

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD FROM

1 JANUARY TO 31 MARCH 2022

Name of the Company: Colt CZ Group SE (formerly „CZG – Česká zbrojovka Group SE“)

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

Legal form: European Company (Societas Europaea - SE)

Id. no.: 291 51 961

Components of the condensed consolidated interim financial statements:

Consolidated statement of profit and loss and other comprehensive income

Consolidated statement of financial position

Consolidated statement of changes in equity

Consolidated cash flow statement

Notes to condensed consolidated interim financial statements

These condensed consolidated interim financial statements were prepared on 26 May 2022.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1. JANUARY TO 31. MARCH

		31 Mar 2022	31 Dec 2021
	Note	CZK '000	CZK '000
Revenues from the sale of own products, goods and services	8	3,553,557	2,033,760
Other operating income		15,300	11,282
Change in inventories developed internally		428,063	-50,072
Own work capitalized		52,343	22,839
Raw materials and consumables used		-1,869,617	-815,928
Services		-505,466	-368,382
Personnel costs		-654,224	-341,552
Depreciation and amortization		-205,445	-99,096
Other operating expenses		-49,823	-52,083
Allowances		-15,391	-5,842
Operating profit		749,297	334,926
Interest income		75,368	2,807
Interest expense	9.1	-123,577	-15,673
Other financial income	9.1	-	90,406
Other financial expenses	9.1	-148,248	-59,374
Gains or losses from derivative transactions	9.1	138,159	4,018
Share in the profit of associates after tax		35,923	4,192
Profit before tax		726,922	361,602
Income tax	9.2	-182,192	-85,960
Profit for the period		544,730	275,642
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments		400,866	-138,049
Foreign currency translation of foreign operations		19,224	42,752
Other comprehensive income		420,090	-95,297
Comprehensive income for the period		964,820	180,345
Profit for the period attributable to:			
Owner of the parent company		544,730	273,989
Non-controlling interests		-	1,653
Comprehensive income for the period attributable to:			
Owner of the parent company		964,820	179,292
Non-controlling interests		-	1,053
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	19	16	8
Diluted	19	16	8

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

	Note	31 Mar 2022 CZK '000	31 Dec 2021 CZK '000
ASSETS			
Non-current assets			
Intangible assets	10	3,409,140	3,505,464
Goodwill	8	2,390,127	2,390,127
Property, plant and equipment	11	2,834,297	2,810,115
Equity-accounted securities and investments	16	145,368	109,445
Provided loans		-	-
Financial derivatives		552,635	171,195
Trade and other receivables		35,776	58,999
Other receivables		9,351	11,163
Deferred tax asset		-	-
Total non-current assets		9,376,694	9,056,508
Current assets			
Inventories	12	3,280,129	2,861,673
Trade and other receivables		1,628,603	1,012,879
Provided loans		7,525	197,973
Financial derivatives		166,290	156,118
Other receivables		322,948	148,098
Tax assets		-	6,357
Cash and cash equivalents	17	3,799,601	3,573,467
Total current assets		9,205,096	7,956,565
Total assets		18,581,790	17,013,073
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		3,374	3,374
Share premium		1,139,211	1,139,211
Capital funds		1,641,512	1,641,512
Cash flow hedge reserve		520,849	119,983
Foreign exchange translation reserve		-182,174	-201,398
Accumulated profits		3,083,876	2,539,146
Equity attributable to the owner of the Company		6,206,648	5,241,828
Equity attributable to the owner of the Company		6,206,648	5,241,828
Non-controlling interests		-	-
Total equity		6,206,648	5,241,828
Non-current liabilities			
Bonds, bank loans and borrowings	15	6,958,734	4,972,647
Financial derivatives	17	66,161	270,515
Lease liabilities		28,654	32,606
Other financial liabilities	17	450,264	372,531
Trade and other payables		5,504	5,422
Other payables		17,970	27,357
Provisions	13	63,673	63,695
Deferred tax liability		834,592	789,646
Employee benefit liabilities	14	355,491	357,707
Total non-current liabilities		8,781,043	6,892,126
Current liabilities			
Bonds, bank loans and borrowings	15	27,517	2,317,579
Financial derivatives	17	20,873	20,097
Lease liabilities		21,966	20,695
Other financial liabilities	17	224,289	185,568
Trade and other payables		1,467,801	1,116,373
Other payables		1,493,644	1,073,755
Provisions	13	46,955	50,780
Tax liabilities		272,929	76,156
Employee benefit liabilities	14	18,125	18,116
Total current liabilities		3,594,099	4,879,119
Total liabilities		12,375,142	11,771,245
Total equity and liabilities		18,581,790	17,013,073

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD OF THREE-MONTH ENDED 31 MARCH

