

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

**Name of the Company:** CZG - Česká zbrojovka Group SE

**Registered Office:** Opletalova 1284/37, Nové Město, 110 00 Praha 1

**Legal Status:** Joint Stock Company/Limited Liability Company

**Corporate ID:** 291 51 961

**Components of the Consolidated Financial Statements:**

**Consolidated Profit and Loss Account**

**Consolidated Balance Sheet**

**Consolidated Statement of Changes in Equity**

**Consolidated Cash Flow Statement**

**Notes to the Consolidated Financial Statements**

**These consolidated financial statements were prepared on 20 January 2021.**

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER**

		30 Sep 2020	30 Sep 2019*
	Note	CZK '000	CZK '000
<b>Continued operations</b>			
Revenues from the sale of own products, goods and services	8	4 964 212	4 502 695
Other operating income		89 294	130 320
Changes in inventories of finished goods and works in progress		-135 590	61 753
Own work capitalised		91 226	73 024
Raw materials and consumables used		-2 251 592	-2 251 126
Services		-693 888	-648 770
Personnel costs		-935 492	-790 786
Depreciation and amortization		-291 709	-278 856
Other operating expenses	9.1.	-20 806	-57 830
<b>Operating profit</b>		<b>815 655</b>	<b>740 424</b>
Interest income		14 176	20 325
Interest expense		-81 011	-64 733
Other financial income	9.1.	378 795	202 404
Other financial expenses	9.1.	-544 480	-190 261
Share in the profit of associates		10 730	161
<b>Profit before tax</b>		<b>593 865</b>	<b>708 320</b>
Income tax	9.2.	-116 350	-152 056
<b>Profit for the period from continued operations</b>		<b>477 515</b>	<b>556 264</b>
<b>Discontinued operations</b>			
<b>Post-tax profit from discontinued operations</b>		<b>0</b>	<b>19 250</b>
<b>Post-tax profit for the period</b>		<b>477 515</b>	<b>575 514</b>
<b>Items that may be subsequently reclassified to the statement of profit or loss</b>			
Cash Flow Hedges - remeasure of effective portion of hedging instruments		-100 225	-99 229
Foreign currency translation of foreign operations		-2 253	24 867
<b>Other comprehensive income:</b>		<b>-102 478</b>	<b>-74 362</b>
<b>Comprehensive income for the period</b>		<b>375 037</b>	<b>501 152</b>
<b>Profit attributable to owner of the parent</b>			
Profit for the period from continued operations		472 966	537 247
Profit for the period from discontinued operations		0	19 250
Profit for the period attributable to owner of the parent		472 966	556 497
<b>Profit attributable to non-controlling interests</b>			
Profit for the period from continued operations		4 549	19 017
<b>Total comprehensive income for the period attributable to:</b>			
Shareholder of the parent company		371 133	483 868
Non-controlling interests		3 904	17 284
<b>Net earnings per share attributable to the owner of the parent company (CZK per share)</b>			
Basic	19	16	19
Diluted	19	16	19

*\*All comparative amounts for period ended 30 September 2019 have been restated to reflect the reclassification of discontinued operations (see Note 7).*

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2020

	Note	30 Sep 2020 CZK '000	31 Dec 2019 CZK '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	1 999 477	1 994 748
Intangible assets	10	779 860	834 242
Long-term receivables		291 505	45 322
Equity-accounted securities and investments	15	100 372	17 160
Deferred tax asset		0	1 464
Goodwill		280 686	280 686
<b>Total non-current assets</b>		<b>3 451 900</b>	<b>3 173 622</b>
<b>Current assets</b>			
Inventories	12	1 714 758	1 747 427
Trade receivables		733 962	915 799
Current tax receivables		21 624	7 385
Other receivables		162 893	137 080
Financial derivatives	16	285 566	236 486
Cash and cash equivalents		1 166 354	805 503
Assets held for sale and for distribution to owners	7	0	525 273
<b>Total current assets</b>		<b>4 085 157</b>	<b>4 374 953</b>
<b>Total assets</b>		<b>7 537 057</b>	<b>7 548 575</b>
<b>EQUITY AND PAYABLES</b>			
<b>Capital and funds</b>			
Share capital		2 984	2 984
Capital funds		1 431 285	1 533 118
Accumulated profits		1 836 988	1 921 501
<b>Equity attributable to the shareholder of the Company</b>		<b>3 271 257</b>	<b>3 457 603</b>
Equity attributable to the shareholder of the Company		3 271 257	3 457 603
Non-controlling interests		1 822	11 358
<b>Total equity</b>		<b>3 273 079</b>	<b>3 468 961</b>
<b>Non-current liabilities</b>			
Bank loans and borrowings		2 252 645	2 252 688
Lease payables		57 165	57 313
Deferred tax liability		223 877	248 033
Provisions	13	6 450	25 053
Other long-term payables		3 551	905
<b>Total Non-current liabilities</b>		<b>2 543 688</b>	<b>2 583 992</b>
<b>Current liabilities</b>			
Trade payables		463 179	284 906
Short-term bank loans and overdrafts	14	71 370	36 958
Lease payables		5 581	6 173
Provisions	13	60 984	45 837
Current tax payables		132 850	70 127
Other payables		311 495	394 387
Financial derivatives	16	674 831	339 252
Liabilities related to assets held for sale and for distribution to owners	7	0	317 982
<b>Total Current liabilities</b>		<b>1 720 290</b>	<b>1 495 622</b>
<b>Total liabilities</b>		<b>4 263 978</b>	<b>4 079 614</b>
<b>Total liabilities and equity</b>		<b>7 537 057</b>	<b>7 548 575</b>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER

