ANNUAL REPORT
2021

COLT CZ GROUP

CONTENT

ABOUT THE COMPANY

Colt CZ Group SE (“Colt CZ“ or “the Company“) and subsidiaries („the Group“) is one of the leading world producers of firearms and tactical accessories for military and law enforcement, personal defense, hunting, sport shooting, and other commercial uses. Colt CZ CZ primarily sells its products under the Colt, CZ, CZ-USA, Colt Canada, Dan Wesson, Brno Rifles, and 4M Systems brands.

The Company’s history dates back to 1936 when the Česká zbrojovka firearms factory was built in Uherský Brod. The factory was built prior to WWII by the Czechoslovak state with the strategic aim of moving firearms production further away from the German border. It was one of the largest and most modern armaments production facilities in Europe. The factory’s production of a full range of firearms started to develop gradually after WWII, resulting in strong product positioning in major segments of the firearms market.

In 1997, CZ-USA was established in the United States to handle local distribution, sales, and service of firearms. In 2004, the firearms division of Zbrojovka Brno was incorporated into the Group. The following year, the Company acquired Dan Wesson through its subsidiary CZ-USA. In May 2020, the Company acquired a minority stake in Spuhr i Dalby AB, a Swedish manufacturer of optical mounting solutions for weapons. In May 2021, the Company successfully 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 (“Colt Canada”).

As at 31 December 2021, Colt CZ CZ’s average FTE number of employees was 2,196 people in the Czech Republic, United States, and Germany. Since October 2020, Colt CZ CZ’s shares are traded on the Prague Stock Exchange. The majority shareholder is Česká zbrojovka Partners SE with an 81.2% stake, the remaining share is free float.

VALUES

Team spirit

Integrity

Responsibility

Innovation

MISSION

“We are committed to providing innovative and high-quality products that our customers can rely on in any situation.”

VISION

“Our vision is to become the recognized undisputed leader of the small arms industry.”

VISION 2025

Revenues of EUR 1BN, with minimum 20% EBITDA margin

KEY **FINANCIAL INDICATORS** IN 2021

Consolidated statement of profit or loss and other comprehensive income (audited)

(CZK '000)	For the year ended 31 December		Change in %
	2021	**2020**	
Revenues from the sale of own products, goods and services	10,688,927	6,819 673	56.7%
Operating profit	1,011,181	1,056 319	–4.3%
EBITDA	1,800,804	1,449 815	24.2%
Adjusted EBITDA[1]	2,168,797	1,449 815	49.6%
Profit before tax	931,548	851,023	9.5%
Profit for the period	760,462	676,571	12.4%
Adjusted profit for the period	1,161,012	676,571	71.6%
Profit for the period attributable to:			
Owner of the parent	760,462	672,948	12.4%
Non-controlling interests*	0	3,623	n/a
Net earnings per share attributable to the ownerof the parent company (CZK per share)			
Basic	23	21	9.5%
Diluted	23	21	9.5%
Adjusted[2]	34	21	61.9%

* As at 31 December 2021, the Company no longer records non-controlling interests.

Consolidated statement of financial position (audited)

(CZK '000)	As at		Change in %
	31 December 2021	**31 December 2020**	
Total assets	17,013 073	8,776 491	93.8%
Total equity	5,241 828	4,522 686	15.9%
Total liabilities	11,771 245	4,253 805	176.7%
Total liabilities and equity	17,013 073	8,776 491	93.8%

[1] Adjusted for extraordinary one-time costs associated with the acquisition of Colt and the wasting assets depreciation in relation to a project in Arkansas that are generally unrelated to the current period's operations and value creation.
These one-time items are described in Section 23.a) Alternative performance measures

[2] Adjusted for extraordinary one-time costs associated with the acquisition of Colt and the wasting assets depreciation in relation to a project in Arkansas and financing costs associated with the issue of bonds that are generally unrelated to the current period's operations and value creation including the elimination of the revaluation of contingent consideration for the Colt acquisition to market value

KEY EVENTS IN 2021

FEBRUARY 2021

On 11 February 2021, the Company signed a definitive agreement to acquire a 100% share in Colt Holding Company LLC, the parent company of the US firearms manufacturer Colt's Manufacturing Company LLC and its Canadian subsidiary Colt Canada Corporation.

MARCH 2021

On 23 March 2021, the Company issued bonds of a nominal value of CZK 5 billion.

MAY 2021

Upon acquiring all necessary regulatory approvals by the American and Canadian authorities, the Company successfully completed the acquisition of a 100% share in Colt Holding Company LLC.

In connection with the acquisition of Colt, the Company issued 1,098,620 new shares with an issue price of CZK 379 per share.

JULY 2021

Changes were made to the Company's Board of Directors and Supervisory Board. Mr. René Holeček was replaced by Mr. Lubomír Kovařík in the post of chairman of the Supervisory Board. Mr. Jan Drahota became the chairman of the Board of Directors. Messrs. Dennis Veilleux and Jan Holeček were elected to the Company's Board of Directors.

The Company paid out a dividend for 2020 of CZK 7.5 per share to its shareholders in accordance with its declared dividend policy.

SEPTEMBER 2021

On 9 September 2021, the share of Česká zbrojovka Partners SE in Colt CZ CZ's equity and voting rights decreased to 81.2% by selling Colt CZ CZ's shares to the Company's management members.

NOVEMBER 2021

The Company's Supervisory Board elected Josef Adam member of Colt CZ CZ's Board of Directors. Ms. Jana Růžičková resigned from her post in the Board of Directors and was co-opted into Colt CZ CZ's Supervisory Board. On the Supervisory Board, she replaced Ms. Věslava Piegzová who resigned from her post.

Shareholders who received Colt CZ CZ's shares in connection with the settlement of the acquisition of Colt sold 770,057 shares at a price of CZK 476 per share.

Colt CZ announced a planned bonds issue with an expected volume of CZK 1,500,000,000 with the possibility of an increase and the final maturity of 7 years.

LETTER **FROM THE COLT CZ PRESIDENT**

Dear shareholders,

2021 was without a doubt a turning point for our Group and marked by further growth in all key indicators. In May, we completed the acquisition of the Colt Group, virtually doubling our financial and operational performance. We acquired manufacturing capabilities in the US and Canada, expanded our product portfolio, and became suppliers to key NATO militaries such as the US, Canada, UK, Denmark, and the Netherlands. Our growth was also appreciated by our investors – in 2021 alone, the value of our shares increased by more than two thirds, making them the fastest growing title on the main market of the Prague Stock Exchange.

Despite the ongoing COVID-19 pandemic for the second year in a row affecting our personal and professional lives, we achieved excellent results. My thanks therefore go to all my colleagues for their daily efforts contributing to our collective success. Special thanks are also due to all those who actively and beyond their daily duties participated in the integration process between the Group and Colt, enabling us to benefit from the synergies of the Group as soon as possible.

We also updated our 2021 targets for the Group. Our vision is to become the recognized and undisputed leader of the small arm industry. To achieve this vision, we are committed to providing innovative and high-quality products that our customers can rely on in any situation.

Our corporate values – team spirit, integrity, accountability, and innovation are absolutely fundamental to Colt CZ's operations. These values guide our daily actions and behavior, and we want our investors, customers, partners, and the communities in which we operate to perceive it in the same way.

