the current political situation and attitude of the United States public towards gun ownership regulation pressures. The Group's management believes the significant growth in demand and consequently production can be attributed to uncertainty of firearms possession regulations in the United States, which is traditionally associated with presidential elections, as demand may change based on a newly elected president's stance on the issue. The drop in demand and production overcapacity after 2016 was likely due to front-loading of the firearms purchases as consumers believed more restrictive firearm possession regulation would come into force.

Military and Law Enforcement Market

In addition to the civilian market, the Group also operates in the military and law enforcement market. Due to security reasons, relevant market information from publicly available sources is rather limited. Generally, increases in the number of full-time law enforcement officers correspond to increased demand for firearms.

The following table sets forth the number of full-time law enforcement officers in the United States for the period from 2014 to 2017:

Number of full-time law enforcement officers

	2014	**2015**	**2016**	**2017**	**2018**	**CAGR**
			(number)			
Full-time law enforcement officers	627,949	635,781	652,936	670,279	686,665	2.3%

Source: FBI: Crime in the United States.

The number of United States full-time law enforcement officers increased steadily at a CAGR of 2.3% between 2014 and 2018.

Supply of Firearms in the United States

Based on available data from the ATF on firearms production, exports and imports in the United States, it is possible to approximate the supply of firearms to the United States market. Except for the one-off increase both in production and imports in 2016 related to the presidential election and the uncertainty associated with prospective gun ownership regulation, the supply of firearms remained stable throughout the period from 2014 to 2018.

The following table sets forth the number of firearms manufactured in the United States and distributed into commerce for the period from 2014 to 2018:

Supply of firearms in the United States, 2014-2018

	2014	2015	2016	2017	2018[(1)]	CAGR
			(units)			
Total Manufactured in U.S.	9,050,626	9,358,661	11,497,441	8,327,792	8,669,259	-1.1%
Total Imported in the U.S.	3,625,268	3,930,211	5,137,771	4,492,256	4,305,851	5.5%
Less Total Exported out of U.S.	(420,932)	(343,456)	(376,818)	(488,300)	(540,054)	6.4%
Implied U.S. firearms supply..	12,254,962	12,945,416	16,258,394	12,331,748	12,435,056	0.4%

Source: ATF 2019 Update.

(1) ATF 2018 Interim Update.

According to the ATF, over 70% of firearms imported to the United States are handguns. The Czech Republic consistently ranked among the top 15 importers to the United States in the period from 2014 to 2018. Among the largest importers of firearms into the United States, the number of firearms imported from the Czech Republic grew at its fastest pace in the period from 2014 to 2018 at a CAGR of 32.4%, from 72,952 firearms in 2014 to 223,836 firearms in 2018 (*Source:* ATF 2019 Update). To the Group's management's knowledge, except for the Group, there are no other significant Czech importers of firearms into the United States market and therefore, this growth is attributable to the Group's sales.

The Czech Republic

The Czech Republic is the Group's domestic market and its second largest geographical market. In 2019, 22.9% of the Group's revenues were generated in the Czech Republic. The Group is a key strategic partner of the Czech Armed Forces. For example, the Group has supplied firearms and tactical products to the Czech Army, Czech Police and the Czech Prison Service. The next stage of the rearmament of the Czech Army is expected to begin with a new multiyear contract in the third quarter of 2020.

According to the Czech Police, the number of shooting license holders held steady in the Czech Republic in absolute terms from 292,283 license holders in 2014 to 303,517 license holders as of 30 June 2018, and taking into account the World Bank estimates for the Czech Republic of approximately 10.5 million and 10.6 million inhabitants in 2014 and 2018, respectively, shooting license holders in the Czech Republic held steady in relative terms from 2.8 license holders per 100 inhabitants in 2014 to 2.9 license holders per 100 inhabitants in 2018. The most frequent license type is Type E, permission to hold a firearm for civilian personal defence and property protection. The share of license holders who hold this type of shooting license grew steadily, from 78.5% to 81.1%, between 2014 and 30 June 2018. In the Czech Republic, a license holder may hold more than one license type and the number of license types held by a shooting license holder slightly increased from 2.1 in 2014 to 2.2 as of 30 June 2018. The most rapidly growing license categories are hobby-related, mainly collector-type (2014-2018 CAGR of 4.5%) and sport-type (2014-2018 CAGR of 3.7%) (*Source:* Czech Police Statistics).

The number of registered firearms in the Czech Republic increased between 2014 and 2018 at a faster pace than the number of shooting license holders. The number of registered firearms per 100 inhabitants in the Czech Republic increased by 0.7 from 7.4 in 2014 to 8.1 as of 30 June 2018. Type B weapons (weapons that are considered to be more effective than single-shot or multi-shot weapons (*e.g.* semi-automatic spherical weapons with a higher capacity system) or can be more easily hidden (*e.g.* short spherical weapons)) represented the fastest growing segment in firearms registrations in the Czech Republic between 2014 and June 2018 (*Source:* Czech Police Statistics). According to a survey conducted by the European Commission, personal protection is the most frequent primary reason for holding a gun in the Czech Republic (*Source:* Firearms in the EU Report).

The number of state police officers per 1,000 inhabitants in the Czech Republic also increased, although slightly, between 2014 and 2017, from 3.7 to 3.8 (*Source:* Czech Police Numbers).

The following table sets forth the estimated number (both registered and unregistered) of firearms in the Czech Republic in 2017 according to SAS Civilian:

Firearms in the Czech Republic, 2017

	Number of firearms	Number of firearms per 100 inhabitants[(1)]
Civilian possession	1,323,000	12.5

Firearms in the Czech Republic, 2017

	Number of firearms	Number of firearms per 100 inhabitants[(1)]
Law enforcement	76,000	0.7
Military	157,233	1.5
Total	1,556,233	14.7

Source: SAS Civilian.

(1) Based on World Bank estimates for the Czech Republic population of approximately 10.6 million inhabitants in 2017.

The European Union

The European Union, including the UK and excluding the Czech Republic, is the Group's third largest geographical market. In 2019, 14.0% of the Group's revenues were generated in Europe (excluding the Czech Republic).

According to the World Bank, the EU (including the UK and excluding the Czech Republic) had approximately 497.7 million inhabitants in 2014 and 502.1 million inhabitants in 2018. Despite a lack of reliable and comparable data on firearm possession across the EU, SAS estimates are considered as one of the most reliable sources (*Source:* Flemish Peace Institute). Based on the Small Arms Survey conducted in 2007, there were 78.2 million firearms held by civilians in the EU (including the UK and excluding the Czech Republic) in 2006, representing 15.4 firearms per 100 inhabitants (*Source*: Flemish Peace Institute). In 2017, however, there were 63.0 million firearms held by civilians in the EU (including the UK and excluding the Czech Republic), representing 15.1 firearms per 100 inhabitants (*Source*: SAS 2007). Comparing the 2007 and 2017 SAS data, civilian holdings in the EU (including the UK and excluding the Czech Republic) decreased by 24.2% between 2007 and 2017.

BIS Research estimates that the small firearms market in Europe will show solid growth both in terms of market value and market volume and will achieve CAGRs of 3.5% and 3.7%, respectively, for the period from 2017 to 2023. According to the BIS Small Arms Market Report, the military and law enforcement market segment leads the European small arms industry by application with revenue of USD 917.2 million in 2017 that is expected to reach USD 1.1 billion by 2023, driven by expected increases in military and defence expenditures for upgrading training programs and increasing personnel warfare capabilities. In addition, the civilian market segment is expected to increase from revenue of USD 111.0 million in 2017 to USD 131.4 million by 2023, driven by demand from purchases for hunting and shooting sports as well as increased purchases for self defence (*Source*: BIS Small Arms Market Report).

The number of state police officers per 1,000 inhabitants in the EU (including the UK and excluding the Czech Republic) decreased, although slightly, between 2014 and 2017, from 3.8 to 3.7 (*Source:* Eurostat Police; data for Ireland is from 2014, data for Italy is from 2013 and 2016, data for Austria is for 2014 and 2016, data for Latvia is from 2014 and 2016 and data for England and Wales is from 2014 and 2016).

The following table sets forth the estimated number (both registered and unregistered) of firearms in EU (including the UK and excluding the Czech Republic) in 2017 according to SAS Civilian:

Firearms in the EU (excluding the Czech Republic), 2017

	Number of firearms	Number of firearms per 100 inhabitants[(1)]
Civilian possession	62,954,000	12.5
Law enforcement	2,698,133	0.5
Military	5,963,977	1.2
Total	71,616,110	14.3

Source: SAS Civilian.

(1) Based on World Bank estimates for the EU of approximately 512.4 million inhabitants in 2017 (including the UK) *less* the Czech Republic population of approximately 10.6 million inhabitants in 2017.

Competitive Landscape

The Group's main competitors are small arms and light weapons producers. 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:

- Browning International S.A. (Belgium) – manufacturer of products including rifles, shotguns and handguns for clay shooting, big game hunting, tracker and practical shooting, among others (*Source*: BIS Small Arms Market Report);
- 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 (*Source*: BIS Small Arms Market Report). 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 (*Source*: BIS Small Arms Market Report);
- 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 rimfire rifles, centrefire rifles and shotguns, among others for the civilian market and the law enforcement market;
- Savage Arms Inc. (Vista Outdoors) (U.S.) – manufacturer rimfire 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) (*Source*: Gunbroker); and
- Taurus Holdings Inc. (U.S.) – manufacturer of revolvers and pistols for the civilian market and the military and law enforcement market.

The Group's management believes Group also competes with the following weapons producers:

- Pistols: Springfield Armory (produced by HS Produkt d.o.o in Croatia); Smith & Wesson (American Outdoor Brands Corporation); FRATELLI TANFOGLIO S.R.L and STI International Inc.;
- Military and law enforcement – rifles: Colt's Manufacturing Company; Fabrique Nationale de Herstal, Israel Weapon Industries; Daniel Defense Inc.; and
- Long guns: SAKO Limited; Remington Outdoor Company; Sturm, Ruger & Company; Blaser GmbH.

The following table sets forth revenues from the sale of firearms for the Group's competitors, for which data is available, as compared to the Group's Firearms and Accessories Segment in 2017 and 2018.

Financial information for most of the Group's competitors is not readily available, because many are privately-held companies; however, based on the limited information available, the competitive position of the Group seems to be improving.

The following table sets forth revenues, EBITDA margins and net income margins of the Group's competitors, for which data is available, derived from publicly available information, for 2017 and 2018 as compared to the Group's revenues, EBITDA margin and net income margin for the same period for the Firearms and Accessories Segment. Please see the notes below for information on individual numbers that are not necessarily comparable.

Revenue, EBITDA margin and net income margin of selected firearms producers

	Revenue			EBITDA margin	Net income margin
	2017	**2018**	**% change**	**2018**	**2018**
	(USD millions)				
Savage Arms Inc. (Vista Outdoors)[(1)]........	182.1	185.4	1.8%	6.7%	(31.5)%
Sturm, Ruger & Company, Inc.[(2)].............	517.7	490.6	(5.2)%	20.3%	10.3%
American Outdoor Brands Corporation[(3)]..	449.0	478.5	6.6%	17.4%	2.9%
Heckler & Koch[(4)].....................................	178.3	216.4	21.4%	8.4%	(3.6)%
Group[(5)]...	206.5	241.9	17.1%	20.9%	10.6%

(1) Financial year 2017 refers to the period ending 31 March 2018, financial year 2018 refers to the period ending 31 March 2019. Net sales for the firearms category are presented in the chart. Net sales for the group were USD 2,308.5 million in 2017 and USD 2,058.5 million in 2018 (Source: SEC Form 10-K for the fiscal year ended 31 March 2019). EBITDA margin is defined as adjusted EBIT plus depreciation and amortization of intangible assets as a percentage of net sales. EBITDA is not presented on a segment basis, therefore the EBITDA margin is calculated on a group basis. Adjusted EBIT for the group was USD 60.8 million in 2018 (Source: Vista Outdoor FY 2019 Fourth Quarter and Full-Year Earnings Presentation.) Net income margin is defined as net income (loss) as a percentage of revenue. Net income (loss) is not presented on a segment basis, therefore the net income margin is calculated on a group basis. Net income (loss) for the group was USD (648.4) million in 2018 (Source: SEC Form 10-K for the fiscal year ended 31 March 2019).

(2) Net sales for the firearms segment are presented in the chart. Net sales for the group were USD 517.7 in 2017 and USD 490.6 in 2018. EBITDA margin is defined as earnings before interest, taxes, and depreciation and amortization, also excluding any one-time non-cash, non-operating expense, as a percentage of net income. EBITDA is not presented on a segment basis, therefore the EBITDA margin is calculated on a group basis. EBITDA for the group was USD 112.0 in 2018. Net income margin is defined as net income as a percentage of revenue. Net income is not presented on a segment basis, therefore the net income margin is calculated on a group basis. Net income for the group was USD 50.9 million in 2018 (Source: SEC Form 10-K for the fiscal year ended 31 December 2018).

(3) Financial year 2017 refers to the period ending 30 April 2018, financial year 2018 refers to the period ending 30 April 2019. Net sales for the firearms segment are presented in the chart. Net sales for the group were USD 638.3 in 2018 and USD 606.6 in 2017 (Source: SEC Form 10-K for the fiscal year ended 30 April 2019). EBITDA margin is defined as adjusted EBIT plus amortization, as a percentage of net sales. EBITDA margin is not presented on a segment basis, therefore the EBITDA margin is shown on a group basis. Adjusted EBIT for the group was USD 111.3 million in 2018 (Source: American Outdoor Brands Investor Presentation December 2019). Net income margin is defined as net income as a percentage of revenue. Net income is not presented on a segment basis, therefore the net income margin is calculated on a group basis. Net income for the group was USD 18.4 million in 2018 (Source: SEC Form 10-K for the fiscal year ended 30 April 2019).

(4) Revenues of the product groups rifles, sub-machine guns & machine guns and pistols, together, are presented in the chart. Revenue for the group was USD 260.7 million in 2018 and USD 214.8 million in 2017. EBITDA margin is defined as earnings before depreciation, amortisation, financial result and taxes, as a percentage of net income. EBITDA is not presented on a segment basis, therefore the EBITDA margin is calculated on a group basis. EBITDA for the group was USD 22.0 million in 2018. Net income margin is defined as profit/(loss) for the period as a percentage of revenue. Profit/(loss) for the period is not presented on a segment basis, therefore the net income margin is calculated on a group basis. Profit/(loss) for the period for the group was USD (9.1) million in 2018 (Source: Published annual accounts and annual group accounts of H&K AG). Figures were converted into USD at an exchange rate of EUR 1.18 to USD 1.00; the average exchange rate for 2018 reported by the European Central Bank.

(5) Net income margin is defined as profit for the period as a percentage of revenue. Net income is not presented on a segment basis, therefore the net income margin is calculated on a Group basis. Profit for period for the Group was USD 27.7 million in 2018. Figures were converted into USD at an exchange rate of CZK 21.7 to USD 1.00; the average of the quarterly exchange rates for 2018 reported by the CNB.

The Group's R&D spend is also consistent with the R&D spend of the Group's competitors, for which data is available. The following table sets forth the R&D spend of the Group's competitors, for which data is available, as compared to the Group's R&D spend for 2018. While data for other competitors of the Group is not publicly available, the Group believes, based on its own estimate and information, that its R&D spend as a percentage of revenue is in line with that of the usual firearms industry.

R&D spend of firearms producers, for which data is available, **2018 financial year**

	R&D employees	**R&D spend**	**R&D spend as a percentage of revenue**
		(USD millions)	
American Outdoor Brands Corporation[(1)].....	71	12.9	2.0%
Sturm, Ruger & Company, Inc.[(2)]................	70	8.5	1.7%
Group[(3)]..	113	4.5	1.8%

(1) Net sales of USD 638.3 million and R&D operating expenses of USD 12.9 million. Financial year 2018 refers to the period ending 30 April 2019 (Source: SEC Form 10-K for the fiscal year ended 30 April 2019).

(2) Total net sales of USD 495.6 million and R&D spend of USD 8.5 million. R&D employees are reported as of 1 February 2019 (Source: SEC Form 10-K for the fiscal year ended 31 December 2018).

(3) Figures were converted into USD at an exchange rate of CZK 21.7 to USD 1.00; the average of the quarterly exchange rates for 2018 reported by the CNB.

Gun News Daily, ranked the CZ 75 gun in the ten best handguns for home defence. The following table sets forth the result of the ranking comparing score assigned by Guns News Daily review and selling price range.

Ten best handguns for home defence

	Score[(1)]	Price[(2)]
Walther PPQ M2	9.8	$575-625
FNX-45	9.7	$650-1,500
CZ 75 SP-01 Tactical	9.5	$680
Springfield XD MOD2	9.4	$520-600
Colt 1911	9.2	$900-1,700
Ruger 1707 GP100	9.0	$730-800
Smith & Wesson M&P Shield	8.9	$450
Sig Sauer MK25 P226	8.7	$1,000-1,400
Gen 4 Glock 19	8.6	$590-600
Beretta M9	8.5	$630

Source: Gun News Daily: 10 Best Handguns.

(1) Ranking based on main factors of the overall quality, reliability, accuracy, capacity and ease of use for each gun and presented in descending order.

(2) Guns New Daily report selling prices (or ranges) from the website Cabela's (www.cabelas.com).

The scores of the assessed guns ranged from 8.5 to 9.8, meaning that the CZ 75 SP-01 Tactical with a score of 9.5 ranked above average. The arithmetic average price of the sample amounts to USD 786, while the price of the CZ 75 SP-01 Tactical was reported by Guns New Daily as USD 680. Based on the above, the gun produced by the Group achieved an above average score with a price below the average of all the assessed guns.

THE GROUP'S BUSINESS

Overview

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. The Group is headquartered in the Czech Republic and has production facilities in the Czech Republic and the United States. It has over 80 years of history. The Company is the holding company of the Group.

In 2019, the Group generated CZK 6.0 billion of revenues and CZK 1.3 billion of EBITDA. In 2019, 22.9% of revenues were generated in the Czech Republic, 50.7% in the United States and 14.0% in the EU (excluding the Czech Republic). In 2019, the Group sold 374,276 firearms to customers in 90 countries on six continents. In 2019, the Group had an average of 1,619 full-time equivalent employees, which were based in the Czech Republic and the United States.

The design, production, assembly and sale of firearms and tactical accessories are reported in the Group's production, purchase and sale of firearms and accessories segment (the "**Firearms and Accessories Segment**"). The Group's other revenues and expenses from transactions that are not reported as part of the Firearms and Accessories Segment, such as revenues from temporary non-firearm production using the Group's excess production capacities from time to time, are reported in its other segment (the "**Other Segment**"). In 2019, the Group's shareholder decided to spin-off all of the Group's assets related to the production of automotive and aviation components (the "**Automotive and Aviation Business**"), other than certain buildings, to CZ-AUTO SYSTEMS a.s., a newly established entity controlled directly by the Sole Shareholder. The spin-off was completed on 31 March 2020 with the decisive date of the spin-off as of 2 January 2020. As a result of the decision, the Automotive and Aviation Business was classified as discontinued operations in the consolidated statement of profit or loss and other comprehensive income for 2019, with comparative amounts for 2018 and 2017 restated for the reclassification of discontinued operations. In the consolidated statement of financial position, as of 31 December 2019, the assets and liabilities of the Automotive and Aviation Business are shown as assets and liabilities for distribution to owners, respectively. The cash flow statement for 2019, 2018 and 2017 includes the cash flows for both continuing and discontinued operations.

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

	For the year ended 31 December,		
	2019	**2018**	**2017**
		(audited)	
		(CZK thousands)	
Czech Republic	1,366,980	1,093,615	296,537
United States	3,018,113	2,830,049	2,442,869
Europe (excl. the Czech Republic)	832,787	750,333	690,879
Africa	132,712	137,929	476,328
Asia	312,833	253,081	386,421
Other	295,317	274,574	262,449
Total	**5,958,742**	**5,339,581**	**4,555,483**

The Group's Vision

The Group's vision is to play a key role in the expected small arms industry consolidation, to become an industry leader and key partner for military and law enforcement customers and to be recognized as a premium brand for firearms and accessories in the United States and Europe.

The Group's management believes that the Group is perfectly positioned to successfully achieve its vision due to its particular strengths, market positioning and overall situation on the marketplace.

Strengths

Well-established manufacturer of high quality firearms with recognized brands

The Group markets and sells its firearms under the CZ (Česká zbrojovka), CZ-USA, Dan Wesson and Brno Rifles brands. 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, in 2019, the CZ P-10S Optics Ready line was awarded On Target Magazine Editor's Choice Award (*Source*: On Target Magazine) and Gun News Daily ranked the CZ 75 pistol third among the ten best handguns for home defence and among the most reasonably priced (*Source*: Guns News Daily: 10 Best Handguns). 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 (*Source*: Guns News Daily: Most Copied). In 2018, the CZ Scorpion EVO 3 S1 was awarded Editor's Choice for Best Pistol-Caliber Carbine by Ballistic's Best magazine (*Source*: Ballistic Best) and, in 2017, it was awarded TTAG's Editor's Choice Award for best new firearm of 2015 (*Source*: TTAG). 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 and Slovakia, police units in Finland, Mexico, Poland, Romania, Malaysia, Slovenia and Singapore and France's counterterror special force, the *Groupe d'intervention de la Gendarmerie nationale*.

Over the last three years, the Group's capital expenditures were CZK 274.4 million in 2019, CZK 396.7 million in 2018 and CZK 313.9 million in 2017. These capital expenditures were primarily related to improvements in the Group's production machinery. The Group believes providing superior product quality to its customers is the key to the Group's business model and paramount to its success, as the firepower, safety and readiness of the Group's firearms are mission-critical for the Group's customers. A holistic quality management system in the Group's production facilities ensures compliance with the Group's high quality standards and, without exception, each of Group's firearms must pass functional tests and quality checks prior its delivery to a customer.

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 lubricant. 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 (the "**EDA**") 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.

Technological leader in designing innovative products supported by continuous investment and R&D spend

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 (see examples above in "—*Well-established manufacturer of high quality firearms with recognized brands*") in their respective categories faster than would have been possible a decade ago. The Group spent an average of 1.92% of its revenue on R&D over the last three years. Most of the Group's product portfolio was introduced less than five years ago and three generations of assault rifles were introduced in the last 10 years and 73.4% of the Group's revenue in 2018 was generated by products introduced in 2015 or later. The Group also plans to launch new generations of products, including the CZ Scorpion EVO 4 submachine gun, the BREN HPR assault rifle, the CZ P-11 pistol and a new centrefire rifle and has dozens of new products and product innovations in its R&D pipeline. In addition, the Group acquired a 33% shareholding in CARDAM to further strengthen its production and product spectrum and to expand its technological expertise. CARDAM is a strategic investment, established together with 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.

As of 31 December 2019, the Group's R&D team consisted of 102 full-time equivalent employees, 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 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 (*Source*: Czech Top 100). The Czech Republic spent 1.79% of its GDP in 2017 on R&D, the most in the Central and Eastern European region, according to the OECD.

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 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.

Global player offering complete solutions to diverse customer base

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 of handguns 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, rimfire rifles and shotguns) and for the military and law enforcement market, which can be divided into four basic categories: (a) submachine guns, (b) assault rifles, (c) sniper rifles and (d) 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 recently launched an online firearm configurator, which allows customers to customize some of the Group's products. The online firearm configurator was initially available 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 rimfire 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. The Group also intends to evaluate potential applications of the on-line firearm configurator for military and law enforcement customers.

The Group has expanded into more than 90 markets globally. In 2019, the Group generated CZK 6.0 billion of revenues, of which 50.7% was generated in the United States, 22.9% in the Czech Republic and 14.0% in Europe (excluding the Czech Republic), and CZK 1.3 billion of EBITDA. In 2019, the Group sold 374,276 firearms to customers in 90 countries on six continents. With its main production facility located in the Czech Republic, the Group also benefits from the relatively low production costs in the country, which allows the Group to offer an attractive value proposition. The Group's sales efforts also benefit from its non-U.S. customer base. 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 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.

Track record of growth and profitability and sound financial profile

The Group has a proven track record of strong financial results in terms of growth and profitability. The Group has demonstrated consistently above-market growth and consistent profit expansion, driven especially by growth in product sales, geographic expansion, particularly in the U.S., operational efficiency initiatives and optimisation of asset utilisation.

The Group's revenues have consistently increased year on year, from CZK 4.6 billion in 2017 to CZK 6.0 billion in 2019, representing a CAGR of 9.4%. This growth reflects the strong pace of growth in the number of firearms sold by the Group which increased from 324,428 firearm units in 2017 to 374,276 firearm units in 2019, representing a CAGR of 4.9%. The Group's revenue growth translated into high profit margins. The Group's EBITDA increased from CZK 972.1 million in 2017 to CZK 1.3 billion in 2019, representing a CAGR of 11.8%.

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 2018 was 5.2% in the Czech Republic compared to 2.4% for the EU, 2.3% in Austria, 0.7% in Belgium, 2.2% in Germany and 0.4% in Italy and the average compensation of employees per hour worked in the Czech Republic is 46.4% of the EU average level, 35.6% of the Austrian level, 28.1% of the Belgian level, 33.7% of the German level and 47.6% of the Italian level.

The Group also has a relatively low level of financial leverage. The Group's net leverage ratio, defined as the ratio of net financial debt to EBITDA, was 1.2x as of 31 December 2019 (compared to 0.8x as of 31 December 2018. Well capitalised and liquid Czech banking and financial markets provide the Group with financial flexibility to finance organic growth initiatives (capital expenditures) and potential acquisitions. The favourable political and social view of the defence industry and the production of firearms in the Czech Republic allows the Group to access external funding sources, including state export financing agencies, for financing potential projects with military and law enforcement customers outside the Czech Republic.

Experienced management team and supportive, stable shareholders

The Group has a dedicated management team with extensive experience in the firearms industry, high employee loyalty and a demonstrated history of enhancing efficiency and driving growth. The Group's management team members have diverse backgrounds and combined firearms and military and law enforcement experience. The Group believes that its management team has accumulated significant experience in the firearms industry. For example, Lubomír Kovařík, who began his career as a pilot in the Army of the Czech Republic, has worked in the Group since 2006, Alice Poluchová has over 20 years of experience in the U.S. firearms market, Ladislav Britaňák has over 15 years of experience in the firearms production management and David Aguilar served as the Acting Commissioner of U.S. Customs and Border Protection, the highest-ranking career officer in the U.S.'s largest federal law enforcement organization. The Group's management team's achievements include the Group's revenue momentum from 2017 to 2019, in particular due to the growth in the number of firearms sold by the Group. As a result of the long-term experience and know-how of the Group's workforce and managers, the Group is able to promptly respond to each customer's unique requirements for its firearms.

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. The Group believes that the combination of these favourable factors has enabled the Group to attract and retain a loyal and productive workforce. In 2019, the Group had an average of 1,619 full-time equivalent employees, of which 1,453 were located in Uherský Brod. The average employee churn rate (defined as the number of employees who left of own their own initiative, by mutual agreement or by resignation as a percentage of the total number of employees) at the Group's main production facility in Uherský Brod was 3.9% in 2019.

The Group's well-defined ownership structure enables it to align investors' interests with those of its management. The Group also benefits from its long-standing supportive owner, Mr. Holeček. The modern Group is a personal achievement of Mr. Holeček and the other co-owners and managers. Mr. Holeček's support has enabled the Group to pursue longer-term strategies aimed at steady, stable and maintainable growth and to see them through to fruition. It is the Group's understanding that Mr. Holeček does not intend to dilute his share below 50% in the foreseeable future. In addition, Lubomír Kovařík and Jan Drahota are minority shareholders in the Sole Shareholder. The Group is also in the process of evaluating the implementation of an employee shareholding program to further align the interests of the Group's management and employees with investors' interests. In addition, the Group has established international market standard corporate governance structures to align all stakeholders' interests.

Strategy

The Group believes that it can execute a mixed growth strategy, combining organic growth driven mainly by the Little Rock Project with external growth driven by acquisitions.

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. 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. 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.

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 serve as the Group's North American headquarters and second major production facility, in addition to its existing main facility in Uherský Brod (see "*The Group's Business—Facilities and Production—United States—Little Rock Project*"). Construction of the production facility is planned to begin in the second half of 2020 and the Group plans to have the main technology necessary for producing firearms, such as pistols, semi-automatic and fully-automatic firearms, in place by the end of 2021. 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 America 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. 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 (see "*The Group's Business—Framework Agreement on Technology Transfer Cooperation*").

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.

Growth through opportunistic acquisitions

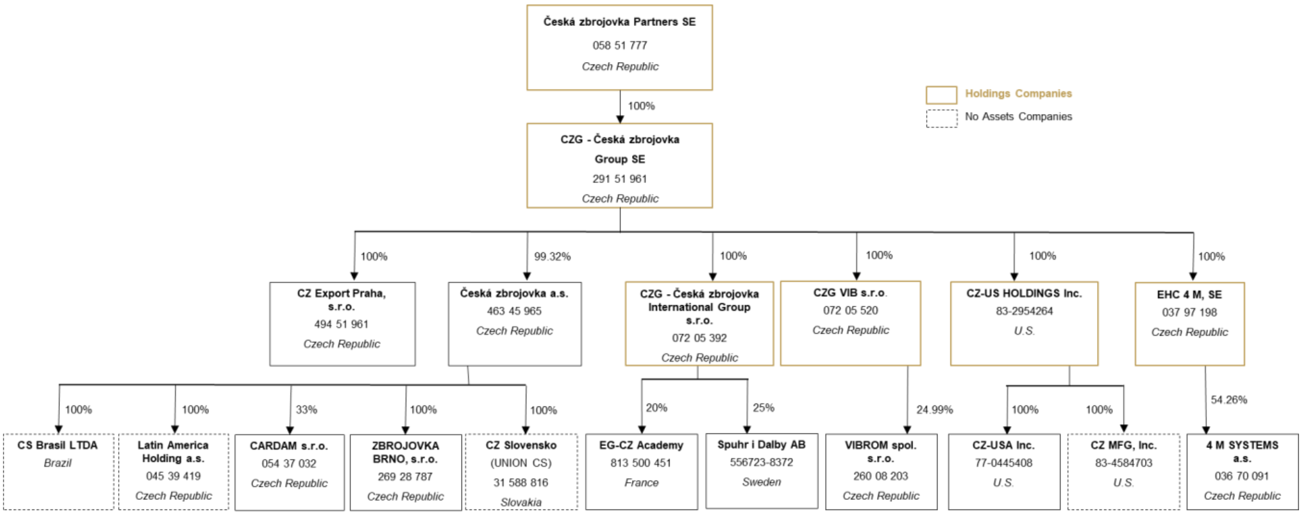
From time to time, the Group also seeks and evaluates opportunities for further growth through opportunistic acquisitions. The Group is primarily looking at acquisition opportunities among its competitors in the firearms production industry, particularly those with significant sales to, and a proven 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 the 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 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.

Group Structure

The following chart shows the structure of the Group and the shareholding interest in each Group company:



Firearms and Accessories Business

The Group's business is operated mainly through CZUB, CZ-USA, CZ EXPORT and 4M SYSTEMS and marketed under the CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles and 4M SYSTEMS brands. 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 rimfire 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 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. Main accessories products include a ballistic t-shirt CZ 4M SPIRIT, a plate carrier CZ 4M RAPTOR 2.0 Modular Protection System or tactical trousers CZ 4M OMEGA.

In 2019, 2018 and 2017, the Group sold 374,276, 402,055 and 324,428 firearms, respectively and during 2019 generated CZK 6.0 billion of revenue and CZK 1.3 billion of EBITDA.

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

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.

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.

In 2019, 2018 and 2017, the Group produced 231,973, 277,839 and 189,773 handguns, respectively.

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 handguns category 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.
CZ Shadow 2	CZ Shadow 2 represents the second generation of a standard-sized, all-metal competition pistol which was developed in collaboration with CZUB's shooting team participating in International Practical Shooting Confederation ("**IPSC**") competitions. Currently, the CZ Shadow 2 family has been 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 use and is marketed to all types of customers, ranging from military and law enforcement to civilian customers.

CZ P-10 C	The CZ P-10 C is a "striker-fired" pistol (*i.e.* hammerless pistol) for personal defence and armed forces. It is compact and, as such, also suitable for concealed carry. The CZ P-10 C 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.