	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
<b>Balance at 31 December 2018</b>	<b>2 984</b>	<b>1 393 554</b>	<b>1 884 709</b>	<b>3 281 247</b>	<b>28 128</b>	<b>3 309 375</b>
Profit for the period from continued operations			575 514	575 514	19 017	594 531
Profit for the period from discontinued operations			0	0		0
Other comprehensive income		-71 952		-71 952	-2 410	-74 362
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>-71 952</b>	<b>575 514</b>	<b>503 562</b>	<b>16 607</b>	<b>520 169</b>
Dividends			-560 000	-560 000	-13 977	-573 977
Transactions under common control			-145 363	-145 363		-145 363
Change in non-controlling interests and treasury holdings			23 714	23 714	14 336	38 050
<b>Balance at 30 September 2019</b>	<b>2 984</b>	<b>1 321 602</b>	<b>1 778 574</b>	<b>3 103 160</b>	<b>45 094</b>	<b>3 148 254</b>
<b>Balance at 31 December 2019</b>	<b>2 984</b>	<b>1 533 118</b>	<b>1 921 501</b>	<b>3 457 603</b>	<b>11 358</b>	<b>3 468 961</b>
Profit for the period from continued operations			472 966	472 966	4 549	381 963
Profit for the period from discontinued operations			0	0		0
Other comprehensive income		-101 833		-101 833	-645	-102 478
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>-101 833</b>	<b>472 966</b>	<b>371 133</b>	<b>3 904</b>	<b>375 037</b>
Dividends			-328 218	-328 218	-4 049	-332 267
Transactions under common control			-207 291	-207 291		-207 291
Change in non-controlling interests and treasury holdings			-21 970	-21 970	-9 391	-31 361
<b>Balance at 30 September 2020</b>	<b>2 984</b>	<b>1 431 285</b>	<b>1 836 988</b>	<b>3 271 257</b>	<b>1 822</b>	<b>3 273 079</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER

	Note	30 Sep 2020 CZK '000	30 Sep 2019 CZK '000
<b><i>Cash flows from principal economic activity (operating activity)</i></b>			
Profit from ordinary activity before tax		583 135	731 857
Depreciation/amortization of non-current assets		291 709	314 332
Change in allowances and provisions	13	-101 664	17 038
Loss from the sale of non-current assets		-389	-405
Interest expense and interest income		66 835	48 048
Adjustments for other non-cash operations (write off on assets and inventories, unrealised foreign exchange gains/losses, remeasurement of derivative transactions)		108 879	-136 699
<b>Net cash flow from operating activities before changes in working capital</b>		<b>948 505</b>	<b>974 171</b>
<b>Change in working capital</b>		<b>393 535</b>	<b>-578 048</b>
Change in receivables and deferred expenses/ accrued income		178 301	-168 795
Change in payables and accrued expenses/ deferred income		-23 953	-167 584
Change in inventories	12	239 187	-241 669
<b>Cash generated by operations</b>		<b>1 342 040</b>	<b>396 123</b>
Interest paid		-87 888	-75 177
Interest received		8 631	20 657
Income tax paid for ordinary activity	9.2.	-169 474	-160 177
<b>Net cash flow from operating activities</b>		<b>1 093 309</b>	<b>181 426</b>
<b><i>Cash flows from investing activities</i></b>			
Acquisition of non-current assets	11, 12	-213 932	-144 426
Income from the sale of non-current assets		867	405
Acquisition of subsidiaries		-	-164 293
Income from the sale of subsidiaries		-	-1 114
Acquisition of investment in an associate	15	-69 823	-
<b>Net cash flow from investing activities</b>		<b>-282 888</b>	<b>-309 428</b>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from issued bonds		-	-
Repayments of loans and borrowings	14	-250 054	-216 500
Proceeds from loans and borrowings	14	34 412	61 977
Dividends paid to shareholders	17	-328 218	-560 000
Dividends paid to non-controlling interests		-4 049	-13 977
<b>Net cash flow from financing activities</b>		<b>-547 909</b>	<b>-728 500</b>
<b>Net change in cash and cash equivalents</b>		<b>286 039</b>	<b>-850 083</b>
<b>Opening balance of cash and cash equivalents</b>		<b>880 315</b>	<b>1 345 628</b>
Effects of exchange rate changes on cash and cash equivalents		23 527	6 419
<b>Closing balance of cash and cash equivalents</b>		<b>1 166 354</b>	<b>495 545</b>

**CZG - Česká zbrojovka Group SE**  
**Condensed Consolidated Interim Financial Statements for the 9 Months Period Ended 30**  
**September 2020 prepared under International Financial Reporting Standards as Adopted by the**  
**European Union**

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## 1. GROUP DESCRIPTION

CZG - Česká zbrojovka Group SE, (hereinafter the “Consolidating Entity” or the “Company” or the “Parent Company”) is a European 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.