CZK '000	Share capital	Share premium	Capital funds	Cash flow hedge reserve	Foreign exchange translation reserve	Accumulated profits	Equity attributable to the owner of the parent company	Non-controlling interests	Total equity
Balance at 31 December 2020	3,264	722,944	1,642,107	161,794	-47,960	2,027,994	4,510,143	12,543	4,522,686
Profit for the period	-	-	-	-	-	760,462	760,462	-	760,462
Other comprehensive income	-	-	-	-42,836	-153,438	-	-196,274	-	-196,274
Total comprehensive income for the period	-	-	-	-42,836	-153,438	760,462	564,188	-	564,188
Dividends	-	-	-	-	-	-253,025	-253,025	-8,101	-261,126
Change in other capital funds	-	-	-297	-	-	-	-297	-	-297
Share issue	110	416,267	-	-	-	-	416,377	-	416,377
Changes in non-controlling interest and treasury holdings	-	-	-298	1,025	-	3,715	4,442	-4,442	-
Balance at 31 December 2021	3,374	1,139,211	1,641,512	119,983	-201,398	2,539,146	5,241,828	-	5,241,828
Profit for the period	-	-	-	-	-	544,730	544,730	-	544,730
Other comprehensive income	-	-	-	400,866	19,224	-	420,090	-	420,090
Total comprehensive income for the period	-	-	-	400,866	19,224	544,730	964,820	-	964,820
Balance at 31 March 2022	3,374	1,139,211	1,641,512	520,849	-182,174	3,083,876	6,206,648	-	6,206,648

Notes are an integral part of these consolidated financial statements.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD THREE-MONTH ENDED
31 MARCH 2022**

	Note	31 Mar 2022 CZK '000	31 Dec 2021 CZK '000
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		726,922	361 602
Depreciation/amortization of non-current assets	10,11	205,445	99 096
Change in allowances and provisions	13	11,544	34 193
Loss from the sale of non-current assets		-	-185
Interest expense and interest income		48,209	24 906
Share in the profit of associates		-35,923	-4 192
Unrealized foreign exchange gain and losses		6,416	42 753
Contingent consideration - revaluation		116,286	-
Cash flow hedging – revaluation of the effective part of hedging instruments		400,866	-137 179
Adjustments for other non-cash operations		-674	93 727
Net operation cash flows before changes in working capital		1,479,091	514 721
Change in working capital			
Change in receivables and deferrals		-1,165,803	-102 770
Change in liabilities and accruals		679,535	411 587
Change in inventories	12	-420,764	-95 428
Cash flow from operating activities		572,059	728 109
Paid interest		-94,056	-26 645
Interest received		70,185	2 870
Income tax paid for ordinary activity	9.2	-32,408	-42 938
Net cash flow from operating activities		515,780	661 396
Cash flows from investing activities			
Acquisition of non-current assets	10, 11	-127,913	-116 085
Income from the sale of non-current assets		-18,950	223
Acquisition of subsidiaries – opening balance		-	-
Acquisition of subsidiaries – cash and cash equivalents		-	-
Acquisition of other investments		-	-
Provided loans – repayments received		190,000	-
Employee benefit liabilities		-	-
Net cash flow from investing activities		43,137	-115 862
Cash flows from financing activities			
Proceeds from the bond issue		1,984,796	5 000 000
Share premium		-	-
Dividends paid to owners	18	-	-
Dividends paid to non-controlling interests	18	-	-
Loan and interest repayment	15	-2,317,579	-19 548
Net cash flow from financing activities		-332,783	4 980 452
Net change in cash and cash equivalents		226,134	5 525 986
Impact of the spin-off of the investment in CZ-AUTO		-	-
Opening balance of cash and cash equivalents		3,573,467	2 358 608
Effect of exchange rate on cash and cash equivalents		-	38 551
Closing balance of cash and cash equivalents		3,799,601	7 923 145

Notes are an integral part of these consolidated financial statements.

COLT CZ GROUP SE

**Condensed consolidated interim financial statements for the period of three months from 1 January to 31 March 2022 prepared under International Financial Reporting Standards as adopted by the European Union
(non-audited)**

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1. PARENT COMPANY

Colt CZ Group SE, formerly CZG - Česká zbrojovka Group SE (the “Consolidating Entity” or the “Company”) is a *societas Europaea* 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. Company, together with its subsidiaries, is one of the leading European producers of firearms for military and law enforcement, personal defense, hunting, sport shooting and other civilian use. The Group markets and sells its products mainly under the CZ (Česká zbrojovka a.s.), CZ-USA, Colt, Colt Canada, Dan Wesson, Brno Rifles and 4M Systems brands.