Long guns

The Group's long guns comprise of production for military and law enforcement use (assault rifles, submachine guns and sniper rifles) as well as civilian use (especially rimfire and centrefire rifles, shotguns or combos) which means that the Group covers all main markets of long guns up to certain calibre. The Group discontinued its production of air guns as of the end of the year 2019, mainly because air guns represent an insignificant fraction of the Group's firearms production.

In 2019, 2018 and 2017, the Group produced 142,303, 124,216 and 134,655 long guns, respectively.

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 rimfire 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 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 range portfolio of tactical accessories, including firearms accessories, tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks, or 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 tactical accessories category 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 the maximum stealth required by secret operations or personal protection. The CZ 4M SPIRIT primarily targets 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 primarily targets 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 primarily targets military and law enforcement units.

Marketing and Distribution

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 rimfire rifle and centrefire rifle cup competitions. The last category of civilian customers is identified as hobby, home protection and personal defence users.

The Group's marketing campaigns and initiatives are based on 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. The ultimate aim of the Group's marketing is to help increase revenues as well as promote the Group's brand and increase brand awareness on a global level. One of the Group's initiatives in 2019 was the partnering of the Group with Eric Grauffel, the seven-time World IPSC Champion to create the EG-CZ Academy in Quimper, France. The Group intends to use the training platform as one of the key marketing tools for the Group's products, especially to military and law enforcement customers.

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. The Group also retains direct sales representatives who market and sell the Group's products. The Group's sales representatives usually work on a commission basis and are generally prohibited from selling directly competing goods from other producers.

In 2019 and 2018, the Group had only one customer accounting for more than 10% of the Group's consolidated revenues (with sales to that customer amounting to CZK 763.4 million in 2019 and CZK 571.0 million in 2018); there were no customers accounting for more than 10% of the Group's sales in 2017.

Marketing for military and law enforcement customers

The Group's marketing channels for military and law enforcement customers include sponsoring or direct organization of various trade shows, exhibitions, events, product presentations, and various military and law-enforcement oriented shooting competitions. The Group also uses more traditional marketing channels such as advertising in military oriented online and print media and social networks. The Group is also periodically in contact with members of armed forces in order to collect feedback on current and future products.

Marketing for civilian customers

The Group targets various end-customer groups through specific marketing channels. These channels include sponsoring of major shooting sports events and organizations, presence at relevant trade shows and exhibitions, communications through the Group's website and social media, as well as outdoor, print and online channels, both industry related and otherwise. To further boost promotion of its sports pistol models, the Group has sponsored a CZ Shooting team and it has been dominating the IPCS competitions worldwide. All communication is carefully carried out in accordance with the local law regarding promotion of firearms and coordinated with the Group's distributors and partners around the world.

Marketing for wholesalers and distributors

The Group primarily focuses on marketing towards specific end-customer groups as described above. In addition, the Group has 150 distributors in approximately 100 countries and the Group also publishes a monthly newsletter that is sent to its wholesalers and distributors. Information in the newsletter includes topics such as new and discontinued products, information about upcoming tradeshows and other news and information regarding the Group and its marketing initiatives. The Group also creates and distributes its catalogues, point of sale materials, product images, videos, logo manual and other graphics to its partners which is then used in marketing campaigns organized by the Group's partners and distributors.

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 or 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. 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 (see "*Risk Factors—The Group may experience difficulty in obtaining goods from its suppliers.*").

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) or MIM parts for handguns and rifles.

With respect to the supply of steel, the Group purchases a majority of the specially treated steel it uses from a single source that specializes in the production of special steel and super alloys.

Facilities and Production

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, Brno, Kansas City, Kansas, Norwich, New York and Little Rock, Arkansas. 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 as of the date of this Prospectus:

Country	**Location**	**Title**	**Total area (approximately)**	**Brief Description**
Czech Republic	Uherský Brod	Owned	204,915 m^2 (2.2 million ft^2)[(1)]	Main production facility of the Group
Czech Republic	Prague	Leased	1,831.8 m^2 (19,700 ft^2)	Offices and small storage
Czech Republic	Brno	Leased	1,071 m^2 (11,500 ft^2)	Ancillary production facility, limited mainly to customized production
U.S.	Kansas City, Kansas	Leased	5,295 m^2 (57,000 ft^2)	Main distribution centre for North America, assembly, customization and limited production
U.S.	Norwich, New York	Leased	2,322 m^2 (25,000 ft^2)	Production facility for Dan Wesson handguns
U.S.	Little Rock, Arkansas	Leased	231 m^2 (2,489 ft^2)	Office space for the Little Rock Project team
U.S.	Little Rock, Arkansas	Owned	260,000 m^2 (2,789,617 ft^2)	Construction site for the Little Rock Project facility

(1) The total area of buildings and facilities within this location was approximately 43.925 m^2 (472,804 ft^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 square meters ("**m^2**") (2.2 million square feet ("**ft^2**")). The Group operates also 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 produced more than 85% of its firearms in this facility in 2018. 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 ("**CNC**") 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 (57,000 ft^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 rimfire 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 is 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 (11,500 ft^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.

Little Rock Project

The Group has decided to locate 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, 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 (2,798,617 ft^2) and is subject to the land donation program. The planned logistics and manufacturing plant will be approximately 18,000 m^2 (193,750 ft^2).

The Group believes that the Little Rock Project will establish a substantial production presence for the Group in the United States and it is expected to provide the Group with strategic advantages, not only in terms of marketing, but also because this may allow the Group to produce concealed carry firearms (whose import to the United States is restricted) and sell them to federal agencies in compliance with quotas contained in the Buy America Laws, without the need to purchase significant parts from other United States producers.

Construction of the Little Rock Project is planned to begin in the second half of 2020. The Group plans to have the main technology necessary for producing firearms, such as pistols, semi-automatic and fully-automatic firearms, in-house in the Little Rock Project production facility by the end of 2021. The products to be produced in the Little Rock production facility include mainly new firearms, such as the CZ P-10 micro, the CZ Scorpion EVO 3+, the CZ Scorpion EVO 4 and CZ P-11 and a new generation of Dan Wesson pistols, such as the DWX model.

Production

The Group controls the entire production process beginning with planning and through to manufacturing, assembly and inspection and adheres to strict quality control standards. To begin, production is planned based on a master production plan and includes the ordering of raw materials and purchased parts such as, springs, screws and polymer frames. Then, the Group manufactures the majority of its firearms' components and performs casting, cold hammering, surface coating and heat treatment in-house. Next, the Group assembles those components into the final product. Finally, the Group inspects each firearm. For safety, the Group performs a pressure test that is supervised by state authorities, firing two rounds under 25% increased pressure. For reliability, the Group fires the product at a shooting range, which can potentially be supervised by state authorities for products purchased pursuant to a government contract. For accuracy, the Group checks a scattering of each firearms' shots and the position of its midpoint. Once a firearms is properly inspected, it moves on to packaging and shipment.

Research and Development

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 based in Uherský Brod and the rest are part of CARDAM, a partially owned subsidiary of CZUB (see "—*Group Structure*"). 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 personification, 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.

The Group has a structured R&D process encompassing applied research, product development and engineering. The Group's applied research begins in-house and expands to CARDAM, universities and the European Defence Agency. CARDAM is an R&D workplace that focuses on the realization of innovative, technically and technologically advanced solutions and products by using sophisticated mathematical simulations and additive technologies. CARDAM provides complete engineering solutions for the development of new applications and manufacturing processes. One of the founding members and owners of CARDAM is the Institute of Physics of The Czech Academy of Sciences (in Czech: *Akademie věd České republiky*), which cooperates with the Group and supports the Group's R&D activities with essential and unique scientific resources, know-how and laboratory equipment and has several projects with the Group in the pipeline. The Group has also established a close R&D collaboration with the Czech Institute of Informatics, Robotics and Cybernetics ("**CIIRC**") at the Czech Technical University in Prague (in Czech: *České vysoké učení technické v Praze*). CIIRC is at the forefront of activities in the area of Industry 4.0 in the Czech Republic. It actively promotes international cooperation in the field and synergies between the private sector and academia. It has opened the "Testbed for Industry 4.0" as a new research and experimental workplace for testing innovative solutions and processes for smart factories. The Group supports automation and the implementation of Industry 4.0 to allow for the continuous release of new product variations with minimal increases in manufacturing costs and to reduce strenuous manual work. The Group also cooperates with the Centre for Research and Development and Innovation and has more than 10 projects in the pipeline including grant projects through the Technology Agency of the Czech Republic.

The Group is also representing the Czech Republic in the project Additive Manufacturing of Metallic Auxetic Structures and Materials for Lightweight Armour ("**AMALIA**") under the auspices of the European Defence Agency (the "**EDA**"). The Ministry of Defence of the Czech Republic endorsed the participation of the Group in August 2019. The Group is part of a consortium formed by a number of European defence companies and academic institutions, including the French companies Safran S.A. (as aircraft engine, rockets engine, aerospace-component, and defence company), MBDA SAS (a missile systems company) and École Polytechnique (a research university) and the Italian ECOR International (an industrial technology company), to name just a few.

The aim of the AMALIA project is to enhance the performance of the EU ballistic and blast protections by means of the implementation of a tailored structure based on the theory of auxetic structures and realized using a specific alloy developed for ballistic application. This alloy will be tailored for additive manufacturing technology. The Group's contribution to AMALIA will consist of providing mathematical simulations focused on the optimization of additive manufacturing process parameters, investigating correlations of process parameters with final properties of auxetic structures, comparison of the stress and strain distribution of different types of auxetic and cellular structures, geometrical considerations affecting the auxetic layout, simulations of the additive manufacturing process for stress and strain prediction in final parts, and last but not least, manufacturing of samples.

For product development, the R&D team continuously works to improve current product designs, production processes and raw material utilization and to develop new designs and production processes for the Group's products, including through collaboration with military and law enforcement customers. For example, the Group invested significant R&D resources to develop the CZ 805 BREN assault rifle in cooperation with and for the Czech Army. Later, the Group again cooperated with the Czech Army to develop the CZ BREN 2 to realize greater reliability and functionality. The Group also developed a modified CZ Bren 2 in cooperation with and for the National Gendarmerie Intervention Group (*Groupe d'intervention de la Gendarmerie nationale*), one of France's premier counterterror special forces.

Within engineering, the Group's R&D team focuses on annual innovation projects, support for production series products, cost savings projects, new technologies and materials, such as polymers, composites and surface treatments, and high-precision manufacturing processes. One of Group's achievements through R&D is the CZ P-10 pistol models, which are produced from advanced mechanically and thermally stable polymers and a striker-fired semi-automatic firing mechanism. This type of trigger system prevents the firearm from discharging unless the trigger is fully depressed, even if the pistol is dropped. Other safety features include a firing pin block which mechanically obstructs the firing pin. This pistol does not feature a magazine disconnect which prevents it from being fired when the magazine is withdraw. The trigger guard is large enough to fit a variety of finger widths and to allow for shooting while wearing gloves. The trigger guard is undercut for a more ergonomic fit. Additional ergonomic features include the availability of three different backstrap sizes, stippling on all four sides of the grip and near the slide release, and a "deep saddle" just underneath the slide.

As of 31 December 2019, the Group's R&D team consisted of 102 full-time equivalent employees, 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 research and development methods, laboratory equipment and resources.

In 2019, 2018 and 2017, the Group's R&D expenses amounted to CZK 97.5 million, 97.0 million and 104.0 million, respectively; corresponding to an average of 1.6% of the Group's revenues in 2019. Of the Group's total R&D spend in 2019, CZK 20.7 million was capitalized.

Intellectual Property

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 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 Prospectus, there were ongoing patent proceedings for the Group's results of R&D (for example, there are patent applications pending in connection with CZ P10 - 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 P10 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 (see "*The Group's Business—Material Contracts and Financing Arrangements—Framework Agreement on Technology Transfer Cooperation*").

Material Contracts and Financing Arrangements

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 (the "**Framework Agreement**") 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 (the "**Factory")** suitable for the serial production of the above-mentioned firearms (together the "**Production Firearms**" and each separately a "**Production Firearm**") and to manufacture several components related to the production of the Production Firearms (the "**Components**"). 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. During the first stage, the aim of the parties is 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, is 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 has already been put in motion. The Factory has been built and equipped with the necessary machinery. HM ARZENÁL's workers have already started with the 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 CZK 2.35 billion and covers the period until 2025. The final price will depend on the number of the weapons the ministry will order within narrower contracts in accordance with the military's needs. It includes up to 16,000 BREN 2 modular assault rifles, 21,000 CZ P-10 pistols, 1,600 CZ 805 G1 grenade launchers and around 100 Scorpion carbines.

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 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% 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.

Loan Agreement

On 12 November 2015, CZUB entered into a loan agreement with Komerční banka, a.s., as original lender, arranger, agent and security agent, and Česká spořitelna, a.s., as original lender and arranger, for the purposes of debt refinancing, investments and financing of operating and corporate needs (the "**Loan Agreement**"). The terms of the Loan Agreement were amended in December 2019 in order to align the terms with those of the CZUB Bonds. The loan originally consisted of a revolving credit line in the amount of CZK 700 million and two term loans in the aggregate amount of CZK 1.45 billion. As of 31 March 2020, EUR 18.3 million was drawn under the revolving credit line. The interest rate applicable to the revolving credit line is calculated as the sum of PRIBOR, EURIBOR or LIBOR and a margin ranging between 0.80% to 1.10%, depending on the currency of the relevant drawing. The final repayment date of all the loans is 30 September 2021. As of the date of this Prospectus, the two term loans were fully repaid and thus, only the revolving credit line is available to CZUB and it is occasionally used by CZUB.

Pursuant to the Loan Agreement a consent of Komerční banka, a.s., as agent, is required for a change of control, which is defined as any change resulting in (i) the decrease of the ultimate owner's share on the registered capital of CZUB below 2/3, (ii) ultimate owner ceasing to be in direct or indirect control of CZUB, or (iii) the Company ceasing to own 2/3 share on the registered share capital of CZUB.

The Loan Agreement also restricts CZUB from paying dividends, in line with the terms of the CZUB Bonds. Under the Loan Agreement, CZUB must also maintain level of debt-service coverage ratio on and over 5:1 and fulfil other non-financial covenants.

The obligations under the Loan Agreement are secured, among others, by a pledge over certain movable assets and receivables of CZUB created in favour of the security agent.

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. As of 31 December 2019, the total provisions for legal costs created by the Group were CZK 19.6 million. 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 Prospectus which may have, or have had a significant effect on the financial position or profitability of the Group.

Administrative lawsuit against the Ministry of Defence of the Czech Republic

In 2015, CZUB entered into an agreement with the Ministry of Defence of the Czech Republic (in Czech: *Ministerstvo obrany České republiky*) (the "**MoD**") for the sale of ballistic vests for a purchase price in the amount of CZK 68.0 million (the "**MoD Contract**"). Pursuant to the MoD Contract, CZUB was required to obtain from the Czech Defence Standardisation, Codification, and Government Quality Assurance Authority (in Czech: *Úřad pro obrannou standardizaci, katalogizaci a státní ověřování jakosti*) (the "**Defence Certification Authority**") a certification of quality for the ballistic vests prior to their delivery to the MoD. The certification criteria were stipulated in the MoD Contract. The Defence Certification Authority refused to grant the ballistic vests the required certification of quality, as a result of which CZUB could not fulfil the MoD Contract. CZUB appealed against the decision of the Defence Certification Authority to the MoD, but the appeal was dismissed. Subsequently, both CZUB and the MoD withdrew from the MoD Contract.

In 2016, CZUB filed an administrative lawsuit against the MoD in the Municipal Court in Prague, challenging the decision of the MoD to dismiss CZUB's appeal. In April 2019, the court held the decisions of both the Defence Certification Authority and the MoD unlawful and set them aside. As a result of the decision of the Municipal Court in Prague declaring that the MoD and Defence Certification Authority acted unlawfully, the Group expects to succeed in the dispute over the payment of the contractual penalty.

Claim by the MoD against CZUB

In 2017, the MoD brought an action before the District Court in Uherské Hradiště claiming a contractual penalty in the amount of approximately CZK 27.0 million for a failure to deliver the ballistic vests under the MoD Contract. The District Court has ordered the parties to make an attempt to resolve the dispute by mediation. In December 2019, the District Court dismissed the MoD's claim, but that decision is not yet final and binding.

The Company estimates that in the case of an adverse outcome of the legal dispute, CZUB would have to pay the contractual penalty claimed by the by the MoD in the amount of approximately CZK 27.0 million, increased by default interest and the costs of the legal proceedings, even though the Group believes in a positive outcome of this legal dispute, a substantial financial reserve was earmarked for the payment of the contractual penalty. The total provisions for legal costs created by the Group are partially formed by this financial reserve. The Company believes that the outcome of the legal dispute is not likely to have any material impact on the Group's relationship with the Czech state, given the fact that the Group has already successfully participated in public tenders opened by the Czech state since the dispute arose.

Legal proceeding between Latin America Holdings a.s. as claimant against R&T Comércio de Importação e Exportação Ltda. ("R&T") and CZ Brasil Indústria e Comércio de Armas e Munições Ltda ("CZ Brasil") 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 Prospectus, 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 Prospectus, 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 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 Prospectus, R&T has not fulfilled its obligation, and the ruling is being enforced.

Employees

The Group's employees are based in the Czech Republic, the United States and Germany. As of the date of the Prospectus, the Group had approximately 1,628 employees. The table below provides average headcount data for the Group's continuing operations for 2019, 2018 and 2017.

	For the year		
	2019	**2018**	**2017**
		(number)	
Full-time equivalent employees (average)...	1,619	1,718	1,682

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

	As of 31 March 2020 *(number of full-time equivalent employees)*
Czech Republic...	1,500
United States...	132
Germany	1
Total..	1,633

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 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 ongoing performance of the Group's staff is monitored and discussed at regular annual (or, in the case of production staff, semi-annual) performance appraisals which enable the verification of their achievements in the last year and help them identify areas of further development.

The Group has a broad training program in place at the level of the operational companies, covering compulsory training (such as health and safety), talent development and regulatory compliance. These training programs also help to promote basic values of the Group: teamwork, a customer-oriented approach, constant improvement and performance. In total, the Group recorded 12,406 hours of training in 2019.

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.

The Group does not have shareholding or stock option plan for its employees.

CZUB management shareholding plan

In the years 2014 to 2019, CZUB had a management shareholding plan in place. As of 31 December 2019, two current members of CZUB's board of directors and one former member of CZUB's board of directors still owned Class B book entry registered shares, representing in total 0.93% of CZUB's equity. The remaining members of CZUB's board of directors had sold their shareholdings to the Company as of 31 December 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. As of 31 December 2019, the effective dilution for CZUB's shareholders by the 0.62% management and the estimate of the net financial pay-out to the respective members of the CZUB's board of directors stood at CZK 44.6 million, the final figure of the net pay-out to the respective members as of the date of this Prospectus was CZK 54.3 million.

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 by the end of 2020 and is intended to also cover the current members of the board of directors of CZUB who were participants in CZUB's management shareholding plan until 2019.

Environmental and Health and Safety Matters

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.

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 (See "*Risk Factors—Environmental laws and regulations may impact the Group's business*").

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.

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.

Based on the information known to the Group, the Group does not expect current environmental regulations or environmental proceedings and claims to have a material adverse effect on the results of its operations, financial condition or cash flows, with the following exceptions: it is expected that from 2020 onwards emission limits will gradually be tightened which could result in additional expenses for the Group (*e.g.* investments into modernization, replacement or fee payments) (See "*Risk Factors—Environmental, social and governance risks—Environmental laws and regulations may impact the Group's business.*"). Although the Group's management estimates that such additional expense will amount to approximately CZK 87 million to CZK 100 million over the course of several years, it is not possible to predict with certainty the impact of future environmental compliance requirements or of the cost associated with the resolution of any future environmental proceedings and claims, in part because the scope of the remedies that may be required is not certain and environmental laws and regulations are subject to modification and changes in interpretation. There can be no assurance that environmental regulations will not become more burdensome in the future or that no unknown conditions will be discovered and that such developments will in no case have a material adverse effect on the Group's business (See "*Risk Factors—Environmental, social and governance risks—Environmental laws and regulations may impact the Group's business.*").

In connection with the COVID-19 health crisis, the Group undertook safety measures to protect its employees including providing the workers with face masks and disinfectants, regular workplace disinfection, rescheduling of work shifts to smaller groups to effectively enforce social distancing, implementation of home office for white collar employees and imposing a strict schedule for office rotations/occupation.

Insurance

The Group possesses insurance coverage that the Group believes to be adequate for the risks of the business in which is engaged. Although its insurer does not cover punitive damages, the Group believes that all of its insurance policies meet industry standards.

The Group also maintains insurance for its buildings and inventory as well as business interruption insurance, third-party liability insurance for environmental damage (contamination) (which is limited to CZK 5 million), and various other insurance policies which the Group believes provide it with adequate protection against the ordinary risks associated with conducting its business.

Corporate Social Responsibility

Corporate Social Responsibility is an integral part of the Group's activities. In 2019, the Group donated more than CZK 8.0 million to over 60 projects of charities, non-profit organizations and sports clubs focused on defence, the security and health system, education and culture both regionally and nationally. Some of the key projects supported by the Group include: The Endowment Fund of Paediatric Oncology Krtek of the Children's Medical Centre of the University Hospital Brno, which specializes in complex oncology treatment of nurslings, infants, and adolescents; the "450 ml NADĚJE" (*hope)* project to recruit new volunteer blood donors; the Sparta Praha Ice Hockey Club "Tribute to Heroes" project to honour the members of the Integrated Rescue System and the Czech Armed Forces who lost their lives whilst on duty; the Karlovy Vary International Film Festival or the Zlín Czech-Slovak theatre festival "Setkání Stretnutie" (*Meeting*). In addition, the Group donated the proceeds from the auction of the special edition of the pistol CZ 75 "Republika" commemorating the 100th anniversary of the birth of the Czechoslovak state to the Czech Army's Military Solidarity Fund and to the Policemen and Firefighters' Foundation. In 2020, the Group has been also participating in the development and production of protective face masks (RP95-M) to help fight the impacts of the COVID-19 pandemic in the Czech Republic. The face masks are produced by CARDAM and are primarily provided to the Czech Republic, specifically to the Ministry of Health of the Czech Republic.

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, and will not be required after the Admission, to comply with any corporate governance code. The Company does not use any corporate governance code as the Company abides to the regulation given by the applicable laws what the Company deems as sufficient.

Compliance and anti-bribery policy

CZUB, as the key operating company of the Group, established a comprehensive compliance management system, which is being implemented for the entire Group, in order to prevent any violation of the relevant legislation or of CZUB's internal policies. The compliance system also includes an anti-bribery policy and a code of ethics. Policy priorities of the compliance system are set by the board of directors of CZUB.

Under its compliance system, CZUB's board of directors appoints an employee of CZUB 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 CZUB. CZUB 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 CZUB sets out the fundamental ethical obligations for employees of CZUB, 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 CZUB.

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

- CZUB 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 CZUB actively acts against any manner of corruption and prevents any suspicious activities which could be labelled as corruption;
- CZUB employees are obligated to avoid any conflict of interest, in particular, such conflicts of interest that lie in the participation of CZUB employees in the business relations of CZUB 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).

CZUB as entity regulated by the compliance system provides compliance support and related matter to other entities of the Group.

GENERAL INFORMATION ON THE COMPANY AND THE GROUP

History

The history of the Group dates back to 1936. The table below sets forth the most significant milestones in the development of the Group:

1936	A firearms factory was established in Uherský Brod by the predecessor of CZUB.
1949	CZUB became the number one small firearms producer in the Czech Republic.
1959	The factory in Uherský Brod commenced production of the Model 58 (in Czech: *vz. 58*) submachine gun, today classed as an assault rifle. The Model 58 represented an alternative to the Kalashnikov assault rifle. The production of the Model 58 continued at the Uherský Brod factory until 1984 with nearly a million pieces produced for the Czech Armed Forces and for export.
1975	The factory in Uherský Brod commenced the production of the Model CZ 75 pistol, which has reached an iconic status in its class, with more than one million pieces sold to date (see "*The Group's Business—Firearms and Accessories Business—Handguns*").
1992	CZUB was founded by the National Property Fund of the Czech Republic (in Czech: *Fond národního majetku České republiky*), a governmental entity established by the Czech state in order to implement the large-scale privatization of state assets in accordance with approved privatization projects and to manage state property pending its privatization.
1997	CZ-USA was established in the United States as a subsidiary of CZUB to handle firearms and accessories sales and servicing in the United States. For more details about CZ-USA see "*General Information on the Company and The Group—Group Companies—CZ-USA, Inc.*"
2001	Mr. René Holeček became one of the two key shareholders of the Group.
2004	A firearms division of Zbrojovka Brno was acquired and contributed to a newly-founded Zbrojovka Brno company (now a subsidiary of CZUB which focuses on the development and production of break-action firearms).
2005	The Group acting through CZ-USA acquired Dan Wesson Firearms, consisting of its certain trademarks, equipment and related assets (e.g. completed firearms and parts) (see "*The Group's Business—Facilities and Production—Facilities—United States—New York Production Facility*").
2007	The one millionth Model 75 pistol was produced.
2011	The Group entered into an agreement with the Czech Republic to rearm the Czech Army with a total contract value of approximately CZK 1,200 million.
2013	On 10 January 2013, the Company was incorporated for an indefinite period of time.
2014	Mr. René Holeček became the controlling majority shareholder of the Group.
2015	CZ-USA launched its Law Enforcement department, which focuses on firearm sales through public tenders in the United States. Since then, noteworthy deliveries were made to the Utah State Highway Patrol and several sheriff's departments in various states.
2016	The Group commenced the production of CZ BREN 2, the second generation of the BREN assault rifle.

The Group entered into an agreement with the Czech Republic to supply the Czech Army with a total contract value of approximately CZK 476 million.

2017 The Group expanded its product portfolio to include tactical accessories with the acquisition of a majority stake in 4M SYSTEMS.

2018 CZ EXPORT entered into the Framework Agreement with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state (see "*The Group's Business—Material Contracts and Financing Arrangements—Framework Agreement on Technology Transfer Cooperation*").

The Group entered into a framework agreement with the Czech Republic to supply the Czech Army with firearms from 2019 to 2025.

The Group also further expanded its portfolio with the acquisition of a stake in the production technology company VIBROM.

2019 The Group reached an agreement with the State of Arkansas to build a production facility in Little Rock, Arkansas (see "*The Group's Business—Facilities and Production—Facilities—United States—Little Rock Project*").

Recent Developments

The impact of 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 in Uherský Brod. At the same time it had to temporarily cease production of Dan Wesson products in Norwich, NY facility in the United States. The Group has implemented various safety measures including providing the workers with face masks and disinfections, regular workplace disinfection, rescheduling of work shifts to smaller groups to effectively enforce social distancing, application of home office for white collar employees and imposing strict schedule for office rotations/occupation. Those measures have been applied since the introduction of the state of emergency by in the Czech Republic and the United States and have been gradually lifted with the loosening of the measures in line with the relevant government recommendations.

Group Companies

The description below provides certain information with respect to the 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. As of 31 December 2019, CZUB had 1,453 full-time equivalent employees, representing 89.8% of the Group's total workforce. 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. CZUB holds 46,270 of its own shares, which represents approximately 6.73% of the share capital of CZUB. As long as CZUB's shares are held by CZUB, such shares carry neither voting rights at the general meeting of CZUB nor rights to participate in CZUB's profit (the respective portion of CZUB's profit is to be retained by CZUB as retained earnings from previous years).

CZ-US HOLDINGS Inc. *(*"CZ-US HOLDINGS"*)*

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")

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 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.

As of 31 December 2019, CZ-USA had 126 full-time equivalent employees in the United States.

CZ-MFG, Inc. ("CZ-MFG")

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 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.

CZ EXPORT is also a contractual party to the Framework Agreement and the Production Contracts (see "*The Group's Business—Material Contracts and Financing Arrangements—Framework Agreement on Technology Transfer Cooperation*").

As of 31 December 2019, CZ EXPORT had approximately 8 full-time equivalent employees in the Czech Republic.

CZG VIB s.r.o. ("CZG VIB ")

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.

VIBROM spol. s r.o. ("VIBROM")

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. The importance of VIBROM for the Group lies in the ongoing trend towards an increasing number of MIM parts in 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.

As of 31 December 2019, VIBROM had approximately 28 full-time equivalent employees in the Czech Republic.

Spuhr i Dalby AB ("**SPUHR*****")***

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. This is a strategic investment of the Group in a producer of optical mounted solutions. SPUHR was founded in 2007 and has its own factory in Löddeköpinge. As of the date of acquisition, SPUHR had approximately 14 full-time equivalent employees in Sweden.

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.

On 7 May 2020, CARDAM delivered 5,000 pieces of the protective face masks (RP95-M; this half mask is certified according to the Czech standard ČSN EN 140:1999) to the Ministry of Health of the Czech Republic to help fight the COVID-19 pandemic. CARDAM has signed a contract with the Czech Ministry of Health to supply 50,000 masks.

EG-CZ Academy ("Academy")

Academy is a partially owned subsidiary of CZG-Česká zbrojovka Group International s.r.o. (formerly CZG Tisem s.r.o.) ("**CZG International**") based in Quimper, France. CZG TISEM 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.

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 recently launched online firearms configurator.

As of 31 December 2019, Zbrojovka Brno had approximately 15 full-time equivalent employees in the Czech Republic.

EHC-4M, SE ("EHC 4M")

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.

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

4M SYSTEMS is a 54.26% majority owned subsidiary of EHC 4M based in Prague, Czech Republic. Due to its 3 share class structure, the Group controls 67.0% of voting rights in 4M SYSTEMS. The remaining outstanding share capital is owned by the management of 4M SYSTEMS. 4M SYSTEMS holds six of its own shares, which represents approximately 6.0% of the share capital of 4M SYSTEMS. As long as 4M SYSTEMS' shares are held by 4M SYSTEMS, such shares carry neither voting rights at the general meeting of shareholders of 4M SYSTEMS nor rights to participate in 4M SYSTEMS' profit (the respective portion of 4M SYSTEMS' profit is to be retained by 4M SYSTEMS as retained earnings from previous years). 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.

As of 31 December 2019, 4M SYSTEMS had approximately 17 full-time equivalent employees in the Czech Republic.

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. The joint venture with the former partner has resulted in a dispute after the executive director of CZ Brasil refused to give his consent to a transfer of CZUB's share in CZ Brasil to Latin America Holding a.s. (a Group company). Brazilian courts held the executive director's actions unlawful and ordered him to give his consent with the transfer. The consent is being enforced in an enforcement proceeding. The Group is currently assessing its future plans in Brazil, as it still considers the country to have high potential for its future expansion. In addition, the Group maintains two non-employee Group representatives in Brazil.

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.

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.

Pre-Admission Reorganization

The structure of the Group underwent several changes in 2019. The changes were undertaken in order for the Company to (i) acquire a 100% shareholding in several companies which were previously owned by the Sole Shareholder and which are important for carrying out the Group's core business, and (ii) dispose of several companies which are not important for the Group's core business. The individual transactions carried out to implement the changes in the structure of the Group are described below.

Disposal of Automotive and Aviation Business

On 31 March 2020 with the decisive date of 2 January 2020, the Group completed divestment all of the Group's assets, other than certain buildings, related to its Automotive and Aviation Business.

Acquisition of CZ EXPORT

On 17 June 2019, a share purchase agreement was concluded between the Sole Shareholder, as the seller, and the Company, as the purchaser, under which a 100% ownership interest in CZ EXPORT was transferred to the Company for a purchase price of CZK 185,069,000. The purchase price was based on an expert opinion prepared by a valuator Equity Solutions Appraisals s.r.o. - znalecký ústav.

In terms of additive value to the Group, CZ EXPORT is the most important acquisition in 2019 as CZ EXPORT generated EBITDA of CZK 64.1 million in 2018 and of CZK 42.8 million in 2019. In 2019, CZ EXPORT had revenues of CZK 1,053.9 million, operating profit of CZK 64.1 million, profit before tax of CZK 65.1 million and profit for the period of CZK 52.7 million. CZ EXPORT had total assets and equity as of 31 December 2019 of CZK 728.4 million and CZK 62.1 million, respectively. The Company is the sole shareholder of CZ EXPORT.

Acquisition of CZG-Česká zbrojovka Group International

On 17 June 2019, a share purchase agreement was concluded between the Sole Shareholder, as the seller, and the Company, as the purchaser, under which a 100% ownership interest in CZG-Česká zbrojovka Group International was transferred to the Company for a purchase price of CZK 266,000. The purchase price was based on an expert opinion prepared by a valuator Equity Solutions Appraisals s.r.o. - znalecký ústav. The Company is the sole shareholder of CZG-Česká zbrojovka Group International.