CZG - Česká zbrojovka Group SE is a leading European producer of firearms and tactical accessories for military and law enforcement, personal defense, hunting, sport shooting and other civilian uses. Its products are marketed and sold under the Česká zbrojovka, CZ-USA, Dan Wesson, Zbrojovka Brno and 4M SYSTEMS brands.

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

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

The majority owner of the Consolidating Entity is 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 statutory bodies as of 30 September 2020:

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

The consolidation group (hereinafter the “Group”) comprises the Group and its subsidiaries.

Information in these condensed consolidated financial statements is presented in thousands of Czech crowns (CZK ‘000) if not stated otherwise.



As of 30 September 2020, the Group was composed of the following entities:

Entity	Principal activity	Place of foundation and business operation	Consolidation method	Share of the Group in Equity		
				30 Sep 2020	31 Dec 2019	30 Sep 2019
CZG - Česká zbrojovka Group SE	Holding company	Prague, Czech Republic	full	100%	100%	100%
CZ US Holdings, Inc.	Holding company	Kansas City, USA	full	100%	100%	100%
CZ-USA	Purchase and sales of firearms and ammunition	Kansas City, USA	full	100%	100%	100%
CZ-MFG, Inc.	Production	Little Rock, USA	full	100%	100%	-
EHC 4 M, SE	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	54%	54%	54%
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	99%	99%	98%
Česká zbrojovka CZ-AUTO a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	-	99%	98%
CZ - Slovensko s. r. o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	99%	99%	98%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	99%	99%	98%
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49%	49%	48%
Latin America Holding, a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	99%	99%	98%
CARDAM s.r.o.	Research and Development Center	Dolní Břežany, Czech Republic	equity	33%	33%	32%
CZG VIB s.r.o.	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
VIBROM s.r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25%	25%	25%
CZG- Česká zbrojovka Group International s.r.o. (renamed CZG Tisem s.r.o.)	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
CZ-AUTO SYSTEMS a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	-	100%	100%
CZ Export Praha, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%	100%
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%	20%
Spuhr i Dalby AB	Production of scope mounts	Löddeköpinge, Sweden	equity	25%	-	-

## 2. SIGNIFICANT EVENTS IN THE CURRENT REPORTING PERIOD

The financial position and financial performance of the Group were affected by the following events and transactions on a one-off basis:

- 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 7 to the Consolidated financial statements for the year ended 31 December 2019.
- As of 31 December 2019, the Group had reported receivables past their due dates of CZK 579,986 thousand from HM Arzenal. The concerned receivables were fully collected by 30 September 2020.
- Since March 2020, the global economy was affected by the COVID 19 pandemic. The rapid spread of COVID-19 has resulted in authorities implementing numerous measures to try to contain COVID-19 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 nine months of 2020 and since the COVID-19 outbreak and the start of civil unrest in May 2020, demand in the USA has increased significantly in comparison with 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 during the spring wave of COVID 19 pandemic from and/or to key markets of the Group, the Group had to switch from using the excess cargo capacity of passenger air flights to more costly specialized cargo plane flights. Consequently, the cost of transportation of the Group's products has increased substantially temporarily as the situation stabilized since.

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. The Group has managed to operate efficiently and safely even during the government lockdown restrictions, but 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.

Despite the Group has experienced interruptions to its supply chain, it did not cause significant disruptions to production as the Group has pre-emptively stocked higher level of inventories of parts, but if these or other interruptions are long-lasting or spread to a wider supplier base, this could cause shortages in certain materials, parts and labor supplies.

The COVID-19 crisis also heavily influenced foreign exchange markets developments and as a result CZK has depreciated against both EUR and USD which impacted mark-to-market value of the Group's hedging instruments and thus negatively impacted the Group's P/L and Group's Equity level.

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.

- A dividend payable to the owner in the amount of CZK 328,218 thousand was approved and paid during the current reporting period.
- In May 2020, the Group acquired a 25 % share in the Swedish company Spuhr i Dalby AB. Further details about the transaction are provided in Note 15.
- With effect from 1 June 2020, the shares of CZG – Česká zbrojovka Group SE have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares. During September 2020, the Group finalized its IPO and as of 2 October 2020, its shares are traded on the Prime Market of the Prague Stock Exchange with a free float of slightly above 9%.