Our success is and will primarily be based on our people. That is why we have decided to devote a substantial part of this year's annual report to them. We would like to introduce you to at least some of them: individually and collectively, they represent their teams, their colleagues in departments and operations across the Group, in short, all who embody the qualities of our people and the values we have defined for our broader and reinforced Group.
Last year, our Group companies recorded several business achievements. Colt and Colt Canada continued to supply their long-standing military and law enforcement clients in key NATO countries. Česká zbrojovka delivered new Bren 2 assault rifles and precision rifles to the Czech Army. It also supplied new P-10 pistols to the Brazilian military police and Romanian police officers. Further, our CZ Scorpion submachine guns succeeded in a tender for the Portuguese Air Force organized by the NATO Support and Procurement Agency (NSPA).

We intend to continue to invest in research, development, and innovations to bring more innovations to the market. We are investing in the modernization and expansion of our manufacturing capabilities both in the Czech Republic and newly also in the United States in Colt.

We are aware of the responsibility we have to communities where our companies operate. I would like to highlight some examples. Česká zbrojovka helped build a vaccination center in Uherský Brod through its partner clinic Můj lékař and joined in helping inhabitants of the South Moravian Region affected by the devastating tornado. Colt employees participated for the second year in the "No-Shave November" campaign to support the Connecticut Cancer Foundation and supported Habitat for Humanity by building a house for a family in need. Colt Canada donated funds to a local veteran association and food bank.

While 2021 was a year of marked growth, our expectations for 2022 continue to be optimistic. The full integration of the Colt Group is expected to further enhance the Group's performance in all key areas. In 2022 we also intend to deliver on our Group's vision and continue to create value for the Company's shareholders, employees, customers, and partners.

I thank all employees, business partners, customers, and shareholders for being with us.

Jan Drahota
President and Chairman of the Board
Colt CZ Group SE

OVERVIEW **OF THE ISSUER'S BUSINESS**

A DESCRIPTION OF THE ISSUER'S BUSINESS AND ITS PRINCIPAL ACTIVITIES, INCLUDING A PRESENTATION OF MAIN CATEGORIES OF PRODUCTS AND SERVICES

The Group is one of the leading global producers of firearms for military and law enforcement, personal defense, hunting, sport shooting, and other commercial use. It markets and sells its products under the Colt, CZ, CZ-USA, Colt Canada, Dan Wesson, and 4M SYSTEMS brands.

Firearms and accessories business

The Group designs, manufactures, assembles, and sells firearms. The Group addresses a broad variety of end-user customers, ranging from state military and law enforcement units to commercials purchasing firearms for hunting, sport shooting or personal defense purposes.

The Group produces a wide range of firearms, including pistols, revolvers, rifles, submachine guns, grenade launchers, machine guns, sniper rifles, shotguns, and centrefire rifles. The Group's main products include the CZ 75 and CZ P-10 series, CZ Shadow 2, CZ P-09/07, and Colt 1911 pistols, the CZ 457 rimfire rifle series, the CZ 600 center rifle series, the CZ Scorpion EVO 3 submachine gun, the CZ BREN 2 and the COLT AR15/ M4 rifles, the Python and Anaconda revolver series, models of the 1911 pistol series, and the M4 and AR15 platform rifles. The Group also produces components for firearms, including sights, triggers, stocks, grips, and spare parts.

The Group also offers a wide portfolio of tactical accessories, including tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks and firearms accessories, such as handgun holsters, magazine pouches and slings. The Group's main accessories products include a ballistic t-shirt CZ 4M SPIRIT, a plate carrier CZ 4M RAPTOR 2.0 Modular Protection System and tactical trousers CZ 4M OMEGA.
The firearms produced by the Group can be split into the following categories: short guns and long guns.

Type of firearm sold by the Group	Units		Change in %
	2021	**2020**	
Long guns	246,777	161,754	52.6%
Shortguns	380,695	305,709	24.5%
Total firearms	**627,472**	**467,463**	**34.2%**

Short guns

Short guns can be divided into pistols and revolvers or into steel frame pistols (e.g., CZ 75, Shadow 2 series and Colt 1911) and polymer frame pistols (e.g., CZ P-07, CZ P-09, and CZ P-10). They can also be categorized by size, type of trigger mechanism, etc. The Group covers all main markets of short guns due to, among other things, its capacity to produce steel frame pistols.

The portfolio of the Company's short guns primarily consists of pistols, but also includes revolvers. The production of pistols has formed the bedrock of the Group's production portfolio since 1957 and includes tens of different designs and modifications. The Group's most successful pistol model is the CZ 75 and Colt 1911, which is being produced in an improved form to this day.

The acquisition of Colt and Colt Canada further expanded the portfolio to include the now iconic Colt 1911 pistol models and Colt revolvers.

MARKETS AND COMPETITION

Long guns

Long guns consist of the production for military and law enforcement (automatic and self-loading rifles, submachine guns, and sniper rifles) as well as commercial use (especially rim fire and centrefire rifles, shotguns, or combos). The Group covers all the main markets for long guns.

The acquisition of Colt and Colt Canada further expanded the portfolio to include AR15 platform rifles in edition to Bren 2.

Tactical accessories

In 2016, the Group expanded its product portfolio to include tactical accessories. The subsidiary company 4M SYSTEMS designs and sells a wide-ranging portfolio of tactical accessories, including tactical and ballistic equipment, such as ballistic vests, helmets and other protection, combat uniforms, backpacks, and firearms accessories, such as handgun holsters, magazine pouches, and slings. The range of customers covers both state armed forces and commercials purchasing tactical accessories for hunting, sport shooting, or personal defense purposes.

The Group supplies its products to two main markets, which are the military and law enforcement market and the commercial market. The Group has three main product categories in the commercial market: (a) pistols, (b) revolvers, and (c) hunting rifles (which can be further divided into three sub-categories: centrefire rifles, rimfire rifles, and shotguns). The military and law enforcement market is divided into five categories: (a) pistols, (b) machine guns, (c) rifles, (d) sniper rifles, and (e) grenade launchers. In addition, the weapons that the Group produces for the military and law enforcement market are also available in self-loading versions for the commercial market.

The Group supplies its products globally to more than 90 markets. The geographical breakdown of revenues is further described in the section "Overview of the issuer's development, results of operations and situation for the financial year".

Commercial market and customers

The commercial market includes weapons for personal defense, hunting, sport shooting, and other commercial use. The demand for firearms for personal defense is expected to grow. According to the BIS[3] Small Firearms Market Report, the growing demand is a result of the increasing number of female shooters purchasing firearms for personal defense in developed markets, mainly North America and Europe. Statistics issued by individual states further demonstrate that the increasing demand for weapons is stimulated by a continuous increase in the membership base of users registered in hunting associations and sport shooting clubs. The growth of the commercial market can be especially seen in recent years in the US.

Commercial customers include hunters and outdoor enthusiasts, sport, and hobby shooters, including those competing in competitions held by the IPSC, the USPSA, the IDPA, as well as other competitions, such as various shotgun and centrefire rifle competitions. The final category of commercial customers includes the purchase of weapons for personal defense.

Military and law enforcement market and customers

The Group's customers in the military and law enforcement market are federal, state, or local governments and agencies. In recent years, total defense spending has increased in various countries around the world. The growing defense budget in various countries manifests itself by the adoption of various defense modernization programs to strengthen the military forces.

Military and law enforcement customers include members of regular army units and special armed forces, state and municipal police, border guards, prison guards, and units in charge of the protection of constitutional officials.

[3] BIS Research Inc.