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

Akcionář	Ownership percentage as at	
	31 Mar 2022	31 Dec 2021
Česká zbrojovka Partners SE	81 %	81 %

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

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

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

Board of directors	
Chair:	Jan Drahota
Vice-chair:	Alice Poluchová
Vice-chair:	Josef Adam
Member:	David Aguilar
Member:	Jan Holeček
Member:	Dennis Veilleux
Member:	Jan Zajíc

Supervisory board	
Chair:	Lubomír Kovařík
Member:	Jana Růžičková
Member:	Vladimír Dlouhý

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

All amounts in these financial statements and the related notes are reported in thousands of Czech crowns (CZK ‘000), which are also the functional currency.

2. GROUP DESCRIPTION

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group		
				31. Mar 2022	31 Dec 2021	31 Dec 2020
CZ USA HOLDINGS INC.	Holding company	Kansas City, USA	full	100%	100%	100%
CZ-USA, LLC	Purchase and sale of firearms and ammunition	Kansas City, USA	full	100%	100%	100%
CZ-MFG, LLC***	Production	Little Rock, USA	full	-	100%	100%
CZ Acquisition II, LLC*	Holding company	Delaware, USA	full	-	-	100%
EHC-4M, SE	Holding company	Prague, Czech Republic	full	100%	100%	100%
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	100%	100%	100%
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%	100%
CZ – Slovensko s.r.o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	100%	100%	100%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	100%	100%	100%
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49%	49%	49%
Latin America Holding, a.s.	Holding company	Uherský Brod, Czech Republic	full	100%	100%	100%
CZ Export Praha, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%	100%
CZG-Česká zbrojovka Group International s.r.o.	Holding Company	Prague, Czech Republic	full	100%	100%	100%
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%	20%
CZG VIB s.r.o.	Holding company	Prague, Czech Republic	full	100%	100%	100%
VIBROM spol. s r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25%	25%	25%
Spuhr i Dalby AB	Manufacture and assembly of optics	Löddeköpinge, Švédsko	equity	25%	25%	25%
CARDAM s.r.o.	Research and development	Dolní Břežany, Czech Republic	equity	33%	33%	33%
Colt Holding Company LLC*	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100%	100%	-
CDH II Holdco Inc	Holding company	West Hartford, Connecticut, USA	full	100%	100%	-
Colt Defence LLC	Holding company	West Hartford, Connecticut, USA	full	100%	100%	-
New Colt Holding Corp.	Holding company	West Hartford, Connecticut, USA	full	100%	100%	-
Colt's Manufacturing Company LLC	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100%	100%	-

Manufacturing IP Holding Company LLC	Holds, maintains, and licenses Colt USA trademarks	West Hartford, Connecticut, USA Colt USA	full	100%	100%	-
Colt Defence Technical Services LLC	Holding company	West Hartford, Connecticut, USA Colt USA	full	100%	100%	-
Colt International Cooperatief U.A.	Holding company	Amsterdam, the Netherlands	full	100%	100%	-
Colt Canada Corporation	Production, purchase and sale of firearms	Kitchener, Ontario, Canada	full	100%	100%	-
Colt Canada IP Holding Company	Holding company	Kitchener, Ontario, Canada	full	100%	100%	-
Colt Canada IP Holding Partnership**	Possession of trademarks and intellectual property	Kitchener, Ontario, Canada	full	-	100%	-
Nova Scotia Company 43 81079**	Possession of trademarks and intellectual property	Kitchener, Ontario, Canada	full	100%	100%	-

* On 21 May 2021, CZ Acquisition II, LLC merged with Colt Holding Company LLC, the successor company.

** On 31 December 2021, the Company was dissolved, and its assets and liabilities were transferred to Nova Scotia Company 43 81079.

*** The company was dissolved at the date of the condensed consolidated interim financial statements.

On 21 May 2021, the Group completed the acquisition of a 100% share in Colt Holding Company LLC (“Colt”), the parent company of the US firearms manufacturer Colt’s Manufacturing Company LLC, and its Canadian subsidiary Colt Canada Corporation.

During 2021, the Group purchased shares without a change of control in Česká zbrojovka a.s.

Česká zbrojovka a.s. and the companies of the Colt Group are the most significant entities in the Group. In the text below, the term ‘Group’ refers to the consolidation group.

3. SIGNIFICANT EVENTS IN THE CURRENT REPORTING PERIOD

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

On 27 January 2022, the Company issued bonds with a nominal value of CZK 1,998,000 thousand. On the same date, the Company raised cash of CZK 1,500,000 thousand to provide a loan to its subsidiary Česká zbrojovka a.s. The loan was denominated in EUR. The subsidiary Česká zbrojovka a.s. used the loan to repay its bonds which also matured on 27 January 2022. This transaction was fully hedged by the Group through cross currency interest rate swaps. The derivatives were purchased at the same currency and interest rate terms as the bond issue or loan to the subsidiary.