### **3. BASIC PRINCIPLES OF PREPARATION OF NINE-MONTHS REPORT**

These condensed interim consolidated financial statements for the nine-months ended 30 September 2020 have been prepared in line with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements do not include all the notes normally included in the annual financial statements. Accordingly, the condensed interim consolidated financial statements have to be read together with the consolidated financial statements for the year ended 31 December 2019, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the most recent annual financial statements. A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

## 5. ESTIMATES AND SOURCES OF UNCERTAINTY

During the preparation of the condensed interim consolidated financial statements, the Group's management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. The actual results may differ from these estimates. Further to this, The Group's future business may be adversely impacted by factors out of the Group's control. In the preparation of these condensed interim consolidated financial statements, the significant judgements made by the management and the key sources of uncertainty in making estimates were the same as those used in the consolidated financial statements for the year ended 31 December 2019.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities give rise to many financial risks: market risk, credit risk and liquidity risk. The condensed interim consolidated financial statements do not include all the financial information on risk management and other information required in annual consolidated financial statements and they should be assessed together with the annual consolidated financial statements of the Group as of 31 December 2019. No changes in the rules and policies of managing these risks have been made since the end of 2019.

The Group uses financial derivatives to manage financial risks. The method of measurement of financial derivatives and information on the fair value of financial assets and liabilities as of 30 September 2020 and 31 December 2019 are disclosed in Note 16 Financial Assets and Liabilities at Fair Value.

## 7. ASSETS AND LIABILITIES HELD FOR DISTRIBUTION TO OWNERS AND DISCONTINUED OPERATIONS

In 2019, the Group owner decided to spin-off the production of automotive and aviation components outside the Group. As of 31 December 2019, the spin-off assets and liabilities were reported as assets and liabilities held for distribution to owners and discontinued operations under IFRS 5. The spin-off assets and liabilities were reported at their carrying value. The spin-off activity was classified as discontinued operation as it represented a significant segment for the Group, which is transferred outside of the Group with no consideration received. The spin-off was completed in January 2020.

The carrying amount of assets held for distribution to owners as of 31 December 2019 was CZK 525,273 thousand, the carrying value of the liabilities relating to these assets amounts to CZK 317,982 thousand. Completion of the transaction led to a decrease in equity in amount of CZK 207,291 thousand in the nine-months period to 30 September 2020 (see also Condensed consolidated statement of changes in equity).

Comparative amounts related to discontinued operations were restated for the nine-months period ended 30 September 2019 for the reclassification of discontinued operations. Profit from discontinued operations recognized item in the profit or loss and other comprehensive income for the nine-months period ended 30 September 2019 was comprised:

<b>Discontinued operation</b>	<b>30 Sep 2019</b>
	<b>CZK '000</b>
Revenues from the sale of own products, goods and services	357 719
Other operating income	14 075
Changes in inventories of finished goods and works in progress	27 492
Raw materials and consumables used	-190 229
Services	-49 290
Personnel costs	-97 533
Depreciation and amortization	-26 170
Other operating expenses	-7 127
<b>Operating profit</b>	<b>28 937</b>
Interest income	333
Interest expenses	-3 954
Other financial income	812
Other financial expenses	-850
<b>Profit before tax</b>	<b>25 278</b>
Income tax	-4 803
<b>Profit for the period from discontinued operations</b>	<b>20 475</b>

The impact of discontinued operations on the individual categories of cash flows for the nine-months period ended 30 September 2019 were as follows: cash flow from operating activities CZK 74,515 thousand, cash flow from investment activities CZK 31,372 thousand and cash flow from financing activities CZK 3,954 thousand.

## 8. SEGMENT AND REVENUE INFORMATION

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 the consolidated financial statement for the year ended 31 December 2019, the production of components for the automotive and aviation industry represented discontinued operations as of 31 December 2019 and aggregate financial information relating to the previously identified reportable segment is reported separately for the nine-months period ended 30 September 2019 in Note 7.

As of 30 September 2020, the Production, Purchase and Sale of Firearms and Accessories represents the only activity of the Group and related revenues and expenses represent substantially all revenues and expenses of the Group.

However, the Group might have revenues (and related expenses) from transactions not reported to the management as part of the Production, Purchase and Sale of Firearms and Accessories (such as revenues from non-firearms related production on temporarily available production capacities of the Group). Such activities do not represent a reportable operating segment and the results of these operations are reported in the "Other" column.

As of 30 September 2020, and 31 December 2019, substantially all assets and liabilities related 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 Amortization) as the segment performance measure in deciding how to allocate resources and in assessing performance. The segment performance measure and related information presented is based on IFRS measurement and recognition principles.