Acquisition of CZG VIB and VIBROM

On 26 June 2019, a share purchase agreement was concluded between the Sole Shareholder, as the seller, and the Company, as the purchaser, under which a 100% ownership interest in CZG VIB was transferred to the Company for a purchase price of CZK 21,538,000. The purchase price was based on an expert opinion prepared by a valuator Equity Solutions Appraisals s.r.o. - znalecký ústav. The Company is the sole shareholder of CZG VIB. CZG VIB holds 24.99% of the share capital of VIBROM. VIBROM's other shareholders are Ivan Jebavý and Magda Jebavá.

Divestment of EHC zdravotní s.r.o.

On 17 June 2019, a share purchase agreement was concluded between the Company, as the seller, and Silesia Invest SE, as the purchaser, under which a 100% ownership interest in EHC zdravotní s.r.o. ("**EHC Zdravotní**") was transferred to Silesia Invest SE for a purchase price of CZK 10,000. The purchase price was based on expert opinion prepared by a valuator Equity Solutions Appraisals s.r.o. - znalecký ústav.

EHC Zdravotní is the owner of a health care facility. EHC Zdravotní was transferred outside of the Group because EHC Zdravotní's operations are immaterial and not related to the Group's core business.

Divestment of CZUB zdravotní s.r.o.

On 17 June 2019, a share purchase agreement was concluded between the Company, as the seller, and Silesia Invest SE, as the purchaser, under which a 100% ownership interest in CZUB zdravotní s.r.o. ("**CZUB Zdravotní**") was transferred to Silesia Invest SE for a purchase price of CZK 10,000. The purchase price was based on expert opinion prepared by a valuator Equity Solutions Appraisals s.r.o. - znalecký ústav.

CZUB Zdravotní is a health care provider. CZUB Zdravotní was transferred outside of the Group because CZUB Zdravotní's operations are immaterial and not related to the Group's core business.

MANAGEMENT

General overview

The Company has a two-tier board system consisting of the Board of Directors (in Czech: *představenstvo*) (the "**Board of Directors**") and the Supervisory Board (in Czech: *dozorčí rada*) (the "**Supervisory Board**").

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 (the "**Remuneration Committee**"), an acquisition committee (the "**Acquisition Committee**") and a regulatory and ethical matters committee (the "**Regulatory and Ethical Matters Committee**"). Pursuant to the Articles of Association the Company formed an audit committee (the "**Audit Committee"** members of which are elected by the General Meeting and a Company employee committee (the "**Employee Committee"** (members of which are elected by the employees' representatives or the employees themselves).

Board of Directors

General Information

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 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 business address of each member of the Board of Directors is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, the Czech Republic.

Five members of the Board of Directors shall be responsible for a specific field whereas two members of the Board of Directors shall have no specific competencies and generally oversee and review the manner in which the Company's affairs are being administered. This does however not limit the duty of each member to supervise how the Board of Director's responsibilities are administered.

Responsibilities and Powers of the Board of Directors

Key responsibilities and powers of the Board of Directors include, *inter alia*:

- Decisions on an increase in the registered share capital in accordance with the Articles of Association;
- Exercising rights of the Company as a shareholder in its subsidiaries; and
- Preparing and submitting the Company's financial statements and a proposal for a distribution of the Company's profit or for covering of the Company's loss to the General Meeting.

Members of the Board of Directors

The following table sets out the name and 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 / Head of Finance	17 January 2020	17 January 2025
Andrej Chrzanowski	Member of the Board of Directors	17 January 2020	17 January 2025
Ladislav Britaňák	Member of the Board of Directors	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
David Aguilar....................	Member of the Board of Directors	17 January 2020	17 January 2025
Jana Růžičková	Member of the Board of Directors	17 January 2020	17 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 captain before the end of his military career in the mid-1990s. 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 Sole 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.

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, 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, he has been Chief Executive Officer of CARDAM, and since 2018 he has been a member of the supervisory board of the Sole 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.

Ladislav Britaňák

Member of the Board of Directors

Mr. Britaňák graduated from the University of Transport and Communications in Žilina, Slovak Republic, and he also completed a Master of Business Administration degree at Nottingham Trent University in England. He started his career as a Director of Logistics at JOKO Kunovice, and later worked as an Administrative Director at ND Logistics CZ, Groupe Norbert in Dentressangle, France. Mr. Britaňák joined CZUB in 2004 as the Purchasing Director, and from 2007 to 2017 held the position of Commercial Director. From 2015 to 2018, he also acted as a Vice-Chairman of the board of directors of CZUB. Since 2018, Mr. Britaňák has served as Chief Executive Officer and Chairman of the board of directors of CZUB.

Mr. Britaňák 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 majority shareholder since 1996. She acts as the key economics expert and is responsible for audit, accounting, tax and legal matters of the Group. She specializes in corporate restructuring and M&A transactions. She is a member of the supervisory boards and boards of directors of several companies within the Group. She is the chairman of the audit committee of CZUB.

Directorships of members of the Board of Directors

The table below sets forth past and current positions held by members of the Board of Directors in administrative, management or supervisory bodies and partnerships outside of the Group in the last five years.

Name	**Position held**
Lubomír Kovařík	*Current*: Česká zbrojovka Partners SE – chairman of the board of directors, 2018 to present Former: None
Jan Drahota	*Current:* Česká zbrojovka Partners SE – member of the board of directors, 2018 to present Česká zbrojovka Defence SE – chairman of the board of directors, 2017 to present ČEPS, a.s. – member of the supervisory board, 2014 to present ČEPS, a.s. – member of the audit committee, 2016 to present DCF Partners, s.r.o. – executive, 2012 to present hypo360.cz, SE – member of the board of directors, 2016 to present Zero Emissions Debt Finance, a.s. – statutory director, 2015 to present Zero Emissions Debt Finance, a.s. – chairman of the administrative board, 2015 to present *Former:* Česká exportní banka, a.s. – member of the supervisory board, from 2017 to 2018 U.C.H, a.s., v likvidaci – member of the board of directors, from 2014 to 2017 UniControls a.s. – vice-chairman of the supervisory board in 2014 UniControls a.s. – member of the supervisory board, from 2014 to 2015 UniControls a.s. – chairman of the supervisory board, from 2015 to 2017 Zero Emissions Funding s.r.o. – executive, from 2012 to 2015 THERMAL-F, a.s. – vice-chairman of the supervisory board, from 2014 to 2017 Zero Emissions Debt Finance, a.s. – member of the board of directors, from 2012 to 2015 Zahrady Hřebenka s.r.o. – executive from 2012 to 2017 M&H Management a.s. – member of the administrative board, from 2014 to 2015
Andrej Chrzanowski	*Current:* Česká zbrojovka Partners SE – supervisory board member, 2018 to present Knoflíkářský průmysl Žirovnice a.s. – supervisory board member, 2019 to present Moran Investment, a.s. – supervisory board member, 2019 to present Nadace RUDOLF – administrative board member, 2018 to present *Former:* UniControls a.s. – supervisory board member, from 2017 to 2018
Ladislav Britaňák	*Current:* Česká střelecká nadace – chairman of the administrative board, 2013 to present *Former:* None
Alice Poluchová	*Current:* None *Former:*

	None
David Aguilar....................	*Current:* U.S. Border Patrol Foundation – board of directors member, 2019 to present Global Security and Innovative Strategies – principal, 2013 to present Homeland Security Dialogue – forum advisory board member, 2017 to present University of Houston – Borders, Trade, and Immigration Institute External Advisory Board member, 2017 to present Drone Aviation Holding Corp-chairman of the board, 2019 to present SAP NS2 advisory board member, 2019 to present *Former:* Drone Aviation Holding Corp-board of directors member, from 2017 to 2019
Jana Růžičková	*Current:* Česká zbrojovka CZ-AUTO a.s. - member of the Supervisory Board, 2017 to present AUTO-CZ International a.s. - member of the supervisory board, 2019 to present Minezit SE - sole member of the board of directors, 2013 to present RAIL CARGO a.s. - sole member of the board of directors, 2008 to present CZ AGRO Servis a.s. - member of the supervisory board, 2014 to present M&H Management a.s. - statutory director, 2014 to present Kykulin Trade a.s. - sole member of the board of directors, 2014 to present Silesia Invest SE - sole member of the board of directors, 2016 to present *Former:* U.C.H. a.s. in liquidation - member of the supervisory board, 2014 to 2017 RO INVEST 1, SE - member of the supervisory board, from 2012-2017

Supervisory Board

General Information

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 Companies 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 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 business address of each member of the Supervisory Board is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, the Czech Republic.

Responsibilities and Powers of the Supervisory Board

Key responsibilities and powers of the Supervisory Board include, *inter alia*:

- Review the Company's financial statements, make proposals for the distribution of the Company's profit or covering the Company's loss, and submit its opinion thereon to a General Meeting;
- Supervise whether the Company's books and records are kept properly and in compliance with applicable laws, regulations and the Articles of Association; and

- Election and recall of members of the Board of Directors and approval of any compensation to members of the Board Directors.

Members of the Supervisory Board

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.

Directorships of members of the Supervisory Board

The table below sets forth past and current positions held by members of the Supervisory Board in administrative, management or supervisory bodies and partnerships outside of the Group in the last five years.

Name	**Position held**
René Holeček	*Current:* RAIL CARGO a.s. – supervisory board member, 2014 to present TRX, s.r.o. – executive, 2002 to present Minezit SE – supervisory board member, 2015 to present Silesia Invets SE – supervisory board member, 2016 to present EHC – supervisory board member, 2012 to present Česká zbrojovka Partners SE – supervisory board member, 2017 to present Česká zbrojovka Defence SE – supervisory board member, 2017 to present *Former:* None
Vladimír Dlouhý	*Current:* Goldman Sachs – International Advisor for Central Eastern Europe, 1997 to present Czech Chamber of Commerce – President, 2014 to present Meridiam Infrastructure – Advisory Board member, 2010 to present Kooperativa pojišťovna, Vienna Insurance Group – supervisory board member, 2019 to present *Former:* KSK Power Venture – non-executive director, from 2011 to 2018 Trilateral Commission – European Group Deputy Chairman, from 2010 to 2016
Věslava Piegzová	*Current:* Česká zbrojovka CZ-AUTO a.s. - – supervisory board member, 2017 to present CZ-AUTO SYSTEMS a.s. – supervisory board member, 2019 to present *Former:* None

Audit Committee

General Information

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 (the "**Czech Act on Auditors"**), 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 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.

Members of the Audit Committee are required to attend General Meetings and are required to report to General Meetings on the results of their activities. The rules for calling and functioning of the Meetings of the Audit Committee are stated in the rules of procedure of the Audit Committee. A majority of at least two thirds of the votes of all members is required for the rules of procedure to be passed or amended. When necessary, a decision may be made by the Audit Committee without holding a meeting.

The Audit Committee adopts a decision by a majority vote of all its members. The quorum for a meeting of the Audit Committee is a simple majority of all its members. The Audit Committee has discretion to invite to its meetings members of other Company's corporate bodies, employees, or other persons.

The business address of each member of the Audit Committee is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic.

Responsibilities and Powers 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;
- Monitoring the effectiveness of the Company's internal audit and ensuring its functional independence;
- Monitoring the process of preparation of the Company's consolidated and non-consolidated financial statements; and
- Monitoring the statutory audit process.

Members of the Audit Committee

The following table sets out the name and principal position of each member of the Audit Committee.

Name	**Position**	**Commencement of Current Term of Office**	**Date of Expiration of Current Term of Office**
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.

Directorships of members of the Audit Committee

The table below sets forth past and current positions held by members of the Audit Committee in administrative, management or supervisory bodies and partnerships outside of the Group in the last five years. Past and current positions held by members of the Audit Committee who are simultaneously members of the Board of Directors or the Supervisory Board are listed in the respective tables above.

Name	**Position held**
Tomáš Machuča	*Current:* None *Former:* None
David Ondroušek	*Current:* CZUB - member of the audit committee, March 2020 to present *Former:* None

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.

Employee Committee

The Company formed an Employee Committee, the members of which are Company employees, elected by the employees' representatives or the employees themselves. The Employee Committee is, in particular, entitled to obtain a report on the development of the business of the Company at least once a year, information on proposed agendas for the meetings of the Board of Directors and the Supervisory Board and copies of all documents presented to the General

Meeting. The Board of Directors is obliged to inform the Employee Committee without undue delay about any extraordinary facts that might be detrimental to the interests of employees.

Other Information on Members of the Board of Directors, Supervisory Board Members and Audit Committee Members

In the last five years, no member of the Board of Directors, the Supervisory Board and Audit Committee has been:

- convicted in relation to any fraudulent offence;
- subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer of securities or from acting in the management or conduct of the affairs of any issuer of securities; or
- associated with any bankruptcies, receiverships or liquidations, when acting in his capacity as a member of the administrative, management or supervisory body or as a senior manager within the Group.

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.

Contracts and remuneration

In 2019, the remuneration paid by the Group to selected members of the Board of Directors amounted to CZK 28.7 million. This amount includes a preliminary financial provision of the Group for a repurchase of CZUB class "B" shares from certain members of the Board of Directors.

In 2019, the remuneration paid by the Group to the members of the Supervisory Board amounted to CZK 13.2 million. This amount includes a preliminary financial provision of the Group for a repurchase of CZUB class "B" shares from certain members of the Supervisory Board.

In 2019, there was no remuneration paid by the Group to the members of the Audit Committee of the Company, as the Audit Committee only exists as of 17 January 2020.

The members of the Board of Directors and Supervisory Board may use Company vehicles for private purposes.

None of the members of the administrative, management or supervisory body of the Company or any member of the Group, has any contracts with the Company or the respective member of the Group which would provide benefits upon termination of the member's services with the Company or the respective member of the Group beyond standard benefits defined in the Czech Labour Code.

All members of the management and supervisory body provide their services pursuant to service (manager's) contracts. These contracts are established for an initial period of five years (duration of the term of the office of members of management and supervisory body), but may be terminated earlier in accordance with provisions thereof and the relevant regulations.

Interests of the Management in the Company

No member of the Board of Directors, Supervisory Board, Audit Committee or other senior managers has a direct interest in the Company. However, some of the members of the Board of Directors, Supervisory Board, Audit Committee or other senior managers have an interest in the Sole Shareholder, see "*Principal Shareholders*".

PRINCIPAL SHAREHOLDERS

All Shares representing the Company's entire registered capital are held by Česká zbrojovka Partners SE, incorporated as a European Company (*Societas Europaea*) in the Czech Republic, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, Id. No. 05851777, registered with the Commercial Register maintained by the Municipal Court in Prague, File No. H 1879, LEI: 3157003YXPXM8ML04Q29, telephone: +420 222 814 610, e-mail: info@czpartners.cz (the "**Sole Shareholder**"). Accordingly, the Sole Shareholder directly exercises ultimate control over the Company. The control of the Sole Shareholder over the Company is based on its ownership of 100% of the Shares and voting rights. The Sole Shareholder is a Czech holding company with the shareholding in the Company being its only material asset.

The Shares held by the Sole Shareholder have the same voting rights as the voting rights of the Shares. To the Company's knowledge, there is no arrangement that might result in the change of control over the Company. The Admission will not result in the change of control over the Company.

The Sole Shareholder

The majority shareholder of the Sole Shareholder is the European Holding Company, SE ("**EHC**") which holds 90% of the share capital and voting rights in the Sole Shareholder. EHC is owned and controlled by Mr. René Holeček who controls 100% of the share capital in EHC. The remaining 10% of the Sole Shareholder's share capital is held as follows: (i) 5% by Mr. Lubomír Kovařík, Chairman of the Board of Directors of the Company and President of the Group, (ii) 2.5% by Mr. René Holeček, Chairman of the Supervisory Board, and (iii) 2.5% by Mr. Jan Drahota, Vice-Chairman of the Board of Directors of the Company and Group's Head of Finance.

The Sole Shareholder, as the sole shareholder of the Company, only influences the Company based on its current shareholding. Czech law provides for various measures to ensure that the control of the controlling shareholder is not abused. Furthermore, Act No. 89/2012 Coll., the civil code, as amended (the "**Civil Code**") sets as a general rule that the Company cannot unreasonably discriminate in favour of or against any other shareholder of the Company and must protect the shareholders' rights as well as the legitimate interests of all shareholders equally. Furthermore, no shareholder may abuse its voting rights to the harm of other shareholders.

Shareholding before and upon completion of the Admission

Upon the completion of the Admission, the Sole Shareholder will hold 100% of the Shares in the Company.

Dilution

As there will be no offer based on the Prospectus, there will be no dilution resulting from the Admission.

RELATED PARTY TRANSACTIONS

Overview

In the ordinary course of business the Company and the Group companies enter into related party transactions. All of the Group's related party transactions are carried out on an arm's length basis. Related party transactions are presented in note 31 to the Audited Financial Statements.

Pre-Admission Reorganization

The Group entered into several related party transactions during its pre-Admission reorganization in 2019. For more information about these related party transactions see "*General Information on the Company and the Group—Pre-Admission Reorganization*" above.

Transfer of Shares in Group Companies by their Management

Purchase of shares of CZ-USA HOLDINGS COMPANY, a.s. ("CZ-USA Holdings") by the Company

The Company entered into the below agreements with the current or former members of CZUB's board of directors, under which the Company acquired shares in CZ-USA Holdings which ceased to exist as of 1 August 2019 by a merger with the Company, as the successor company:

- On 15 January 2019, a share purchase agreement was concluded between Mr. Ladislav Britaňák, as the seller, and the Company, as the purchaser, under which 0.68% of shares of CZ-USA Holdings was transferred to the Company for a purchase price of CZK 594,578.
- On 15 January 2019, a share purchase agreement was concluded between Mr. Tomáš Hauerland, as the seller, and the Company, as the purchaser, under which 0.34% of shares of CZ-USA Holdings was transferred to the Company for a purchase price of CZK 297,633.
- On 15 January 2019, a share purchase agreement was concluded between Mr. Jaroslav Hruška, as the seller, and the Company, as the purchaser, under which 0.41% of shares of CZ-USA Holdings was transferred to the Company for a purchase price of CZK 356,747.
- On 15 January 2019, a share purchase agreement was concluded between Mr. Ladislav Koníček, as the seller, and the Company, as the purchaser, under which 0.41% of shares of CZ-USA Holdings was transferred to the Company for a purchase price of CZK 356,747.
- On 14 January 2019, a share purchase agreement was concluded between Mrs. Věslava Piegzová, as the seller, and the Company, as the purchaser, under which 0.41% of shares of CZ-USA Holdings was transferred to the Company for a purchase price of CZK 356,747.

Sale and Purchase of Shares of CZUB by its Management

As of the date of the Prospectus, 0.62% of the outstanding share capital of CZUB is owned by CZUB's management. The Company entered into the below agreements with CZUB's current or former members of the board of directors, under which the Company either acquired or sold shares in CZUB:

- On 20 December 2018, a share purchase agreement was concluded between the Company, as the purchaser, and Mr. Bogdan Heczko, as the seller, under which 1.18% of shares of CZUB was transferred to the Company for a purchase price of CZK 42,137,790.
- On 15 July 2019, a share purchase agreement was concluded between the Company, as the seller, and Mr. Radomír Jarko, as the purchaser, under which 0.31% of shares of CZUB was transferred to Mr. Jarko for a purchase price of CZK 11,556,770.
- On 31 July 2019, a share purchase agreement was concluded between the Company, as the seller, and Mr. Jiří Kundrata, as the purchaser, under which 0.31% of shares of CZUB was transferred to Mr. Kundrata for a purchase price of CZK 11,556,770.

- On 15 July 2019, a share purchase agreement was concluded between the Company, as the seller, and Mr. Pavel Majzlík, as the purchaser, under which 0.31% of shares of CZUB was transferred to Mr. Majzlík for a purchase price of CZK 11,556,770.
- On 12 December 2019, a share purchase agreement was concluded between the Company, as the purchaser, and Mr. Radek Jarko, as the seller, under which 0.31% of shares of CZUB was repurchased by the Company for a purchase price of CZK 11,556,770. The reason for the repurchase was the termination of Mr. Jarko's activities within the Group.

Loan from the Sole Shareholder

The Group borrowed CZK 250 million from the Sole Shareholder on 30 December 2019. The loan was included in the liabilities that were spun-off with the Automotive and Aviation Business as part of discontinued operations. The Group repaid the loan on 3 January 2020 on CZ-AUTO SYSTEMS behalf and as a result the Group now has a receivable from CZ-AUTO SYSTEMS a.s. in the amount of CZK 250 million.

Sale of receivable to the Sole Shareholder

In March 2018, CZ EXPORT), a member of the Group, entered into the Framework Agreement (the "**Framework Agreement**) with HM ARZENÁL Zrt. (**HM ARZENÁL**)"). (See "*The Group's Business—Material Contracts and Financing Arrangements—Framework Agreement on Technology Transfer Cooperation*"). However, HM ARZENÁL payments to the Group were overdue in the amount of EUR 12.7 million (equivalent to CZK 347.0 million at an exchange rate of 27.325 CZK/EUR as of 31 March 2020) as of 26 March 2020. In order to ensure optimal cash management, the receivable was assigned to the Sole Shareholder on 26 March 2020 for its net book value. As a result of the assignment, the Group did not recognize an allowance for these receivables in the Audited Financial Statements. As HM ARZENÁL paid the receivable in full to the Group on 1 April 2020, the Group and the Sole Shareholder agreed to reverse the assignment and set-off any payments previously agreed in connection with the assignment of the receivable. For more detail, refer to note 21, respectively, of the Audited Financial Statements.

Overview of other mutual relations with related parties

This section of the Prospectus provides an overview of all material Group's transactions with related parties for the period between 1 January 2017 and the date of this Prospectus.

In 2019, the Sole Shareholder provided services to the Group in the amount of CZK 40,005 thousand at arm's length principle. As of 31 December 2019, trade payables to the Sole Shareholder of the Group are in amount of CZK 5,504 thousand. The Group had no other transactions or outstanding balance with related parties as of 31 December 2019.

In, 2017, the Group had an outstanding liability of CZK 70 million to EHC from the interest free loan provided to the Company by EHC in 2014. The loan was repaid on 16 July 2018. The Company borrowed CZK 91.5 million from EHC on 17 December 2018 and repaid this loan on 16 January 2019. In 2019, the Company repaid to EHC the interest free long term loan provided by EHC to the Company in 2013.

The following table sets forth the total amount of Group’s liabilities – controlled or controlling entity outside of the CZG group and the payables to shareholders as of 31 December 2019, 31 December 2018 and 31 December 2017

		As of 31 December	
	2019	**2018**	**2017**
		(CZK thousands)	
Liabilities – controlled or controlling entity outside of the Group	**--**	**111 511**	**70 000**
Payables to shareholders	**6**	**7 121**	**2 136**

REGULATORY OVERVIEW

This section represents a summary of material regulation applicable to the Group's business in the EU, the Czech Republic and the United States in force as of the date of this Prospectus. A description of EU law has been included due to its increasing influence on Czech national firearms legislation. However, this regulation is subject to change (or subject to changes in interpretation), possibly with retroactive effect. 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 to underline the main regulatory requirements necessary to be fulfilled in order for the Group to operate its business.

Regulatory Introduction

All segments of the Group's business are subject to applicable Czech and foreign (mainly the U.S.) laws and regulations.

Within the Firearms and Accessories Segment, the Group primarily conducts the below activities which are particularly regulated as follows:

Czech Republic

- The key laws relating to manufacturing and trade of firearms (both military and non-military) in the Czech Republic are:
  - Act No. 119/2002 Coll., on firearms and ammunition, as amended (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**");
  - Act No. 455/1991 Coll., on trade licensing, as amended (the "**Trade Licensing Act**"); and
  - Act No. 156/2000 Coll., on the authentication of certain types of firearms, ammunition and pyrotechnics (the "**Firearms Authentication Act**").
- The key laws relating to export of non-military firearms are:
  - Act No. 228/2005 Coll., on control of trade in products whose possession is restricted for security reasons in the Czech Republic (the "**Act on Control of Trade**");
  - Governmental Regulation No. 282/2013 Coll., on list of the relevant products and conditions upon which such products to be traded, (the "**Control of Trade Regulation**"), which further develops the Act on Control of Trade; and
  - Governmental Regulation No. 151/2004 Coll., on the regulation of export of certain firearms to EU Member States (the "**EU Export Regulation**").
- The key laws relating to export of military firearms are:
  - Act No. 38/1994 Coll., on international trade in military materiel (the "**Act on Trade in Military Materiel**"); and
  - Governmental Regulation No. 210/2012 Coll., on the implementation of certain provisions of the Act on Trade in Military Materiel (the "**Regulation on Trade in Military Materiel**").
- The key laws relating to handling of firearms (both military and non-military) are:
  - Czech Weapons Act;
  - 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**"), which further develops the Czech Weapons Act; and
  - Decree No. 221/2017 Coll. on implementing some provisions of the Act on Firearms, which among others regulates the transit requirements of firearms (the "**Implementation Decree**").

United States

- The key laws relating to manufacturing and trade of firearms in the United States are:
  - the Gun Control Act of 1968 (the "**GCA**");
  - the National Firearms Act of 1934 (the "**NFA**");
  - the Arms Export Control Act of 1976 (the "**AECA**");
  - the International Traffic in Arms Regulations (the "**ITAR**"); and
  - the Export Administration Regulations (the "**EAR**").

Czech Firearms Regulation

Relevant 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 the Firearms Directive, and the Trade Licensing Act. Further, 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 (in Czech: *Český úřad pro zkoušení zbraní a střeliva*). 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**").

One of the main Gun Ban Directive's purposes is to improve the Firearms Directive in order to address the misuse of firearms for criminal purposes and the directive therefore aims to implement stricter conditions regarding the possession of firearms. The Gun Ban Directive modifies the categorization of firearms by e.g. broadening the category of prohibited firearms. Newly, this category shall include for example some of the semi-automatic firearms. Moreover, the Gun Ban Directive obliges the relevant authorities to review the authorizations for possession of firearms (in the Czech Republic gun licenses) at intervals not exceeding 5 years (currently, under the Czech Weapons Act, it is 10 years).

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.

The Ministry of Internal Affairs of the Czech Republic is preparing new firearms legislation, particularly a new weapons act. The acts are expected to enter into force in 2022. As these acts are in the preparation phase and have not yet been submitted to the Czech Parliament, neither their final form nor if and when they may enter into force and their impact on the firearms industry is clear.

In accordance with the Gun Ban Directive, the new weapons act that is being prepared is expected to modify the categorization of firearms, which will make the acquiring of relevant authorization for some types of firearms more difficult. It is also expected to reduce the period of validity of gun licenses (see "*Regulatory Overview—Czech Firearms Regulation—Gun License*") from ten years to five years.

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 the Act on Control of Trade and Act on Trade in Military Materiel (as defined below).

Trade License

Issuance of a trade license relating to manufacturing and trading of firearms is a principal condition in order to commence business in this segment. Trade licenses are issued by the competent Czech Trade Licensing Office (in Czech: *živnostenský úřad*). The main oversight authority regarding trade licensing is the competent Czech Trade Licensing Office. The competent Czech Trade Licensing Office also procures an oversight over compliance with the respective laws of the Czech Republic by the respective trade license holder.

Trade licensing in the Czech Republic is divided into two main categories: (i) notified trade licences, which are issued under the "shall issue" principle, *i.e.* a notified trade licence is issued upon the applicant's filling of relevant documents to the competent Trade Licensing Office, and (ii) concession trade licences, which are issued under the "may issue" principle, *i.e.* issuance of a concession trade license is subject to a discretion of the competent Trade Licensing Office. Trade licences for conducting business in the Firearms and Accessories Segment are classed as a concession (in Czech: *koncese*). Concession trade licences are subject to the strictest conditions under the Trade Licensing Act, pursuant to which the applicant is required to prove its professional capability (or of its responsible person) within the meaning of the Trade Licensing Act to the competent Trade Licensing Office. Under the Trade Licensing Act, the requisite professional capability for firearms trade licenses includes especially professional education and relevant experience in firearms' industry.

Members of the Group hold a number of trade licenses, among others trade licenses to trade, repair and store security material, firearms, explosives and ammunition, which were granted for an indefinite period of time for conducting the business of the Group (the "**Trade License**"). Responsible persons (in order to prove professional capability of the Group) were appointed in connection with the Trade Licence. If any of the responsible persons were to retire or otherwise leave the Group, the Group would be obliged to appoint another responsible person.

Trade licences for the Czech persons within the meaning of the Trade Licensing Act are generally issued for an indefinite period of time. Under the Trade Licensing Act, a trade licence can be revoked by the competent Czech Trade Licensing Office, in particular on the grounds that (i) the holder has violated the respective laws of the Czech Republic especially relating to a licensed business, (ii) the holder has violated the conditions under which the respective concessional trade licence was issued or (iii) the holder has ceased to comply with the requirements for an issuance of the trade licence (e.g. loss of a criminal integrity, bankruptcy of the holder).

Arms Licence

Pursuant to the Czech Weapons Act, manufacturing and trading of firearms (including both military and non-military firearms) also requires an arms licence (in Czech: *zbrojní licence*). The competent authority for the issuance of arms licences is the Police of the Czech Republic. The Police of the Czech Republic is also a main oversight authority in respect of arms licences holders. The respective police office procures an oversight over compliance with all arms licence holder's duties.

The fundamental conditions for the issuance of an arms licence are the domicile or seat of the applicant in the Czech Republic, the possession of a firearms' trade licence, the integrity of the applicant and of the members of its management body, and the submission of a draft internal directive which sets forth rules, in particular, for the usage and evidence of firearms and ammunition and the credentials of the applicant's armorer (in Czech: *zbrojíř*).

The holder of an arms licence is required to observe duties imposed by the Czech Weapons Act, in particular to:

- have an armorer in place (a person who carries out the duties of possession, storage or usage of firearms under the Czech Weapons Act);

- have an internal directive in place which sets forth rules for the usage and evidence of firearms and ammunition;
- ensure and maintain the proper conditions for securing firearms or ammunition against abuse, loss or theft in accordance with the Czech Weapons Act; and
- keep records of its firearms in the Central Register of Firearms maintained by the respective police office.

The main operating company of the Group, CZUB, is the holder of an arms licence for conducting business in relation with its firearms business. The arms licence was issued on 20 July 2016 for an indefinite period of time.

In accordance with the Czech Weapons Act, the competent police office is generally authorized to revoke an arms licence, especially if the respective holder violates its obligations under the Czech Weapons Act or if the respective holder ceases to comply with the statutory requirements for the issuance of an arms licence. If an arms licence is revoked on grounds of a violation of the Czech Weapons Act, such holder may apply for a new arms licence only after five years since the revocation.

Export Licences in Non-military Firearms

The export of non-military products is primarily subject to Act on Control of Trade and the Control Trade Regulation. Oversight in respect of non-military firearms exports is exercised by the competent Customs Office.

The Act on Control of Trade and the Control of Trade Regulation set out requirements as to the export of non-military firearms within the EU and also to non-EU countries. In principle, all firearms exports require licensing by the Ministry of Industry and Trade; no licence is required for the export of shotguns and rimfire rifles within the EU (also, air guns are not generally subject to any licensing). The types of firearms listed in the Annexes to the Control of Trade Regulation (such as pistols and the main parts of firearms) are subject to export restrictions in accordance with the Act on Control of Trade and the Control of Trade Regulation. The main products of the Group subject to export licensing under the Act on Control of Trade and the Control of Trade Regulation are all firearms produced by the Company with the exception of fully-automatic firearms and air guns. More specifically, firearms falling under the Act on Control of Trade and the Control of Trade Regulation include handguns such as the CZ P-10 pistol series, rimfire rifles such as the CZ 457 series, centrefire rifles such as the CZ 557 series, semi-auto carbines such as the CZ Scorpion Evo 3 S1 and semi-auto rifles such as the CZ Bren 2 MS.

On the EU level, the matters described above are also regulated by Regulation (EU) No. 258/2012 of the European Parliament and of the Council of 14 March 2012, implementing Article 10 of the United Nations' Protocol against the illicit manufacturing of and trafficking in firearms, their parts and components and ammunition, supplementing the United Nations Convention against Transnational Organised Crime (UN Firearms Protocol), and establishing export authorisation, and import and transit measures for firearms, their parts and components and ammunition.