Marketing

The Group's marketing campaigns and initiatives are based on a careful evaluation of each market, its customer groups, and possible legal limitations within that market. The Group's marketing analysts periodically assess market potential and carry out in-depth research which is then used by marketing communications and external marketing agencies to create effective product and brand campaigns as well as marketing materials relevant to a specific end-customer group (B2B, retail, B2C and professional media). The Group sells its products mainly through wholesalers and distributors. As for military and law enforcement customers, it usually participates in public tenders. Smaller distribution channels include the Group's two company retail stores (located in the Czech Republic) and own e-shop in the Czech Republic. The Group regularly participates in major trade fairs aimed at the commercial market and the military and law enforcement and organizes its own events, some of them online. It has long supported the shooting sports through its support of competitions, international championships, IPSC and USPSA organizations and its own shooting teams.

The Group is able to meet the many needs of its customers through a wide range of products and product customization options. For example, to further expand its reach to even the most demanding of commercial customers, the Group launched a CZ on-line firearm configurator in October 2019, which allows customers to customize some of the Group's products to their liking. The configurator has already been launched in the Czech Republic, Slovakia, Poland, France, Austria and Germany. However, based on positive customer feedback and requests for additional products, the Group intends to include additional products in the on-line firearm configurator and make them available to commercial customers in other key markets. The Group also intends to evaluate potential applications of the on-line firearm configurator for military and law enforcement customers.

Competition

The Group considers the following companies to be significant market participants: Blaser GmbH, Browning International S.A., Caracal International LLC, Daniel Defense Inc., Fabbrica Di Armi Pietro Beretta SPA, Fabrique Nationale de Herstal, FRATELLI TANFOGLIO S.R.L., Glock Gesellschaft m.b.H., C.G. HAENEL GmbH, Heckler & Koch GmbH, HS Produkt d.o.o. (Springfield Armory), Israel Weapon Industries (IWI), the Kalašnikov Group, O.F. Mossberg & Sons, Remington Outdoor Company, SAKO Limited, Savage Arms Inc., SIG SAUER GmbH & Co. KG, Singapore Technologies Engineering Ltd., Smith & Wesson Brands, Inc., STI International Inc., Sturm, Ruger & Company, and Taurus Holdings Inc.

The Group's members primarily compete with the above companies globally for large contracts in the military and law enforcement market. Increased competition is manifested by a focus on innovation, product portfolio, quality testing, and price.

The commercial market segment is occupied by many smaller producers who, although without significant market power individually, collectively represent important competition to the Group. In the commercial market segment, competition is largely affected by customer price sensitivity, brand strength and product innovation.

The Group's ability to compete effectively also depends on its ability to anticipate the needs of its customers and adapt quickly to new trends and regulatory changes, its ability to integrate modern materials into its products, the differentiation of its own products from those of its competitors, and, last but not least, its ability to modernize its existing products and promote the strength of its brands.

Some countries, including the Unites States, impose specific requirements for domestically produced parts or different content in products sold to governmental entities or even complete domestic localization of production, which makes it even more challenging and expensive to compete in such markets. For instance, the United States adopted legislation relating to federal procurement or federal grants including those that refer to “Buy America” or “Buy American”. These require, or provide a preference for, the purchase or acquisition of goods, products, or materials produced in the United States, including iron, steel, and manufactured goods.

DESCRIPTION OF BUSINESS STRATEGY AND TARGET

Penetration of military and law enforcement markets

The Group generates most revenues from sales to the commercial market. In the next period, the Group intends to focus on increasing its market share in the military and law enforcement market particularly in Western Europe, the United States and select markets in Asia. The Group's management believes the military and law enforcement market offers greater growth opportunities than the commercial market due to the current political and security situation and the rather long investment gap in most developed countries. The Group expects these sales to support increased brand awareness and support the Group's target to position its products as premium brands.

To strengthen its position in the military and law enforcement market, the Group intends to capitalize on its many years of experience and offer comprehensive solutions in the field of firearms and ammunition.

Growth through occasional acquisitions

In 2021, the Group successfully completed the acquisition of Colt, one of the world's leading designers, developers, and manufacturers of firearms. Colt has supplied commercial customers and military and law enforcement in the US and around the world for over 175 years. As a result of this strategic move, the Company acquired additional significant manufacturing capabilities in the United States and Canada and the potential to expand its customer network. Colt has been a long-time supplier to the US military (a relationship dating back more than 175 years) and, through its Canadian subsidiary, the exclusive supplier of small arms to military and law enforcement in Canada.

The Group continues to continuously monitor and evaluate opportunities for growth through potential acquisitions. The Group's primary focus is on acquisition opportunities among its competitors in the firearms industry and optics and optoelectronics manufacturers and designers in the anticipation of changes in the needs and preferences of its customers and the move towards the digitalization of small firearms and further integration of optics and optoelectronics. The Group is also monitoring ammunition manufacturers and designers to complement the Group's product portfolio in response to the growing customer demand for more efficient ammunition.

Expansion of presence in the us and the EU

The Group operates in over 90 markets worldwide and continues to expand its presence in growth markets, particularly in the US. The dynamic growth in the US in recent years requires further expansion not only of production but also of localization opportunities. The Group seeks to establish itself as a premium brand in the US by strengthening its brand recognition among military and law enforcement customers, increasing the production volume of its firearms as well as expanding the variety of types of firearms it offers, including modifications and upgrades to the current product mix. The Group intends to continue upgrading its existing production facilities in the Czech Republic and the US to stimulate the organic growth of the Group and to enhance its production efficiency and optimize inventory management and order fulfilment.

In addition to its geographic expansion, the Group is also developing a wider product portfolio. Among other things, the new additions will include optics and optoelectronics with the aim to support the anticipated shift to the use of smart and integrated firearms among military and law enforcement customers.

BUSINESS AND VALUE CREATION MODEL

After the completion of the Colt acquisition, the Group has retrieved its goals. Colt CZ's vision is to become a recognized undisputed leader in the small firearm market. To achieve this goal, the Company has committed to providing innovative and state of art products which are reliable in any situation. At the same time, the Company has set a goal "Vision 2025" which means reaching revenues of EUR 1 billion and EBITDA margin of at least 20 %. The Company plans to achieve this goal by a combination of its existing resources in which Colt and CZ play a key role and by M & A initiatives in the segments related to the small firearm market.

Group's business model is based on an adherence of key values. These values are followings: team spirit, integrity, responsibility and innovations. These values assist the Company and all of its employees as a compass to their daily actions and behavior.

REGULATORY ENVIRONMENT AND LICENSES

Firearms regulation in the Czech republic and EU

Manufacturing and trading activities relating to firearms in the Czech Republic are primarily subject to the Czech Weapons Act, which implements the relevant EU legislation, in particular Council Directive 91/477/EEC of 18 June 1991 on control of the acquisition and possession of weapons, as amended (the “Firearms Directive”), and Trade Licensing Act. Further, Act No. 156/2000 Coll., on the authentication of certain types of firearms, ammunition, and pyrotechnics (the “Firearms Authentication Act”) sets forth the obligations of firearm manufacturers, importers, distributors, and other persons related to the firearm authentication procedure conducted by the Czech Authority for Firearms and Ammunition Testing. The procedures conducted by the Czech Authority for Firearms and Ammunition Testing is further regulated by Decree No. 335/2004 Coll., on the implementation of certain provisions of the Firearms Authentication Act.

Handling of firearms (both military and non-military) is primarily subject to the Czech Weapons Act and Governmental Regulation No. 217/2017 Coll., on security requirements for weapons, ammunition, black hunting dust, smokeless dust, matches and ammunition depot (the “Security Requirements Regulation”).

