

Report of the Board of Directors of Colt CZ Group SE

prepared in accordance with the provision of Section 488(4) of Act No. 90/2012 Sb., on business companies and cooperatives (the Companies Act), as amended (the “**Companies Act**”), with regard to the reasons for excluding the pre-emptive right of the shareholders of Colt CZ Group SE to subscribe new shares

Dear shareholders,

The Board of Directors of **Colt CZ Group SE**, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, ID No.: 291 51 961, registered in the Commercial Register kept by the Municipal Court in Prague, File No. H 962 (the “**Company**”), hereby submits to the Company’s shareholders this written report of the Board of Directors regarding the draft resolution of the Company’s General Meeting to be adopted outside its meeting (voting *per rollam*) – **Resolution authorizing the Board of Directors to carry out a capital increase and to exclude the pre-emptive right to subscribe to new shares (Draft V)** (the “**Resolution**”) with a view to fulfilling the requirements set out in Section 488(4) of the Companies Act, as a means to explain the reasons and the important interest for which it is being proposed in this particular case to exclude the pre-emptive right of the Company’s shareholders to subscribe shares.

The exclusion of the pre-emptive right is again proposed due to the obligation to settle the participation of the former shareholders of Colt Holding LLC, with its registered office at 547 New Park Avenue, West Hartford, Connecticut 06110-1336, and its subsidiaries CDH II Holdco Inc, Colt Defence LLC, New Colt Holding Corp, Colt Manufacturing Company, Colt’s Manufacturing IP Holding Company LLC, Colt Defence Technical Services LLC, Colt International Cooperatief U.A., Colt Canada Corporation, Colt Canada IP Holding Partnership CA, Colt Canada IP Holding Company (the “**Colt Group**”) in connection with the acquisition of the Colt Group by the Company, or by CZ-US Holdings Inc., with its registered office at 750 Commerce Plaza II 7400 West 110th Street, Overland Park, KS 66210, United States of America, registration number: 5252622 (“**CZ-US Holdings**”). The former shareholders of the Colt Group are entitled to a settlement by means of acquisition of shares in the Company to be subscribed in up to three tranches (until 2024) towards an increase of the Company’s share capital (the “**Transaction**”). The terms and conditions of the settlement of the Transaction were set out in the agreement on the acquisition of 100% shares dated 11 February 2021 (the “**Agreement**”). The Transaction was further described in a presentation entitled “PROJECT CONSTITUTION: ACQUISITION OF 100% COLT HOLDING COMPANY LLC”. The underlying documents are available on the Company’s website <https://www.coltczgroup.com/en/> under the “Investors” link in the “General Meetings” section.

The Board of Directors is of the view that the exclusion of the pre-emptive right for the purpose of comprehensive settlement of the Transaction, without breaching the Agreement, is in the best interest of the Company and is consistent with the information regarding the Transaction disclosed so far.

The agreed-upon funding of the Transaction entails the provision of consideration to the Colt Group shareholders or “stockholders” as defined in the Agreement (the “**Colt Group Stockholders**”) in the form of the Company’s shares (up to the maximum amount of 6.73% of the currently issued and outstanding shares of the Company). The anticipated maximum number of the shares to be so provided is 2.2 million book-entry shares issued by the Company, in registered form, with a par value of CZK 0.10 (in words: ten hellers) per share, out of which 1,098,620 shares so issued have already been provided as part of payment of consideration at the closing of the Transaction in May 2021 and 1,098,620 shares are only to be provided subject to the achievement of the defined performance targets, i.e. achievement of the determined value of EBITDA (the “**New Shares**”), separately for 2021 (365,291 New Shares), for 2022 (365,291 New Shares), and for 2023 (368,038 New Shares) (the “**Earn-out**”). For the purpose of the issuance of New Shares towards the payment of the Earn-out, a Draft resolution is presented to the Company’s shareholders. New Shares may be subscribed solely for the purpose of payment of the Earn-out and may only be offered for subscription to a pre-selected prospective buyer, namely to CZ-US Holdings.