Export licences in relation to each country are being issued by the Ministry of Industry and Trade. The average time required to obtain an export licence for non-military firearms is between three and four weeks. However, the authorities may draw out the licensing process in certain circumstances. Under the Act on Control of Trade, an export licence can be revoked by the Ministry of Industry and Trade, in particular on the grounds that (i) the issuance of the export licence was based on false or incomplete information, (ii) the conditions set out in the export licence were not observed, (iii) the holder has ceased to comply with the requirements for an issuance of the export licence, or (iv) it is necessary for the security of the Czech Republic or for the fulfilment of its international commitments. In the cases described above, the state is not liable for the harm caused by the lawful revocation of the export licence.

Export Licences in Military Firearms

The export of military products is primarily subject to the Act on Trade in Military Materiel. Oversight in respect of military firearms exports is exercised by The Ministry of Industry and Trade and the competent Customs Office.

The Act on Trade in Military Materiel sets forth requirements for the applicant to comply with in order to be granted a licence for trade with military materiel, particularly capital requirements and requirements for persons acting as directors of the respective licence holder. The Regulation on Trade in Military Materiel, contains a detailed listing of objects considered as "military materiel" and other particulars concerning trade in military materiel.

Export of military materiel (including firearms) within the EU and also to non-EU countries is subject to the Act on Trade in Military Materiel which presupposes a general licence for trade with such material as well as individual licences for each export. The licences (both general and individual) are issued by the Ministry of Industry and Trade; however, the issuance of licences is also subject to approval by the Ministry of Defence, the Ministry of the Interior, Ministry of Foreign Affairs and the General Directorate of Customs and Excise. In order for a person to be allowed to export military materiel, it is necessary to obtain a general licence first. Military materiel export may be carried out only within the limits set out in the respective general licence. In addition to a general licence, each export agreement (under which the respective exports are performed) relating to military materiel is subject to an issuance of an individual export licence. For each individual export conditions of both the respective general and individual licence apply.

The average time required to obtain a general licence is up to 60 days, but for an individual export licence for military firearms it might take longer than 60 days. Further, the authorities may prolong the licensing process in certain circumstances.

The Group conducts exports of military firearms primarily through CZ EXPORT. However, CZUB and 4M SYSTEMS also possess the licence for trade with military materiel, as can be viewed on the website of the Czech Ministry of Industry and Trade (available at: https://www.mpo.cz/assets/cz/zahranicni-obchod/licencni-sprava/zahranicni-obchod-s-vojenskym-materialem/2019/6/Platna-povoleni-k-10-6-2019.pdf).

Under the Act on Trade in Military Materiel, the general export licence in military firearms can be revoked by the Ministry of Industry and Trade, in particular on the grounds that (i) the issuance of a general export licence was based on false or incomplete information, (ii) the holder of a general export licence has significantly breached the Act on Trade in Military Materiel or other laws regulating the trade with military firearms, (iii) the holder has ceased to comply with the requirements for an issuance of a general export licence, or (iv) it is necessary for the security, political or business interests of the Czech Republic.

The individual export licence can be revoked also by the Ministry of Industry and Trade, mainly on the grounds that (i) the issuance of an individual export licence was based on false or incomplete information, (ii) it is necessary for the security, political or business interests of the Czech Republic, (iii) the holder has breached conditions set out in an individual export licence, or (iv) the general export licence of the respective holder has been terminated.

The main products of the Group subject to export licences under the Act on Trade in Military Materiel are all military firearms produced by the Company as well as military or law enforcement designated accessories manufactured and sold by various companies of the Group. More specifically, firearms falling under the Act on Trade in Military Materiel include, submachine guns such as the CZ Scorpion Evo3 A1, assault rifles such as the Bren 2 series, battle rifles such as the CZ Bren 2 BR, grenade launchers such as the CZ 805 G1 and accessories such as silencers, night vision goggles, ballistic protection and military munitions.

The Act on Trade in Military Materiel also recognizes licences for the transfer of military materiel within the EU and CZUB and CZ EXPORT each hold such licence, as can be viewed on the website of the Czech Ministry of Industry and Trade (available at: https://www.mpo.cz/assets/cz/zahranicni-obchod/licencni-sprava/zahranicni-obchod-s-vojenskym-materialem/2019/6/registrace-k-transferu-c-16-_002_.pdf).

Arms embargoes may be imposed on export on military materiel by various organisations including the European Union, the United Nations and the Organization for Security and Co-operation in Europe.

Handling of Firearms

Handling of firearms (both military and non-military) is primarily subject to the Czech Weapons Act and 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.

In accordance with the Czech Weapons Act and the Security Requirements Regulation, the Group is required to comply with the restrictions set forth within this legislation, in particular:

- firearms have to be placed within an approved establishment (according to the Trade Licensing Act);
- firearms have to be secured against theft or misuse. Loss or theft of firearms are to be notified to the relevant police office without undue delay;
- the competent police office must be provided with the relevant information and documents related to the firearms upon request;
- records of firearms must be kept.

The Implementation Decree also regulates the requirements for transit of firearms.

End-user Certificates / International Import Certificate

End-user certificates or International Import Certificates are issued by the governments of the countries to where the products are exported.

The Group also sells its firearms products to end-users. Exports of firearms outside the EU require End-user Certificates or International Import Certificates pursuant to the Control of Trade Regulation. End-user certificates or International Import Certificates are especially required in relation to the export of military firearms. End-user certificates or International Import Certificates indicate who will receive the firearm and for what purpose. The purpose of the End-user certificates or International Import Certificates is to avoid the re-export of military weapons or armaments/equipment to countries of political concern and/or to unauthorized individuals or groups. If this occurs, the governmental agency issuing the end-user certificates risks being put on a watch list and having all further requests for export of arms delayed or denied by the Czech government.

Gun License

Under the Czech Weapons Act, acquiring ownership and/or possession of firearms by a natural person is subject to issuance of a gun licence (in Czech: *zbrojní průkaz*). The competent authority for issuance of gun licences is the respective police office of the Czech Republic.

The fundamental conditions for the issuance of a gun licence are especially (i) the domicile of the applicant in the Czech Republic, (ii) full legal capacity, (iii) medical fitness, (iv) professional competence and (v) integrity of the applicant. Upon satisfying all necessary conditions the respective police office of the Czech Republic shall issue a gun licence to the applicant, i.e. the issuance of gun licence cannot be denied if the applicant successfully meets all the necessary condition (the Czech gun licence is so called "shall issue").

A gun licence is a public instrument. Gun licences are divided into five categories according to the extent of firearms use authorization, as follows: category A – firearm collection, category B – sport shooting, category C – hunting, category D – exercise of a profession, category E – self-defence. Conditions that need to be satisfied in order to obtain a gun licence differ with respect to the category of a gun licence an applicant applies for. Validity of a gun licence is ten years, unless the respective police office of the Czech Republic decides otherwise, for example, based on a medical opinion or in the case of revocation of the relevant gun licence.

Handling of security material

In order to legally handle security material (i.e. to acquire, possess, purchase, sale, lend, develop, manufacture, repair, modify, store, transport, deteriorate, damage security material) within a business activities of a person, an authorization in the form of a concession (in Czech: *koncese*) is required by Czech law. Handling security material is regulated by Act

No. 229/2013 Coll., on handling certain material used for defence and security purposes in the territory of the Czech Republic (the "**Security Material Handling Act**"). The Czech Trade Licensing Office issues such concession on the basis of a binding opinion of the relevant police department. The person holding the concession is required to undertake its permitted activities in the premises that have been considered eligible by the police. A person handling security material have to comply with all requirements set out in the Security Material Handling Act, especially with the Section 6 et seq. Compliance with the Security Material Handling Act is overseen by the Police of the Czech Republic. In some cases, depending on the type of material handled, the Czech Ministry of Defence may inspect both physical and evidentiary status of security material. In the case that the relevant rules are not duly complied with, an administrative fine (up to CZK 500,000) may be imposed.

U.S. Firearms Regulation

The U.S. manufacture, sale, and purchase of firearms are subject to extensive federal, state, and local government regulation.

Federal Regulation

The primary federal laws and regulations are: the GCA, the NFA, the AECA, the ITAR and the EAR, which have been amended from time to time.

The GCA, and its underlying regulations, restrict the interstate sale of firearms, among other things. The NFA, and its underlying regulations, govern the manufacture and transfer of, as well as restrict the private ownership of fully automatic weapons and other firearms defined by the NFA, including firearm suppressors. The GCA and NFA are primarily administered and enforced by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives (the "**ATF**"). The export and reexport of firearms is governed by both (1) the ITAR, which implement the provisions of the AECA, and is administered and enforced by the U.S. Department of State, and (2) the EAR, which are administered by the U.S. Department of Commerce. If the Group wants to sell products, including firearms, that are subject to the controls of either the ITAR or the EAR, to foreign customers, then it must obtain export authorizations from the United States government, either the U.S. Department of State or the U.S. Department of Commerce, depending on the type and characteristics of the firearm. (A firearm will be subject to the jurisdiction of one or the other: it will not be subject to the jurisdiction of both the U.S. Department of State and the U.S. Department of Commerce.) Both the U.S. Department of State and the U.S. Department of Commerce have discretion to grant licences for the export or reexport of firearms subject to their jurisdiction, and the Departments' approvals depend on the foreign policies and national security interests of the United States. In addition, the U.S. Congress may block a proposed firearms export valued at USD 1 million or more. Consequently, the Group may not be able to obtain export licences, or fulfil profitable contracts as a result of political or other reasons that are beyond the Group's control, which could have a material adverse effect on the Group's business, operating results, and financial condition.

Among other requirements, applicable laws and regulations provide for the following:

- require the federal registration and licensing of all entities manufacturing, exporting, importing, or selling firearms as a business;
- require serialization and tracking of the acquisition and disposition of firearms;
- regulate the interstate sale and transportation of firearms;
- regulate the international sale and transportation of firearms;
- restrict or prohibit the ownership, use, or sale of firearms broadly, and by type narrowly;
- restrict or prohibit the export of firearms, and firearms technical data and services;
- regulate the employment of personnel with certain criminal convictions; and
- require the payment of Federal Ammunition and Explosives Taxes on the sale of firearms.

State Regulation

In addition to federal laws and regulations, state and local laws and regulations may place additional restrictions on firearms ownership and transfer. These laws and regulations vary significantly from jurisdiction to jurisdiction. Some states or localities have enacted legislation restricting or prohibiting the ownership, use, or sale of certain categories of firearms, ammunition, ammunition feeding devices ("**magazines**"), and firearms suppressors. Some states require internal or external locking mechanisms. Still others require certain design features or additional specific warning labels, on safety or other grounds. This complex, and often conflicting, system of laws and regulations may adversely affect consumer demand for the Group's products by imposing limitations that increase the costs or limit the availability of the Group's products in certain markets.

Other Factors – Litigation, Gun Control, and Political/Social Forces

In addition to the challenges presented by the formal legal and regulatory environment, the United States "plaintiff's bar" and gun control groups present a unique threat to the firearms industry.

Current firearms industry protections may be repealed or adversely affected by judicial decisions, including in cases brought by plaintiffs represented by gun control advocacy groups. For example, the Protection of Lawful Commerce in Arms Act, (the "**PLCAA**"), was enacted by the United States Congress in 2005 to protect firearms manufacturers and dealers from liability when their legally manufactured and sold products are used to later commit crimes. The PLCAA (or state law equivalents of the PLCAA) could be repealed or amended, and legislation has recently been introduced in Congress to repeal the law. The PLCAA (or state law equivalents) may also be affected by future judicial cases. In *Soto v. Bushmaster Firearms International, LLC*, a case arising from the mass shooting at Sandy Hook Elementary School in Newtown, Connecticut, the Connecticut Court of Appeals allowed plaintiffs to pursue state claims for unfair trade practices and other theories despite the immunity granted via the PLCAA. In November 2019, the U.S. Supreme Court declined to review the case. 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. If the PLCAA (or state law equivalents) were repealed, amended, or re-interpreted/applied, firearms manufacturers could face substantially-increased litigation exposure, which could have a material adverse effect on the Group's business, operating results, and financial condition.

Further, the Group's products expose it to potential product liability, warranty liability, and personal injury claims, as well as litigation relating to the use or misuse of its products. These include allegations of manufacturing and design defects, failure to warn of dangers inherent in the products and activities associated with the products, and negligence and strict liability. In addition, as addressed above regarding the PLCAA, the Group could be subject to future litigation arising out of the criminal misuse of our firearms.

CZECH SECURITIES MARKET

The Company intends to apply for admission to trading and to list the Shares on the Prime Market of the PSE. As a result, the Company will be subject to certain securities and capital market regulations applicable in the Czech Republic, in particular with respect to disclosure of information. In relation to some of the requirements arising under these regulations, the Company will also be subject to supervision by the CNB and the PSE.

Information included in this section describes certain aspects of the securities market and corporate regulations applicable in the Czech Republic relevant in connection with the acquisition, holding and disposal of the Shares as of the date of this Prospectus and is included for general information only. This summary does not purport to be a comprehensive description of all regulatory considerations that may be relevant for investors to decide on the acquisition, holding and disposal of the Shares. Therefore, investors in the Shares should review the relevant regulations and consult their own legal advisor regarding legal consequences of acquiring, holding and disposing of the Shares under the laws of their country or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of the Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

Overview

The Czech securities market is governed by a wide range of laws and regulations, including the directly applicable EU legislation, and Czech laws and regulations which often implement the relevant EU legislation. The key laws and regulations relevant to the Czech equities market are, in particular, the following:

- the Czech Act No. 256/2004 Coll., on conducting business on the capital market, as amended (the "**Czech Capital Markets Act**") (implementing a number of EU directives, including MiFID II and Directive No. 2004/109/EC of the European Parliament and of the Council dated 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, as amended (the "**Transparency Directive**"));
- Czech Act No. 15/1998 Coll., on supervision on capital markets, as amended;
- Market Abuse Regulation;
- Czech Act No. 104/2008 Coll., on takeover bids, as amended (the "**Czech Takeover Act**") (implementing Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (the "**Takeover Directive**"));
- Czech Act No. 90/2012 Coll., on commercial companies and cooperatives (Business Corporations Act), as amended (the "**Czech Companies Act**");
- Czech Act No. 240/2000 Coll., on crisis proceedings, as amended (the "**Czech Crisis Act**");
- Czech Act No. 69/2006 Coll., on carrying out of international sanctions, as amended;
- Czech Act No. 563/1991 Coll., on accounting, as amended (the "**Czech Accounting Act**");
- Czech Act No. 93/2009 Coll., on auditors, as amended (the "**Czech Act on Auditors**");
- Regulation (EU) No 236/2012 of 14 March 2012 on short selling and certain aspects of credit default swaps (the "**Regulation on Short Selling**");
- Czech Decree No. 234/2009 Coll., on the protection against market abuse and on transparency, as amended;
- Rules of the CSD; and
- Rules of the PSE.

Scope and timing of ongoing disclosure

An issuer of securities admitted to trading on a regulated market of the PSE is required to comply with certain disclosure obligations towards investors, the PSE and the CNB. These duties result primarily from the Czech Capital Markets Act and the rules of the PSE. The fulfilment of these obligations is supervised by the CNB as well as by the Prague Stock Exchange.

Disclosure obligations comprise mainly:

- mandatory publication of regulated information (information that the issuer has to publish pursuant to the Czech Capital Markets Act (the "**Regulated Information**")); and
- additional disclosure obligations owed towards the PSE under the applicable PSE rules.

In performing its disclosure obligations, an issuer has to apply the principle of equal treatment to all owners of the respective securities which have the same standing and which are admitted to trading on a regulated market.

The Regulated Information is published either on a regular basis or on an ad hoc basis, depending on the nature of the information in question. An issuer of shares listed on a regulated market is obliged to publish a stand-alone annual report and a consolidated annual report within four months after the end of the relevant accounting period. Such annual report must be publicly accessible (typically on a web page) for at least 10 years. The annual report must contain audited financial statements (in Czech: *účetní závěrka ověřená auditorem*) and other information as set out by the Czech Capital Markets Act. Such an issuer must further publish a stand-alone semi-annual report or a consolidated semi-annual report (in case such an issuer is required to consolidate its financial statements) within three months after the end of the first six months of the relevant accounting period. Such semi-annual report must be publicly accessible (typically on a web page) for at least 10 years. The semi-annual report must contain information set out by the Czech Capital Markets Act.

The Czech Accounting Act requires that an issuer of listed securities prepares financial statements in accordance with IFRS and that the annual and extraordinary financial statements of the issuer are audited. The Czech Act on Auditors requires that an issuer of listed securities establishes an audit committee.

In accordance with the Czech Capital Markets Act, an issuer of shares listed on a regulated market is also obliged to publish on an ad hoc basis changes of rights associated with shares.

In addition, the Czech Capital Markets Act sets out further obligations on the part of such an issuer in relation to informing its shareholders in connection with the convening of, voting on and the agenda of a General Meeting.

Apart from the above disclosure obligations, such an issuer must submit to the PSE and the CNB any proposed decrease or increase of its registered share capital or any changes of the rights attached to the shares without undue delay.

The Regulated Information is published on the issuer's website and submitted to the official Central Storage of Regulated Information (*Centrální úložiště regulovaných informací*) operated by the CNB and accessible online, as well as to the PSE.

In addition to the Regulated Information, an issuer of shares listed on the Prime Market is obliged to submit to the PSE without delay all information necessary for the protection of investors and the operation of the securities market under the rules of the PSE, including in particular:

- a calendar indicating fulfilment of reporting obligations;
- preliminary financial results of the issuer in relation to all or selected indicators from the balance sheet and profit and loss statement;
- annual and annual consolidated, semi-annual or semi-annual consolidated (where obligatory) and interim quarterly reports;
- information about compliance with any corporate governance code;

- information and comments about the issuer's business results and changes in the issuer's financial situation or other facts during the financial year;
- information about the convocation of ordinary and extraordinary General Meetings, minutes of regular and extraordinary General Meetings, the payout of dividends, the issuance of new shares, the exercising of rights from convertible or priority bonds and the exercising of subscription rights and minutes of meeting;
- a draft resolution for an increase or decrease of registered capital, where relevant;
- any changes in the issuer's record in the public register;
- information about changes to the members of a statutory body, members of supervisory bodies and the most senior managers of the issuer;
- information about any decision taken in the issuer's General Meeting to delist the shares from a stock exchange;
- information on changes to rights relating to the shares;
- information required for the protection of investors or for securing the smooth functioning of the market (*e.g.* legal and commercial disputes, new patents and licenses, closure or cancellation of new contracts, appointment of a new auditor, etc.);
- information about shareholder structure; and
- information about shares held by the issuer in other entities.

The PSE publishes the information provided by the issuers within their reporting obligations.

Inside information and market manipulation

In accordance with the Market Abuse Regulation, inside information is, *inter alia*, information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers whose financial instruments are admitted to trading on a regulated market or to one or more financial instruments admitted to trading on a regulated market, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

Provisions of the Market Abuse Regulation regulating insider dealing apply to a person that becomes acquainted with inside information (that possesses inside information) as a result of: (i) being a member of the administrative, management or supervisory bodies of the issuer; (ii) having a holding in the capital of the issuer; (iii) having access to the information through the exercise of an employment, profession or duties; (iv) being involved in criminal activities. Further, the provisions apply also to any person who possesses inside information under circumstances other than those referred to in the previous sentence where that person knows or could know that it is inside information. Where the person is a legal person, the provisions also apply, in accordance with national law, to the natural persons who participate in the decision to carry out the acquisition, disposal, cancellation or amendment of an order for the account of the legal person concerned.

For the purposes of the Market Abuse Regulation, a situation where a person possesses inside information and uses it when acquiring or disposing of financial instruments to which that information relates, either for its own account or for the account of a third party, directly or indirectly, is considered insider dealing. Using inside information to repeal or amend an order concerning a financial instrument to which the information relates (where the order was placed before possession of the inside information), is also considered insider dealing.

It is prohibited to (i) engage or attempt to engage in insider dealing; (ii) recommend that another person engage in insider dealing or induce another person to engage in insider dealing; or (iii) unlawfully disclose inside information.

Pursuant to the Market Abuse Regulation, the Company must inform the public as soon as possible of inside information directly relating to the Company. The Company must ensure that the inside information is published in a manner enabling fast access and complete, correct and timely assessment of the information by the public and, where applicable, in the officially appointed mechanism referred to in Article 21 of the Transparency Directive. The Company must not combine the disclosure of inside information to the public with the marketing of its activities. All inside information that must be published by the Company must be posted and maintained on the Company' website for at least five years.

The Market Abuse Regulation also forbids market manipulation, the definition of which is divided into numerous types of manipulating conduct. Market manipulation comprises the following activities:

- entering into a transaction, placing an order to trade or any other behaviour which: (i) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument, a related spot commodity contract or an auctioned product based on emission allowances; or (ii) secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level (unless the person entering into a transaction, placing an order to trade or engaging in any other behaviour establishes that such transaction, order or behaviour have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with Article 13 of the Market Abuse Regulation);
- entering into a transaction, placing an order to trade or any other activity or behaviour which affects or is likely to affect the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances, which employs a fictitious device or any other form of deception or contrivance;
- disseminating information through the media, including the internet, or by any other means, which gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument, a related spot commodity contract or an auctioned product based on emission allowances or secures, or is likely to secure, the price of one or several financial instruments, a related spot commodity contract or an auctioned product based on emission allowances at an abnormal or artificial level, including the dissemination of rumours, where the person who made the dissemination knew, or ought to have known, that the information was false or misleading;
- transmitting false or misleading information or providing false or misleading inputs in relation to a benchmark where the person who made the transmission or provided the input knew or ought to have known that it was false or misleading, or any other behaviour which manipulates the calculation of a benchmark.

The Company must implement, maintain and apply a mechanism for reporting breaches or threatened breaches of the respective provisions of the Market Abuse Regulation relating to insider dealing and market manipulation.

Under the Market Abuse Regulation, additional disclosure requirements apply, such as the requirement to notify to the issuer and the competent authority manager's transactions in shares, debt instruments or derivatives or other financial instruments linked thereto.

Notification of shareholdings

An obligation to notify (in Czech or English) both the Company and the CNB is imposed upon a person acquiring or disposing of the voting rights in the Company where the proportion of voting rights of such person reaches (exceeds or declines below) the following threshold: 1% (in case the Company's registered share capital exceeds CZK 500 million), 3% (in case the Company's registered share capital exceeds CZK 100 million), 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 75%. Notification pursuant to the previous sentence must be done in cases of acquisition or disposal of the voting rights in connection with (inter alia) the sale of the Shares, the changes in the Company's registered share capital, acquisition of the Shares simultaneously by at least two affiliated persons, the transfer of voting rights in the Company under pledge (or other) agreement or legal instrument. The obliged person must deliver the notice to the Company and the CNB within four business days after such person finds out or could have found out about the circumstance giving rise to the notification obligation. A non-rebuttable presumption is set out by the law that a person could have found out no later than two business days after the circumstance occurred. Subsequently, the CNB publishes the notice. This section applies also to a person acting in concert with other persons.

In case the notification duty is not fulfilled, the transfer of the relevant Shares triggering the notification requirement above will remain valid; however, the acquired voting rights will be suspended until the satisfaction of the notification requirement.

Takeover rules

EU tender offer regulations

The relevant conflict of laws provisions of the Takeover Directive, implemented into Czech law through an amendment to the Czech Takeover Act, provide that if the securities of the offeree company (*i.e.* the company the securities of which are the subject of a bid) are admitted to trading on a regulated market in the Member State in which the company has its registered office, the authority competent to supervise the bid shall be that of the Member State in which the offeree company has its registered office. The competent authority in the Czech Republic is the CNB.

There has been no public take-over bid in relation to the Shares in the year ended 31 December 2019 and the period between 1 January 2020 and the date of this Prospectus.

Mandatory takeover bids

In compliance with the Czech Takeover Act, if a person acquires a share in the Company's voting rights that corresponds to no less than 30% of all votes attached to the Company's Shares and becomes a controlling person, such person is required to make, within 30 days of the date following the date of acquiring or exceeding such a share, a mandatory takeover bid to all owners of the Shares. This rule applies also to persons acting in concert.

The consideration offered for the Shares by the offeror must equal or exceed the premium price, being the highest price paid for the Shares by the offeror (or by persons acting in concert with it) in the last 12 months and reflecting all monetary and non-monetary considerations paid or given for the acquisition of these Shares, including all benefits provided in this respect. If there is no premium price, the consideration must equal or exceed the weighted average price of the Shares on the PSE for the last six months. The consideration may be in cash, shares or combination of both.

Mandatory takeover bids cannot be made without the consent of the CNB with a publication of an offer document. The Czech Takeover Act sets out conditions under which the CNB may change the consideration offered by the offeror.

Anyone who has accepted the mandatory takeover bid and deems the consideration unfair has the right to claim before a court the difference between the price paid on the basis of the mandatory takeover bid and the fair price (the court decision ordering payment of such difference is binding with respect to all Shareholders having accepted the mandatory takeover bid). The court is not bound by the decision of the CNB on the amount of consideration.

The person who fails to perform the obligation to make a takeover bid (and the persons acting in concert) may not exercise voting rights in the Company until the obligation is met.

Mandatory disclosure during a takeover bid

Under the Czech Takeover Act, persons who are interested in the outcome or running of the takeover bid, in particular any shareholders of at least 5% of the target's securities, the bidder, cooperating persons, the target, and persons forming a group of companies with the target must report to the CNB without undue delay following the announcement of an intention to launch a takeover bid, any acquisition or sale of the target's securities or options for these securities or securities being offered as consideration by the bidder.

Voluntary takeover bids

In case an offeror makes a voluntary public offer to buy the Shares with the intention to gain control in the Company, such voluntary takeover bid must be in accordance with the relevant rules of the Czech Takeover Act and the Czech Companies Act. The offeror must submit the bid document to the CNB, which has a power to prohibit the offer. The minimum period for which the bid is effective is four weeks from the date of publication of the bid document.

Squeeze-out and sell-out rules

In compliance with the Czech Companies Act, a majority Shareholder owning Shares representing at least 90% of (i) the registered share capital corresponding to shares with voting rights and (ii) voting rights in the Company (the "**Requesting Shareholder**") is entitled to request the Board of Directors of the Company to convene a General Meeting to decide on the transfer of all the remaining Shares owned by the remaining minority Shareholders to such a Requesting Shareholder (squeeze-out).

The minority Shareholders are entitled to fair monetary compensation for their Shares. The amount of the compensation is approved by the General Meeting and is based, as long as the Shares are admitted to trading on a European regulated market, on a justification of such amount prepared by the Requesting Shareholder.

The Requesting Shareholder, when asking the board of directors to convene the General Meeting to decide on the squeeze-out, must also attach a prior consent of the CNB (confirming that the Requesting Shareholder properly justified the amount of the compensation).

Any Shareholder may also become a Requesting Shareholder after a successful mandatory or voluntary takeover bid. In such a case, the compensation according to such a bid would automatically be deemed fair by operation of law provided that the Requesting Shareholder asks the board of directors to convene the General Meeting deciding on the squeeze-out within 3 months after the end of the bid acceptance period.

On the day the squeeze-out becomes effective (*i.e.* one month after the publication of the registration of the resolution on the transfer of the Shares in the Commercial Register), the Shares admitted to trading on the Czech regulated market are automatically delisted from such market.

Within three months of the publication of the General Meeting resolution on the squeeze-out in the Czech Commercial Register, any Shareholder is entitled to initiate court proceedings in case he or she deems the consideration unfair. The court then considers the difference between the price paid and the fair price, without regard to the CNB's consent to the squeeze-out. The outcome is then automatically binding with regards to all squeezed-out Shareholders. If the conditions for the squeeze-out are fulfilled, the minority Shareholders are granted, by operation of law, an opposite right to ask the Requesting Shareholder to buy their Shares (sell-out).

Transparency of ultimate beneficial ownership

The Czech Act No. 253/2008 Coll., on certain measures against the legalization of proceeds from crime and the financing of terrorism, as amended (the "**AML Act**"), and the Czech Act No. 304/2013 Coll., on public registers of legal and natural persons and registers of trust funds, as amended (the "**Registers Act**"), set requirements in relation to transparency of ultimate beneficial ownership, implementing, amongst others, certain requirements of the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, as amended.

Under the AML Act, all corporate, legal and other types of entities incorporated in the Czech Republic are required to continuously collect and record up-to date information leading to identification and verification of the identity of their beneficial owner, including information on the facts constituting the status of a beneficial owner. For these purposes, a beneficial owner is a natural person (individual) who has in fact or in law possibility to directly or indirectly exercise a decisive influence, for example through a holding of voting rights of more than 25%.

Under the Registers Act, issuers are required to register the above information concerning their beneficial owners. The register of beneficial owners is not public and information registered is accessible only to issuers, persons who demonstrate interest in preventing certain money laundering crimes and selected authorities including the CNB and courts. Czech law imposes obligations regarding beneficial ownership rules on issuers only; no duty is being imposed on beneficial owners themselves in order to (i) disclose information leading to their identification as beneficial owners, or (ii) cooperate with issuers in the process of identification.

Prague Stock Exchange

Introduction

The PSE was founded in 1993 as a successor to the Prague Commodities and Stock Exchange. The PSE is a member of the CEE Stock Exchange Group, which also includes the Vienna Stock Exchange. In 2019, the aggregate trading volume of the PSE for equity and debt instruments, as well as structured products, was CZK 642.5 billion. The monthly value of exchange trades in shares on the PSE in 2019 ranged from approximately CZK 39.2 billion to 60.223 billion (*Source*: PSE).

The PSE is one of two operators of regulated markets within the meaning of MiFID II (as implemented in the Czech law particularly by the Czech Capital Markets Act) for trading in shares in the Czech Republic, the other operator of regulated markets being RM-SYSTÉM, česká burza cenných papírů, a.s. In the Czech Republic, shares may also be traded outside the regulated markets in over-the-counter transactions or multilateral trading facilities (MTF). The PSE operates the most prestigious securities market in the Czech Republic (as regards the volumes of trades) (*Source*: PSE) for trading in shares and bonds.

Organization

The PSE (*Burza cenných papírů Praha, a.s.*) is a Czech private joint stock company based on a participant principle: only participants of the PSE (which includes both foreign and domestic licensed brokers and banks) may trade directly on the PSE, either on their own account or for the account of their clients. Non-participants may trade on the PSE only through a participant. Further, the CNB and the Ministry of Finance of the Czech Republic may trade on the PSE directly.

The supreme body of the PSE is the General Meeting. The General Meeting elects members of the Exchange Chamber which is the statutory body of the PSE and the Supervisory Board which supervises the Exchange Chamber. The Listing Committee of the PSE accepts securities for trading and is involved in supervision of compliance with the PSE regulations. The Trading Committee of the PSE has competence in the field of initiatives and suggestions relating to trading. Further, the PSE is divided into several departments. The exercise of supervision over the PSE belongs to the CNB.

For trading in shares, the PSE operates a regulated market divided into two segments: the Prime Market and the Standard Market. In addition to these two segments, the PSE also operates exchange-regulated multilateral trading facilities (MTF) called Start Market and Free Market. To be traded on a specific market, certain non-statutory criteria must be met in addition to the statutory listing criteria. As of the date of this Prospectus, 11 companies were listed on the Prime Market, six companies were listed on the Standard Market, six companies were listed on the Start Market and 31 companies were listed on the Free Market (*Source*: PSE).

Rules and regulations applicable to the PSE

Activities on the markets regulated by the PSE are subject to numerous internal rules and regulations. These encompass trading rules, participant rules, conditions for the admission of shares for trading on the particular market, rules of the particular market, exchange fees, etc. As long as the Shares will be listed on the PSE's Prime Market, the Company will be obliged to comply with the applicable provisions of the Czech Capital Markets Act and the applicable PSE rules, particularly the Conditions for the Admission of Shares for Trading on the Prime Market of the Exchange and the Trading Rules, and any additional rules which may be introduced by the PSE in the future.

The PSE's Listing Committee decides whether to admit a security to trading on the Prime Market, and has some discretion to deviate from the admission requirements described above.

Trading and settlement

The trading on the PSE is carried out in the single auctions regime, continuous trading regime, continuous auction regime or in block trades, in each case through the automated trading system XETRA T7, a technological platform for organized trading in securities. Fees set out by the PSE apply to individual transactions in shares; such fees also include fees for settlement by the CSD. Brokerage firms operating in the Czech Republic have an obligation to report to the CNB all transactions in securities admitted to trading on the PSE.