The Security Requirements Regulation adjusts requirements under the Czech Weapons Act on handling with firearms (both military and non-military). Compliance with the Czech Weapons Act and the Security Requirements Regulation is overseen by the relevant police office; in this regard the relevant police office may, in particular, require access to the documentation relating to controlled firearms, request the submission of the relevant security material or to oversee the destruction thereof.

Regarding EU legislation, the Firearms Directive was amended by Directive (EU) 2017/853 of the European Parliament and of the Council of 17 May 2017 (the “Gun Ban Directive”). The Czech Republic has not transposed the Gun Ban Directive into Czech law despite the lapsed implementation deadline in September 2018. In July 2019, the European Commission issued a reasoned opinion urging the Czech Republic and other member states that failed to transpose the Gun Ban Directive into their respective national laws to do so as soon as possible.

In response to the Gun Ban Directive, a draft amendment to the Czech Constitutional act No. 2/1993 Coll., the Charter of Fundamental Rights and Freedoms, prepared by the Senate of the Parliament of the Czech Republic, has been submitted to the Czech Parliament. The proposed draft amendment introduces a right to defend oneself as well as the lives of others with a weapon as a constitutional right.

Manufacturing and trade licenses in the Czech republic

All persons conducting business relating to manufacturing or trading of firearms are required to obtain the following licenses: (i) a trade license under the Trade Licensing Act, (ii) an arms license under the Czech Weapons Act and (iii) an export licenses under Act No. 228/2005 Coll., on control of trade in products whose possession is restricted for security reasons in the Czech Republic and the Act on Trade in Military Material.

Firearms regulation in the US and Canada

The US and Canada manufacture, sale, and purchase of firearms are subject to extensive federal, state, and local government regulation. The primary federal laws and regulations in the US are the Gun Control Act of 1968, the National Firearms Act of 1934, the Arms Export Control Act of 1976, the International Traffic in Arms Regulations and the Export Administration Regulations, as subsequently amended.

The granting of export licenses is the responsibility of government agencies. In the US, most export licenses are issued by the Directorate of Defense Trade Controls (DDTC) under the State Department in accordance with Executive Order 13637 and the International Traffic in Arms Regulations (no. 22 CFR 120-130), implementing the Arms Export Control Act (22 U.S.C. 2778). For larger volumes of transactions, the DDTC is obliged to notify the US Congress before actually issuing an export license. In Canada, exports are regulated by the Firearms Act (SC 1995, c. 39), export licenses to the US are approved and issued by the Bureau of Alcohol, Tobacco and Firearms, and export licenses outside the US are approved and issued by Global Affairs Canada.

Imports and exports of defense articles and services to and from the United States and US persons are subject to the US International Traffic in Arms Regulations ("ITAR") and the US Export Administration Regulations (the "EAR"), which restrict and control the flow of defense and military-related items and services, including firearms, from, and through the United States and US persons. The Group's sales that do not involve the flow of defense articles, other military items, and services directly or indirectly to/from persons in the US or to/from the US are not subject to ITAR or EAR. Accordingly, Colt CZ's activities outside the US provide the Group with a competitive advantage over its US-based competitors as Colt CZ can supply to military and law enforcement customers who must exclude from their tenders any products and manufacturers subject to ITAR or EAR authorizations.

PATENTS, UTILITY MODELS, INDUSTRIAL PATTERNS, TRADEMARKS, AND KNOW-HOW

The Group owns patents, utility models, industrial patterns, trademarks, and know-how. All the mentioned intellectual property, including the CZ and Colt brands, is essential for the Group to successfully conduct its business and exercise its overall business strategy and without it, the Group could not operate on the market. The intellectual property has been accumulated by the Group companies over decades of development, production and sales of firearms and accessories and it is essential for the Group to be and remain profitable and it also defines its business model and competitive advantage. The annual costs for renewals and updates of intellectual property rights are approximately CZK 3.0 million. The Group's intellectual property is specifically protected in the following regions: Asia, Africa, Latin America, Europe, and the US. Key brands include Colt, CZ (Česká zbrojovka), CZ-USA, Dan Wesson, Brno Rifles, and 4M SYSTEMS brands. The Group's intellectual property consists mainly of trademarks "Colt", "CZ", "CZ-USA", "BREN", "DAN WESSON", and "ZBROJOVKA BRNO", including other related trademarks in various forms. The Group owns several designs of their products registered mainly in the EU and the United States. The Group's most important registered designs are those of the BREN and SCORPION model firearms and CZ P-09 and SHADOW model pistols. As of the date of the Report, there were ongoing patent proceedings in connection with CZ P-10, i.e. a trigger mechanism for automatic and semiautomatic pistols in certain regions. While the patent number US 10274227 was granted in the US and under the number BR 1120180084884-0 in Brazil. In the Czech Republic the following patents have been granted: no. 306586 for trigger mechanism, no. 306583 for firing pin mechanisms and no. 306523 for slide stop. Apart from the patents related to CZ P-10, there are three pending applications for CZ 600 rifle.

European patent EP3374721 in connection with the CZ P-10 and firing pin mechanism for automatic and semiautomatic pistols has been validated in Austria, Belgium, Switzerland and Lichtenstein, Germany, France, Italy, Poland, Slovakia and Turkey. The patent for sear for automatic and semiautomatic pistols was granted in Russia under the no. 2711833, in the US under US10670359 and in Ukraine under 122007. There is a pending proceeding in Moldova.

There are ongoing other proceedings in relation to patents, trademarks and other intellectual property continuously created and exploited by the Group).

Generally, where the research and development expense are underwritten by customers, such customers are entitled to the use of the resulting intellectual property. As a result, in order to maintain proprietary rights within the Group, the Group's research and development is mostly self-funded.

In certain cases, the Group grants licenses to its customers whereby the ability to produce certain components or to assemble the Group's products is licensed to such customers, for example, to HM ARZENÁL in relation to assembly and production of firearms in Hungary.

DAVID **KREISL**

Product Specialist, Česká zbrojovka

My first encounter with paintball guns at the age of 13 predetermined my future professional interest. I started my apprenticeship at the vocational school of Česká zbrojovka where I eventually got the certificate of apprenticeship as a gunsmith. My first work experience included working as a milling machine operator and gunstock maker. Then I joined the Czech Army which significantly changed my life. During a peacekeeping mission abroad, my hobbies changed into my life-long mission. At once, I knew what I wanted from life. I enrolled at university and got a degree with a specialization in arms and ammunition. During my army service, I gathered a lot of experience in using weapons. Due to a serious motorbike injury, I could not take part in any further military peacekeeping missions abroad; hence, I joined Česká zbrojovka as a junior product manager for specialized products. Now I work as a specialist, I define the tasks for the development of new products in the field of specialized firearms. My job gives me the opportunity to utilize my army experience as I know exactly what soldiers need. The cornerstone of my work is the customer, i.e., the end user. My mission is to embed reliability, accuracy, and resilience into the DNA of CZ firearms.

AN OVERVIEW OF OPERATING AND FINANCIAL SITUATION

AN OVERVIEW OF THE ISSUER'S DEVELOPMENT, RESULTS OF OPERATIONS AND SITUATION IN THE REPORTING PERIOD

Revenue

Compared with the results achieved in 2020, the revenues in 2021 increased by 56.7% to CZK 10.7 billion, mainly thanks to the increase in firearm sales and higher revenues in all territories and because of Colt's revenue consolidation from 21 May 2021.