On 2 March 2022, the Group announced its intention to vote outside the General Meeting (per rollam) between 17 March and 6 April 2022, with the results of the vote announced on 12 April 2022. The General Meeting approved the change of the Company's name from CZG – Česká zbrojovka Group SE to COLT CZ Group SE (approved by amending Articles of Association) and confirmed the appointment of Ms Jana Růžičková as a member of the Supervisory Board.

On 24 February 2022, the Russian invasion of Ukraine began. The world reacted to Russia's act of violence by adopting the historically toughest economic and trade embargoes. An exodus of the Ukrainian population ensued, with several hundred thousand Ukrainians fleeing to the Czech Republic, and more still arriving. Energy prices have begun to rise, as have shortages of certain commodities necessary for production. This situation may have a significant impact on the European and global economies.

The Group has immediately responded to the situation and mapped out potential risks related to embargoes, rising energy prices, and commodity shortages.

In terms of the volume of orders, the Group's sales to Russia, Belarus, and Ukraine are insignificant in the total volume of the Company's annual sales (accounted for less than 1% of the turnover in 2021); cooperation with a Russian partner was already terminated during 2021. Any transactions were always conducted under applicable legislation and based on export licenses granted by the Ministry of Industry and Trade of the Czech Republic. The Group does not make any direct purchases from these countries. Secondary purchases of e.g., steel from ironworks with Ukrainian iron ore suppliers, are backed up by alternative steel suppliers from Sweden and Spain. The Group has a sophisticated cyber security system for data stored in secondary locations.

The Group has recently seen an increased interest in its products from both the Czech military and law enforcement and the civilian market. With the situation changing every day, we can expect further growth in the interest in our products.

As of 1 January 2022, CZ Export Praha s.r.o. transferred a part of the activities relating to the sale of Česká zbrojovka a. s. products and associated with ten jobs to Česká zbrojovka a. s. The rights and obligations under the employment relationships were also transferred based on an agreement.

On 9 February 2022, the remaining part of the loan of CZK 190,000 thousand was repaid by CZ-AUTO Systems a.s.

4. BASIC PRINCIPLES OF PREPARATION OF INTERIM REPORT

These condensed interim consolidated financial statements for the three months period ended 31 March 2022 have been prepared in line with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements do not include all the notes normally included in the annual financial statements. Accordingly, the condensed interim consolidated financial statements must be read together with the consolidated financial statements for the year ended 31 December 2021, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The condensed interim consolidated financial statements have not been reviewed by an auditor in accordance with applicable regulations.

5. SIGNIFICANT ACCOUNTING POLICIES

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

6. ESTIMATES AND SOURCES OF UNCERTAINTY

During the preparation of the condensed interim consolidated financial statements, the Group’s management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. The actual results may differ from these estimates. Apart from this, the Group’s future business may be adversely impacted by factors beyond the Group’s control. In the preparation of these condensed interim consolidated financial statements, the significant judgements made by the management and the key sources of uncertainty in making estimates were the same as those used in the consolidated financial statements for the year ended 31 December 2021.

7. FINANCIAL RISK MANAGEMENT

The Group's activities give rise to many financial risks: market risk, credit risk and liquidity risk. The condensed interim consolidated financial statements do not include all the financial information on risk management and other information required in annual consolidated financial statements and they should be assessed together with the annual consolidated financial statements of the Group as at 31 December 2021. No changes in the rules and policies of managing these risks have been made since the end of 2021.

The Group uses financial derivatives to manage financial risks. The method of measurement of financial derivatives and information on the fair value of financial assets and liabilities as at 31 March 2022 and 31 December 2021 are disclosed in note 17 Financial assets and liabilities at fair value.

8. INFORMATION ABOUT THE SEGMENTS AND REVENUES

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.

As at 31 March 2022 and 31 December 2021 all assets and liabilities, expenses and revenues of the Group related to the Production, purchase and sale of firearms and accessories.

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

Revenues from the sale to external customers		
	31 Mar 2022	31 Mar 2021
Czech Republic (home country)	236,067	55,690
United states	2,168,372	1,362,462
Canada	237,485	25,460
Europe (excluding the Czech Republic)	275,003	221,285
Africa	14,796	181,419
Asia	536,253	137,949
Others	85,581	49,495
Total	3,553,557	2,033,760

The Group has production facilities in the Czech Republic, USA and Canada. Out of the total carrying amount of property, plant and equipment of CZK 2,834,297 thousand as at 31 March 2022 (31 December 2021: CZK 2,810,115 thousand), the value of items located in the USA is CZK 525,881 thousand (31 December 2021: CZK 475, 243 thousand) and in Canada CZK 147,513 thousand (31 December 2021: CZK 139,887); the remainder is in the Czech Republic.