An important entity related to the PSE is the CSD, a joint stock company wholly owned by the PSE. The CSD started operating as the central securities depository in July 2010 when it took over the registry from the Czech Securities Registry (*Středisko cenných papírů*); and is a member of the European Central Securities Depositories Association (ECSDA). The key services provided by the CSD are the maintenance of the central evidence of book-entry securities and the settlement of all transactions executed on the PSE. The CSD settles both exchange and over-the-counter trades in securities concluded at the PSE, and the settlement occurs on the second day after the trade date. The CSD operates on a participant principle; the services connected with the maintenance of securities and the settlement of trades are provided through the participants of the CSD.

Suspension of trading or exclusion from trading by the PSE

As long as the Shares will be listed on the PSE Prime Market, the PSE shall be entitled to suspend the trading in the Shares or exclude them from trading on the regulated market if they do not meet the conditions for admission to trading set out by both the Czech Capital Markets Act and the applicable PSE rules or the rules of trading on the regulated market or in case information duties regarding the Shares are not performed. However, the PSE must not suspend the trading nor exclude the Shares in case it would cause serious danger to interests of investors or the proper functioning of the market. The decision on suspension of the trading or exclusion from the trading is issued by the General Director of the PSE. The trading in the Shares is ceased or suspended on the day stated in the resolution on exclusion from trading or suspension of trading.

Resolution on delisting by the Company

Under the Czech Companies Act, the General Meeting of the Company may resolve on delisting the Company's Shares from trading on a regulated market by a resolution adopted by at least three-forth majority of the votes of the Shareholders present at the General Meeting which own the relevant securities. The Board of Directors must promptly notify the CNB and the PSE about the resolution on delisting and must publish it in the same manner as in the case of the convening of the General Meeting.

Within 30 days from the resolution on delisting, the Company must make a mandatory public bid pursuant to the Czech Companies Act to purchase the Shares from the Shareholders who did not vote for the delisting (unless the Shares are also traded on another European regulated market on which the company performs its information duty under the Czech Capital Markets Act or similar national laws of the EEA member state). The purchase price in the bid must be fair and the bid is subject to the CNB's approval. The Shareholders who deem the price unfair have a right to claim before a court the difference between the price paid on the basis of the mandatory public bid and the fair price (the court decision ordering payment of such difference is binding with respect to all Shareholders that did not vote for the delisting).

The Shareholders who voted for the delisting must purchase from the Company the Shares which the Company acquired pursuant to the public bid unless the Company may sell the Shares under more preferable conditions. The Shareholders must buy those Shares within 3 months from the date of acquisition of those Shares by the Company and the price is increased by interest common at the time of public bid.

In case the Company fails to make the bid, the Shareholders may request a Czech court to order the conclusion of a share purchase agreement by the Company with respect to the Shares, or claim damages.

Procedure in case of voluntary delisting from Prime Market of the PSE

In case that (1) the Company resolves on the delisting from the regulated market (See "*—Resolution on delisting by the Company*"); or (2) a squeeze-out of the minority Shareholders of the Company occurs (See "*Takeover rules—Squeeze-out and sell-out rules*" above), then the PSE shall exclude the Shares from trading on the Prime Market upon request or notice by the Company if the conditions for the delisting under the applicable law are fulfilled.

In the case (1) above, the following documents must be presented to the PSE for the purposes of the delisting: (i) a proof of adopting the resolution on delisting in compliance with applicable laws, (ii) proof of making the mandatory public bid by a the Company to purchase its Shares and purchasing the Shares thereunder, and (iii) other documents that may be requested by law.

In the case (2) above, the following documents must be presented to the PSE for the purposes of the delisting: (i) resolution of an authorized person on the transfer of the Shares to the Requesting Shareholder, including date of the transfer of the Shares, and (ii) other documents that may be reasonably requested by the PSE in order to comply with applicable laws.

Short selling

The practice of naked short selling of shares listed on the PSE and off-market short selling of such shares is prohibited by virtue of the Regulation on Short Selling. The CNB must be notified of significant net short positions in shares listed on the PSE. The significant net short positions must also be disclosed to the public. Some transactions are exempt, for example any sales under a repurchase agreements, transfers of shares under securities lending agreements or futures contracts or other derivative contracts.

Foreign investment and exchange controls

In general, apart from certain specific cases, such as those listed below, the flow of capital into and from the Czech Republic is not restricted. Certain restrictions are imposed by the EU and the UN Security Council on organizations, persons and entities in specific countries. Under the Czech Constitutional Act No. 110/1998 Coll., on Security of the Czech Republic, as amended, the Czech Government may declare a state of emergency upon occurrence of natural disasters, environmental or industrial accidents, other accidents or other dangers which, to a significant extent, endanger lives, health or property values or internal order and security. If a state of emergency is declared, the Czech Government is authorized under the Czech Crisis Act to set certain restriction on the flow of capital in and out of the Czech Republic including, among others, the restrictions of:

- acquiring foreign currencies, securities issued by an issuer residing outside the Czech Republic and derivatives thereof for the Czech currency;
- making payments from the Czech Republic to abroad, including payments between payment services providers and their branches;
- depositing funds in foreign accounts; or
- sale of securities issued by an issuer residing in the Czech Republic to persons residing outside the Czech Republic.

Such an emergency may be declared for a maximum period of 30 days unless prolonged by the approval of the Chambers of Deputies of the Parliament of the Czech Republic.

DESCRIPTION OF SHARE CAPITAL AND SUMMARY OF ARTICLES OF ASSOCIATION AND APPLICABLE CZECH LEGISLATION

The following is a summary of the material terms of the Company's Shares, the Company's Articles of Association and certain provisions of the Czech Companies Act and other relevant laws. This description is only a summary. Investors are encouraged to read the full Articles of Association which are available for inspection at the Company's registered office. See "*Additional Information—Documents available for inspection*".

In connection with the Admission, the new Articles of Association of the Company were adopted in accordance with the Czech Companies Act by the resolution of the Sole Shareholder on 9 December 2019 with effect from 17 January 2020.

Share Capital

At incorporation on 10 January 2013, the registered share capital of the Company amounted to CZK 2,983,800 (EUR 120,000) and was divided into 20 ordinary bearer shares with a nominal value of CZK 149,190 (EUR 6,000) each (according to Article 4 of the Council Regulation (EC) No 2157/2001 on the Statute for a European Company (SE) the capital of European Companies shall be expressed in euro. Nevertheless, Section 66 of the Czech Act No. 627/2004 Coll., on the European Company, as amended, provides that until the Czech Republic enters the third phase of economic and monetary union, the registered share capital of European Companies incorporated in the Czech Republic must be expressed in CZK and may be simultaneously expressed in EUR).

Effective as of 5 September 2013, all ordinary bearer shares of the Company were split and transformed into 100 ordinary registered shares with a nominal value of CZK 29,838 (EUR 1,200) each.

Effective as of 2 October 2019, all ordinary registered shares of the Company were split and transformed into 29,838,000 ordinary registered book-entry shares with a nominal value of CZK0.1 (EUR 0.00402) each, which corresponds to the amount of the Shares.

As of the date of the Prospectus, the registered share capital of the Company remains CZK 2,983,800 (EUR 120,000) and is divided into the Shares. The share capital of the Company has been fully paid up. The Shares are denominated in CZK and reported both in CZK and in EUR. The Shares are issued under Czech law, in particular, under the Czech Companies Act. The Shares are registered with the CSD under ISIN code CZ0009008942. The Shares represent one class of shares; they rank *pari passu* with each other and no other class of shares exists. The Shares are freely transferable.

The Company has not issued preferred shares, rights, convertible bonds or any other equity or equity-linked securities. All the Shares bear equal rights. The Company has no authorised but unissued capital. The Shares 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.

Prior to the Admission, all the Shares are owned by the Sole Shareholder. Following the Admission, the Sole Shareholder will continue to own all the Shares.

Authorization to Increase the Share Capital

The General Meeting may authorize the Board of Director to increase the share capital of the Company by up to 50% of the current share capital of the Company. If such share capital increase was to materialize, the Company intends to use the newly issued shares (or funds received in connection thereto) mainly to fund potential merger and acquisition opportunities.

Shareholder Rights

Each of the Company's shareholders may freely exercise the rights attached to the Shares, subject to the conditions described below and other conditions under Czech law. Each shareholder of the Company has the same rights and the Company and its management are obliged to treat all shareholders equally. Changing the rights of the shareholders requires an amendment to the Articles of Association which requires approval by at least a three-fourths majority of shareholders present at the General Meeting. These conditions are not more stringent than is required by law. The Articles of Association do not provide for any additional rights or other conditions beyond those granted by law, namely the Czech Companies Act.

Under the Czech Companies Act and the Articles of Association, each of the Company's shareholders primarily has the following rights:

Proprietary Rights

- The right to receive dividends, if any, when declared by the Company;
- the pre-emptive right to subscribe to a *pro rata* portion of new shares if the registered share capital of the Company is increased by cash contributions to the Company, unless such pre-emptive right is restricted or limited by a resolution of the General Meeting in accordance with the Czech Companies Act;
- the pre-emptive right to subscribe to a *pro rata* portion of any preferred or convertible bonds unless such pre-emptive right is restricted or limited by a resolution of the General Meeting in accordance with the Czech Companies Act;
- the right to participate in the Company's profit or liquidation balance after fulfilment of its obligations to creditors, proportionate to their shareholding, to the extent approved by the General Meeting; and
- the right of shareholders subject to certain conditions to have their shares bought out by the Company in case of resolution of the General Meeting on delisting, restrictions of transferability or change of the type of the Company's shares.

Voting and Supervisory Rights Available to All Shareholders

- the right to attend any General Meeting, submit proposals at General Meetings, take part in discussions and vote at any General Meeting;
- the right to request and receive information from the Company at the General Meeting relating to the Company and its subsidiaries if such information is necessary to assess items on the agenda of the General Meeting or to exercise shareholder rights at the General Meeting;
- the right to challenge the validity of resolutions of the General Meeting in court proceedings subject to conditions set out in the Czech Companies Act within three months following the date on which the Company's shareholders became aware of the resolution of the General Meeting or could have become aware of the resolution of the General Meeting; and
- the right to request the Board of Directors to provide the shareholder with a copy of the minutes of the General Meeting.

Rights available to a shareholder (or shareholders, acting in concert) holding Shares representing at least 5% of Shares if the Company's registered capital is CZK 100 million or less, or at least 3% of Shares if the Company's registered capital exceeds CZK 100 million, or at least 1% of Shares if the Company's registered capital exceeds CZK 500 million (the "Qualified Shareholders")

- the right to request the Board of Directors to convene a General Meeting provided that drafts of the resolutions which are proposed to be adopted or, as the case may be, the grounds for calling the General Meeting are included in the request;
- the right to request the Board of Directors to include any additional matter in the agenda of a General Meeting that has already been called, provided that draft of the resolutions which are proposed to be adopted, or the grounds for including the additional matter in the agenda of the General Meeting, are included in the request;
- the right to request that the Supervisory Board review the manner in which the Board of Directors exercises its powers and responsibilities;

- the right to file a claim on behalf of the Company against a person or an entity controlling the Company who uses its control to negatively affect the business management of the Company if the Company suffers any losses as a result;
- the right to file a claim on behalf of the Company against a member of the Board of Directors or the Supervisory Board for a breach of their duty of care, and a claim for damages;
- the right to file a claim on behalf of the Company against a shareholder to pay the subscription price for the Shares, if the subscription price is not paid when due; and
- the right to request the competent Czech court to appoint an independent expert to review Company's report on related party transactions which is annually prepared and published by the Board of Directors.

Under the Czech Civil Code and the Czech Companies Act, shareholders of the Company may not abuse their shareholders' rights to the detriment of the Company or of any other shareholders of the Company.

Pre-emptive Right to Subscribe for new shares

Each of the Company's shareholders has the pre-emptive right to subscribe for a pro rata portion of new shares if the registered share capital of the Company is increased by cash contributions. This pre-emptive right may be restricted or limited by a resolution of the General Meeting. Pursuant to the Articles of Association, the Company's shareholders do not have a pre-emptive right to subscribe for new shares of the Company that were not subscribed for by other shareholders. The increase in the Company's registered share capital becomes effective upon registration in the Czech commercial register.

The Board of Directors must publish information on the terms and conditions for the exercise of pre-emptive rights by the Company's shareholders on the Company's website and in the Commercial Bulletin. Following the General Meeting approving an increase in the registered share capital of the Company, the shareholder's pre-emptive right to subscribe for the new shares may be separated from the Shares and transferred by the shareholder to any third person.

The pre-emptive right to subscribe for the new shares expires in a period which will be prescribed by a resolution adopted at the General Meeting increasing the registered share capital of the Company. Such period must be at least two weeks.

Pre-emptive Right to Subscribe for Preferred or Convertible Bonds

Under the Czech Companies Act and the Articles of Association, the Company may issue: (i) preferred bonds which give the bondholder the pre-emptive right to subscribe for a *pro rata* portion of new shares of the Company; and (ii) convertible bonds which give the bondholder the right to exchange the bonds for existing or new shares of the Company. Pursuant to the Czech Companies Act, each of the Company's shareholders has the pre-emptive right to subscribe for a *pro rata* portion of any preferred or convertible bonds issued by the Company unless such pre-emptive rights are restricted or limited by a resolution of the General Meeting.

Rights to Participate in the Company's Liquidation Balance

Each of the Company's shareholders has the right to participate in the Company's liquidation balance to the extent approved by the General Meeting. Each of the Company's shareholders has the right to receive a *pro rata* portion of the liquidation balance distributed to all shareholders according to the aggregate paid up value of the Shares held by the shareholder.

The shareholders of the Company that are registered in the CSD as of the day on which the Shares are deregistered from the CSD are entitled to receive a portion of the Company's liquidation balance.

Following the commencement of liquidation, the shareholders' right to receive a portion of the Company's liquidation balance may be separated from the Shares and transferred by shareholders to any third person.

After the deregistration of the Company from the Czech Commercial Register, each shareholder will vouch towards the Company's creditors for an amount commensurate to the portion of the liquidation balance they receive from the Company.

Decrease in Registered Share Capital

The General Meeting may resolve to decrease the registered share capital of the Company primarily by:

- withdrawal of Shares;
- reduction of the par value of Shares;
- cancellation of own (treasury) Shares; or
- not issuing Shares to the shareholder who failed to pay the issue price.

See also "*Summary of the Articles of Association—Quorum*" for information on the required quorum of the General Meeting for the adoption of a resolution on the decrease in the Company's registered share capital.

Summary of the Articles of Association

General Provisions

The business name of the Company is CZG - Česká zbrojovka Group SE. The Company is a European Company (*Societas Europaea*) incorporated in and operating under the laws of the Czech Republic and applicable EU laws, in particular Czech Act No. 627/2004 Coll., on the European company, as amended, the Czech Companies Act and Council Regulation (EC). No 2157/2001 of 8 October 2001 on the Statute for a European company (SE). The Company has a dualistic corporate structure. The Company's seat is the City of Prague in the Czech Republic. The Company is established for an indefinite period of time.

The principal corporate bodies of the Company are the General Meeting, the Board of Directors, the Supervisory Board and the Audit Committee. The Board of Directors is the executive body and consists of seven members elected for a five-year term of office. The Supervisory Board is the supervisory body and consists of three members elected for a five-year term of office. The Audit Committee is the controlling body in the field of audit (both internal and external - including statutory) and accounting consisting of three members elected for a five-year term of office. See "*Management—Audit Committee*".

Business Objectives

The Company is a Czech business company, the general objective of which is to be engaged in profit making activities. A full list of the Company's business objects are set out in Article 2 of the Articles of Association. The Company's principal registered business activities are (i) management of own assets, (ii) the production, business and services not stated in attachments 1 to 3 of the Trade Licensing Act and (iii) activities of accounting advisors, keeping accounts and tax records and the primary activity of the Company is to be a holding company for the Group.

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, see "—*Shareholder Rights*";
- 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 Qualified 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 30 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 CSD 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.

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

Form, Ownership and Transfer of the Shares

Form of the Shares

The Shares take the form of book-entry shares. Book-entry shares are defined as shares having the form of a record in the central register of book-entry securities maintained by the CSD or its participants authorized to maintain the follow-on registers.

Limitations on the Ownership of the Shares

There are neither provisions in the Articles of Association that would have an effect of delaying, deferring or preventing a transfer of Shares or change of control over the Company nor are there provisions restricting ownership of Shares. No restrictions exist in relation to the holding or exercising by foreigners or non-residents of voting rights in respect of the Shares.

Transfer of the Shares

The transfer of ownership of book-entry shares is effected by means of registration of the change of ownership of shares with the CSD, whether directly through the CSD or through a participant of the CSD; if the shares are registered in the customers' account, then the transfer is effected upon the record in the customers' account (with mandatory follow-up record in the owner's account), whereas if the shares are registered in the owners' account, the transfer is effected upon the record in the owners' account.

Moreover, if certain statutory conditions are met, a direct or indirect acquisition of control in the Company may also require to prior merger clearance by the Czech Office for Protection of Competition, or the European Commission, as applicable.

Acquisition of own Shares

Czech law restricts the ability of the Company to acquire its own Shares. The Company may acquire its own Shares if and to the extent that (i) the issue price of the Shares was paid in full; (ii) the General Meeting approved the acquisition of the Shares; (iii) the acquisition of the Shares by the Company will not result the Company's equity falling below the sum of the Company's registered share capital and funds which may not be distributed to shareholders; (iv) the Company has the funds available to create a reserve on its balance sheet in the amount of the book value of the acquired Shares; and (v) the acquisition of the Shares will not lead to the insolvency of the Company.

Notwithstanding the above, the Company may acquire its own Shares without approval by the General Meeting if, among other things: (i) the Shares are acquired for the purposes of an employee share option plan; (ii) the Shares are acquired in order to prevent significant losses of the Company; or (iii) the Shares are acquired in order to effect a reduction of the Company's registered capital.

Shares held by the Company carry neither voting rights at the General Meeting nor rights to participate in the Company's profit (the respective portion of the Company's profit is to be retained by the Company as retained earnings from previous years).

Duties of a controlling shareholder

If any shareholder controlling the Company becomes aware (or should have become aware) of the Company's pending insolvency, it is required to take all reasonable steps to avert the Company's insolvency. If the controlling shareholder does not comply with this duty (in a breach of the duty of a diligent manager (only if law prescribes such duty for such shareholder)), the insolvency court may decide that such controlling shareholder must guarantee the Company's obligations, if the Company is declared insolvent by the insolvency court.

In addition, if the interests of a Company's minority shareholder are substantially harmed by the actions of any shareholder controlling the Company to such an extent that it may no longer be reasonably required of the minority shareholder to remain a shareholder of the Company, then such minority shareholder may under the Czech Companies Act request the shareholder controlling the Company to buy its Shares for fair consideration. The consideration must be determined by the opinion of a court-appointed expert. If the shareholder deems the offered or paid consideration unfair, they have the right to claim the difference between such consideration and fair consideration before a court (the court decision ordering payment of such difference is binding with respect to all relevant shareholders). Should the shareholder controlling the Company fail to buy the Shares, the minority shareholder has the right to claim damages or request the court to order the conclusion of a share purchase contract with the shareholder controlling the Company.

Ownership of Shares by non-Czech persons

There is no limitation under Czech law or the Articles of Association on the right of non-Czech residents or nationals to own Shares or to exercise voting or other rights attached to the Shares.

TAXATION

The following summary is of general nature and does not purport to address all tax consequences of the acquisition, holding and disposal of the Shares and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws, regulations and regulatory practices of the Czech Republic as in effect on the date thereof, which may be subject to change (or subject to changes in interpretation), possibly with retroactive effect.

Current and prospective shareholders are advised to consult their own tax advisers in light of their particular circumstances as to Czech tax laws, regulations and regulatory practices that could be relevant for them in connection with the acquiring, holding and disposal of the Shares and the consequences thereof under the tax laws, regulations and regulatory practices of the Czech Republic.

This summary does not specifically comment on or take into account the impact of the U.S. Foreign Account Tax Compliance Act (FATCA) or any of its aspects.

General Czech tax considerations

Except where expressly stated otherwise, the paragraphs below are intended to apply only to

(a) Shareholders, who:

  (i) are, for the whole calendar or financial year, residents in the Czech Republic under Czech tax law and the relevant tax treaty;

  (ii) do not have a permanent establishment outside the Czech Republic with which the Shares are effectively connected or to which any income in respect of the Shares is attributable; and

  (iii) are the beneficial owners of their Shares and any income received in respect of them; ("**Czech tax resident shareholders**"); and

(b) Shareholders, who:

  (i) are for the whole calendar or financial year, not resident in the Czech Republic under Czech tax law;

  (ii) do not have a permanent establishment outside of their country of their tax residence, with which the Shares are effectively connected or to which any income in respect of the Shares is attributable; and

  (iii) are the beneficial owners of their Shares and any income received in respect of them, ("**non-Czech tax resident shareholders**").

In addition, the tax position of certain categories of shareholders who are subject to specific rules have not been considered, including but not limited to: persons acquiring (or deemed to acquire) the Shares in connection with an employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, investment companies, collective investment schemes, pension schemes, partnerships, tax-exempt or tax-transparent organizations or schemes, persons related to the Company or the Group, and persons holding the Shares as part of hedging or conversion transactions.

The material set out in the paragraphs below does not constitute tax advice. Any person who is in any doubt as to their tax position or who is subject (or could be deemed to be subject) to tax in any jurisdiction should consult an appropriate professional adviser.

Income taxation of dividends, decreases of registered share capital and distributions of share premium

Czech tax resident shareholders

Income from dividends distributed by the Company is subject to Czech withholding tax at 15% if that income is realized by a Czech tax resident shareholder. The tax base equals the dividend income distributed by the Company. A tax exemption can apply under the Czech participation exemption rules (see "*—Czech participation exemption—dividend and decrease of registered share capital previously increased from profit*").

If the Company distributes share premium to a Czech tax resident shareholder, that income is subject to Czech withholding tax at 15%. The tax base can be decreased by the tax basis of the Shares if the shareholder can prove that tax basis to the Company. If the Company's registered share capital is decreased and distributed to the shareholder (except insofar as the Company's previous profit / retained earnings have increased that registered share capital), the income less the tax basis in the Shares should be included in the tax base of the shareholder in his/her/its Czech tax return (generally subject to 15% tax for individuals and 19% tax for tax payers other than individuals). If registered share capital is decreased (to the extent that the Company's previous profit / retained earnings have previously increased that registered share capital) and distributed to a Czech tax resident shareholder, that income is subject to withholding tax at 15%, unless a tax exemption applies under the Czech participation exemption rules (see "*—Czech participation exemption—dividend and decrease of registered share capital previously increased from profit*" described below).

Where a withholding tax applies, the Company is responsible for withholding Czech tax at source from distributions that it makes. The tax withheld at source is final. The shareholders can be required to provide certain documents to evidence that they are Czech tax resident shareholders.

Non-Czech tax resident shareholders

Income from dividends distributed by the Company is subject to Czech withholding tax at 15% or 35% (see the rules for the application of the 35% rate below) if such income is realized by a non-Czech tax resident shareholder. The tax base equals the dividend income distributed by the Company. A tax exemption can apply under the Czech participation exemption rules (see "*—Czech participation exemption—dividend and decrease of registered share capital previously increased from profit*" described below).

If the Company distributes share premium to a non-Czech tax resident shareholder, that income is subject to Czech withholding tax at 15% or 35%. The tax base can be decreased by the tax basis of the Shares if the shareholder can prove that tax basis to the Company.

If the Company's registered share capital is decreased and distributed to the shareholder (except insofar as the Company's previous profit / retained earnings have increased that registered share capital), the income less the tax basis in the Shares should be included in the tax base of the shareholder in his/her/its Czech tax return (generally subject to 15% tax for individuals and 19% tax for taxpayers other than individuals) which in that case such a shareholder is generally obliged to file. Moreover, such income distributed by the Company to a shareholder, who is not a tax resident in the EU/EEA, is generally subject to 10% securing tax to be withheld by the Company from the gross income. The securing tax, if applicable, would be credited against the tax liability declared in a tax return with any overpayment being refunded (see also section "*—Securing tax*" below). If registered share capital is decreased (to the extent that the Company's previous profit / retained earnings have previously increased that registered share capital) and distributed to a non-Czech tax resident shareholder, that income is subject to Czech withholding tax at 15% or 35%, unless a tax exemption applies under the Czech participation exemption rules (see "*—Czech participation exemption—dividend and decrease of registered share capital previously increased from profit*" described below).

The 35% withholding tax rate referred to in this section applies to income distributed to taxpayers that are neither:

(a) residents for tax purposes in an EU Member State or another state that forms the EEA; nor

(b) tax residents of a third country or jurisdiction that has concluded with the Czech Republic a valid and effective treaty concerning taxation and the avoidance of double taxation or a valid and effective agreement on exchange of information on tax matters; nor

(c) tax residents of a third country or jurisdiction that is a contracting party of a multilateral agreement that includes a provision on exchange of information on income tax matters that is valid and effective both for that third country or jurisdiction and for the Czech Republic.

Under official guidance, the 35% withholding tax rate also applies in case that the tax residency of the recipient cannot be ascertained.

A mitigation or elimination of Czech withholding tax under a tax treaty or a participation exemption under the Czech tax law (see "*—Czech participation exemption—dividend and decrease of registered share capital previously increased from profit "* described below) can apply. The final tax liability on the distributions by the Company may depend upon the individual circumstances of the shareholder.

Where a withholding tax applies, the Company is responsible for withholding Czech tax at source from any distributions that it makes. The tax withheld at source (at a 15% or 35% rate, or at a rate determined under a tax treaty) is final. Shareholders can be required to provide certain documents to evidence their tax status (for example, certificate of tax residency or declaration of beneficial ownership).

Czech participation exemption—dividend and decrease of registered share capital previously increased from profit

The Czech participation exemption rules implement Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, as amended (the "**Parent-Subsidiary Directive**") into Czech tax law.

Dividends from current or retained earnings or income from a decrease of the Company's registered share capital (to the extent that the registered share capital was sourced from the Company's profit / retained earnings) which is distributed by the Company to its shareholders is exempt from Czech taxation if a parent company shareholder holds at least 10% of the registered capital of the subsidiary (the Company) for at least 12 months without interruption. The 12-month holding period requirement can be met following the distribution.

An entity qualifies as a parent company if it is:

- A Czech tax resident entity having the legal form listed in the Annex to the Parent-Subsidiary Directive, a cooperative (in Czech: *družstvo*), a trust fund (in Czech: *svěřenský fond*), a family foundation (in Czech: *rodinná fundace*), a municipality (in Czech: *obec*) or an association of municipalities (in Czech: *svazek obcí*); or
- An EU Member State tax resident entity that: (i) has a legal form listed in the Annex to the Parent-Subsidiary Directive, (ii) is considered to be a tax resident of an EU Member State and is not considered to be a tax resident outside the EU Member States based on the tax treaty concluded with a third state (*i.e.* a non-EU Member State), and (iii) is subject to tax as listed in the Annex to the Parent-Subsidiary Directive without being exempt or having an option for exemption.

Dividends from current or retained earnings distributed by the Company to its shareholders are also exempt from Czech taxation if a shareholder is tax resident in Switzerland, Norway, Iceland or Liechtenstein under equivalent conditions to those described above for a parent company being a tax resident in an EU Member State.

The Czech participation exemption does not apply on dividends if either the parent company or the Company is exempt from corporate income tax or from similar tax, or is eligible to elect to be exempt from such tax, or is subject to such tax at a rate of 0%. The Czech participation exemption does not apply if a dividend were distributed by the Company in liquidation to a parent company that is a Czech tax resident or a tax resident in Switzerland, Norway, Iceland or Liechtenstein.

The Czech participation exemption does not affect taxation of distributions of share premium as described above.

The Company is, subject to certain exceptions, obliged to notify the tax authority of details of distributions made to non-Czech tax residents if such distributions are in principle subject to Czech withholding tax, but exempt therefrom under Czech laws or under a tax treaty.

Income taxation of disposals

Czech resident shareholders - individuals

Income from the sale of the Shares realized by a Czech tax resident individual is, unless exempt from tax, subject to Czech personal income tax at a flat rate of 15%. However, in the specific case of a Czech tax resident individual who holds the Shares as part of his/her business property (in Czech: *obchodní majetek*) the respective income is also subject to social security and health insurance levies. Furthermore in such case, any positive excess of (i) the annual sum of income included in the partial tax base from employment activities and the partial tax base from entrepreneurial (business) activities over (ii) 48-times the average wage (CZK 1,569,552 for 2019) is additionally subject to a solidarity surcharge tax of 7 per cent. A shareholder is obliged to declare income realized from a sale of Shares in his/her Czech personal income tax return (subject to specific exceptions).

Under certain circumstances, a shareholder that holds the Shares as part of his/her business property and keeps accounting books in line with Czech accounting laws may be obliged to re-measure the Shares to fair value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax effective.

Taxable income can generally be decreased by the tax basis of the Shares. Capital losses incurred by individuals are generally tax non-deductible. If an individual holds Shares as part of his/her business property and keeps accounting books in line with Czech accounting laws, a capital loss incurred upon the sale of the Shares can, under certain conditions, be tax deductible. A capital loss incurred on the sale of the Shares not held as part of his/her business property can be offset against gains on sales of other securities not held as business property realized in the same calendar year as long as the income from the sale of neither the Shares nor the securities is exempt from tax.

Income from the sale of the Shares realized by an individual is exempt from Czech personal income tax if the individual's aggregate gross income realized from the sale of securities (combined with income from unit fund participations in case of a dissolving fund) does not exceed CZK 100,000 in that calendar year, provided that the Shares have never been held as part of his/her business property, or if so, the Shares are sold more than three years following the termination of his/her entrepreneurial (business) activities.

Income from the sale of the Shares realized by an individual is also exempt from Czech personal income tax if the period between the acquisition and the sale of the Shares exceeds three years, provided that the Shares have never been held as part of his/her business property, or if so, the Shares are sold more than three years following the termination of his/her entrepreneurial (business) activities.

Individuals that receive income exempt from Czech personal income taxation exceeding CZK 5.0 million are obliged to notify the Czech tax authorities of the amount of tax-exempt income (and relevant details) within the deadline for Czech personal income tax filing. Czech resident shareholders—taxpayers other than individuals

Income from a sale of Shares realized by taxpayers other than individuals who are Czech tax residents is subject to Czech corporate income tax at 19%. A shareholder is obliged to declare income realized from the sale of the Shares in its Czech corporate income tax return. A participation exemption can apply under the Czech participation exemption rules (see "—*Czech participation exemption—disposal*" described below).

Czech resident shareholders who are subject to Czech accounting standards for entrepreneurs (i.e. most companies other than financial or insurance institutions) or to Czech accounting standards for financial institutions (including, in particular, banks) and who hold the Shares for the purposes of trading may be, under certain conditions, required to re-measure the Shares to fair value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible.

Capital loss realized by Czech resident shareholder who re-measures the Shares to fair value for accounting purposes (whether through profit and loss or balance sheet) is generally tax deductible. On the contrary, capital loss realized by Czech resident shareholder who does not re-measure the Shares to fair value for accounting purposes is generally tax non-deductible.

Notwithstanding the above, any loss realized by a Czech resident shareholder (including unrealized loss recognized in profit and loss) who qualifies for Czech participation exemption is tax non-deductible.

Non-Czech resident shareholders

The rules for taxation and tax exemption of income from the sale of the Shares realized by a Czech tax resident individual or a taxpayer other than individual generally apply in the same way to Non-Czech tax residents shareholder. In addition, a tax treaty may prevent taxation of such income in the Czech Republic.

Securing tax

In general, a Czech tax resident or a Czech tax non-resident acting through a Czech permanent establishment purchasing the Shares from a seller who is a resident for tax purposes outside the EU/EEA, is required, under his/her/its own responsibility, to withhold and to remit to the Czech tax authorities a securing tax at the rate of 1% from the (gross) purchase price. Such obligation can be eliminated under a tax treaty concluded between the Czech Republic and the country in which the seller is a tax resident or can be waived based on a decision of Czech tax authorities.

In general, the securing tax is creditable against the tax liability declared by a Czech tax non-resident in his/her/its annual Czech tax return.

Czech participation exemption—disposal

Income from a sale of Shares is exempt from Czech taxation if a parent company shareholder holds 10% or more of the registered share capital of the subsidiary (the Company) for at least 12 months without interruption. The 12-month holding period requirement can be met following the disposal. The definition of a parent company is provided in section "*Czech participation exemption—dividend and decrease of registered share capital previously increased from* profit" described above, and applies in the same way to income from a sale of Shares.