Regionally, the revenues generated in the Czech Republic went up year-on-year by 151.7% to CZK 824.1million in 2021, based on the acceleration of deliveries to the Czech Army in the second half of 2021. Revenues generated in the United States increased year-on-year by 41.7% to CZK 6,248.0 million in 2021, mainly as a result of a higher demand in the US commercial market and the consolidation of Colt's revenues. Given the acquisition of Colt, the Group started reporting the revenues in Canada, which reached CZK 551.5 million in 2021, up by 471.1% y-o-y. Revenues generated in Europe (excluding the Czech Republic) increased year-on-year by 12.5% to CZK 1,053.8 million in 2021, mainly because of higher sales in Central and Eastern Europe.

Revenues generated in Africa increased by 81.6% to CZK 752.8 million in 2021 due to one-off sales to the military and law enforcement sector customers. Revenues generated in Asia increased year-on-year by 86.2% to CZK 727.4 million in 2021 as a result of increased sales to both the military and law enforcement sector customers and commercial customers. Revenues from sales to the other parts of the world reached CZK 531.2 million in 2021 up by 117.7% y-o-y.

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

(CZK '000)	For the year ended 31 December 2021	For the year ended 31 December 2020	Change in %
Czech Republic	824,128	327,419	151.7%
USA	6,248,038	4,410,237	41.7%
Canada	551,509	96,514	471.4%
Europe (excl. the Czech Republic)	1,053,754	936,257	12.5%
Africa	752,850	414,641	81.6%
Asia	727,426	390,575	86.2%
Other	531,222	244,030	117.7%
Total	**10,688,927**	**6,819,673**	**56.7%**

Adjusted EBITA and EBITDA[4]

EBITDA went up by 24.2% to CZK 1.8 billion in 2021 compared to the year 2020. The increase is attributable to the impact of higher global sales and consolidation of Colt.

Adjusted EBITDA in 2021, net of extraordinary one-off items connected with the acquisition of Colt, amounted to CZK 2,168.8 million, up 49.6% y-o-y. These one-offs mainly include the expenses on professional advisors and other services connected with the Colt acquisition, impairment of the project in Arkansas and release of inventory step up.

Profit before tax

Profit (loss) before tax increased by 9.5% to CZK 931.5 million in 2021 compared with 2020 due to the significant growth of operational performance of the Group. At the same time, it was negatively influenced by one-off items related to the Colt acquisition and significant growth of D & A also related to the Colt acquisition.

Net profit and Adjusted net profit

Profit for the period in 2021 increased by 12.4% to CZK 760.4 million compared with 2020. Adjusted net profit in 2021, adjusted by the expenses related to the financing of the acquisition, including equity earnout, reached CZK 1,161.0 million, which is 71.6% more compared to 2020.

[4] The Company's management considers EBITDA to be the key performance indicator in evaluating the Group's business operations. The Group calculates EBITDA based on data included in the audited financial statements. EBITDA is defined as after-tax profit for the period plus income tax less other financial income plus other financial expenses less interest income plus interest expense less share in the profit of associates plus depreciation and amortisation.

SOURCES OF CAPITAL

The Company uses its capital resources to repay debt, fund working capital, capital expenditures, and pay dividends. The Group's principal sources of liquidity are cash from operating activities, bank loans, and funds from bond issues. A description and table of liquidity sources are set out in the notes to the consolidated financial statements in section 36. Liquidity risk management.

Cash flow overview

CZK '000	For the year ended 31 December (audited)	
	2021	**2020**
Net cash flow from operating activities	1,522,959	1,588,239
Net cash flow from investing activities	(4,978,147)	(398,999)
Net cash flow from financing activities	4,670,774	373,267
Net increase or decrease in cash	1,214,859	1,553,105
Opening clash balance	2,358,608	880,315
Closing cash balance	3,573,467	2,358,608

STRATEGY AND OUTLOOK

The Group believes in pursuing a growth strategy that combines and organic growth driven by internal resources and an inorganic growth through acquisitions.

Outlook for 2022

The Group's management expects that the total revenues could reach CZK 14.4–14.8 billion in 2022, which represents an increase of 35–39% when compared with total consolidated revenues achieved in 2021. The expected EBITDA could reach CZK 3.0–3.3 billion in 2022, which represents an increase of 36–50% when compared with the adjusted consolidated EBITDA recorded in 2021.

The capital expenditures of the Group in 2022 may reach a 5% share of the 2022 expected revenues, which is in line with the medium-term target of the Company.

The current security situation and military conflict in Ukraine may bring increased interest for the Group's products from Military and Law Enforcement customers but could also bring unpredictable adverse impacts on the operational and financial performance of the Group in 2022. In March 2022, Colt CZ concluded an amendment to the Framework Agreement for the purchase of small arms signed in April 2020, with the Czech Ministry of Defense. The amendment will enable the Army of the Czech Republic to receive small arms supplies with the value of up to CZK 1.18 billion in addition to the originally agreed limit of CZK 2.35 billion.

The continuous uncertainty related to the COVID-19 pandemic may cause further disruptions to the supply chain and logistics. However, the Company has been able to take adequate measures to deal with those impacts based on its previous experience. The Company's ability to produce and meet customer demand when it comes to the product mix and price remains the main challenge for the Group in 2022. Operating cost control will be key. The Company will experience the pressure of increased commodity prices, including gas and electricity, although these represent a relatively small part of the Group's OPEX. In addition, we expect an increase in personal costs in the main production facilities, based on the newly renegotiated collective agreements for the upcoming period. Nevertheless, Colt CZ believes to be able to partially pass through some of the costs onto sales price. Some of the key customer contracts are inflation-linked.

INVESTMENTS

The Group's cash capital expenditures were CZK 633.3 million in 2021, up by 92.4% y-o-y and represent 5.9% of total revenues in this period, in line with the guidance (5–7% of 2021 revenues). The capital expenditures were primarily related to improvements in the Group's production machinery and capacity and majority was realized in the production plant based in the Czech Republic. The Group's capital expenditure is financed from funds generated by the Group as well as external sources such as funds from the issue of bonds.

EMPLOYEES

The table below sets forth information on the geographical split of the Group's employees as at 31 December 2021 and 2020:

	31 December 2021	31 December 2020	Change in %
	(Average FTE number of employees)	(Average FTE number of employees)	
Czech Republic	1,623	1,545	5.0%
USA	433	122	254.9%
Germany	6	6	0%
Canada	134	0	n/a
Total	**2,196**	**1,673**	**31.3%**

Most of the Group's employees are covered by an incentive program that makes the amount of their bonuses conditional on the accomplishment of their individual or collective goals and on the financial results achieved by the Group's companies at which they are employed. In addition to offering training and other benefits, the size and diversity of the Group's operations provide development and promotion opportunities for new employees.

The Group also employs temporary and agency workers (up to 10% of its total workforce) in order to maintain a degree of flexibility and be able to quickly respond to fluctuations in demand for its products.

Česká zbrojovka a.s. („CZUB“)
The subsidiary company CZUB is subject to collective bargaining agreement which is set to remain in force until 31 March 2022. The Group provides its employees in the Czech Republic with social benefits such as travel compensation at rates above those set forth in the applicable labor legislation, a contribution to private pension insurance, or above-standard medical care. ZO OS KOVO ČESKÁ ZBROJOVKA a.s. operates as a workers' council within CZUB.

CZ-USA
CZ-USA is not subject to a collective bargaining agreement. CZ-USA offers full-time employees the opportunity to participate in the company's 401(k) plan (a tax-advantaged retirement plan) and matches the first 4 % of employees' contributions at a rate of 100%. CZ-USA also offers its full-time employees medical insurance coverage which exceeds what is required under federal law both in terms of benefits and cost.