Revenues and profit by individual segments as of 30 September 2020 (in CZK '000):

	<b>Production, purchase and sale of firearms and accessories</b>	<b>Other</b>	<b>Total</b>
Revenues from the sale of own products, goods and services	4 870 473	93 739	4 964 212
Profit before Interest, Taxes, Depreciation and Amortization (EBITDA)	940 282	12 127	952 409
Depreciation and amortization	286 138	5 571	291 709
Profit before Interest and Taxes (EBIT)	654 144	6 556	660 700
Interest income and interest expense	65 169	1 666	66 835
Profit before Taxes (EBT)	588 975	4 890	593 865

Revenues and profit by individual segments as of 30 September 2019 (in CZK '000):

	<b>Production, purchase and sale of firearms and accessories</b>	<b>Other</b>	<b>Total</b>
Revenues from the sale of own products, goods and services	4 440 637	62 058	4 502 695
Profit before Interest, Taxes, Depreciation and Amortization (EBITDA)	1 021 708	9 876	1 031 584
Depreciation and amortization	275 604	3 252	278 856
Profit before Interest and Taxes (EBIT)	746 104	6 624	752 728
Interest income and interest expense	43 181	1 227	44 408
Profit before Taxes (EBT)	702 923	5 397	708 320

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

	Sales to external customers	
	30 Sep 2020	30 Sep 2019
Czech Republic (home country)	219 056	953 608
USA	3 470 749	2 335 462
Europe (outside of the Czech Republic)	602 630	705 657
Africa	217 511	74 411
Asia	306 174	182 784
Other	148 092	250 773
<b>Total</b>	<b>4 964 212</b>	<b>4 502 695</b>

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 1,999,477 thousand as of 30 September 2020 (31 December 2019: CZK 1,994,748 thousand), the value of items located in the USA is CZK 207,592 thousand as of 30 September 2020 (31 December 2019: CZK 230,976 thousand), the remainder is in the Czech Republic. No material intangibles were located outside the Czech Republic; also, goodwill relates to Czech operations only.

## 9. PROFIT AND LOSS INFORMATION

### 9.1 Significant events and transactions

- Loss on financial derivatives: The Group manages its exposure to currency and interest rate risk by using derivative instruments. As not all of the derivatives are accounted for as hedging instruments, the amount of financial expenses was impacted by the decrease in fair value of open financial derivatives. In the nine-months ended 30 September 2020, the Group has recognized a loss from derivative instruments in other financial expenses in amount of CZK 303,484 thousand (CZK 167,204 thousand in the nine-months period ended 30 September 2019). In the nine-months period ended 30 September 2020, the Group has recognized a gain from derivative instruments in other financial income in amount of CZK 100,939 thousand (CZK 139,470 thousand in the nine-months period ended 30 September 2019). Further to this, the Group has recognized in other comprehensive income a loss of CZK 100,225 thousand from the remeasurement of financial derivatives designated as hedging instruments (CZK 99,229 thousand in the nine-months period ended 30 September 2019).
- IPO costs and listing costs: with effect from 1 June 2020, the shares of CZG – Česká zbrojovka Group SE have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing; the technical listing was followed by public offering of the shares completed in October 2020. The IPO costs and listing costs, including mainly legal and other advisory services, amounted to CZK 36,795 thousand in the nine/months period ended 30 September 2020.
- The Other operating expenses also represent release of allowances, which is effectively causing income.

## 9.2 Income tax

Income tax expense is recognized based on the estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate for the nine-months ended 30 September 2020 is 19.6 % (30 September 2019: 21.5 %).

## 10. INTANGIBLE ASSETS

The following tables summarize the changes in intangible assets from 1 January 2020 to 30 September 2020:

### Cost

GROUP	Opening	Additions	Disposals	Impact of exchange rate fluctuations	Closing balance
Trademark and logos	233 000	-	-	-	233 000
Research and development	215 134	32 243	-33	-	247 344
Software	192 475	1 388	-161	-	193 702
Licenses, patents and other valuable rights	61 628	180	-	-	61 808
Contractual customer relations	864 727	-	-	-	864 727
Other intangible fixed assets	71 005	2 090	-275	431	73 251
Intangible fixed assets under construction	29 653	22 654	-13 293	-	39 014
Prepayments made for intangible fixed assets	420	-	-420	-	-
<b>Total</b>	<b>1 668 042</b>	<b>58 522</b>	<b>-14 149</b>	<b>431</b>	<b>1 712 846</b>

### Accumulated depreciation and carrying value

GROUP	Opening balance	Amortization	Disposals	Impact of exchange rate fluctuations	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	233 000
Research and development	-127 809	-17 016	-	-	-144 825	102 519
Software	-141 443	-9 499	161	-	-150 781	42 921
Licenses, patents and other valuable rights	-30 727	-3 737	-	-	-34 464	27 344
Contractual customer relations	-497 218	-64 855	-	-	-562 073	302 654
Other intangible fixed assets	-34 826	-2 623	275	-319	-37 493	35 758
Intangible fixed assets under construction	-1 777	-1 941	368	-	-3 350	35 664
Prepayments made for intangible fixed assets	-	-	-	-	-	-
<b>Total</b>	<b>-833 800</b>	<b>-99 671</b>	<b>804</b>	<b>-319</b>	<b>-932 986</b>	<b>779 860</b>

The Group's management has considered and assessed all assumptions used in determining the value-in-use calculations of the recoverable amount of the cash generating unit to which goodwill and intangible assets with indefinite useful lives belong. The Group's management has concluded its assumptions as disclosed in the most recent annual financial statements are still appropriate and that there is no indication of the impairment.