Income from a sale of Shares realized by a shareholder that is tax resident in Norway, Iceland or Liechtenstein is exempt from Czech taxation under equivalent conditions as described above for a parent company being an EU Member State tax resident.

The Czech participation exemption does not apply if either the parent company or the Company is exempt from corporate income tax or from similar tax, or is eligible to elect to be exempt from such tax, or is subject to such tax at a rate of 0%. The Czech participation exemption on income from a sale of Shares does not apply if the Company were in liquidation.

Czech gift and inheritance tax

Income from gift or inheritance is generally subject to Czech income tax (neither inheritance tax nor gift tax is levied by the Czech Republic). Nevertheless, income from inheritance is always exempt from tax. Unless exempt (e.g. gifts between direct relatives), free-of-charge transfers of the Shares are treated as taxable in-kind income of the transferees and are taxed as such. Accordingly, depending on whether the beneficiary is an individual or a taxpayer other than an individual, Czech personal income tax at the rate of 15% or Czech corporate income tax at the rate of 19% applies.

Withholding tax generally applies if the Shares are transferred on a free-of-charge basis by a transferor who is a Czech tax resident or a Czech tax non-resident acting through a Czech permanent establishment (to which the Shares are attributable) to a Czech tax non-resident not acting through a Czech permanent establishment (the tax rate is 15% or 35%

based on the same principles explained above). The securing tax at the rate of 10% applies in case of a transferee who is a resident for tax purposes outside the EU/EEA and who is acting through a Czech permanent establishment. The relevant tax treaty (if any) may modify this tax treatment.

Other Czech taxes

No Czech transfer tax, VAT, stamp duty or any other similar tax or duty is payable in the Czech Republic in respect of or in connection with the acquisition, holding and disposal of the Shares.

ADDITIONAL INFORMATION

Authorisations and consents

The Company has obtained all consents, approvals and authorizations in the Czech Republic in connection with this Prospectus and the Admission. The Sole Shareholder approved the application for the Admission by resolution dated 21 May 2020.

Auditors

The Audited Financial Statements were audited by Deloitte Audit s.r.o., an independent registered auditor with its registered seat in Italská 2581/67, Vinohrady, 120 00 Prague 2, Czech Republic, Id. No. 49620592, registered with the Commercial Register kept by the Municipal Court in Prague, File No. C 24349; and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic, under License No. 79. On behalf of Deloitte, the auditors' reports on the Audited Financial Statements were signed by Petr Michalík, holding auditor's certificate No. 2020, and whose relevant audit reports are included in the Audited Financial Statements.

The Company declares that neither Deloitte Audit s.r.o. nor any of its members, employees or agents has any material interest in the Company.

Litigation

Save as described in this Prospectus (See "*The Group's Business—Legal Proceedings*"), there are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had, a significant effect on the Company's and/or the Group's financial position or profitability.

Working capital

In the opinion of the Company, taking into account the facilities available to the Group, the working capital available to the Group is sufficient for the Group's present requirements, that is for the next 12 months following the date of this Prospectus.

No significant change

There has been no significant change in the financial position nor in the financial performance of the Group since 31 December 2019, the date to which the Audited Financial Statements were prepared.

Documents available for inspection

The following documents will be available free of charge at the registered office of the Company during normal business hours and on the Company's website www.czg.cz during the term of this Prospectus:

- the Articles of Association of the Company;
- copies of the Audited Financial Statements;
- this Prospectus; and
- copies of the documents required to be published on the Company's website pursuant to the applicable laws.

PERSONS RESPONSIBLE

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information contained in this Prospectus is accurate only as of the date of this Prospectus and any delivery of this Prospectus or any sale of Shares at any time after the date hereof does not imply that the information in this Prospectus is correct at such subsequent time.

As of the date of this Prospectus

Signature:	______________	Signature:	______________
Name:	Lubomír Kovařík	Name:	Jan Drahota
Position:	Chairman of the Board of Directors	Position:	Vice-Chairman of the Board of Directors

INDEX OF DEFINED TERMS

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this Prospectus 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.

Type 1911	One of the most wide-spread hammer fired pistol mechanisms based on a Colt 1911 pistol.

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CZG - Česká zbrojovka Group SE

CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

AS OF 31 DECEMBER 2019

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Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
CZG - Česká zbrojovka Group SE (formerly EHC CZUB, SE)

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

Opinion

We have audited the accompanying consolidated financial statements of CZG - Česká zbrojovka Group SE (formerly EHC CZUB, SE) and its subsidiaries (the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated statement of financial position as at 31 December 2019, 31 December 2018 and 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the years 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 31 December 2018 and 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the years 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 Consolidated Financial Statements section of our report. We are independent of the Group 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.

Emphasis of Matter

We draw attention to Note 34 in the consolidated financial statements describing management's evaluation of the actual or potential impact of the effects of the new coronavirus causing the COVID-19 disease on the Group. Our opinion is not modified in respect of this matter.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 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 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 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether 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 and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 30 March 2020

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	Petr Michalík registration no. 2020

CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION
FOR THE YEAR ENDED 31 DECEMBER 2019

Name of the Company:	**CZG - Česká zbrojovka Group SE**
Registered Office:	**Opletalova 1284/37, Nové Město, 110 00 Praha 1**
Corporate ID:	**291 51 961**

Components of the Financial Statements:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Consolidated Notes to the Financial Statements

These consolidated financial statements were prepared on 30 March 2020.

Statutory body of the reporting entity:	Signature
JAN DRAHOTA, member of the Board LUBOMÍR KOVAŘÍK	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

Continued operations	**Note**	**2019 CZK ‘000**	**2018* CZK ‘000**	**2017* CZK ‘000**
Revenues from the sale of own products, goods and services	6	5 958 742	5 339 581	4 555 483
Other operating income	7	101 515	49 466	18 210
Changes in inventories of finished goods and works in progress		52 096	1 943	237 599
Own work capitalised		104 974	103 919	116 209
Raw materials and consumables used	8	-2 885 982	-2 490 602	-2 074 732
Services	10	-820 386	-814 033	-841 026
Personnel costs	9	-1 080 522	-1 045 645	-954 008
Depreciation and amortisation	18	-370 601	-365 189	-349 644
Other operating expenses	11	-116 126	-118 285	-146 092
Operating profit		**943 710**	**661 155**	**561 999**
Interest income	14	27 882	13 231	44 038
Interest expense	15	-85 842	-47 246	-30 896
Other financial income	14	373 252	246 920	323 132
Other financial expenses	15	-346 569	-159 659	-263 073
Share in the profit of associates		22	42	428
Profit before tax		**912 455**	**714 443**	**635 628**
Income tax	16,17	-178 336	-145 837	-131 128
Profit for the period from continued operations		**734 119**	**568 606**	**504 500**
Discontinued operations				
Post-tax profit from discontinued operations	4	**15 192**	**32 307**	**33 517**
Post-tax profit for the period		**749 311**	**600 913**	**538 017**
Items that may be subsequently reclassified to the statement of profit or loss				
Cash Flow Hedges – remeasure of effective portion of hedging instruments		148 023	-403 353	253 764
Foreign currency translation of foreign operations		-7 128	18 290	-45 059
Other comprehensive income:		**140 895**	**-385 063**	**208 705**
Comprehensive income for the period		**890 206**	**215 850**	**746 722**
Profit attributable to owner of the parent				
Profit for the period from continued operations		728 084	555 914	486 553
Profit for the period from discontinued operations		15 192	32 307	33 517
Profit for the period attributable to owner of the parent		743 276	588 221	520 070
Profit attributable to non-controlling interests				
Profit for the period from continued operations		6 035	12 692	17 947
Total comprehensive income for the period attributable to:				
Shareholder of the parent company		882 840	211 153	721 973
Non-controlling interests		7 366	4 697	24 749
Net earnings per share attributable to the owner of the parent company (CZK ‘000 per share)				
Basic	31	25	20	17
Diluted	31	25	20	17

All comparative amounts for the year ended 31 December 2018 and 31 December 2017 have been restated to reflect the reclassification of discontinued operations (see Note 4).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

	Note	31 Dec 2019 CZK '000	31 Dec 2018 CZK '000	31 Dec 2017 CZK '000
ASSETS				
Non-current assets				
Property, plant and equipment	18.3	1 994 748	2 108 476	1 980 045
Intangible assets	18.1	834 242	922 433	1 009 446
Long-term receivables	22	45 322	48 348	52 856
Equity-accounted securities and investments		17 160	644	602
Deferred tax asset	17	1 464	0	0
Goodwill	18.2	280 686	280 686	280 686
Total non-current assets		**3 173 622**	**3 360 587**	**3 323 635**
Current assets				
Inventories	19	1 747 427	1 772 415	1 746 802
Trade receivables	21	915 799	579 422	382 712
Current tax receivables		7 385	5 234	17 228
Other receivables	20	137 080	101 722	86 343
Financial derivatives	29	236 486	258 450	425 187
Cash and cash equivalents.	23	805 503	1 345 628	323 360
Assets held for sale and for distribution to owners	4	525 273	62 296	0
Total current assets		**4 374 953**	**4 125 167**	**2 981 632**
Total assets		**7 548 575**	**7 485 754**	**6 305 267**
EQUITY AND PAYABLES				
Capital and funds				
Share capital		2 984	2 984	2 984
Capital funds	24	1 533 118	1 393 554	1 778 617
Accumulated profits		1 921 501	1 884 709	1 562 753
Equity attributable to the shareholder of the Company		**3 457 603**	**3 281 247**	**3 344 354**
Equity attributable to the shareholder of the Company		3 457 603	3 281 247	3 344 354
Non-controlling interests		11 358	28 128	66 294
Total equity		**3 468 961**	**3 309 375**	**3 410 648**
Non-current liabilities				
Bank loans and borrowings	26	2 252 688	2 253 987	1 526 862
Other payables		0	125 000	125 000
Lease payables	27	57 313	1 918	4 828
Deferred tax liability	17	248 033	254 752	365 518
Provisions	13	25 053	36 276	36 687
Other long-term payables		905	899	1 642
Total non-current liabilities		**2 583 992**	**2 672 832**	**2 060 537**
Current liabilities				
Trade payables		284 906	323 711	312 637
Short-term bank loans and overdrafts	26	36 958	32 253	29 968
Lease payables	27	6 173	2 910	2 844
Provisions	13	45 837	37 061	36 104
Current tax payables		70 127	43 911	84 254
Other payables	25	394 387	431 206	252 004
Financial derivatives	29	339 252	570 199	116 271
Liabilities related to assets held for sale and for distribution to owners	4	317 982	62 296	0
Total current liabilities		**1 495 622**	**1 503 547**	**834 082**
Total liabilities		**4 079 614**	**4 176 379**	**2 894 619**
Total liabilities and equity		**7 548 575**	**7 485 754**	**6 305 267**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital funds and funds from the translation of foreign currencies	Accumulated profits	Equity attributable to the shareholder of the parent company	Non-controlling interests	Equity
	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000
Balance at 1 January 2017	**2 984**	**1 569 912**	**1 199 247**	**2 772 143**	**178 922**	**2 951 065**
Profit for the period	0	0	520 070	520 070	17 947	538 017
Other comprehensive income	0	201 903	0	201 903	6 802	208 705
Total comprehensive income for the period	**0**	**201 903**	**520 070**	**721 973**	**24 749**	**746 722**
Dividends	0	0	-90 000	-90 000	-7 568	-97 568
Change in non-controlling interests and treasury holdings	0	6 802	-66 564	-59 762	-129 809	-189 571
Balance at 31 December 2017	**2 984**	**1 778 617**	**1 562 753**	**3 344 354**	**66 294**	**3 410 648**
Profit for the period	0	0	588 221	588 221	12 692	600 913
Other comprehensive income	0	-377 068	0	-377 068	-7 995	-385 063
Total comprehensive income for the period	**0**	**-377 068**	**588 221**	**211 153**	**4 697**	**215 850**
Dividends	0	0	-255 000	-255 000	-5 467	-260 467
Change in non-controlling interests and treasury holdings	0	-7 995	-11 265	-19 260	-37 396	-56 656
Balance at 31 December 2018	**2 984**	**1 393 554**	**1 884 709**	**3 281 247**	**28 128**	**3 309 375**
Profit for the period from continued operations	0	0	728 084	728 084	6 035	734 119
Profit from discontinued operations	0	0	15 192	15 192	0	15 192
Other comprehensive income	0	139 564	0	139 564	1 331	140 895
Total comprehensive income for the period	**0**	**139 564**	**743 276**	**882 840**	**7 366**	**890 206**
Dividends	0	0	-560 000	-560 000	-13 977	-573 977
Transactions under common control	0	0	-145 363	-145 363	0	-145 363
Change in non-controlling interests and treasury holdings	0	0	-1 121	-1 121	-10 159	-11 280
Balance at 31 December 2019	**2 984**	**1 533 118**	**1 921 501**	**3 457 603**	**11 358**	**3 468 961**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 CZK '000	31 Dec 2018 CZK '000	31 Dec 2017 CZK '000
Cash flows from principal economic activity (operating activity)				
Profit from ordinary activity before tax		932 129	751 731	673 650
Adjustments for non-cash transactions		**508 201**	**356 290**	**28 186**
Depreciation/amortisation of non-current assets	18	412 904	406 689	389 648
Change in allowances and provisions	12, 13	28 534	9 063	49 248
Loss from the sale of non-current assets		-3 688	-437	-1 086
Interest expense and interest income	14, 15	63 023	38 883	-15 458
Adjustments for other non-cash operations (deficit and damage on assets and inventories, unrealised profits/losses, remeasurement of derivative transactions)		7 428	-97 908	-394 166
Net cash flow from operating activities before changes in working capital		**1 440 330**	**1 108 021**	**701 836**
Change in working capital		**-678 604**	**40 160**	**-201 403**
Change in receivables and deferred expenses/ accrued income	20, 21, 22	-454 246	-76 283	-2 396
Change in payables and accrued expenses/ deferred income	25	-134 519	152 669	19 354
Change in inventories		-89 839	-36 226	-218 361
Cash generated by operations		**761 726**	**1 148 181**	**500 433**
Interest paid		-75 555	-42 495	-37 382
Interest received		16 911	14 193	48 101
Income tax paid for ordinary activity	16	-197 966	-190 826	-120 495
Net cash flow from operating activities		**505 116**	**929 053**	**390 657**
Cash flows from investing activities				
Acquisition of non-current assets	18	-274 356	-396 666	-313 934
Income from the sale of non-current assets		4 488	11 034	1 319
Acquisition of subsidiaries	3.5	-164 293	-	-
Income from the sale of subsidiaries		-1 114	-	-
Net cash flow from investing activities		**-435 275**	**-385 632**	**-312 615**
Cash flows from financing activities				
Proceeds from issued bonds	26	-	750 000	-
Repayments of loans and borrowings	26	- 216 500	-39 180	- 11 881
Proceeds from loans and borrowings	4, 26	254 759	28 494	11 762
Changes in equity		*-573 977*	*-260 467*	*-97 568*
Dividends paid to shareholders		-560 000	-255 000	-90 000
Dividends paid to non-controlling interests		-13 977	-5 467	-7 568
Net cash flow from financing activities		**-535 718**	**478 847**	**-97 687**
Net change in cash and cash equivalents		**-465 313**	**1 022 268**	**-19 645**
Opening balance of cash and cash equivalents	23	**1 345 628**	**323 360**	**343 005**
Effects of exchange rate changes on cash and cash equivalents		**564**	**-**	**-**
Closing balance of cash and cash equivalents	**23**	**880 315**	**1 345 628**	**323 360**

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 2019

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1. Parent Company

CZG - Česká zbrojovka Group SE, former EHC CZUB, 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’s principal activity includes production trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act. The Company proceeded to opt-in into the regime of Section 777 (5) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives.

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

Shareholder	Ownership percentage as of 31 December		
	2019	2018	2017
Česká zbrojovka Partners SE	100%	100%	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 parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, Prague.

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

Board of Directors	
Chairman:	Lubomír Kovařík
Member:	Jan Drahota
Member:	Hana Balounová

Supervisory Board	
Member:	René Holeček

As of the date of preparation of the financial statements, the members of the Board of Directors and Supervisory Board were as follows:

Board of Directors	
Chairman:	Lubomír Kovařík
Vice-chairman:	Jan Drahota
Vice-chairman:	Alice Poluchová
Member:	Ladislav Britaňák
Member:	Andrej Chrzanovski
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.

The consolidation group also includes 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

Entity	Principal activity	Place of foundation and business operation	Method of accounting	Share of the Group in Equity		
				31 Dec 2019	31 Dec 2018	31 Dec 2017
CZG-Česká zbrojovka Group SE	Holding company	Prague	Consolidation	100%	100%	100%
EHC zdravotní s.r.o.	Lease of real estate	Uherský Brod	Consolidation	0%	100%	100%
CZUB zdravotní s.r.o.	Providing medical services	Uherský Brod	Consolidation	0%	100%	100%
CZ-US HOLDINGS Inc.	Holding company	USA	Consolidation	100%	100%	0%
CZ-USA	Purchase and sale of firearms and ammunition	USA	Consolidation	100%	98%	97%
EHC -4 M, SE	Lease of real estate	Prague	Consolidation	100%	100%	100%
4M SYSTEMS a.s.	Trade with military material	Prague	Consolidation	54%	51%	51%
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod	Consolidation	99%	98%	97%
Česká zbrojovka CZ-AUTO a.s.	Lease of real estate	Uherský Brod	Consolidation	99%	98%	97%
CZ – Slovensko s.r.o. (renamed from UNION CS, spol. s r.o.)	Production, purchase and sale of ammunition	Slovakia	Consolidation	99%	98%	97%
ZBROJOVKA BRNO, s.r.o.	Production, sale and transport of firearms and ammunition	Brno	Consolidation	99%	98%	97%
CZ BRASIL LTDA	Purchase, sale of firearms and ammunition	Brazil	equity	49%	48%	48%
ZVS - Armory s.r.o. (renamed from CZ - Slovensko, s. r. o.)	Production, purchase and sale of firearms and ammunition	Slovensko	Consolidation	0%	50%	50%
Latin America Holding, a.s.	Lease of real estate	Uherský Brod	Consolidation	99%	98%	97%
CARDAM s.r.o.	Development of firearms	Dolní Břežany	equity	33%	32%	32%
CZG VIB s.r.o.	Lease of real estate	Prague	Consolidation	100%	0%	0%
CZG Tisem s.r.o.	Lease of real estate	Prague	Consolidation	100%	0%	0%
Vibrom s.r.o.	Production	Třebechovice pod Orebem	equity	25%	0%	0%
CZ Export Praha, s.r.o.	Purchase, sale of firearms and ammunition	Prague	Consolidation	100%	0%	0%
CZ MFG	Production	USA	Consolidation	100%	0%	0%
EG-CZ Academy	Shooting academy	France	equity	20%	20%	0%

In 2019, new entities were included in the consolidation group: CZ Export Praha, s.r.o., CZG VIB s.r.o., CZG Tisem s.r.o., Vibrom s.r.o. (all entities were acquired in June 2019) and CZ MFG (newly established entity); at the same time, the Group lost its control in CZUB zdravotní s.r.o. and EHC zdravotní s.r.o. (sale of both entities). In 2018, the Group entered EG-CZ Academy through CZG Tisem s.r.o. with the business plan to operate a shooting academy in France and practical and theoretical shooting training all over the world. The Group's partner in the company is Eric Grauffel, a many-times IPSC champion and European champion. In 2018, a decision on the sale of CZ – Slovensko s.r.o. was passed; in line with IFRS 5, assets and liabilities of this entity were reported as assets held for sale and liabilities related to assets held for sale as of 31 December 2018. Česká zbrojovka a.s. is the major entity in the Group. In the text below, the term 'Group' refers to the consolidation group.

3. Significant Accounting Policies

3.1. Newly-adopted Standards and Interpretations

In the current year, the Group has applied new and amended IFRS Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective in the EU for reporting periods beginning on or after 1 January 2019.

As of 1 January 2019, the Group implemented IFRS 16, a new standard providing guidance on leases. The Group has applied modified retrospective approach and made no adjustments to comparative information. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability arising from a lease contract on the part of the lessee, except for short-term leases and leases of low value assets. Comparative information continues to be reported under IAS 17 and IFRIC 4.

a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019. The Group applies new rules for lease assessment to contracts commencing after 1 January 2019.

b) Impact on lessee accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments; the right-of-use asset is adjusted for prepayments or lease payments recognised on an accrual basis;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated profit or loss and other comprehensive income;
- Separates the total amount paid in cash as a principal payment (presented within financing) and interest (presented within financing) in the cash flow statement.
- For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

For short-term leases (with the lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, printers, small items of office furniture and telephones with acquisition cost under CZK 200 thousand), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Services' in profit or loss.

The Group used the following practical expedients when applying the modified retrospective approach to leases that were originally classified as operating leases under IAS 17:

- The Group applied a single discount rate to the portfolio of leases with appropriately similar characteristics;
- The Group decided not to recognise right-of-use assets and lease liabilities for leases with the lease term ending within 12 months from the first time adoption date.
- The Group excluded the initial direct costs of the right-of-use asset measurement as of the first time adoption date.
- As of 1 January 2019, the Group has no contract classified as a lease under IAS 17 as all leases under IAS 17 have been appropriately reclassified based on IFRS 16.

The right-of-use asset is not recognised separately in the statement of financial position but it is included in *Property, Plant and Equipment.* Lease liabilities are recognised separately as part of long-term or short-term liabilities.

c) Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and accounts for those two types of leases differently.

d) Financial impact of the initial application of IFRS 16

The Group has applied modified retrospective approach and made no adjustments to comparative information. The weighted average of lessees' incremental borrowing interest rate applied to the lease liabilities recognised in the statement of financial position on 1 January 2019 amounts to 2.3%.

Lease liabilities recognized in the statement of financial position as of the date of initial application did not differ significantly from the minimum operating lease payments as of 31 December 2018 discounted using the incremental borrowing interest rate as of the date of initial application.

The impact of implementation of IFRS 16 on the amount of the Group's assets and liabilities as of 1 January 2019 is outlined in the table below (in CZK thousand):

	Balance at 1 Jan 2019	Impact of IFRS 16	Balance at 31 Dec 2018
Property, plant and equipment	2 143 208	34 732	2 108 476
Total assets	**7 520 486**	**34 732**	**7 485 754**
Short-term lease liabilities	27 329	24 419	2 910
Long-term lease liabilities	12 231	10 313	1 918
Total liabilities	**4 211 111**	**34 732**	**4 176 379**

Given the selected approach to initial valuation of right-of-use assets, implementation of IFRS 16 had no impact on the Group's retained earnings as of 1 January 2019. The right-of-use assets is equal to the lease liability.

In the current period, amendments to the following standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union came into effect, which are effective for the annual periods beginning on or after 1 January 2019:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment.

- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied.

- Amendments to IAS 12 (income tax consequences of dividends), IAS 23 (specific borrowing costs after an asset is put in use), IFRS 3 (gaining control over a joint operation) and IFRS 11 (gaining joint control) resulting from *Annual Improvements to IFRS Standards 2015–2017 Cycle*

The amendments to IAS 12 Income Taxes clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits.

The amendments to IAS 23 Borrowing Costs clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments to IFRS 3 Business Combinations clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

The amendments to IFRS 11 Joint Arrangements clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its previously held interest in the joint operation.

- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

- IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The adoption of the above-mentioned amendments and interpretation has no significant impact on disclosures or amounts recognised in the consolidated financial statements.

3.2. Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are not yet effective

a) As of the date of the financial statements, the following amendments to the existing standards adopted by the EU were issued but are not effective:

- Amendments to IAS 1 and IAS 8 *Definition of Material* (effective from 1 January 2020).

The amendments are intended to 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 amendment does not change the Group's assessment of „Material“ and shall not have any impact on its consolidated financial statement

- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform* (effective from 1 January 2020).

Amendments relate to hedging relations that are impacted by the interest rate benchmark reform. Despite the Group hedges highly probable forecasted transactions, none of the hedged cash flows is IBOR-based and the Group does not expect the reform to have any significant impact on its consolidated financial statements.

- *Amendments to References to the Conceptual Framework in IFRS Standards* (effective from 1 January 2020).

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The Group does not expect that the application of the above amendments would have any impact on its consolidated financial statements.

b) The following standards and amendments to existing standards were not yet adopted by the EU:

- IFRS 17 *Insurance Contracts* (effective for the annual periods beginning on or after 1 January 2021).

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. This standard introduces new rules for insurance contract accounting and replaced IFRS 4. The Group does not issue any insurance contracts or investment contracts with discretionary participation features tracts neither hold any reinsurance contracts, the application of IFRS 17 shall not have any impact on its consolidated financial statements.

- Amendments to IFRS 3 *Definition of a business* (effective from 1 January 2020).

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 Group currently does not consider any business combination; the application of the amendments shall not have any impact on its consolidated financial statement.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date has not been defined).

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The Group did not have any similar transaction in the past neither expect it in the future, the application of the amendments shall not have any impact on its consolidated financial statement.

- Amendments to IAS 1 Classification of Liabilities as Current or Non-Current (effective from 1 January 2020).

The amendments clarify reporting liabilities in the statement of financial position. The amended guidance does not differ from the approach the Group has applied in the past. The amendment shall not have any impact on its consolidated financial statements.

The Group decided not to apply the new standards, amendments to the existing standards and interpretations before their effective dates. As mentioned above, the Group does not expect that the application of the above-specified standards and interpretations would have a significant impact on the financial statements.

3.3. Statement of Compliance

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

3.4. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values 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.

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.

3.4.1. Changes in Accounting and Reporting

In 2019, no changes in the Group's general accounting policies were made, with the exception of new standards as disclosed in Note 3.1.

3.4.2. 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.

3.5. 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 between 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.

3.6. 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.

3.7. 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 2019, the primary source of revenues was the sale of own products of Česká zbrojovka a.s.

3.8. Sale of Products and 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 fee for winning a contract, namely the fee for intermediaries, is usually tied to a customer's payment and therefore, it is charged to expenses. Equally, costs to win contracts are also expensed if they are insignificant or if the depreciation of assets comprising costs of winning a contract is shorter than one year.

Sale of material (namely metal waste and scrap) is recognised similar to the sale of products and goods.

3.9. Provision of Services and Licences

Services namely include work on delivered tools or material for customers in the AUTO or AERO segments (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 in sales achieved based on the granted licence (a fixed amount per unit sold or a share in the sales). If the Group does not undertake to further develop the subject of the licence or allow the licensee to access further modifications, the performance obligation is satisfied at the moment from which the licensee can use the licence.

3.10. 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.

3.11. Leases

As described in Note 3.1, the Group implemented a new standard - IFRS 16 Leases - using the modified retrospective approach as of 1 January 2019 and as such, the comparative information has not been restated and is disclosed in line with IAS 17. The respective details on accounting rules under IAS 17 and IFRS 16 are stated below.

Accounting policies effective 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 leases 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. In the Group, the payments include fixed or variable lease payments. As of the lease commencement, the variable element of rent depending on the development of a price index is determined according to the index value as of the lease commencement date. To determine the present value, the Group uses the incremental borrowing rate as the discount rate.

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 recognised on separate lines of the consolidated statement of financial position.

As of the lease commencement date, the right-of-use asset 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 loss, if any. The right-of-use asset is depreciated on a straight-line basis over the shorter period 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 recognised 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 as described in Note 3.20.

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.

Accounting policies effective from 1 January 2017 to 31 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a Lessor

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

The Group as a Lessee

Assets held under finance leases are capitalised (increasing the acquisition cost of assets) and subsequently depreciated/amortised over their estimated useful lives. The present value of the respective lease liability is presented in non-current or current liabilities as appropriate. The interest component of the lease liability is recognised through expenses so as to ensure that the interest rate is constant over the entire lease term.

Financial expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.12. 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. 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 3.28 and 3.29).

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).

3.13. 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 1,632 thousand in 2019, CZK 1,791 thousand in 2018, and CZK 718 thousand in 2017.

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

3.14. 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 2017, 2018 and 2019. The effect of subsidies on the Group's income and expenses in individual years was as follows: CZK 823 thousand in 2019, CZK 2,562 thousand in 2018, CZK 588 thousand in 2017. Česká zbrojovka a.s. further used tax relief arising from investment incentives and employment of selected persons as disclosed in Note 16.

3.15. Employee Benefits

The Group does not operate its own private pension and retirement benefit plans, as in the Czech Republic, similar plans can only by operated by licensed pension funds. Therefore, it does not have any performance or constructive obligations to make such contributions to funds.

The Group provides bonuses in relation to life jubilees and retirement for the work performed. Bonuses are differentiated based on the length of employment at the Company and recognised as a payable to employees using the projected unit credit method. The value of the bonuses did not exceed CZK 1,000 thousand in any period.

3.16. Taxation

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

3.16.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the 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.

3.16.2. Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

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

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

3.16.3. Current and Deferred Tax for the Year

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

3.17. 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.

3.18. 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.

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.

3.19. Intangible Assets

3.19.1. 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)
Research and 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.

3.19.2. 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.

3.19.3. Emission Allowances

Intangible fixed assets include emission allowances for greenhouse allowances. An initial free-of-charge acquisition of the allowances is recognised as a grant at acquisition cost. Where such asset is used, sold or disposed of in another manner, the corresponding amount credited to the grant account will be reported through the relevant revenue accounts to match the relating expenses.

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.

3.19.4. 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.

3.20. 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.

3.21. Cash and Cash Equivalents

These include current, immediately convertible and highly-liquid investments recognised as current assets by the Group. There is a minimum risk of changes in their value; nevertheless, they may be affected by foreign exchange rate fluctuations when transactions are executed in foreign currencies but reported in the entity's functional currency.

3.22. 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 the transformation cost including direct payroll costs and part of production overheads corresponding to regular production capacity net of interest.

Inventories encompass goods purchased and held for resale and also encompass finished products, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process.

The net realisable value is the estimated selling price of inventory less all estimated costs of completion and costs necessary to make the sale.

3.23. 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.

3.23.1. 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.

3.24. Financial Instruments

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

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.

3.25. Financial Assets

<u>Classification and measurement of financial assets in the period from 1 January 2018 to 31 December 2019</u>

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 securities except for shares in subsidiaries and associates are valued at fair value. The Group does not use the possibility to value selected equity securities through other comprehensive income; all equity securities are valued at fair value through profit or loss (FVTPL).

Shares in subsidiaries and associates are valued at cost reduced by any impairment loss.

The classification and subsequent measurement of debt financial assets depends on the selected business model and the nature of cash flow arising from the respective asset. Financial assets held to collect contractual cash flows representing the payment of interest and principal are stated at amortised cost. 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 valued at fair value through other comprehensive income. In respect of all debt securities and receivables, the Groups’s intention is to collect contractual cash flows.

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.

As of 1 January 2018, the Group assessed the classification and measurement of individual financial assets and the method of measurement. Financial assets classified as of 31 December 2017 as loans and receivables meet the criteria to be measured at amortised cost and as of 1 January 2018 they were included in the group of financial assets valued at amortised cost. Implementation of IFRS 9 did not result in a change in the classification or measurement of financial liabilities.

Impairment of financial assets from 1 January 2018 to 31 December 2019

Impairment of financial assets after the application of the IFRS 9 approach is based on the model of expected credit losses (ECL) related to the following financial assets: a) debt assets at amortised cost (trade receivables, loans, debt securities); b) debt assets at fair value through other comprehensive income; c) lease receivables; d) contract assets and financial guarantee contracts; e) bank accounts and term deposits.

The Group performs an analysis of a potential recognition of an allowance for receivables as of each balance sheet date for individually material specific receivables. In addition, a large number of less significant receivables are aggregated in homogeneous groups that are then assessed together in terms of the need to recognise an allowance, since an individual approach is not possible in this case. The Group recognises either 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk since initial recognition (or since the provision of a commitment or guarantee).

The Group used the simplified approach for certain receivables, whereby lifetime expected losses are recognised in all cases. For the calculation of ECL, the financial asset portfolio is divided into three levels. As of the date of initial recognition, financial assets are included in level 1 with the lowest allowance, determined as a percentage of historically outstanding receivables. Subsequent reclassification to level 2 or level 3 is made based on an increase in the debtor’s credit risk. If the financial asset bears interest, the interest income in level 3 is calculated from the net value of the asset.