The payment of the Earn-out by means of issuance of the New Shares is one of the key parameters of the Transaction and a prerequisite for a proper and complete settlement of the Transaction so as to avoid a breach of the Agreement. Besides, it also ensures commitment of the Colt Group Stockholders to the future striving of the Company and its subsidiaries and hence also the future performance of the assets acquired in the Transaction, while the objective of the Transaction and the ownership of the Colt Group’s assets is to be of future benefit both to the Company and its subsidiaries and to the Company’s shareholders.

Although the subscription of the New Shares will result in a dilution of the shares held by the Company’s shareholders, the Company believes that the **Company’s obligation to fulfil its commitments stemming from the crucial Transaction carried out in compliance with the Agreement is an important reason for excluding the pre-emptive right of the Company’s shareholders**. In addition, it should be noted that the Company’s value has demonstrably increased and the position of the Company’s shareholders has improved as a result of the Transaction.

The proposed exclusion of the pre-emptive right applies to all shareholders of the Company to the same extent.

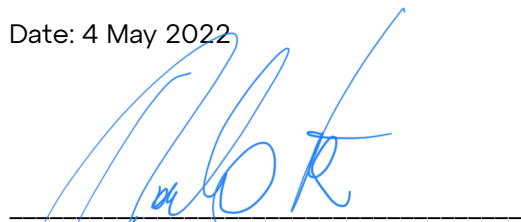
For the Earn-out to be paid to the Colt Group Stockholders and for the Transaction to be settled in compliance with the Agreement, it is now proposed that the Company’s General Meeting, in accordance with Section 475(g) of the Companies Act in conjunction with Section 488 of the Companies Act, exclude the pre-emptive right of the Company’s existing shareholders to subscribe new shares in the Company which can, subject to fulfilment of the conditions for Earn-out, be issued based on a decision of the Board of Directors authorized to do so by the General Meeting, on the following terms:

- ▶ the Company’s share capital may be increased on the basis of authorization of the Board of Directors by maximum of CZK 109,862 (in words: one hundred and nine thousand eight hundred and sixty-two Czech crowns);
- ▶ in pursuance of the capital increase based on authorization of the Board of Directors, a maximum of 1,098,620 (in words: one million ninety-eight thousand six hundred and twenty) book-entry shares in registered form with a par value of CZK 0.10 (in words: ten hellers) per 1 (in words: one) share will be issued, whereas the rights attaching to the new shares will be the same as the rights attaching to existing shares of the Company;

- ▶ in the case of an increase in the Company's share capital by a resolution of the Board of Directors based on this authorization, the issue price for the shares can only be paid by means of contribution in cash;
- ▶ acting upon its authorization, the Board of Directors may increase the share capital repeatedly provided that the total amount of the increase will not exceed the stipulated limit;
- ▶ the authorization is granted for a period of 5 (in words: five) years from the date the General Meeting passed the resolution granting this authorization;
- ▶ the shares to be subscribed in an increase of the share capital under this authorization of the Company's Board of Directors may only be offered for subscription to a pre-selected prospective buyer, i.e. without the exercise of the pre-emptive right, namely to CZ-US Holdings;
- ▶ the lowest price at which CZ-US Holdings may acquire the new shares in the Company to be so subscribed is CZK 200 (in words: two hundred Czech crowns) per 1 (in words: one) book-entry share in registered form with a par value of CZK 0.10 (in words: ten hellers), and the highest price at which CZ-US Holdings may acquire the new shares in the Company to be so subscribed is CZK 2,000 (in words: two thousand Czech crowns) per 1 (in words: one) book-entry share in registered form with a par value of CZK 0.10 (in words: ten hellers), providing that the amount by which the price exceeds the par value of the new shares to be so subscribed constitutes the share premium.

Place: Prague

Date: 4 May 2022

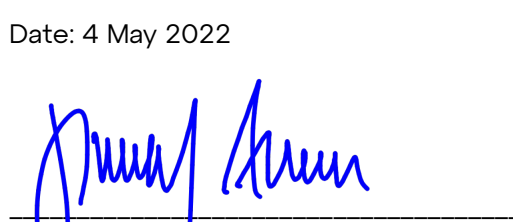


Name: **Jan Drahota**

Title: Chairman of the Board of Directors

Place: Prague

Date: 4 May 2022



Name: **JUDr. Josef Adam, LL.M.**

Title: Vice-chairman of the Board of Directors