## 11. PROPERTY, PLANT AND EQUIPMENT

The following tables summarize the changes in property, plant and equipment from 1 January 2020 to 30 September 2020:

### Cost

GROUP	Opening balance	Additions	Disposals	Impact of exchange rate fluctuations	Closing balance
Land	120 373	-	-	1 479	121 852
Buildings	1 053 878	2 258	-279	1 019	1 056 876
Machinery, instruments and equipment	2 957 990	168 888	-113 851	3 506	3 016 533
Other tangible fixed assets	40 069	84	-39	899	41 013
Tangible fixed assets under construction	76 014	196 738	-145 610	1 079	128 221
Prepayments made for tangible fixed assets	58 054	74 011	-77 578	2 578	57 065
<b>Total</b>	<b>4 306 378</b>	<b>441 979</b>	<b>-337 357</b>	<b>10 560</b>	<b>4 421 560</b>

### Accumulated depreciation and carrying value

GROUP	Opening balance	Depreciation	Sales, liquidation	Impact of exchange rate fluctuations	Closing balance	Carrying amount
Land	-	-	-	-	-	121 852
Buildings	-485 403	-27 562	870	-308	-512 403	544 473
Machinery, instruments and equipment	-1 811 981	-162 907	80 618	-1 386	-1 895 656	1 120 877
Other tangible fixed assets	-1 851	-112	19	-	-1 944	39 069
Tangible fixed assets under construction	-9 191	-1 192	710	-	-9 673	118 548
Prepayments made for tangible fixed assets	-3 204	-265	1 062	-	-2 407	54 658
<b>Total</b>	<b>-2 311 630</b>	<b>-192 038</b>	<b>83 279</b>	<b>-1 694</b>	<b>-2 422 083</b>	<b>1 999 477</b>

Machinery, instruments and equipment and Buildings as of 30 September 2020 include rights of use resulting from lease contracts in the amount of CZK 111,623 thousand (CZK 102,297 thousand as of 31 December 2019). Additions to the rights of use resulting from lease contracts amounted to CZK 6,793 thousand in 2020 (CZK 68,396 thousand in 2019). These namely include lease contracts for warehouses and office space, cars and office technical equipment.

Depreciation for the nine-months period ended 30 September 2020 includes depreciation of rights of use arising from lease contracts in the amount of CZK 11,057 thousand (CZK 12,732 thousand in 2019).

## 12. INVENTORIES

The structure of inventories as of 30 September 2020 and 31 December 2019 is as follows (in CZK '000):

	30 Sep 2020	31 December 2019
Material	324 994	321 616
Production in progress and semi-finished products	323 036	292 604
Products	821 028	943 122
Goods	237 497	187 618
Prepayments made for inventories	8 203	2 467
<b>Total</b>	<b>1 714 758</b>	<b>1 747 427</b>

The valuation of redundant, obsolete and slow-moving inventories is decreased to the selling price net of the costs of sale. As of 30 September 2020, impairment losses included in inventories on the statement of financial position amounted to CZK 146,499 thousand (31 December 2019: CZK 197,314 thousand). In the nine-months period ended 30 September 2020, an impairment loss of CZK 54,518 thousand was released to the profit and loss (CZK 19,752 thousand in the nine-months period ended 30 September 2019 was created).

## 13. CURRENT AND NON-CURRENT PROVISIONS

Provisions	Balance at 30 Sep 2020	Balance at 31 Dec 2019
Legal disputes	-	2 600
Warranty repairs	13 526	11 206
For outstanding vacation days	19 538	1 892
For employee benefits – bonuses	27 916	30 128
Other	4	11
<b>Total current provisions</b>	<b>60 984</b>	<b>45 837</b>
Legal disputes	-	17 000
Warranty repairs	761	761
For outstanding vacation days	-	-
For employee benefits – bonuses	5 689	6 299
Other	-	993
<b>Total non-current provisions</b>	<b>6 450</b>	<b>25 053</b>
<b>Total provisions</b>	<b>67 434</b>	<b>70 890</b>

In the period ended 30 September 2020, net decrease in provisions amounted to CZK 3,456 thousand (30 September 2019: net increase CZK 14,316 thousand).

The provision for a legal dispute amounting to CZK 19,600 thousand as of 31 December 2019 was released as the dispute was settled.

#### 14. BORROWINGS

The Group obtained a financial borrowing of CZK 250,000 thousand from parent company Česká zbrojovka Partners SE in 2019, which was attributed to liabilities held for distribution to owners and discontinued operations. This borrowing was repaid as of 30 September 2020 and as a result of the Group has a financial receivable in the amount of CZK 250,000 thousand from the spun off segment of production of components for automotive and aviation industry.

The Group obtained financial borrowings of CZK 34,412 thousand from banks in the nine-months period ended 30 September 2020.

The cash flow statement for the nine-months period ended 30 September 2020 shows net impact on the item line Proceeds from loans and borrowings of the described effects above as the cash flow statement for the nine-months period ended 30 September 2019 and year ended 31 December 2019 is not restated for discontinued operations, see note 7.