For long-term receivables, impairment loss is determined as 12-month loss, unless the credit risk of the receivable deteriorates significantly. In such a case, losses are determined as lifetime expected losses until maturity. Indicators of increased credit risk primarily include violation of contractual terms and conditions.

Classification and measurement of financial assets in the period from 1 January 2017 to 31 December 2017

Financial assets are classified into the following specific categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, and ‘loans and receivables’. The classification depends merely on the nature and purpose of financial assets, being determined upon initial recognition. 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 are classified at fair value through profit or loss in case the respective financial assets are either held for trading or designated as at fair value through profit or loss.

A financial asset is classified as held for trading, if:

- It has been acquired principally for the purpose of sale 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; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are recognised at fair value, whereby all gains or losses from remeasurement are reported as income or expense.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Group has the intent and ability to hold them until maturity. Subsequent to initial recognition, investments held to maturity are stated at amortised cost using the effective interest rate method less impairment.

Financial assets available for sale are non-derivative instruments, which are either designated as assets available for sale or are not classified as (a) loans and receivables, (b) investments held to maturity or (c) financial assets at fair value through profit or loss.

Securities available for sale are stated at fair value with the exception of equity instruments, the fair value of which cannot be determined reliably in line with IAS 39. Those capital instruments are valued at cost and at least once a year, the Group assesses whether any impairment occurred. Changes in the valuation of securities available for sale are recorded under 'Other comprehensive income', with the exception of impairment loss and interest income and foreign exchange rate gains or losses on the bonds. Upon realisation, the respective revaluation is transferred to income or expenses as appropriate.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables (including trade receivables and other receivables) are valued at amortised cost using the effective interest rate method less impairment.

Impairment of financial assets from 1 January 2017 to 31 December 2017

Impairment loss indicators in respect of financial assets other than assets at fair value through profit or loss are assessed at the end of each reporting period. Financial assets are impaired, if there is objective evidence that due to one or multiple events, which occurred subsequent to the initial recognition of the financial assets, the estimated future cash flows of the respective investment were affected. In case of financial assets at amortised cost, the impairment loss represents the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the financial asset's original effective interest rate.

3.25.1. 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.

3.26. Financial Liabilities and Equity Instruments

3.26.1. 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.

3.26.2. Financial Liabilities

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

3.26.2.1. Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- It forms part of a group of financial assets or financial liabilities or both which are managed and their performance is assessed in line with the entity’s documented risk strategy or investment strategy based on fair value and information on this group is disclosed internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 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.

3.26.2.2. Other Financial Liabilities

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

3.26.2.3. Bonds

The Group issues book-entry bearer bonds. Bonds are publically traded and registered on the regulated market. The issue of bonds is initially recognised at fair value net of transaction costs under non-current liabilities. Subsequent to initial recognition, the Group measures the issued bonds at their amortised cost using the effective interest rate.

3.26.2.4. Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- Loss allowance determined in accordance with IFRS 9; and
- Initial recognition decreased by revenues recognised in line with IFRS 15.

The Group provided no financial guarantees in 2017, 2018 and 2019.

3.26.2.5. Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.27. 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 (other than interest rate swaps which are always classified by the Group as held for trading) 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. Changes in the fair value of derivatives classified as cash flow hedges are recognised through other comprehensive income. The ineffective part of the hedge is recognised directly in Other financial expenses or Other financial income in the Consolidated statement of profit or loss and other comprehensive income.

3.28. 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.

3.28.1. 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 'other financial income/expenses' 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.

3.29. 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.

3.30. 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 3.18., 3.19., Note 18);
- Impairment of inventory is based on the expected production and price development (Section 3.22., Note 19);

- Expected credit losses on receivables portfolio is based on historical experience and expected credit losses (Section 3.25., Note 21);
- Valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as of 31 December 2019 (Sections 3.24., 3.25., 3.26.,3.27.,3.28., Note 29);
- 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 3.20., Note 18.1 and 18.2).

3.31. 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:

- 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.
- Intellectual property
- Key employees
- Firearm regulation: stricter regulation of firearms may have an adverse impact on the Group's financial results in future.
- 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.

Production of components for automotive and aviation industry (further referred to as CZ-AUTO) represents separate parts of the Group, involved in general engineering production. This part comprises the Auto division, specialised in the production of automotive components, specifically focusing on fittings for the HVAC category (Heating, Ventilation and Air Conditioning). It also includes the Aero division involved in the production of transmissions or reducers for turboprop engines and production of gearwheels.

In order to promote individual development of CZ-AUTO and the Group, CZ-AUTO's operation is spin-off into a separate entity. The Group should focus on the production of firearms. CZ-AUTO should concentrate on general engineering. The Group and the new entity should concentrate on their core business.

All assets relating to the performance of these activities will be transferred to CZ-AUTO SYSTEMS a.s. (a newly established entity controlled directly by the owner of the Group), apart from buildings, which remain in the ownership of the Group. CZ-AUTO will lease the buildings. In terms of liabilities, payables to suppliers and employees and a loan representing a share in the non-current liabilities of the demerged entity are transferred; the remaining portion is completed with equity.

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.

All comparative amounts related to discontinued operations within each line item of the Consolidated Statement of Profit or Loss and Other Comprehensive income are restated for the reclassification of discontinued operations. The Consolidated Statement of Cash Flows includes the cash flows for continuing and discontinued operations.

Profit from discontinued operations recognised as a separate item in the profit or loss and other comprehensive income was as follows:

Discontinued operation	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2017**
	CZK '000	**CZK '000**	**CZK '000**
Revenues from the sale of own products, goods and services	471 492	478 675	444 251
Other operating income	17 865	22 846	24 098
Changes in inventories of finished goods and works in progress	-17 284	-5 871	-7 572
Raw materials and consumables used	-232 255	-225 472	-218 904
Services	-63 047	-61 479	-53 808
Personnel costs	-131 542	-135 162	-121 650
Depreciation and amortisation	-42 303	-41 500	-40 004
Other operating expenses	-11 977	-1 249	-5 280
Operating profit	**25 517**	**42 530**	**36 275**
Interest income	553	1	7 683
Interest expenses	-5 616	-4 870	-5 368
Other financial income	978	12	3

Discontinued operation	31 Dec 2019 CZK '000	31 Dec 2018 CZK '000	31 Dec 2017 CZK '000
Other financial expenses	-1 758	-342	-144
Profit before tax	19 674	37 331	38 449
Income tax	-4 482	-5 024	-4 932
Profit for the period from discontinued operations	15 192	32 307	33 517

The impact of discontinued operations on the individual categories of cash flows were as follows: cash flow from operating activities CZK 94 234 thousand (2018: CZK 100 401 thousand, 2017: CZK 76 279 thousand), cash flow from investment activities CZK -61 115 thousand (2018: CZK -55 000 thousand, 2017: CZK -38 711 thousand), cash flow from financing activities CZK -5 616 thousand (2018: CZK -4 870 thousand, 2017: CZK -5 368 thousand).

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

	31 Dec 2019 CZK '000
Other payables	6 667
Total current liabilities	**292 049**
Total liabilities	**317 983**
Total liabilities and equity	**525 273**

Assets and Liabilities Held for Sale as of 31 December 2018

During 2018, the Group decided to sell its equity interest in CZ – Slovensko, s.r.o. In line with IFRS 5, assets and liabilities of this entity were recognised as of 31 December 2018 as assets and liabilities held for sale. The entity's activity was not classified as a discontinued operation as its loss does not represent a significant segment or geographical area for the Group. The sale of CZ – Slovensko, s.r.o. took place in 2019.

CZ – Slovensko, s.r.o. was sold for EUR 1. The value of the entity's liabilities was determined at CZK 62,296 thousand net of consolidation adjustments. The value of assets being disposed of in the amount of CZK 82,488 thousand was reduced such that the value of assets and liabilities being disposed of did not exceed the selling price of the group being disposed of. The impairment loss of CZK 20,192 thousand was reflected in the Group's other operating expenses.

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 2019, 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 (approximately 1%).

In the past, each segment had individual business management.

Before 31 December 2018, the Group's management did not report assets and liabilities for each reportable segment, as such amounts were not provided to the Group's management. As of 31 December 2019, substantially all assets and liabilities relate to the Production, Purchase and Sale of Firearms and Accessories.

The Group's management, as chief operating decision makers, uses EBITDA (Profit before Interest, Taxes, Depreciation and Amortisation). 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 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
Profit before Interest, Taxes, Depreciation and Amortisation (EBITDA)	1 327 359	13 657	1 341 016
Depreciation and amortisation	366 442	4 159	370 601
Profit before Interest and Taxes (EBIT)	960 917	9 498	970 415
Interest income and interest expense	56 451	1 509	57 960
Profit before Taxes (EBT)	904 456	7 999	912 455

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 2018 (in CZK '000):

	Production, purchase and sale of firearms and accessories	Other	Total
Revenues from the sale of own products, goods and services	5 249 393	90 188	5 339 581
Profit before Interest, Taxes, Depreciation and Amortisation (EBITDA)	1 090 607	23 040	1 113 647
Depreciation and amortisation	361 226	3 963	365 189
Profit before Interest and Taxes (EBIT)	729 381	19 077	748 458
Interest income and interest expense	33 232	783	34 015
Profit before Taxes (EBT)	696 149	18 294	714 443

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 2017 (in CZK '000):

	Production, purchase and sale of firearms and accessories	Other	Total
Revenues from the sale of own products, goods and services	4 481 413	74 070	4 555 483
Profit before Interest, Taxes, Depreciation and Amortisation (EBITDA)	950 447	21 683	972 130
Depreciation and amortisation	346 252	3 392	349 644
Profit before Interest and Taxes (EBIT)	604 195	18 291	622 486
Interest income and interest expense	-12 765	-377	-13 142
Profit before Taxes (EBT)	616 960	18 668	635 628

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			
	2019	2018	2017
Czech Republic (home country)	1 366 980	1 093 615	296 537
USA	3 018 113	2 830 049	2 442 869
Europe (except for the Czech Republic)	832 787	750 333	690 879
Africa	132 712	137 929	476 328
Asia	312 833	253 081	386 421
Other	295 317	274 574	262 449
Total	**5 958 742**	**5 339 581**	**4 555 483**

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 1,994,748 thousand as of 31 December 2019 (2018: CZK 2,108,476 thousand, 2017: CZK 1,980,045 thousand), the value of items located in the USA is CZK 230,976 thousand as of 31 December 2019 (2018: CZK 124 852 thousand, 2017: CZK 89 411 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):

	2019	2018	2017
Sale of goods	1 115 063	838 457	507 609
Sale of services	78 039	83 434	47 850
Sale of own products	4 659 367	4 309 031	4 000 024
Sale of a licence	106 273	108 659	-
Total	**5 958 742**	**5 339 581**	**4 555 483**

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 increase in revenues in 2019 is due primarily to the growth in sales of firearms and accessories to customers in the Czech Republic.

The Group had in 2019 and 2018 only one customer with a share exceeding 10% of its consolidated revenues; the revenues from this customer amounted CZK 763 368 thousand in 2019 and CZK 570 978 thousand in 2018. The Group had no any such customer in 2017.

A major component of sales in 2019 and 2018 included sales of a licence for the production of firearms.

As of 31 December 2019, the Group has agreed to contracts relating to the delivery of products and services in which contractual obligations will be satisfied after that date. Future income arising from the agreed contracts with the term exceeding one year where contractual obligations will be satisfied after 1 January 2020 amounted to CZK 16,111 thousand as of 31 December 2019. The Group used the option not to recognise 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):

	2019	2018	2017
Contractual penalty	279	2 612	276
Rental income	1 883	1 932	3 218
Grants	1 228	1 562	588
Reimbursement from the insurance company	1 232	4 084	2 049
Reimbursement from employees, claims from suppliers etc.	480	419	382
Profit/loss from the sale of fixed assets	-327	436	1 084
Profit/loss from the sale of material	-	5 303	-3 816
Other	96 740	33 118	14 429
Total	**101 515**	**49 466**	**18 210**

The increase in Other operating income mainly results from the royalties related to licences for the production of firearms.

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):

	2019	2018	2017
Costs of goods sold	815 825	592 762	333 735
Material consumption	1 971 079	1 832 752	1 678 251
Energy consumption	99 078	65 088	62 746
Total	**2 885 982**	**2 490 602**	**2 074 732**

9. Personnel Costs

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

	2019		2018		2017	
	Total employees	Of which members of management bodies and managers	Total employees	Of which members of management bodies and managers	Total employees	Of which members of management bodies and managers
Average recalculated headcount	1 619	31	1 718	30	1 682	29
Wages and bonuses to members of the Company's bodies	811 234	94 116	783 135	84 806	712 647	67 881
Social security and health insurance	241 423	19 061	235 953	10 719	220 406	8 258
Social costs	27 865	893	26 557	598	20 955	450
Total	**1 080 522**	**114 070**	**1 045 645**	**96 123**	**954 008**	**76 589**

In 2019, members of statutory bodies, the Supervisory Board and managers received no loans, guarantees, advances and other benefits. Members of statutory bodies, the Supervisory Board and managers may use company cars for private purposes. The members of management bodies and managers of consolidated entities are not considered as key management personnel (see Note 31).

Certain managers of the Group's subsidiaries (Česká zbrojovka a.s. and 4M SYSTEMS a.s.) own shares of these two companies: 6,495 B class shares of Česká zbrojovka a.s. and 25 B class and 18 C class shares of 4M SYSTEMS a.s.

10. Services

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

	2019	2018	2017
Maintenance of machinery and buildings, cleaning	36 100	28 504	27 609
Freight expenses relating to sale	88 423	86 629	85 967
Commission from sale	39 358	42 954	136 257
External services	50 160	49 054	43 255
Promotion, advertising and exhibitions	104 195	85 995	78 482
Postage, freight and telecommunication expenses	59 104	50 441	49 743
Other rental	23 788	30 106	29 193
Travel expenses	36 091	34 741	37 406
Repairs	60 823	53 368	54 753
Advisory, legal services, translations, expertise	158 607	130 988	83 324
Car leases	10 534	10 198	8 558
Employment agency	31 863	34 033	53 628
Recycling and waste handling	3 376	2 819	2 689
Services related to firearms and services of immaterial nature	36 300	106 613	82 439
Other	81 664	67 590	67 723
Total	**820 386**	**814 033**	**841 026**

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):

	2019	2018	2017
Taxes and levies	4 821	10 176	7 928
Change in provisions and allowances	2 911	10 133	50 044
Gifts	9 245	3 924	3 617
Fines and penalties	552	5 251	987
Insurance	18 222	15 710	15 203
Write-off of receivables	8 860	11 132	2 758
Damage compensation	460	610	669
Liquidation of inventories	15 191	10 224	36 788
Legal disputes	4 364	-	-
Impairment – assets held for sale	-	20 192	-
Loss from the sale of material	20 930	-	-
Other operating expenses	30 570	30 933	28 098
Total	**116 126**	**118 285**	**146 092**

The Group individually assess the receivables for write-off. Receivables are written off when the Group does not expect any further recovery, but these are still subject to enforcement activity. In general, the Group recorded a write-off of such receivables for which an allowance of 100% of the receivable balance had previously been recorded.

12. Allowances

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

Allowances for:	Balance at 1 Jan 2017	Charge for allowances	Release of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2017	Charge for allowances	Release of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2018	Charge for allowances	Release of allowances	Impact of FX rate fluctuations	Discontinued operations	Balance at 31 Dec 2019
Non-current assets	-38 474	-2 870	-	-	-41 344	-3 937	38 206	-	-7 075	-13 820	3 581	-	-	-17 314
Inventories	-165 515	-77 585	33 662	-	-209 438	-70 476	72 626	-	-207 288	-87 911	72 390	-	25 495	-197 314
Prepayments made for inventories	-227	-679	-	-	-906	-18 141	15 483	-	-3 564	-1 325	619	-	-	-4 270
Receivables – statutory	-19 093	-2 175	3 956	-	-17 312	-2 105	69	-	-19 348	-960	9 286	-	-	-11 022
Receivables – other	-16 727	-6 026	6 739	30	-15 984	-3 435	6 708	594	-12 117	-1 172	4 090	592	-	-8 607
Short and long-term prepayments made	-	-	-	-	-	-	-	-	-	-9 996	-	-	-	-9 996
Total	-240 036	-89 335	44 357	30	-284 984	-98 094	133 092	594	-249 392	-115 184	89 966	592	25 495	-248 523

Statutory allowances for receivables are created in line with the Act on Reserves and are tax-deductible. Substantially all impairment losses are reported within the segment Firearms and Accessories, as disclosed in the Note 5.1. The charge for allowances and release of allowances items include charge for and release of allowances relating to discontinued operations in the amount of CZK 8,402 thousand (2018: CZK -1,298 thousand, 2017: CZK 2,100 thousand) that are recognised as part of Profit/loss from discontinued operations in the consolidated profit or loss or other comprehensive income.

Charge for allowances for inventories mainly represents the adjustment to the net realizable value of the obsolete inventories, the allowance is released when inventories are disposed. Charge for and release of allowance for receivables represent changes in expected credit risk impairment losses.

13. Provisions

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

Provisions	Balance at 1 Jan 2017	Charge of provisions	Release of provisions	Balance at 31 Dec 2017	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Balance at 31 Dec 2018 before adjustment	Transfer to assets held for sale	Balance at 31 Dec 2018	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Discontinued operations	Balance at 31 Dec 2019
Legal disputes	-	2 600	-	2 600	-	-	-	2 600	-	2 600	-	-	-	-	2 600
Warranty repairs	-	779	-	779	-	-785	6	-	-	-	11 200	-	6	-	11 206
For outstanding vacation days	1 502	347	-	1 849	-	-50	-	1 799	-468	1 331	4 815	-3 918	-	-336	1 892
For employee benefits - bonuses	49 649	18 510	-37 399	30 760	31 077	-28 718	-	33 119	-	33 119	50 713	-48 931	-	-4 773	30 128
Other	116	-	-	116	-	-	-	116	-105	11	-	-	-	-	11
Total	**51 267**	**22 236**	**-37 399**	**36 104**	**31 077**	**-29 553**	**6**	**37 634**	**-573**	**37 061**	**66 728**	**-52 849**	**6**	**-5 109**	**45 837**

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

Provisions	Balance at 1 Jan 2017	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Balance at 31 Dec 2017	Charge of provisions	Release of provisions	Impact of exchange rate fluctuations	Balance at 31 Dec 2018 before adjustment	Transfer to assets held for sale	Balance at 31 Dec 2018	Charge of provisions	Release of provisions	Discontinued operations	Balance at 31 Dec 2019
Legal disputes	250	17 000	-	-	17 250	-	-	-	17 250	-	17 250	-	-250	-	17 000
Warranty repairs	7 376	748	-	-143	7 981	4 280	-4 745	35	7 551	-	7 551	30	-6 820	-	761
For outstanding vacation days	-	689	-445	-27	217	1 051	-694	6	580	-580	-	-	-	-	-
For employee benefits - bonuses	10 047	348	-139	-8	10 248	361	-	-	10 609	-127	10 482	25 974	-28 941	-1 216	6 299
For the risks of legal disputes etc. in the area of business	1 500	-	-500	-	1 000	-	-	-	1 000	-	1 000	-	-	-	1 000
Other	-	102	-111	-	-9	103	-103	2	-7	-	-7	-	-	-	-7
Total	**19 173**	**18 887**	**-1 195**	**-178**	**36 687**	**5 795**	**-5 542**	**43**	**36 983**	**-707**	**36 276**	**26 004**	**-36 011**	**-1 216**	**25 053**

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 regulating the sale of products and commercial goods. The estimate is based on the present development of warranty repairs and estimated future development and may be changed as a result of introducing new materials, adjustments to production procedures or due to other circumstances affecting product quality.

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):

	2019	2018	2017
Interest income - swap	10 964	8 801	40 257
Interest income - other	16 918	4 430	3 781
Exchange rate gains	75 191	99 522	84 539
Income from derivative transactions	299 186	144 087	238 593
Other financial gains/ (losses)	-1 125	3 311	1 399
Total	**401 134**	**260 151**	**367 170**

15. Interest Expenses and Other Financial Expenses

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

	2019	2018	2017
Interest expenses - swap	0	1 840	0
Interest expenses - other	85 842	45 406	30 896
Expenses from derivative transactions	258 614	61 374	63 875
Banking fees	11 415	10 156	13 563
Exchange rate losses	76 210	81 482	178 094
Other financial expenses	330	6 647	7 541
Total	**432 411**	**206 905**	**293 969**

Interest expenses - other for 2019 include interest on lease contracts in the amount of CZK 600 thousand.

16. Income Tax

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

	2019	2018	2017
Current tax	191 445	157 871	163 574
Deferred tax	-13 109	-12 034	-32 446
Total	**178 336**	**145 837**	**131 128**

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:

	2019	%	2018	%	2017	%
Profit before tax	912 455		714 443		635 628	
Income tax calculated using parent entity tax rate (19%)	173 366	19,0%	135 744	19,0%	120 769	19,0%
Tax non-deductible expenses (permanent)	5 551	0,6%	9 763	1,4%	15 627	2,5%
Tax deduction for professional practice	-573	-0,1%	-704	-0,1%	-790	-0,1%
R&D projects deduction	-4 332	-0,5%	-6 546	-0,9%	-6 581	-1,0%
Tax relief (disabled employees)	-1 103	-0,1%	-1 309	-0,2%	-1 304	-0,2%
Impact of different tax rates of US subsidiaries	1 624	0,2%	1 470	0,2%	1 570	0,2%
Other	3 803	0,4%	7 418	1,0%	1 836	0,3%
Income tax/ effective tax rate	**178 336**	**19,5%**	**145 837**	**20,4%**	**131 128**	**20,6%**

17. Deferred Tax

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

	31 Dec 2019		31 Dec 2018		31 Dec 2017	
Deferred tax components	**Deferred tax asset**	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**	**Deferred tax asset**	**Deferred tax liability**
Difference between the net and tax book value of fixed assets	-	-162 388	-	-163 751	-	-155 795
Difference in allocating revaluation	-	-184 786	-	-218 193	-	-241 275
Other temporary differences:	-	-	-	-	-	-
Allowance for inventories	37 490	-	39 885	-	40 294	-
Consolidation adjustments (unrealised profit, impact on equity and P&L)	18 774	-	6 941	-	6 260	-
Provisions	16 375	-	15 511	-	14 024	-
Allowance for receivables	1 670	-	2 302	-	1 951	-
Derivative instruments (impact on equity)	26 296	-	61 018	-	13 927	-47 524
Inventory revaluation	-	-	-	-	-	-
Other	-	-	1 535	-	2 619	-
Total	100 605	-347 174	127 192	-381 944	79 075	-444 594
Deferred tax asset	**1 464**	**-**	**-**	**-**	**-**	**-**
Deferred tax liability		**-248 033**		**-254 752**		**-365 518**

The table above shows in line Difference between the net and tax book value of fixed assets deferred tax liability in amount CZK 162 338 thousand as at 31.12.2019. The amount does not contain part of deferred tax liability related to discontinued operations (see note 4) as of 31.12.2019 (but is included in 2018 in amount CZK 24 498 thousand).

The Group has not recognized deferred tax asset arising from incurred tax losses in past by one of its subsidiaries in the Czech Republic. The amount of not recognized deferred tax asset is in amount CZK 2 244 thousand (out of which CZK 773 thousand expires in 2020 and CZK 1 471 thousand expires in 2022.

18. Non-Current Assets

18.1. Intangible Fixed Assets

Cost

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 distributions to owners	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 in 2019	**1 631 915**	**65 462**	**-26 545**	**-**	**633**	**-3 423**	**1 668 042**

Year ended 31 December 2018 with the opening balance as of 31 December 2017. 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	170 307	24 381	-1 117	-289	-	-	193 282
Software	184 066	5 865	-2 882	-	9	-1 224	185 834
Licenses, patents and other valuable rights	63 867	527	-	-	-	-	64 394
Contractual customer relations	864 727	-	-	-	-	-	864 727
Other intangible fixed assets	68 439	672	-995	-	848	-	68 964
Intangible fixed assets under construction	12 456	22 844	-13 669	71	-	-	21 702
Prepayments made for intangible fixed assets	-	15	-3	-	-	-	12
Total in 2018	**1 596 862**	**54 304**	**-18 666**	**-218**	**857**	**-1 224**	**1 631 915**

Year ended 31 December 2017 with the opening balance as of 31 December 2016. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Additions	Disposals	Decrease in cost/ transfers - subsidy	Impact of exchange rate fluctuations	Closing balance
Trademark and logos	233 000	-	-	-	-	233 000
Research and development	168 190	10 646	-8 529	-	-	170 307
Software	177 221	8 088	-1 178	-	-65	184 066
Valuable rights	63 164	752	-49	-	-	63 867
Contractual customer relations	864 727	-	-	-	-	864 727
Other intangible fixed assets	71 882	662	-963	-	-3 142	68 439
Intangible fixed assets under construction	7 225	15 634	-11 966	1 563	-	12 456
Prepayments made for intangible fixed assets	1 875	2 947	-4 822	-	-	-
Total in 2017	**1 587 284**	**38 729**	**-27 507**	**1 563**	**-3 207**	**1 596 862**

Accumulated amortisation and allowances

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

GROUP	Opening balance	Amortisation	Sales, liquidation, disposals	Disposals	Impact of exchange rate fluctuations	Allowance for intangible FA	Transfer to assets held for distributions to owners	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	-	-	233 000
Research and 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 in 2019	**-708 622**	**-133 837**	**8 012**	**-**	**-951**	**-566**	**-1 259**	**-833 800**	**834 242**

These notes are an integral part of the consolidated financial statements.

Year ended 31 December 2018 with the opening balance as of 31 December 2017. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Amortisation	Sales, liquidation, disposal	Disposals	Impact of exchange rate fluctuations	Allowance for intangible FA	Transfer to assets held for sale	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	-	-	233 000
Research and development	-88 491	-18 093	463	-	-	-	-	-106 121	87 161
Software	-124 538	-12 474	2 720	44	-8	46	1 166	-133 044	52 790
Licenses, patents and other valuable rights	-24 219	-4 972	-	-	-	-	-	-29 191	35 203
Contractual customer relations	-324 273	-86 473	-	-	-	-	-	-410 746	453 981
Other intangible fixed assets	-25 550	-3 729	-	-	149	-675	-	-29 805	39 159
Intangible fixed assets under construction	-345	-563	345	-	-	-	-	-563	21 139
Prepayments made for intangible fixed assets	-	-12	-	-	-	-	-	-12	-
Total in 2018	**-587 416**	**-126 316**	**3 528**	**44**	**141**	**-629**	**1 166**	**-709 482**	**922 433**

Year ended 31 December 2017 with the opening balance as of 31 December 2016. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Amortisation	Sales, liquidation	Disposals	Impact of exchange rate fluctuations	Allowance for intangible FA	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	-	233 000
Research and development	-78 376	-17 902	8 529	-	-	-742	-88 491	81 816
Software	-114 902	-10 816	1 156	24	41	-41	-124 538	59 528
Valuable rights	-19 426	-4 843	50	-	-	-	-24 219	39 648
Contractual customer relations	-237 800	-86 473	-	-	-	-	-324 273	540 454
Other intangible fixed assets	-23 380	-4 267	349	-	1 640	108	-25 550	42 889
Intangible fixed assets under construction	-	-345	-	-	-	-	-345	12 111
Prepayments made for intangible fixed assets	-	-	-	-	-	-	-	-
Total in 2017	**-473 884**	**-124 646**	**10 084**	**24**	**1 681**	**-675**	**-587 416**	**1 009 446**

Depreciation includes depreciation relating to discontinued operations in the amount of CZK 473 thousand (2018: CZK 581 thousand, 2017: CZK 423 thousand) which is recognised as part of the profit or loss from discontinued operations in the consolidated profit or loss or other comprehensive income. Under Czech law, intangible assets that are in the process of being developed must be separately classified from intangible assets that are fully developed and in use. The intangible assets under construction represent mainly in-progress development for software and research and development assets.

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 3.20, 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 2019, 31 December 2018 and 31 December 2017, no impairment was identified.

18.2. Goodwill

Goodwill presented in the statement of financial position in the amount of CZK 280,686 thousand (2018: CZK 280,686 thousand, 2017: 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 2020-2024 (the average anticipated growth of 12%, 2018: 5%); on the grounds of prudence, the values for 2024 are also used for periods following 2024. 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 2019, this value was set at 9.0% (2018: 7,5%).

18.3. Property, Plant and Equipment

Cost

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 FA	7 030	33 075	-36	-	-	40 069
Tangible FA under construction	41 133	178 438	-143 434	394	-517	76 014
Prepayments made for tangible FA	10 184	155 433	-102 914	-	-4650	58 054
Total 2019	**4 754 498**	**611 188**	**-372 419**	**3 021**	**-689 910**	**4 306 378**

Machinery, instruments and equipment and Buildings as of 31 December 2019 include rights of use resulting from lease contracts in the amount of CZK 102,297 thousand. Additions to the rights of use resulting from lease contracts amounted to CZK 68,396 thousand in 2019. These namely include lease contracts for warehouses and office space, cars and office technical equipment.

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 2018 with the opening balance as of 31 December 2017. Amounts in the table are presented in (CZK ‘000).

GROUP	Opening balance	Additions	Disposals	Impact of exchange rate fluctuations	Transfer to assets held for sale	Closing balance
Land	66 221	3	-5	-	-	66 219
Buildings	974 688	76 445	-10 386	1 922	-19 128	1 023 541
Movable tangible assets and their sets	3 316 831	445 511	-123 041	4 408	-59 420	3 584 289
Other tangible FA	7 006	124	-100	-	-	7 030
Tangible FA under construction	54 299	358 103	-371 921	1 000	-348	41 133
Prepayments made for tangible FA	54 060	116 237	-159 191	1 347	-2 269	10 184
Total 2018	**4 473 105**	**996 423**	**-664 644**	**8 677**	**-81 165**	**4 732 396**

Year ended 31 December 2017 with the opening balance as of 31 December 2016. Amounts in the table are presented in (CZK ‘000).

GROUP	Opening balance	Additions	Disposals	Impact of exchange rate fluctuations	Closing balance
Land	66 017	694	-490	-	66 221
Buildings	958 131	40 683	-13 905	-10 221	974 688
Movable tangible assets and their sets	3 230 467	242 568	-140 529	-15 675	3 316 831
Other tangible FA	7 088	48	-130	-	7 006
Tangible FA under construction	54 352	213 801	-213 855	1	54 299
Prepayments made for tangible FA	11 215	119 429	-76 584	-	54 060
Total 2017	**4 327 270**	**617 223**	**-445 493**	**-25 895**	**4 473 105**

Accumulated depreciation and allowances

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	Sales, liquidation	Impact of exchange rate fluctuations	Allowance for tangible FA	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 FA	-1 709	-142	1	-	-	-	-1 851	38 219
Tangible FA under construction	-4 505	-7 638	2 952	-	-	-	-9 191	66 823
Prepayments made for tangible FA	-2 096	-1 499	390	-	-	-	-3 204	54 849
Total 2019	**-2 623 920**	**-279 067**	**111 348**	**-1 188**	**-**	**-222 705**	**-2 311 630**	**1 994 748**

Year ended 31 December 2018 with the opening balance as of 31 December 2017. Amounts in the table are presented in (CZK ‘000).

GROUP	Opening balance	Depreciation	Sale, liquidation	Impact of exchange rate fluctuations	Allowance for tangible FA	Transfer to assets held for sale	Carrying amount
Land	-	-	-	-	-	-	66 219
Buildings	-425 538	-28 081	104	-344	-2 973	160	566 869
Movable tangible assets and their sets	-2 059 287	-248 823	136 170	-2 624	-1 858	17 484	1 425 351
Other tangible FA	-1 542	-185	18	-	-	-	5 321
Tangible FA under construction	-2 613	-2 072	-	-	180	-	36 628
Prepayments made for tangible FA	-4 080	-1 213	3 915	-	-718	-	8 088
Total 2018	**-2 493 060**	**-280 374**	**140 207**	**-2 968**	**-5 369**	**17 644**	**2 108 476**

Year ended 31 December 2017 with the opening balance as of 31 December 2016. Amounts in the table are presented in (CZK '000).