As for intangible assets located outside the Czech Republic, out of the total amount of intangible assets of CZK 3,409,140 thousand (31 December 2021: CZK 3,505,464 thousand), CZK 2,102,035 thousand (31 December 2021: CZK 2,172,557 thousand) was located in the USA and CZK 638,728 thousand (31 December 2021: CZK 641,657) in Canada as at 31 March 2022. As at 31 March 2022, goodwill of CZK 280,686 thousand (31 December 2021: 280,686 thousand) relates to activities in the Czech Republic, while CZK 1,925,741 thousand (31 December 2021: CZK 1,925,741) relate to the USA and CZK 183,700 thousand to Canada (31 December 2020: CZK 183,700).

9. PROFIT AND LOSS INFORMATION

9.1 SIGNIFICANT EVENTS AND TRANSACTIONS

- ▶ Consolidated statement of profit and loss, other comprehensive income and Consolidated cash flow statement for the period from 1 January to 31 March 2021 did not include Colt group transaction, which has been part of the group since 21 May 2021. Therefore, the data for individual periods are not comparable.
- ▶ Profit/Loss on financial derivatives: The Group manages its exposure to the currency and interest rate risk by using derivative instruments. As not all of the derivatives are accounted for as hedging instruments the amount of financial expenses was impacted by the decrease in fair value of open financial derivatives. In the three months period ended 31 March 2022, the Group recognized profit from derivative instrument of CZK 138,159 thousand (CZK 4,018 thousand in the three-months period ended 31 March 2021) in position Gains or losses from derivative transactions. In three-month period ended 31 March 2022 in other comprehensive income the Group recognized gain of CZK 400,866 thousand from the remeasurement of financial derivatives classified as hedging instruments (loss CZK 138,049 thousand in three months period ended 31 March 2021).
- ▶ Other financial expenses of CZK 148,248 thousand (CZK 59,374 thousand in three months period ended 31 March 2021) mainly represent revaluation of the contingent consideration as a result of Colt acquisition in CZK 116,286 thousand (CZK 0 in three-month period ended 31 March 2021).
- ▶ Interest expenses of CZK 123,577 thousand (CZK 15,673 thousand in three-month period ended 31 March 2021) are mainly represented by interest from issued bonds of CZK 69,435 thousand (CZK 14,535 thousand in three-month period ended 31 March 2021) The issued bonds overview is given in Note 15.

9.2 INCOME TAX

Income tax expense is recognized based on the estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate for the period from 1 January to 31 March 2022 is 25.1% (31 March 2021: 23.8%). The amount of the effective tax rate is affected by level of tax rates in the individual countries, in which the Group operates (Czech Republic – 19%, USA – 26-28%, Canada – 25%).

10. INTANGIBLE ASSETS

The following tables summarize the changes in intangible assets from 1 January 2022 to 30 March 2022:

Acquisition costs

GROUP	Opening balance	Additions	Disposals	Transfers	Impact of FX fluctuations	Closing balance
Software	219,241	927	-	5,765	66	225,999
Intangible assets under construction or being acquired	48,678	11,162	-	-5,970	-	53,870
Other intangible assets	883,984	-	-	205	3,294	887,483
Trademarks and logos	1,541,483	-	-	-	4,800	1,546,283
Capitalized development	531,535	3,221	-3,793	-	-	530,963
Concessions, license rights and other intellectual property rights	340,280	31	-8	-	3,130	343,433
Contractual customer relations	1,384,022	-	-	-	158	1,384,180
Total	4,949,223	15,341	-3,801	-	11,448	4,972,211

Accumulated amortization and carrying value

GROUP	Opening balance	Amortization	Disposals	Changes in allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	-166,713	-4,277	-	-	-19	-171,009	54,990
Intangible assets under construction or being acquired	-3,348	-	-	-	-	-3,348	50,522
Other intangible assets	-142,738	-35,406	-	-	-549	-178,693	708,790
Trademarks and logos	-	-	-	-	-	-	1,546,283
Capitalized development	-178,558	-9,614	2,748	193	-	-185,231	345,732
Concessions, license rights and other intellectual property rights	-51,698	-5,512	8	-	-	-57,202	286,231
Contractual customer relations	-900,704	-66,886	2	-	-	-967,588	416,592
Total	-1,443,759	-121,695	2,758	193	-568	-1,563,071	3,409,140

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

11. PROPERTY, PLANT AND EQUIPMENT

The following tables summarize the changes in property, plant and equipment from 1 January 2022 to 30 March 2022:

Acquisition costs

GROUP	Opening balance	Additions	Disposals	Transfers	Impact of FX fluctuations	Closing balance
Buildings	1,565,130	3,534	-4	829	1,345	1,570,834
Machinery, instruments and equipment	3,368,768	44,816	-7,646	18,762	754	3,425,454
Other non-current tangible assets	23,994	1,327	-	-	20	25,341
Other non-current tangible assets under construction	90,354	50,903	-4,226	-6,046	17	131,002
Prepayments made for non-current tangible assets	114,304	5,452	-	-13,545	43	106,254
Lands	270,714	-	-	-	350	271,064
Total	5,433,264	106,032	-11,876	-	2,529	5,529,949

Accumulated amortization and carrying value

GROUP	Opening balance	Amortization	Disposals	Changes in allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	-571,992	-16,208	4	-	905	-587,291	983,544
Machinery, instruments and equipment	-2,027,358	-66,411	7,440	-	-1,056	-2,087,385	1 338,069
Other non-current tangible assets	-4,933	-1,131	-	-	-284	-6,348	18,993
Other non-current tangible assets under construction	-17,529	-	-	4,238	-	-13,291	117,711
Prepayments made for non-current tangible assets	-1,337	-	-	-	-	-1,337	104,917
Lands	-	-	-	-	-	-	271,064
Total	-2,623,149	-83,750	7,444	4,238	-435	-2,695,652	2,834,297

Machinery, instruments and equipment and Buildings as at 31 March 2022 include rights of use arising from lease contracts of CZK 44,401 thousand (CZK 45,695 thousand as at 31 December 2021). Additions to the rights of use arising from lease contracts amounted to CZK 6,630 thousand in 2022 (CZK 27,419 thousand in 2021). These primarily include lease contracts for warehouses and office space, cars and office technical equipment.

Depreciation for the nine-months period ended 31 March 2022 includes depreciation of rights of use arising from lease contracts of CZK 5,980 thousand (CZK 3,258 thousand in 2021).

12. INVENTORIES

The structure of inventories as at 31 March 2022 and 31 December 2021 is as follows (in CZK '000)

	31 Mar 2022	31 Dec 2021
Material	1,231,044	1,066,005
Work-in-progress and semi-finished products	694,719	936,913
Finished products	1,072,477	267,009
Goods	265,030	570,133
Prepayments made for inventories	16,859	21,613
Total	3,280,129	2,861,673

The valuation of redundant, obsolete and slow-moving inventories is decreased to the selling price net of the costs of sale. As at 31 March 2022, allowances for inventories of CZK 369,077 thousand (31 December 2021: CZK 369,399 thousand) were included in the statement of financial position. In the three-month period ended 31 March 2022, an impairment gain of CZK 2,328 thousand was recorded in the profit and loss (gain of CZK 6,895 thousand in the three-month period ended 31 March 2021). The remainder of the change in the allowances for inventories is mainly due to exchange rate differences on the translation of foreign subsidiaries.

13. CURRENT AND NON-CURRENT PROVISIONS

Table below shows current and non-current provisions at 31 March 2022 and 31 December 2021 (CZK '000)

Provisions	31 Mar 2022	31 Dec 2021
Warranty repairs	44,307	48,329
Other current provisions	2,648	2,451
Total current provisions	46,955	50,780
Warranty repairs	9,758	10,520
Other non-current provisions	53,915	53,175
Total non-current provisions	63,673	63,695
Total provisions	110,628	114,475

14. EMPLOYEE BENEFIT LIABILITIES

Employee benefit liabilities (CZK '000):

	31 Mar 2022	31 Dec 2021
Net employee benefit liability	185,993	187,910
Liability for medical (healthcare) benefits	187,623	187,913
Total net employee benefit liability	373,616	375,823
Non-current net employee benefit liabilities	355,491	357,707
Current net employee benefit liabilities	18,125	18,116
Total net employee benefit liability	373,616	375,823

15. BONDS, BANK LOANS AND BORROWINGS

				31 Mar 2022	31 Dec 2021
	Terms	Interest rate %	Aggregate limit as at 31 Mar 2022 (CZK '000)	CZK '000	CZK '000
Issued bonds	27 Jan 2022	6M Pribor + margin % p.a.	-	-	2,250,000
Issued bonds – unpaid interest				-	25,379
Issued bonds	23 Mar 2027	6M Pribor + margin % p.a.	5,000,000	5,000,000	5,000,000
Issued bonds – unpaid interest				6,595	42,200
Issued bonds – issue cost				-26,062	-27,353
Issued bonds	27 Jan 2029	6M Pribor + margin % p.a.	1,998,000	1,998,000	-
Issued bonds – unpaid interest				20,922	-
Issued bonds – issue cost				-13,204	-
Total			6,998,000	6,986,251	7,290,226
Repayments in the following year				27,517	2,317,579
Repayments in future years				6,958,734	4,972,647

16. EQUITY-ACCOUNTED SECURITIES AND INVESTMENTS

The carrying amount of all equity-accounted investments changed as follows in the three-month period ended 31 March 2022.

