CZG - Česká zbrojovka Group SE

CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

AS OF 31 DECEMBER 2019

Deloitte.

Deloitte Audit s.r.o.
Churchill I
Italská 2581/67
120 00 Prague 2 – Vinohrady
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.:49620592
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:

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

Statutory auditor:

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

Table of Contents

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

Classification and measurement of financial assets in the period from 1 January 2018 to 31 December 2019

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	31 Dec 2018	31 Dec 2017
	CZK '000	CZK '000	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**

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.