GROUP	Opening balance	Depreciation	Sale, liquidation	Impact of exchange rate fluctuations	Allowance for tangible FA	Closing balance	Carrying amount
Land	-	-	-	-	-	-	66 221
Buildings	-402 348	-24 829	9 513	926	-8 800	-425 538	549 150
Movable tangible assets and their sets	-1 977 422	-233 564	179 248	7 839	-35 388	-2 059 287	1 257 544
Other tangible FA	-1 348	-206	12	-	-	-1 542	5 464
Tangible FA under construction	-6	-2 324	6	-	-289	-2 613	51 686
Prepayments made for tangible FA	-	-4 080	-	-	-	-4 080	49 980
Total 2017	**-2 381 124**	**-265 003**	**188 779**	**8 765**	**-44 477**	**-2 493 060**	**1 980 045**

Depreciation includes depreciation relating to discontinued operations in the amount of CZK 41,830 thousand (2018: CZK 40,920 thousand, 2017: CZK 39,581 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 2019 includes depreciation of rights of use arising from lease contracts in the amount of CZK 12,732 thousand.

19. Inventories

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

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Material	321 616	401 624	403 676
Production in progress and semi-finished products	292 604	356 190	364 587
Finished products	943 122	859 449	840 743
Goods	187 618	141 863	132 043
Prepayments made for inventories	2 467	13 289	5 753
Total	**1 747 427**	**1 772 415**	**1 746 802**

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 includes pistols, rimfire rifles, centerfire rifles, semi-automatic rifles, semi-automatic carabines, submachine guns, assault rifles, battle rifles, sniper rifles and accessories.

20. Other Receivables

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

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Short-term prepayments made	22 509	17 437	25 573
Sundry receivables	72 605	44 011	39 331
Estimated receivables	17 733	12 196	186
Deferred expenses and accrued income	24 233	28 078	21 253
Total	**137 080**	**101 722**	**86 343**

21. Trade receivable

The aging structure and impairment losses recognized for short term trade receivables is as follows (CZK ‘000):

	31 Dec 2019				31 Dec 2018			31 Dec 2017		
	Receivables	***Out of which HM Arzenal – see below***	**Allowance**	**Net receivables**	**Receivables**	**Allowance**	**Net receivables**	**Receivables**	**Allowance**	**Net receivables**
Up to 3 months	561 012	*281 526*	-	561 012	456 753	-	456 753	379 745	-	379 745
3-6 months	157 215	*148 630*	61	157 154	120 272	-	120 272	2 606	-	2 606
6-12 months	198 037	*197 134*	404	197 633	7 898	6 280	1 618	1 730	1 369	361
More than 1 year	19 164	*0*	19 164	-	25 964	25 185	779	25 900	25 900	-
Total	**935 428**	*627 291*	**19 629**	**915 799**	**610 887**	**31 465**	**579 422**	**409 981**	**27 269**	**382 712**

The value of trade receivables past their due dates as of 31 December 2019 was CZK 669,779 thousand (2018: CZK 302,692 thousand, 2017: CZK 464,519 thousand).

As described in the Note 3.25, The Group used the simplified approach for short term trade receivables, whereby lifetime expected losses are recognised in all cases. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group’s historical credit loss experience. The Group recognises an allowance for short-term receivables in the amount of 50% of the value of the receivable for receivables more than 180 days past due and 100% of the value of the receivable for receivables more than one year past due. The expected credit losses of the remaining receivables are immaterial based on the Group’s analysis.

Receivables past their due dates as of 31 December 2019 include the Group’s receivables from HM Arzenal of CZK 579,986 thousand.

During 2020, the customer has settled EUR 12,000 thousand (CZK 304,920 thousand) of its outstanding payables. To ensure optimal management of the Group’s cash flows, the amount of EUR 12,680 thousand (CZK 322,371 thousand) not paid by 26 March 2020 was assigned to the parent company Česká zbrojovka Partners SE for its net book value on 26 March 2020. The parent company will settle the receivable within 20 days after signing the contract.

Due to the assignment and settlement of the receivable, the Group did not recognise an allowance against these receivables. Since the receivable is partially guaranteed by the Hungarian state, the risk of it remaining unpaid is minimal.

All other receivables were classified as financial assets valued at amortised cost. An allowance against receivables was recognised as of 31 December 2019 in the amount of the expected loss, as disclosed in note 20.1.

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 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

Receivables pledged in favour of the Group's creditors as of 31 December 2018 (CZK '000):

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s. by Česká zbrojovka a.s.	906 033	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Citizens Bank & Trust Company by CZ-USA	126 427	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 2017 (CZK '000):

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s. by Česká zbrojovka a.s.	696 220	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Citizens Bank & Trust Company by CZ-USA	150 606	Loan Agreement - Citizens Bank & Trust Company

* including receivables from related parties eliminated on consolidation

22. Long term receivables

Structure of long-term receivables in individual years is as follows (CZK '000):

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Receivables for subscribed share capital	1 510	1 755	1 800
Trade receivables	4 185	9 910	4 221
Receivables from shareholders	-	14 061	37 308
Long-term prepayments made	2 299	2 750	2 750
Accrued receivables	278	10 137	-
Sundry receivables	37 050	9 735	6 777
Total	**45 322**	**48 348**	**52 856**

For long-term receivables, impairment loss is determined as 12-month loss, unless the credit risk of the receivable deteriorates significantly. In such a case, losses are determined as lifetime expected losses until maturity. Indicators of increased credit risk primarily include violation of contractual terms and conditions. The Group did not recognize any impairment for long term receivables in 2019, 2018 and 2017.

23. Cash and cash equivalents

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

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cash on hand	5 305	4 883	3 950
Cash at bank	800 198	1 340 745	319 410
Total	**805 503**	**1 345 628**	**323 360**

As stated in Note 4, assets held for distribution to owners include 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.

24. Capital and funds

The share capital of the consolidating company comprises 29,838,000 ordinary registered shares. The shares are in the certificate form with a nominal value of CZK 0.1 per share.

The structure of capital funds is summarised in the table below. The item 'Other capital funds' principally includes capital funds of the parent company, representing differences from the revaluation of assets and liabilities and the shareholder's contributions that do not increase the share capital.

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Other comprehensive income	-205 558	-243 733	141 330
Other capital funds	1 738 676	1 637 287	1 637 287
Total	**1 533 118**	**1 393 554**	**1 778 617**

25. Other Payables

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

	31 Dec 2019	31 Dec 2018	31 Dec 2017
Short-term prepayments received	102 769	34 228	65 039
Liabilities – controlled or controlling entity outside of the CZG group	-	111 511	70 000
Payables to shareholders	6	7 121	2 136
Payables to employees	85 156	82 437	51 011
Payables arising from social security and health insurance	27 543	25 537	25 020
Accrued payables	28 919	126 211	13 154
Sundry payables	110 626	13 607	6 704
Accrued expenses and deferred income	39 368	30 554	18 940
Total	**394 387**	**431 206**	**252 004**

As of 31 December 2019, the Group recorded the following current liabilities, which were secured by the pledge or guarantee in favour of the creditor:

Trade payables	Amount	Currency	Maturity date	Description of collateral or guarantee
	1 000 000.00	CZK	28 Feb 2020	Customs guarantee - Czech Republic
	300 000.00	CZK	28 Feb 2020	Customs guarantee - Czech Republic
	8 926.10	USD	15 Feb 2020	Bank guarantee - Egypt
	29 930.00	USD	15 Feb 2020	Bank guarantee - Egypt
	19 043.00	USD	30 Mar 2020	Bank guarantee - Egypt
	52 658.00	USD	31 Aug 2021	Bank guarantee - Egypt
	6 142.50	USD	31 Aug 2021	Bank guarantee - Egypt
	13 122.80	USD	31 Aug 2021	Bank guarantee - Egypt
	18 525.00	EUR	30 Sep 2020	Bank guarantee - Rwanda
	24 812.40	USD	30 Sep 2020	Bank guarantee - Rwanda
	27 028.80	USD	30 Sep 2020	Bank guarantee - Rwanda
	200 000.00	EUR	20 May 2020	Bank guarantee - Hungary
	100 000.00	EUR	20 May 2020	Bank guarantee - Hungary
	100 000.00	EUR	20 May 2020	Bank guarantee - Hungary

As of 31 December 2018, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Trade payables	Amount	Currency	Maturity date	Description of collateral or guarantee
	1,000,000.00	CZK	28 Feb 2019	Customs guarantee – Czech Republic
	73,195.00	USD	31 Mar 2019	Bank guarantee - Jordan
	8,926.10	USD	15 Feb 2020	Bank guarantee - Egypt
	29,930.00	USD	15 Feb 2020	Bank guarantee - Egypt
	19,043.00	USD	30 Mar 2020	Bank guarantee - Egypt
	200,000.00	EUR	20 May 2020	Bank guarantee - Hungary
	37,984.30	USD	10 Apr 2019	Bank guarantee - Egypt
	100,000.00	EUR	20 May 2020	Bank guarantee - Hungary
	36,460.00	USD	15 Sep 2019	Bank guarantee - Egypt
	100,000.00	EUR	20 May 2020	Bank guarantee - Hungary

As of 31 December 2017, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Trade payables	Amount	Currency	Maturity date	Description of collateral or guarantee
	1,000,000.00	CZK	31 Jan 2018	Customs guarantee – Czech Republic
	37,984.30	USD	10 Apr 2018	Bank guarantee - Egypt
	38,460.00	USD	30 Sep 2018	Bank guarantee - Egypt

26. Bank Loans and Financial Borrowings

Intragroup loan recipients as of 31 December 2019, 31 December 2018 and 31 December 2017 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 20.1) or a pledge of equity investments. As of 31 December 2019, the Company used bank loans as follows (CZK ‘000):

				31 Dec 2019	31 Dec 2018		31 Dec 2017	
Bank	**Terms/ Conditions**	**Interest rate %**	**Aggregate limit as of 31 Dec 2019 (CZK '000)**	**Amount in CZK'000**	**Amount in a foreign currency ('000)**	**Amount in CZK'000**	**Amount in a foreign currency ('000)**	**Amount in CZK'000**
Komerční banka, a.s. a Česká spořitelna, a.s.	30. 9. 2021	1M Pribor + margin % p.a.		-	-	-	-	-
Issued bonds	27. 1. 2022	6M Pribor + margin % p.a.	2 250 000	2 250 000	-	2 250 000	-	1 500 000
Citizens Bank & Trust Company	30. 9. 2020	Prime lending rate % p.a.	135 726	-	-	-	-	-
Prima Banka Slovensko, a.s. - investment loan	31. 12. 2021	3M Euribor + % p.a.	61 740	-	-	-	1 350 EUR	34 471
Prima Banka Slovensko, a.s. - overdraft loan	Within 1 month from giving notice	1M Euribor + % p.a.	5 145	-	-	-	184 EUR	4 709
Česká spořitelna, a.s.	2. 5. 2018	3M/6M Pribor + margin % p.a.	-	-	-	-	-	9 275
Česká spořitelna, a.s.	30. 6. 2020	1D Pribor + margin % p.a.	40 000	36 958	-	32 253	-	15 984
Total			**2 492 611**	**2 286 958**	**-**	**2 282 253**	**-**	**1 564 439**
Current portion of long term debt				36 958		-		4 709
Long term portion of long term debt				2 250 000		2 282 253		1 559 730

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 1,500,000,000 by CZK 750,000,000. The total volume of CZK 2,250,000,000 is due in 2022 and Česká zbrojovka a.s. may call the bonds prematurely and buy them back for 100% of the nominal value a year before the final maturity, i.e. in 2021. The owners of these bonds will receive interest income. The interest period of the bonds is six months.

The relating interest expenses are part of the effective interest rate. As of 31 December 2019, they amounted to CZK 86,217 thousand, of which CZK 38,710 thousand includes outstanding interest expenses (2018: CZK 43,811 thousand, of which CZK 22,176 thousand includes outstanding interest expenses; 2017: CZK 31,385 thousand, of which CZK 13,693 thousand 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 2019, 31 December 2018 and 31 December 2017 was CZK 2,252,688 thousand, CZK 2,253,987 thousand and CZK 1,492,391 thousand, respectively.

Issued bonds bear a variable interest rate. Their fair value as of 31 December 2019, 31 December 2018 and 31 December 2017 did not substantially differ from their carrying amount.

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.

	Note	2 019	2 018	2017
Proceed from issued bonds	26	-	750 000	-
Repayment of loans Prima banka Slovensko	26	-	-39 180	-11 881
Net change in revolving loan from Česká spořitelna	26	4 705	6 994	11 762
Proceed/(repayment) of the loan from European Holding Company, SE		-125 000	21 500	-
Repayment of the loan from Česká zbrojovka Partners SE	25	-91 500	-	-
Proceed of the loan from Česká zbrojovka Partners SE	4	250 054	-	-
Change in payables from financing		38 259	739 314	-119

27. Leases from Lessee Perspective

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, printers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis.

The Group has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group had no contract classified as a finance lease under IAS 17 as of 1 January 2019.

The right of use asset is not reported separately in the statement of financial position but as part of *Property, plant and equipment*. Liabilities from lease contracts are reported separately as part of non-current and current finance lease payables.

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 18.3. respectively.

Total cash outflows arising from lease contracts amounted to CZK 15,367 thousand in 2019.

28. 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 2019	31 Dec 2018	31 Dec 2017
Short-term portion			
Cash and cash equivalents	805 503	1 345 628	323 360
Trade receivables	915 799	579 422	382 712
Financial derivatives held for trading	63 695	66 074	175 063
Financial derivatives used for hedge accounting	172 791	192 376	250 124
Current tax receivables	7 387	5 234	17 228
Other short-term receivables	112 845	73 644	65 090
Total	**2 078 020**	**2 262 378**	**1 213 577**
Long-term portion			
Other long-term receivables	45 322	48 348	52 856
Total	**45 322**	**48 348**	**52 856**

Financial liabilities	31 Dec 2019	31 Dec 2018	31 Dec 2017
Short-term portion			
Trade payables	284 906	323 711	312 637
Lease payables	6 173	2 910	2 844
Financial derivatives held for trading	86 416	18 160	42 969
Financial derivatives used for hedge accounting	252 836	552 039	73 302
Current tax payables	70 127	43 911	84 254
Other short-term payables	355 019	400 652	233 064
Short-term bank loans and overdrafts	36 958	32 253	29 968
Total	**1 092 435**	**1 373 636**	**779 038**
Long-term portion			
Lease payables	57 313	1 918	4 828
Other payables and Other long-term payables	905	125 899	126 642
Bank loans and borrowings	2 252 688	2 253 987	1 526 862
Total	**2 310 906**	**2 381 804**	**1 658 332**

Lease payables as of 31 December 2018 and 2017 include unpaid payables from operating leases under IAS 17.

29. 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). Accounting for hedging derivatives is described in details in the Note 3.28.1. The Group expects to continue its hedging activities in the future

29.1. Currency Contracts

Pursuant to the Group's decision, as of 31 December 2019, derivative instruments denominated in USD with the settlement date within 120 days will be reported as trading derivatives, depending on the maturity of hedged receivables denominated in USD.

As of 31 December 2018, derivative instruments denominated in USD with the settlement date within 100 days will be reported as trading derivatives, depending on the maturity of hedged receivables denominated in USD.

As of 31 December 2019 and 31 December 2018, derivative instruments denominated in EUR with the settlement date within 60 days will be 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 2019			31 Dec 2018			31 Dec 2017		
		Fair value			Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Put option	724 185	13 232	-	485 516	6 745	-	776 956	53 570	-
Call option	3 631 216	-	80 693	723 781	-	18 160	1 103 690	-	16 358
Currency swap	226 210	770	880	11 233	728	-	-	-	-
Forwards	576 681	3 308	4 843	288 973	10 949	-	347 053	81 492	26 611
Total	**5 158 292**	**17 310**	**86 416**	**1 509 503**	**18 422**	**18 160**	**2 227 699**	**135 062**	**42 969**

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 2019			31 Dec 2018			31 Dec 2017		
		Fair value			Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Put option	7 905 051	125 143	-	10 176 550	188 335	-	2 590 404	144 148	-
Call option	7 905 051	-	237 029	13 487 408	-	525 001	3 617 176	-	73 234
Currency swap	418 025	5 168	-	232 763	-	1 426	305 608	9 865	-
Forwards	3 011 931	424 80	15 807	1 800 750	4 041	25 612	2 064 675	96 111	68
Total	**19 240 058**	**172 791**	**252 836**	**25 697 471**	**192 376**	**552 039**	**8 577 863**	**250 124**	**73 302**

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 Options at the end of the reporting period

Open Currency Forwards	Average exchange rate			Foreign currency			Nominal value			Fair value		
USD	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 100 days (for trading) – SWAP	-	23,915	24,196	-	500	7 500	-	11 958	181 473	-	728	22 282
due within 100 days (for trading) - USD/EUR	-	1,105	-	-	10 000	-	-	9 048	-	-	9 417	-
due after 100 days (for hedging)	-	-	23,93	-	-	25 000	-	-	598 240	-	-	69 817
due after 100 days (for trading)	-	-	24,245	-	-	-	-	-	8 495	-	-	8 474
due after 100 days (for trading) - USD/EUR	-	-	1,105	-	-	10 000	-	-	9 048	-	-	24 251
due within 120 days (for trading) – SWAP	22,425	-	-	5 000	-	-	112 125	-	-	-880	-	-
due within 120 days (for trading)	22,434	-	-	21 000	-	-	471 104	-	-	-3 670	-	-
due after 120 days (for hedging) – SWAP	22,615	-	-	5 000	-	-	113 075	-	-	61	-	-
due after 120 days (for hedging)	22,956	-	-	65 750	-	-	1 509 367	-	-	22 493	-	-
due after 120 days (for trading) - USD/EUR	1,133	-	-	5 000	-	-	4 412	-	-	770	-	-
EUR	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 60 days (for trading)	25,979	26,354	25,665	4 000	2 500	-1 000	103 916	65 885	-25 665	2 135	1 532	-125
due after 60 days (for hedging)	26,272	26,281	26,405	60 000	70 000	60 000	1 576 293	1 839 668	1 584 383	4 180	-21 571	26 226
due after 60 days (for hedging) – SWAP	26,641	25,800	-	12 000	9 048	-	319 690	233 442	-	5 107	-1 425	-

Open Put Option	Average exchange rate			Foreign currency			Nominal value			Fair value		
USD	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 100 days (for trading)	-	22,605	24,053	-	1 000	12 400	-	22 605	298 260	-	163	34 137
due after 100 days (for hedging)	-	24,03	23,710	-	6 000	29 000	-	144 180	687 565	-	10 424	78 572
EUR	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 60 days (for trading)	25,897	-	-	12 500	-	-	323 713	-	-	5 785	-	-
due after 60 days (for hedging)	26,115	26,087	26,210	311 100	390 350	77 250	8 124 375	10 183 132	2 024 689	125 143	177 911	65 576
due after 60 days (for trading)	26,380	26,380	26,380	16 000	18 000	18 000	422 080	474 840	474 840	7 446	6 582	12 136

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		
USD	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 100 days (for trading)	-	25,500	24,295	-	1 300	16 200	-	33 150	393 576	-	-	-57
due after 100 days (for hedging)	-	24,513	24,011	-	7 800	37 400	-	191 198	898 011	-	-432	- 2 741
EUR	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
due within 60 days (for trading)	25,915	-	-	17 200	-	-	445 743	-	-	-688	-	-
due after 60 days (for hedging)	26,178	26,088	26,201	311 100	517 480	110 450	8 143 957	13 499 894	2 893 918	-237 029	-524 569	-70 493
due after 60 days (for trading)	26,477	26,380	26,380	125 705	27 000	27 000	3 328 327	712 260	712 260	-80 005	-18 160	-16 301

The table below shows maturity dates of individual currency swaps as of 31 December 2019, 31 December 2018 and 31 December 2017 based on their fair and nominal values:

		31 Dec 2019	
Aging structure	**Type of transaction**	**Fair value in CZK '000**	**Nominal value in CZK '000**
Less than 3 months	trading	4 873	1 275 798
	hedging	6 823	266 805
3-6 months	trading	111	613 086
	hedging	11 978	1 410 393
6-12 months	trading	81	853 298
	hedging	18 684	3 248 728
1-2 years	trading	-17 482	1 091 614
	hedging	12 915	5 318 992
2-3 years	trading	20 152	702 841
	hedging	-50 511	4 482 324
3-4 years	trading	-30 458	621 656
	hedging	-79 933	4 512 816
Total		**-102 767**	**24 398 351**

		31 Dec 2018	
Aging structure	**Type of transaction**	**Fair value in CZK '000**	**Nominal value in CZK '000**
Less than 3 months	trading	11 839	351 877
	hedging	-	-
3-6 months	trading	-	-
	hedging	11 416	2 789 008
6-12 months	trading	-	-
	hedging	-7 960	2 042 787
1-2 years	trading	-3 675	707 438
	hedging	-55 206	5 070 912
2-3 years	trading	-7 903	450 188
	hedging	-85 490	5 462 961
3-4 years	trading	47 652	1 200 000
	hedging	-108 215	5 249 444
4-5 years	trading	-	-
	hedging	-114 207	5 082 358
Total		**-311 749**	**28 406 975**

		31 Dec 2017	
Aging structure	**Type of transaction**	**Fair value in CZK '000**	**Nominal value in CZK '000**
3-6 months	trading	8 474	-
	hedging	95 030	1 059 204
6-12 months	trading	41 974	1 176 123
	hedging	63 533	865 488
1-2 years	trading	24 251	212 910
	hedging	31 390	1 419 296
2-3 years	trading	1 397	702 350
	hedging	-	-
3-4 years	trading	7 044	1 965 303
	hedging	-5 562	446 950
4-5 years	trading	-1 587	1 652 438
	hedging	-6 894	999 891
		259 050	**10 499 953**

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 thousand):

2019	**Volume of hedged sales**	**Change in the value of hedged sales since the inception of the hedge**	**Balance in cash flow hedge reserve**
	19 240 058	-138 400	-138 400
2018	**Volume of hedged sales**	**Change in the value of hedged sales since the inception of the hedge**	**Balance in cash flow hedge reserve**
	20 865 675	-321 144	-321 144
2017	**Volume of hedged sales**	**Change in the value of hedged sales since the inception of the hedge**	**Balance in cash flow hedge reserve**
	7 961 620	176 699	176 699

Given the nature of hedge relationship, the Group did not identify any source of ineffectiveness.

Changes in the fair value of hedging derivatives recognized in other comprehensive income and amount reclassified to profit or loss in respective years 2019, 2018 and 2017 can be analysed as follow:

2019	**Change in the fair value of hedging instruments**	**Recognized in OCI**	**Reclassified to profit or loss**
cash flow hedges of forecasted sales	279 617	182 744	96 873
2018	**Change in the fair value of hedging instruments**	**Recognized in OCI**	**Reclassified to profit or loss**
cash flow hedges of forecasted sales	-548 178	-497 843	-50 335
2017	**Change in the fair value of hedging instruments**	**Recognized in OCI**	**Reclassified to profit or loss**
cash flow hedges of forecasted sales	324 983	318 227	6 756

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:

	2019	**2018**	**2017**
1.1.	-321 144	176 699	-141 528
change in the fair value	279 617	-548 178	324 983
reclassified to profit or loss	-96 873	50 335	-6 756
31.12.	-138 400	-321 144	176 699

29.2. 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 (receipt of a variable interest rate)	Agreed fixed interest rate			Agreed principal			Fair value of payables			Fair value of receivables		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
	%	%	%	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000	CZK ‘000
Komerční banka, a.s.	0,6770	0,6770	0,6770	1 200 000	1 200 000	1 200 000	0	0	0	46 385	47 652	40 001

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 as held for trading. As of the end of the reporting period, these transactions are remeasured at fair value.

Changes in the fair values of derivatives held for trading are recognised through financial expenses, or income. All interest rate swaps are classified by the Group as held for trading. As of the balance sheet date, these transactions are remeasured at fair value.

29.3. Option Contracts

No motivational share programme has been implemented at the level of the Group. However, certain managers of Group companies, namely Česká zbrojovka a.s. and 4M SYSTEMS a.s., own shares of these two companies.

Specifically, 6,495 class B shares, i.e. 1.01% equity investment in Česká zbrojovka a.s., and 25 class B shares and 18 class C shares, i.e. 45,74% equity investment in 4M SYSTEMS a.s.

Class B shares of Česká zbrojovka a.s. are registered book-entry shares with the nominal value of CZK 700 per share. Holding these shares entails the right to payment of a profit share and other rights set by the law and the company’s articles of association. The managers of the Group owe the purchase price of these shares to CZG - Česká zbrojovka Group SE. In 2019, 14,275 class B shares were bought back from selected managers of the company and the related receivable was assigned by Česká zbrojovka a.s. to CZG – Česká zbrojovka Group SE.

In addition, 6 class C shares of 4M SYSTEMS a.s. were bought back by the company itself (treasury shares).

30. Risk Management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. 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 29. There were no significant changes in the Group's exposure to risky or its risk management in 2019, 2018 or 2017.

30.1. Currency Risk Management

The Group performs certain transactions denominated in a foreign currency, giving rise to the risk relating to exchange rate fluctuations. Exposure to exchange rate risks is governed by parameters approved based on currency forwards and options.

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 2019	31 Dec 2018	31 Dec 2017	31 Dec 2019	31 Dec 2018	31 Dec 2017
EUR	1 048	2 377	4 127	36 807	20 523	6 946
USD	1 486	1 039	484	17 893	14 604	537

30.2. 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 2019	31 Dec 2018	31 Dec 2017	31 Dec 2019	31 Dec 2018	31 Dec 2017
Profit	90 865	46 679	7 210	37 113	30 475	77 872

30.3. Interest rate risk management

The Group is exposed to the risk of interest rates changes as the Group borrows funds with variable interest rates. 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.

30.4. 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.

	Impact of changes in interest rates (CZK '000)		
	31 Dec 2019	31 Dec 2018	31 Dec 2017
Profit or loss +/-	11 250	8 333	7 698

30.5. 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. As a result of the current COVID 19 pandemic, the Group is carefully assessing the impact of the situation including the impact on its liquidity resources (see Note 34).

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 2019	Within 3 months	From 3 to 6 months	From 6 months to 1 year	1 - 5 years	More than 5 years	Carrying amount
Trade receivables	873 741	47 054	21 165	4 182	-	946 142
Long-term payables	-	-	-	-	-	-
Bank loans, bonds and overdraft loans	-	36 958	-	2 250 000	-	2 286 958
Finance lease payables	1 543	1 543	3 087	3 159	-	9 332
Trade payables	283 862	3 154	601	3 075	0	290 692

31 Dec 2018	Within 3 months	From 3 to 6 months	From 6 months to 1 year	1 - 5 years	More than 5 years	Total	Value transferred to assets held for sale	Carrying amount
Trade receivables	548 075	48 570	14 622	10 120	-	621 387	-590	620 797
Long-term payables	-	-	-	125 000	-	125 000	-	125 000
Bank loans, bonds and overdraft loans	13 346	-	-	2 295 880	-	2 309 226	-26 973	2 282 253
Finance lease payables	728	728	1 455	1 917	-	4 828	-	4 828
Trade payables	310 163	22 195	243	995	-	333 596	-9 885	323 711

31 Dec 2017	Within 3 months	From 3 to 6 months	From 6 months to 1 year	1 - 5 years	More than 5 years	Carrying amount
Trade receivables	347 387	60 970	9 076	2 795	-	420 228
Long-term payables	-	-	-	125 000	-	125 000
Bank loans, bonds and overdraft loans	4 709	-	-	59 730	1 500 000	1 564 439
Finance lease payables	748	748	1 238	4 938	-	7 672
Trade payables	299 836	12 275	-	526	-	312 637

The fair value of financial assets and financial liabilities approximates their carrying amount.

30.6. 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. Impairment losses are recognised using expected losses model based on historical data and management assessment of future development. As a result of the current COVID 19 pandemic, the Group is carefully assessing the impact of the situation on its customers (see Note 34).

31. Information on Related Parties

Services provided by key management personnel, defined as the directors of the company and senior management, were paid for by the parent company Česká zbrojovka Partners SE, and were not recharged to the company or its subsidiaries.

As of 31 December 2019, the Group had a long term loan of CZK 250,000 thousand from the parent company of the Group has been classified into liabilities related to assets held for distribution to owners.

During 2019, the parent company of the Group provided services to the Group companies in amount of CZK 40,005 thousand at arm's length principle. As of 31 December 2019, trade payables to the owner of the Group are in amount of CZK 5,504 thousand.

The Group had no other transactions or outstanding balance with related parties as of 31 December 2019.

32. Off Balance Sheet Commitments

As of 31 December 2019, the Group issued no guarantees in respect of third-party liabilities. As of 31 December 2018, the Group recorded option contracts, refer to Note 29.3.

As of 31 December 2019, the Group records no significant legal disputes where the Group acts as a defendant or investment, environmental and other off balance sheet commitments.

33. Net Earnings per Share

Basic and diluted earnings from continued operations per share were determined as follows:

	2019	2018	2017
Numerator (CZK '000)			
Profit after tax from continued operations attributable to the owner of the parent company	728 084	555 914	486 553
Profit after tax from discontinued operations attributable to the owner of the parent company	15 192	32 307	33 517
Denominator (average number of shares in CZK '000)			
Basic	29 838	29 838	29 838
Diluted	29 838	29 838	29 838
Net earnings per share (CZK/ share) from continued attributable to the owner of the parent company			
Basic	24	19	16
Diluted	24	19	16
Net earnings per share (CZK/ share) from discontinued attributable to the owner of the parent company			
Basic	1	1	1
Diluted	1	1	1
Net earnings per share (CZK/ share) attributable to the owner of the parent company			
Basic	25	20	17
Diluted	25	20	17

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. For calculating net earnings per share, the value of 29,838,000 shares was used.

34. Significant Events after the Reporting Period

On 2 January 2020, the production of components for automotive and aviation industry was spun off outside of the Group, a description of impacts on the Group is provided in Note 4.

As of 26 March 2020, the Group assigned receivables in the nominal value of EUR 12,680 thousand (CZK 349,334 thousand at the date of assignment) to Česká zbrojovka Partners SE. The selling price of the assigned receivables is equal to their nominal value.

In January 2020, a portion of 2,165 shares held by managers of Česká zbrojovka a.s. were transferred (the option programme is described in Note 27.3) to the Group.

After the end of the reporting period, the composition changed in some of the statutory or supervisory bodies of certain Group companies. These changes have no impact on the operation of the Group.

In addition, after the end of the reporting period CZG Tisem s.r.o.'s name changed to CZG-Česká zbrojovka Group International s.r.o.

Subsequent to 31 December 2019, there were developments of the coronavirus outbreak, COVID-19, which is expected to have substantial effects on global economic growth and to-date has caused significant volatility in global financial markets. Governments around the world have begun taking rapid and evolving action to response to the outbreak, including the enforcement of social distancing and mandatory closure of non-essential businesses, which will have profound effects on various industries. At the moment it is impossible to assess the longevity of the economic downturn.

As the outbreak of Covid-19 was occurred in Europe and the Americas in 2020, we have treated this as a non-adjusting subsequent event for the purpose of preparing these financial statements. As a result, the assets and liabilities as at 31 December 2019 have not been updated to reflect the potential uncertainty that arose in the first quarter of 2020, which could impact future accounting judgements made around inventory valuations, receivables collections, impairment considerations and tax.

The Group is carefully assessing the impact of the pandemic on all key stakeholders to ensure we addresses the risks adequately, especially towards:

a) our people – The Group considers the health and security of its employees as its top priority, and together with the employee representatives, the Group introduced in [March 2020] several targeted measures to minimise the risk of transmission and spread of the virus among its employees. Those measures include mass purchase of veils and face masks plus disinfection and hand sanitisers. Additionally, the working groups and shifts were adjusted in order to decrease the density of workers at the workplace.
b) supply chain – The Group has maintained ongoing communication with key suppliers and supplier groups to understand the evolving impact of the outbreak on the Group's supply chain with an effort to ensure continuous availability of key parts. As available, the Group introduced stockpiling of key items. However, the development of the situation could create disruptions to our supply chain, specifically the availability of products if suppliers are forced to close or if supplier employees are precluded or limited from working.
c) customers – The Group has been working with its key customers to streamline delivery logistics and accelerate cash collections in order to prevent cash conversion cycle prolongation.

The Group's management, having considered all information available and measures adopted by the date of the issuance of this consolidate financial statements, 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.

With regards to the demand for the Group's product portfolio, the Group is unable to estimate the impact COVID-19 will have on its financial results at this time.

Nevertheless, it is clear that the current COVID-19 pandemic and its potential impact on the global economy may potentially have effects on our ability to meet our internal financial targets and budgets. However, it is too early for us to predict the magnitude of impacts on our business or our financial performance at this stage.

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