	31 Dec 2022 CZK '000
Beginning of the period	109,445
Share in profit/loss of equity accounted investments	35,923
End of the period	145,368

17. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

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

As at 31 March 2022 and 31 December 2021, assets and liabilities representing financial derivatives and liabilities due to contingent consideration from the Colt acquisition in 2021 are measured at fair value.

17.1. Financial derivatives

The fair value of interest rate swaps and currency forwards is determined based on the present value of future cash flows based on market data (yield curves of referential interest rate swaps, spot foreign exchange rates and forward points). For currency options, the respective option model is used (primarily the Black-Scholes model or its modifications), with the specific input data including the volatility of currency exchange rates reflecting specific realization rates of individual transactions (“volatility smile”).

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

The following table provides an overview of nominal values and positive or negative fair values of open trading derivatives as at 31 March 2022 and 31 December 2021 (CZK ‘000):

CZK ‘000	31 Mar 2022			31 Dec 2021		
	Fair value			Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Put Option	959,346	60,395	-	299,563	13,274	-
Call Option	2,158,908	-	16,328	1,595,391	-	23,043
Forwards	845,433	28,414	73	292,636	14,814	-
Total	3,963,687	88,809	16,401	2,187,590	28,088	23,043

The following table provides an overview of nominal values and positive or negative fair values of open hedging derivatives as at 31 March 2022 and 31 December 2021 (CZK ‘000):

CZK ‘000	31 Mar 2022			31 Dec 2021		
	Fair value			Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Interest rate swap	500,000	79,970	-	1,700,000	70,432	-
Put Option	2,912,668	124,205	-	3,827,197	114,646	-
Call Option	2,912,668	-	50,604	3,827,197	-	75,081
Currency swap	4,157,626	54,823	4,848	4,084,071	4,041	106,491
Forwards	5,420,713	98,884	15,181	4,574,648	110,106	36,531
Cross currency swap	4,714,800	272,234	-	3,214,800	-	49,466
Celkem	20,618,495	630,116	70,633	21,227,913	299,225	267,569

17.2. Financial liabilities at fair value through profit or loss

tis. Kč	31 Mar 2022			31 Dec 2021		
	Fair value			Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Contingent consideration - Colt	416,378	-	674,533	416,378	-	558,099

The fair value of the contingent consideration is determined based on the market price of the Company's shares listed on the Prague Stock Exchange as at 31 March 2022 (level 1 input). The loss from the change in fair value is recognized in Other financial expenses.

The remaining financial assets and liabilities are measured at amortized cost. The fair value of all these instruments does not differ significantly from their carrying amount, as the interest rate is close to current market rates or they are short-term.

18. PROFIT DISTRIBUTION

In the three-month period ended 31 March 2022 there is no resolution about profit distribution for the year 2021 on the Group level.

19. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include subsidiaries, associated companies and key management personnel and their family members. Transactions that the Group ensures for related parties primarily include trade receivables and provided loans, and costs of transactions with related parties include remuneration to members of the supervisory board and board of directors and trade payables. Transactions with related parties are part of regular activity and are implemented at arm's length.

During the three-months period ended 31 March 2022 the Group conducted the following transaction with related parties:

Key management personnel:

During the three-months period ended 31 March 2022, key management personnel included all members of the board of directors and supervisory board. Short-term benefits provided to key management personnel (including gross remuneration, annual bonuses, health and social insurance and additional pension insurance) amounted to CZK 4,897 thousand.

The Company provided no other benefits (e.g. monetary or non-monetary benefits related to the termination of office of a body's member, or share-based payments) to its key management personnel.

The Group records the following outstanding balances with related parties as at 31 March 2022 and the following transactions with related parties in the three-months period ended 31 March 2022:

Entity	Relationship	Liabilities as at 31 Mar 2022	Purchases from 1 Jan to 31 Mar 2022	Receivables as at 31 Mar 2022	Sales from 1 Jan to 31 Mar 2022
European Holding Company, SE	ultimate parent company	-	-	-	-
Česká zbrojovka Partners SE	parent company	-	10	212	-
Česká zbrojovka Defence SE	subsidiary of parent company	-	-	-	-
Keriani, a.s.	associate of parent company	955	2,469	2,299	-
Silesia Invest SE	company in the ultimate owner's group	-	-	-	-
EHC zdravotní s.r.o.	company in the ultimate owner's group	-	-	8,924	269
CZUB zdravotní s.r.o.	company in the ultimate owner's group	77	3,681	7	9
CZ-SKD Solutions a.s. (Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	47	3,112	-	1
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	2,802	5,306	14,706	14,464
AIT Group - Advanced Industrial Technology Group a.s. (until 30. 4. 2021 AUTO-CZ International a.s.)	subsidiary of parent company	-	-	-	-
TRX, s.r.o.	company in the ultimate owner's group	85	210	-	-
M&H Management a.s.	company in the ultimate owner's group	-	-	-	-
Kykulin Trade a.s.	company in the ultimate owner's group	-	-	-	-
CZ AGRO Servis a.s.	company in the ultimate owner's group	-	-	-	-
CZ AGRO zemědělská s.r.o.	company in the ultimate owner's group	-	-	-	-
Robousy, s.r.o.	company in the ultimate owner's group	-	-	-	-
RAIL CARGO a.s.	company in the ultimate owner's group	-	-	-	-
hypo360.cz, SE	company in the ultimate owner's group	-	-	-	-
Minezit SE	company in the ultimate owner's group	-	-	-	-
ITeCompany Management a.s.	company in the ultimate owner's group	-	-	-	-
ITeuro, a.s.	company in the ultimate owner's group	-	-	-	-
Total		3,966	14,788	26,148	14,743