#### 15. INTEREST IN ASSOCIATES

In May 2020, the Group has purchased a 25 % share in Spuhr i Dalby AB, a Swedish manufacturer of optical solutions for a consideration of CZK 69,823 thousand. At the date of the transaction, the carrying amount of the Group's interest in the associate could be summarized as follows:

	<b>6 May 2020</b>
	<b>CZK '000</b>
Net assets of the associate	218 263
Proportion of the Group's interest (25%)	54 566
Goodwill	15 257
<b>Carrying amount</b>	<b>69 823</b>

The carrying amount of all equity-accounted investments has changed as follows in the nine-months period ended 30 September 2020.

	<b>30 Sep 2020</b>
	<b>CZK '000</b>
Beginning of the period	17 160
Purchase of share in Spuhr i Dalby	69 823
Share on profit/ (loss) of equity accounted investments	10 730
Other	2 659
<b>End of the period</b>	<b>100 372</b>

The table below provides aggregated financial information about the Group's share on affiliates current and non-current assets, current and non-current liabilities, revenue and profit from continuing operations as of 30 September 2020 and for the nine-months period ended 30 September 2020.

	<b>30 Sep 2020</b>
	<b>CZK '000</b>
Current assets	51 902
Non-current assets	68 378
Current liabilities	10 628
Non-current liabilities	30 083
Revenue	42 155
Profit from continuing operations	10 730

The Group had no significant transactions with its affiliates in the nine-months period ended 30 September 2020.

## 16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

This note provides an update on the judgments and estimates made by the Group in determining the fair value of the financial instruments since the last annual financial statements.

As of 30 September 2020, and 31 December 2019, only financial derivatives are measured at fair value. The fair value of interest rate swaps and currency forwards is determined based on the present value of future cash flows based on market data (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 realization rates of individual transactions ("volatility smile").

The fair values of derivative transactions are classified as level 2, whereby the market data used in models originate from active markets.

The following table provides an overview of nominal values and positive or negative fair values of open trading derivatives as of 30 September 2020 and 31 December 2019 (CZK '000):

	<b>30 Sep 2020</b>			<b>31 Dec 2019</b>		
	<b>Nominal value</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Nominal value</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
Interest rate swap	-	-	-	-	46 385	-
Put option	632 633	529	-	724 185	13 232	-
Call option	3 095 818	-	163 106	3 631 216	-	80 693
Currency swaps	231 838	-	6 984	226 210	770	880
Forwards	255 629	4 187	2 367	576 681	3 308	4 843
<b>Total</b>	<b>4 215 918</b>	<b>4 716</b>	<b>172 457</b>	<b>5 158 292</b>	<b>63 695</b>	<b>86 416</b>

The following table provides an overview of nominal values and positive or negative fair values of open hedging derivatives as of 30 September 2020 and 31 December 2019:

	30 Sep 2020			31 Dec 2019		
	Nominal value	Positive fair value	Negative fair value	Nominal value	Positive fair value	Negative fair value
Interest rate swap	-	-	5 980	-	-	-
Put option	6 829 710	71 171	-	7 905 051	125 143	-
Call option	6 829 710	-	396 481	7 905 051	-	237 029
Currency swaps	1 615 322	-	56 189	418 025	5 168	-
Forwards	4 863 650	209 678	43 724	3 011 931	42 480	15 807
<b>Total</b>	<b>20 138 392</b>	<b>280 849</b>	<b>502 374</b>	<b>19 240 058</b>	<b>172 791</b>	<b>252 836</b>

The Group also has a number of financial instruments which are not measured at fair value. For all of these instruments, the fair values are not materially different to their carrying value, since the interest rate is either close to the current market rates or the instruments are of a short-term nature.

## 17. PROFIT DISTRIBUTION

In the nine-months period ended 30 September 2020, the Group paid out a dividend of CZK 328,218 thousand to Česká zbrojovka Partners SE.

## 18. RELATED PARTY TRANSACTIONS

During the nine months period ended 30 September 2020, the Group had following transactions with related parties:

Key management personnel:

In the nine-months period ended 30 September 2020, the key management personnel included all Board of Directors and Supervisory Board members. The short-term benefits provided to the key management personnel (including gross salary, annual bonuses, health and social insurance and additional pension insurance) amounted to CZK 33 839 thousand.

In the nine-months period ended 30 September 2019, services provided by key management personnel were paid for by the parent company Česká zbrojovka Partners SE, and were not directly recharged to the company or its subsidiaries.

The Group provided no other benefits (e.g., post-employment benefits, termination benefits or share-based payments) to its key management personnel in 2019 or 2020 at the Group level.