Colt's Manufacturing Company LLC („Colt USA")
The interests of Colt employees in the US are defended by the United Auto Workers, a US union representing workers in the automotive, aerospace, and agricultural industries. The collective bargaining agreement is in effect until 31 March 2022. As at 31 December 2021, the union represented approximately 60% of Colt's US employees. The collective bargaining agreement guarantees employees wage indexation. Colt USA also provides employees with health care benefits and contributions to a health insurance plan.

Colt USA has an incentive program for the majority of its non-unionized employees that makes the amount of their bonuses conditional on the accomplishment of their individual or collective goals and on the financial results achieved by Colt USA. Colt USA provides a pension plan for its employees.

Colt Canada Corporation
Colt Canada is not subject to a collective bargaining agreement. Colt Canada has an incentive program for certain members of management that makes the amount of their bonuses conditional on the accomplishment of their individual or collective goals and on the financial results achieved by Colt Canada. Colt Canada has a defined contribution pension plan for its employees whereby the employees may make voluntary contributions from a minimum of 1% up to 2.5% of their gross earnings and the employer provides a matching amount. Colt Canada also offers its employees a deferred profit-sharing program.

Colt CZ
In December 2021, the Company approved the draft Share Program of Colt CZ Group SE (the "Share Program"), which was prepared in accordance with the Remuneration Policy approved by the General Meeting of the Company on 22 June 2021. The basic parameters of the Share Program are as follows:

- the total number of stock options to be allocated is 3,373,000
- according to the approved framework of the Company's Share Program, the candidates are proposed to the Supervisory Board for approval by the Colt CZ Board of Directors
- when allocating stock options, each candidate is assigned to one of the allocation levels (tiers) according to the level of their managerial responsibility.

SIGNIFICANT LEGAL AND ARBITRATION PROCEEDINGS

The Group may from time to time be subject to governmental, regulatory and legal or arbitral proceedings and claims, including those described below. Other than the proceedings described below, there have been no governmental, regulatory and legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the 12 months prior to the date of this Report which may have or have had a significant effect on the financial position or profitability of the Group.

Legal proceeding between Latin America Holding, a.s. as claimant against R & T Comércio de Importação e Exportação Ltda and CZ Brasil Indústria e Comércio de Armas e Munições Ltda as defendants

CZ Brasil was originally founded as a joint venture with local partner R & T with an intention to enhance the visibility of the Group on the Brazilian market. The project is no longer actively pursued by the Group. The joint venture with the former partner has resulted in a dispute after the executive director of CZ Brasil refused to consent to a transfer of CZUB's shares in CZ Brasil to a different Group company, Latin America Holding, a.s., as permitted by the terms of the joint venture agreement. As a result, Latin America Holding, a.s. brought suit against CZ Brasil and R & T, seeking consent to the share transfer. Brazilian courts held CZ Brasil's executive director's withholding of the consent unlawful and ordered him to give his consent to the transfer. As of the date of this Report, the consent is being enforced through an enforcement proceeding.

The court has partially ruled in favor of the petitioner and ordered R & T to execute the signature of the amendment of CZ Brasil's articles of association. R & T has not disputed the ruling and thus, the ruling came into force. As of the date of this Report, R & T has not fulfilled its obligation and the ruling is being enforced.

CZUB vs. R & T

In 2014, CZUB issued to R & T invoices related to the sale of products of CZUB, which were delivered during 2014. R & T failed to pay the invoices. As a result, CZUB brought suit against R & T for payment. The court has partially ruled in favor of CZUB as the petitioner and upheld its claim for automatic acceptance by R & T of the invoices (values of USD 116,231, USD 123,625 and USD 5,861.20) as the claimable debentures. The judgement amount is increased by the default interest rate of 1 per cent per month until the court hearing, which took place on 16 September 2015. R & T has not disputed the ruling and thus, the ruling came into force. As of the date of this Report, R & T has not fulfilled its obligation, and the ruling is being enforced.

MEXIKO vs. COLT et al.

The Mexican government has filed a lawsuit against Colt and several other US firearms manufacturers, alleging that their actions have contributed to cartel violence in Mexico. The charges are based largely on allegations that the manufacturers know that their firearms enter Mexico illegally and are used for illegal purposes, that the defendants actively aid and abet the illegal firearms trade, and that the defendants' products are designed and marketed as military-style assault weapons.

This lawsuit was commenced in 2021. Given the status of the case, the likelihood of a judgment against Colt is highly unlikely.

Legal dispute with CARP2

Colt has entered into a letter of intent with Carp 2 in which Colt offered Carp 2 an option to purchase land on the premises of Colt in West Hartford. There is a dispute as to whether Carp 2 has the right to exercise the option to purchase the Colt land, but Colt is unwilling to sell the land.

Carp 2 filed a lawsuit against Colt in December 2021 seeking to compel Colt to participate in a legal determination process so that Carp 2 can determine whether it has standing to sue Colt for damages. It is currently too early to determine the likelihood that Carp 2 will succeed in either its action to compel determination or any subsequent action for damages. The risk of a judgement against Colt is low at best.

RESEARCH AND DEVELOPMENT

The Group's R & D and ability to innovate are crucial to its business, as the Group's customers, particularly military and law enforcement customers, demand innovative, reliable and state of the art products. The Group's technology leadership is also one of its key competitive advantages, and the Group's product innovations have formed the backbone of its success. The Group's substantial financial and human capital investments into R & D activities enabled the Group to substantially shorten its innovation cycle and offer products that are technological and functional class leaders in their respective categories faster than would have been possible a decade ago. In 2021, the Group's research and development expenditure amounted to approximately CZK 175 million.

In 2021, the Group's R & D team consisted of an average FTE number of 106 employees, including product designers, mathematical analysts, material specialists, advanced chief designers, and project leaders, who utilize not only their know-how and knowledge, but also state-of-the-art R & D methods, laboratory equipment and resources to develop new firearms, new customer product customizations and applications, technologies, processes, and methods for market-driven solutions. The Group has one research and development team, which is split between three locations – Uherský Brod, West Hartford, and Prague. The first section of the R & D team is part of CZUB and is based in Uherský Brod, the second, more substantial section is part of Colt and based in West Hartford, and the remainder is part of CARDAM.

The main goals of the Group's R & D are to improve the reliability, functionality, quality, safety, and durability of the Group's products as well as to develop innovations for the Group's products. The Group's R & D also works to address the industry and technology trends towards a higher degree of product customization and personalization, shorter product life cycles, modularity of design, the use of new materials (polymers and metals) and new production technologies, such as MIM and additive manufacturing and the integration of optical targeting systems and electronic systems. The core competencies of the Group's R & D include:

- Product development, product development management, mechanical design, additive manufacturing and experimental development;
- Applied research and development of the new technologies and materials such as metals, polymers and composites as well as coating systems;
- Mathematical simulations and development of algorithms;
- Electronics, mechatronics and safety systems; and
- Industry 4.0, which is a concept built around the concept of cyber-physical systems, combining mechatronic systems and digital services, and including, robotics and automations, automated communication, digital design and production management, automated reporting, gradual smart connection of key production processes, digital tracing of product life and digitalization.