The Group records the following outstanding balances with related parties as at 31 December 2021 and the following transactions with related parties in the three-months period ended 31 March 2021:

Entity	Relationship	Liabilities as at 31 Dec 2021	Purchases from 1 Jan to 31 Mar 2021	Receivables as at 31 Dec 2021	Sales from 1 Jan to 31 Mar 2021
European Holding Company, SE	ultimate parent company	-	-	-	-
Česká zbrojovka Partners SE	parent company	-	-	212	-
Česká zbrojovka Defence SE	subsidiary of parent company	-	-	-	-
Keriani, a.s.	associate of parent company	1,039	1,839	2,299	-
Silesia Invest SE	company in the ultimate owner's group	-	-	2	-
EHC zdravotní s.r.o.	company in the ultimate owner's group	-	-	8,656	264
CZUB zdravotní s.r.o.	company in the ultimate owner's group	221	2,285	44	10
CZ-SKD Solutions a.s. (Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	3,989	1,817	-	-
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	1,085	3,001	197,439	10,009
AIT Group - Advanced Industrial Technology Group a.s. (until 30. 4. 2021 AUTO-CZ International a.s.)	subsidiary of parent company	-	-	19	-
TRX, s.r.o.	company in the ultimate owner's group	85	210	-	-
M&H Management a.s.	company in the ultimate owner's group	24	-	-	-
Kykulin Trade a.s.	company in the ultimate owner's group	-	-	2	-
CZ AGRO Servis a.s.	company in the ultimate owner's group	-	-	-	-
CZ AGRO zemědělská s.r.o.	company in the ultimate owner's group	-	-	-	-
Robousy, s.r.o.	company in the ultimate owner's group	-	-	-	-
RAIL CARGO a.s.	company in the ultimate owner's group	-	-	2	-
hypo360.cz, SE	company in the ultimate owner's group	-	-	-	-
Minezit SE	company in the ultimate owner's group	-	-	-	-
ITeCompany Management a.s.	company in the ultimate owner's group	-	-	-	-
ITeuro, a.s.	company in the ultimate owner's group	-	1,672	-	-
Total		6,443	10,824	208,675	10,283

20. NET EARNINGS PER SHARE

Basic and diluted earnings from continued operations per share were determined as follows:

	31 Mar 2022	31 Dec 2021
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	544,730	275,642
Denominator (average number of shares in CZK '000)		
Basic	33,737	32,638
Diluted	34,102	32,638
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	16	8
Diluted	16	8

21. CONTINGENT LIABILITIES

As at 31 March 2022, the Group had issued no guarantees in respect of third-party liabilities.

As at 31 March 2022, the Group recorded no significant legal disputes where the Group acts as a defendant; it also did not record any investments or environmental or other off-balance sheet commitments, with exceptions in the USA mentioned below. In the USA, the Group is a subject of several ongoing legal claims and litigations that are common in the Group's business activity. If it is probable that a loss will be incurred and if the loss can be plausibly estimated, the Group records a provision (see note 13). The Group's management regularly monitors and evaluates the development of individual legal claims and litigations. The Group's management is currently not aware of the existence of potential losses that may have a significant unfavorable impact on the Group's results of operation and its cash flows.

As at 31 March 2022, the Group records environmental liabilities of CZK 13,898 thousand to which a full provision was established. No other environmental liabilities are recorded.

22. SUBSEQUENT EVENTS

On 12 April 2022, the majority share owned by the parent company Česká Zbrojovka Partners SE changed. The parent company now holds 77,22 % of Group shares up to the reporting date.

On 4 May 2022, the Group submitted a proposal for the distribution of the Company's profit for 2021. The proposal, which will be approved by the Company's General Meeting, includes the payment of a dividend of CZK 852,548 thousand.

No other subsequent events have occurred since the balance sheet date that would have any material impact on the condensed consolidated interim financial statements as at 31 March 2022.