The Group had the following outstanding balances as of 30 September 2020 and transactions in the nine-months period ended 30 September 2020 with its related parties:

		Payables as of 30 Sep 2020	Purchases 1 Jan - 30 Sep 2020	Receivables as of 30 Sep 2020	Income 1 Jan - 30 Sep 2020
European Holding Company SE	parent company	-	-	5	46
Česká zbrojovka Partners SE	intermediate parent company	1	654	9	50
Česká zbrojovka Defence SE	subsidiary of intermediate parent company	-	-	5	46
Keriani a.s.	associate of parent company	1 059	6 834	2 299	1
Silesia Invest SE	company under ultimate control	-	-	1	13
EHC zdravotní s.r.o.	company under ultimate control	-	-	10 499	733
CZUB zdravotní s.r.o.	company under ultimate control	2	2 472	391	28
CZ-AUTO SYSTEMS a.s.	subsidiary of intermediate parent company	1 550	11 020	258 196	31 371
AUTO-CZ International a.s.	subsidiary of intermediate parent company	-	-	1	13
TRX, s.r.o.	company under ultimate control	85	630	-	-
ITeuro, a.s.	company under ultimate control	169	4 376	-	-
<b>Total</b>		<b>2 866</b>	<b>25 986</b>	<b>271 406</b>	<b>32 301</b>

Further to this, the Group paid out a dividend of CZK 328,218 thousand to Česká zbrojovka Partners SE.

The Group had the following outstanding balances as of 31 December 2019 and transactions in the nine-months period ended 30 September 2019 with its related parties:

		Payables as of 31 Dec 2019	Purchases 1 Jan - 30 Sep 2019	Receivables as of 31 Dec 2019	Income 1 Jan - 30 Sep 2019
Česká zbrojovka Partners SE	intermediate parent company	5 618	24 553	-	21
Keriani a.s.	associate of parent company	1 040	5 132	2 299	-
EHC zdravotní s.r.o.	company under ultimate control	-	-	9 748	747
CZUB zdravotní s.r.o.	company under ultimate control	-	5 096	51	25
Česká zbrojovka CZ-AUTO a.s.	subsidiary of intermediate parent company	1 913	-	-	-
TRX, s.r.o.	company under ultimate control	169	630	-	-
ITeuro, a.s.	company under ultimate control	639	4 702	-	-
<b>Total</b>		<b>9 379</b>	<b>40 113</b>	<b>12 098</b>	<b>793</b>

## 19. NET EARNINGS PER SHARE

Basic and diluted earnings per share were determined as follows:

	30 Sep 2020	30 Sep 2019
Profit after tax from continued operations attributable to the owner of the parent company (CZK '000)	472 966	537 247
Profit after tax from discontinued operations attributable to the owner of the parent company (CZK '000)	0	19 250
Denominator (average number of shares in '000)		
Basic	29 838	29 838
Diluted	29 838	29 838
Net earnings per share (CZK/share) from continued operations attributable to the owner of the parent company		
Basic	16	18
Diluted	16	18
Net earnings per share (CZK/share) from discontinued operations attributable to the owner of the parent company		
Basic	0	1
Diluted	0	1
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	16	19
Diluted	16	19

As disclosed in the 2019 annual financial statements, the parent company's ordinary shares split in 2019 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 for all periods presented.

## 20. CONTINGENT LIABILITIES

As of 30 September 2020, the Group had issued no guarantees in respect of third-party liabilities.

As of 30 September 2020, the Group recorded no significant legal disputes where the Group acts as a defendant or investment, environmental and other off balance sheet commitments.

## 21. SUBSEQUENT EVENTS

In October 2020, the parent company has completed the underwriting of its shares in a public offering, resulting in gross proceeds at CZK 812,000 thousand designated to finance the Group's growth. In addition to the primary component, the Group's shareholder, Česká zbrojovka Partners SE, granted an over-allotment option to sell additional up to 280,000 shares in the amount up to CZK 81,200 thousand, this option was finally utilized in the amount of 215,859 shares therefore generating gross proceeds of CZK 62,599 thousand for Česká zbrojovka Partners SE.

Following the completion of the underwriting, the share capital of the consolidating company comprises 32,638,000 ordinary registered shares. The shares are in the certificate form with a nominal value of CZK 0.1 per share.

Also, the Group management started to discuss potential alternation of the EBITDA calculation, in connection with the significant volatility caused by the impact of financial derivatives on EBT and connected investor feedback. No final decision was taken in this regard.

In November 2020, Mr. Jan Zajíc replaced Mr. Ladislav Britaňák as the new member of the Board of Directors of CZG - Česká zbrojovka Group SE.

In November 2020, the Group announced an execution of the Letter of Intent with Colt Holding LLC, which granted a time-limited exclusivity to conduct its due for the acquisition of 100% of the outstanding equity interest in Colt Holding LLC, a Delaware entity and indirect owner of the Colt operating entities. No final decision about the acquisition has been made by the date of the issuance of the condensed consolidated financial statements.

In the fourth quarter of 2020, the Group finalized consolidation of the ownership in its subsidiary 4M SYSTEMS a.s. and thus become its sole shareholder.

No other significant events occurred subsequent to the balance sheet date that would have a material impact on the condensed consolidated financial statements.