MATERIAL CONTRACTS

COLT acquisition agreement

On 11 February 2021, CZ-US Holdings, a wholly owned direct subsidiary of the Company, as buyer, CZ Acquisition II, LLC, a subsidiary of CZ-US Holdings, into a sale and purchase agreement for the entire share capital of Colt, the indirect owner of the US firearms manufacturer Colt's Manufacturing Company LLC and its Canadian subsidiary, Colt Canada Corporation.

Subject to the terms and conditions of the Colt acquisition agreement, the Group acquired a 100% stake in Colt for a purchase price of USD 220 million in cash and 1,098,620 newly issued ordinary shares of the Company. The purchase price may be further increased in case certain pre-defined EBITDA performance criteria of the Group for the years 2021, 2022 and 2023 are reached. The agreement includes customary warranties and interim period covenants.

Framework agreement on technology transfer cooperation

On 6 March 2018, the Group, acting through CZ EXPORT, entered into a framework agreement on technology transfer cooperation with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state. The framework agreement sets out a legal framework for the conclusion of four separate production. All these contracts have been concluded to a maximum of 200,000 firearm units of (i) CZ P-07, (ii) CZ P-09, (iii) CZ Scorpion EVO 3 A1, and (iv) CZ BREN 2, with an expected total value of more than EUR 100 million.

According to the Framework Agreement, the main commercial purpose of the transaction for HM ARZENÁL is to allow for the rearmament of the Hungarian armed forces and law enforcement agencies with the production firearms produced by HM ARZENÁL using the Group's technology. HM ARZENÁL may also sell production firearms to third parties either pursuant to agreements made on a government-to-government basis, or with the Group's prior written approval. The Group's aim is to fully service the Hungarian military and law enforcement market for small arms from its portfolio.

The production contracts have been concluded for a fixed term of five years with an automatic extension for an additional period of five years unless the parties agree on its termination.

Framework agreement with the Ministry of Defense of the Czech Republic

In April 2020, the Czech Ministry of Defense and CZUB have entered into a framework agreement for the supply of up to 39,000 small arms. The deal is worth up to CZK 2.35 billion (exclusive of value-added tax) and covers the period until 2025. The final price will depend on the number of the weapons the ministry will order within narrower purchase order contracts in accordance with the military's needs. It includes up to 16,182 BREN 2 modular assault rifles, 21,280 CZ P-10 pistols, 1,646 CZ 805 G1 grenade launchers, and 94 Scorpion carbines. As of the date of this Report, the Ministry of Defense placed four orders under the Czech Army Framework Agreement in the total amount of CZK 381.99 million (including value-added tax), which shall be delivered in the second half of 2021.

CZG VAR/2027 BONDS

On 23 March 2021, Colt CZ Group SE issued 500,000 bonds with a nominal value of CZK 10,000 totaling CZK 5,000,000,000 and a variable coupon of 6M PRIBOR plus a margin of 1.8% p.a. The issue price of the bonds subscribed in the public offering is 100% of their nominal value. The bonds were admitted to trading on the regulated market of the Prague Stock Exchange.

The terms and conditions of the CZG VAR/27 bonds impose certain restrictions on CZUB regarding the disposal of its assets, incurring financial indebtedness, pledging, mortgaging or otherwise encumbering its property, carrying out transactions with related parties and payment of dividends or other distributions to its shareholders. In particular, Colt CZ is prohibited from declaring or paying dividend, make any other distribution of profit, return capital, provide loan or credit, and/or repay any debt, in each case to any of its shareholders, if Colt CZ's consolidated net debt-to-EBITDA ratio were to exceed 3.5x as a result of any such payment or transaction.

Apart of the above-described indebtedness covenant, the terms and conditions of the CZG VAR/27 bonds contain a change of control clause, subject to which Colt CZ must give notice of a change of control event (such an event being Mr. René Holeček ceasing to directly or indirectly own at least 51 per cent of Colt CZ or otherwise losing control over Colt CZ) and all holders of the CZG VAR/27 bonds shall have the option to request redemption of their bond within 45 days after a change of control notification.

WENDY **DUBY**

Senior Director of Materials & Planning, Colt

I started at Colt in 2011 as the Cost Accounting Manager. In 2013, I transitioned to a role in production planning and inventory management. My background in cost accounting was integral to understanding inventory management, but production planning was new to me. I appreciated the opportunity to learn a new part of the company's business, although I was apprehensive to make the change after spending the first twenty years of my career in accounting. Fortunately, teamwork at Colt is a core strength. Through collaboration with sales, finance, supply chain and production, we created a planning model that allows us to be successful in meeting our financial forecasts, but also flexible to respond to changing product demand. My time at Colt has been rewarding and I look forward to integrating CZ products into our plan.

INFORMATION ON SUSTAINABLE DEVELOPMENT (ESG)

As part of its ESG strategy, the Group has identified key sustainability themes which it is developing further. The identified themes are based on the sustainability guidelines formulated by the Company's management.

Economic responsibility	**Social responsibility**	**Environment**
stability and prosperity	human rights, equal access	climate change risks and environmental impacts
product sustainability and innovation	human resources and diversity policy	waste management
marketing and customer satisfaction	education	water management
supply chain and resource management	attractive employer	air protection
product quality and safety	occupational safety and health	noise abatement
corporate governance	stakeholder relations	management of chemicals
	social responsibility and philanthropy	

EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities helping investors and companies determine to what extent are their activities sustainable. The EU Taxonomy lies on 6 environmental objectives, specifically climate change mitigation, climate change adaptation, transition to a circular economy sustainable and protection of water and marine resources, pollution prevention and control and protection and restoration of biodiversity and ecosystems. At the data of this report, only two of the objectives – climate change mitigation, climate change adaptation – were put into force. The EU taxonomy doesn't require investments into sustainable activities directly.

Revenues, capital expenditures and operating expenses in 2021

In thous. CZK		Of which eligible economic activities			Of which non-eligible economic activities		
	Total	kód NACE	CZK	in %	NACE – codes	CZK	in %
Turnover	10,688,927	C25.4	9,472,543	89%	C13, C15.1 and other not covered	1,216,384	11%
Capital Expenditures	670,323		248,444	37%		421,880	63%
OPEX	197,108		74,551	38%		122,557	62%

C25.4 Manufacture of weapons and ammunition
C13 Manufacture of textiles
C15.1 Manufacture of leather and fur and products thereof

In order to determine taxonomy eligibility, the Company splits its economic activities according to NACE codes. Majority of Group´s activities of its core business are related to the Manufacture of weapons and ammunition. Manufacture of weapons and ammunition (NACE C25.4) falls under the category Manufacture of other low carbon technologies which is an enabling economic activity for the first two environmental goals according to the EU taxonomy compass. Taxonomy-eligible revenues accounted for 89% of total revenues in 2021. Rest of Group´s activities are currently not included in the activities presented in the EU taxonomy compass and therefore, were classified as taxonomy non-eligible, including revenues from consolidation of investments into subsidiaries.

Taxonomy-eligible capital expenditures accounted for 37% of the total investments reported in the Consolidated Financial Statements in 2021. There include capital expenditures that can be directly associated with modernization and upgrade of existing assets and processes related to taxonomy-eligible economic activities.

Taxonomy-eligible operating expenses accounted for 38% of total operating expenses in 2021. The largest contribution came from the economic activity Manufacture of weapons and ammunition. Operating expenses include maintenance and repair, and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment associated with taxonomy eligible activities, including training and other HR adaptation costs.

Colt CZ discloses its climate change through CDP, a global non-profit that runs the world’s leading environmental disclosure platform. CDP drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Over 13,000 companies with over 64% of global market capitalization disclosed environmental data through CDP in 2021. This is in addition to the over 1,100 cities, states and regions who disclosed, making CDP’s platform one of the richest sources of information globally on how companies and governments are driving environmental change.

Quote from David Lammers, Deputy Director Corporate Engagement, CDP Europe: “The scientific consensus on the need for urgent action on climate change has never been clearer. And ambition this decade will determine how well we can protect our natural resources and avoid the worst effects of global climate change. As policy and corporate stakeholders continue to develop strategies for environmental protection and a low-carbon transition, the availability of reliable and comparable data will remain of vital importance. By disclosing to CDP in 2021, Colt CZ has demonstrated a commitment to corporate environmental transparency and made an important contribution to an economy that works for both people and planet.”

ENVIRONMENT AND CLIMATE CHANGE RISKS

The Company’s BOZP (Safety, Health, Environment) policy contains a commitment not only to environmental protection but also to the detection of potential OSH risks, management of employees’ environmental impacts, and open and transparent communication with stakeholders and employees alike. The policy also includes commitments to keep improving the integrated SHE system, maintain active leadership in the area of employees’ environmental impacts awareness, and act in a way that motivates everyone to remain attentive to the risks of environmental impacts. Members of the Company’s management are expected to assume personal responsibility for acting in the interests of environmental protection and their own and their colleagues’ safety and health.

Despite all the achievements in the areas of environmental protection and occupational safety, the Company strives to keep improving its record and identifying additional potential issues. All operations and departments are subject to environmental impact assessments every two years or sooner if a change is implemented. Such assessments include measures to eliminate any potentially adverse influences. An environmental impact assessment forms part of any purchase of machinery or equipment as well as of other activities if relevant.

The correct functioning of the implemented SHE system was demonstrated in 2021, again, by the absence of any threats to any of the environmental constituents that would stem from the activities of operating companies of the Group.

Description of environmental issues that may affect the use of tangible fixed assets

The Group is subject to, and must comply with, a variety of national and international laws and regulations regarding the protection of the environment, health, and safety. These laws and regulations address, among other things, the identification, acceptance, treatment, storage, handling, transportation and disposal of hazardous and solid materials and waste, air and water emissions, soil and water contamination, noise, the prevention or minimization of climate change, and exposure of employees and others to hazardous materials or waste. In order to satisfy environmental responsibilities and to comply with environmental laws and regulations, the Group maintains policies relating to the environmental standards of performance for its operations and conducts programs to monitor compliance with various environmental regulations. In the normal course of the Group's manufacturing operations, it may become subject to governmental proceedings and orders pertaining to waste disposal, air emissions and water discharges into the environment.

The Group's principal production facility in Uherský Brod, Czech Republic has been in operation for more than 80 years. Historically, the Group identified soil and underground water contamination by chlorinated hydrocarbons and oils within its facility in Uherský Brod. The remediation work and post-remediation monitoring were terminated by the decision of the administrative authorities.

The Group also periodically reviews the probable and reasonably estimable environmental costs in order to create or update any environmental reserves.

By implementing the latest industrial methods of manufacturing control and management and energy efficient technologies, together with improving equipment efficiency, the Company continues to reduce the environmental impact of its manufacturing activities. The Company places significant emphasis on the replacing of hazardous chemical substances and compounds with less hazardous alternatives.

The introduction of a comprehensive solution to the management of operating liquids, oils and lubricants has resulted in increased efficiency in the use of lubricants, reduced production of waste and an overall reduction of the costs of lubrication, repairs and maintenance of machinery and equipment.

Sustainable and protection of water and marine resources

In addition to drinking water, the Company also uses groundwater for its technological processes. Wastewater and rainwater are treated at the company's biological treatment plant and are then released in accordance with the relevant permit into a specified watercourse. Wastewater from the metallurgy operation pass through a preliminary neutralization treatment.

Transition to a circular economy

Produced waste is sorted to a high degree that, for example, has ensured that for three years running, the amounts of sorted wastepaper and plastic have exceeded the volume of solid municipal waste produced by the Company. Despite the Company's increasing production, the volume of hazardous waste remains stable over the long term. The volume of scrap metal is proportionate to production volumes.

The Group is involved in waste collection schemes EKO-KOM, REMA Systém and Ekolamp. This involvement makes the schemes accessible also to employees.

Protection and restoration of biodiversity and ecosystems

In November 2021, Jan Drahota, chairman of the Colt CZ Group Board of Directors, took part in the project of restoring a tree avenue along the historical path from the Chaby homestead to the Church of St. John and St. Paul in Krtno, which is a joint project of the Komerční banka Jistota Foundation and the Prague 13 Municipal District. The aim of the project is to increase biodiversity by restoring the vegetation structure of the suburban landscape and planting two rows of trees that are common in this landscape.

SOCIAL RESPONSIBILITY

Employee issues

The Group strives to build strong and solid relationships with all its employees and all employees across the Colt CZ Group and across all levels regardless of job positions. It creates a work environment where all employees are treated with respect and dignity. It strives for the personal development of employees, the sharing of knowledge and experience, and the promotion of the use of new technologies.

The Company offers open internal training options in the areas of healthcare, occupational safety and health, benefits, and healthy lifestyles as well as retraining courses that open the door to more demanding and better paid positions. The Group is an active supporter of the school system, science and education including the promotion of the athletic and educational activities of pupils, students, and young people in general.

Česká zbrojovka a.s. is a long-term partner of the Secondary School – Technical Training School, established by the Zlín region and based within the premises of CZUB. Cooperation between the two entities sets an example not only within the region but nationally.

Based on the collective agreement at CZUB, the Company offers to its employees the following benefits above the statutory requirements which support its commitment to work life balance:

- Company meal allowance, electronic meal vouchers, childbirth allowance, 50th birthday bonus
- retirement bonus
- severance pay beyond the Labor Code, contribution to supplementary pension scheme, additional days off beyond the Labor Code called sick days (3 days per year for employees 50+)
- days of paid leave beyond the Labor Code, unpaid leave beyond the Labor Code
- contribution towards a child's study expenses
- extra pay for afternoon and weekend shifts beyond the Labor Code, extra pay for overtime beyond the Labor Code
- allowances for hazardous work beyond the Labor Code.

Benefits offered to employees in the US and Canada are described in detail in Chapter 7 e) Employees. The main benefits offered by US companies include primarily pension plan, benefits and a corresponding health savings account, training and development and promotion opportunities.

Human rights and equal opportunities

The Group promotes equal opportunities, equal treatment, non-discrimination, respect for personal dignity, privacy, and the rights of every employee. It does not tolerate any unacceptable treatment of employees and creates conditions for respectful interpersonal relationships.

Social responsibility and philanthropy

Colt CZ pursues its corporate social responsibility objectives primarily through its subsidiaries. The Group helps beneficial charitable projects, supports non-profit organizations, foundations, interest associations, sports clubs, hunting, members of the Czech Army, the Czech Police and the Fire Brigade, education, culture, and healthcare, including support for disabled citizens.

The Company has long provided support for charitable, health, and social projects. These include the KRTEK Children's Oncology Endowment Fund at the Children's Oncology Clinic of Brno University Hospital or the national campaign "450 ml of HOPE" of the HOPE Endowment Fund, which is dedicated to recruiting voluntary blood donors for blood transfusion departments of hospitals across the Czech Republic. The Group also supports a project of the Sparta hockey club called “Sparta pays tribute”. Following the example of the overseas NHL, Sparta dedicates a game each season to those who put their lives on the line every day – firefighters, rescue workers, police officers, and soldiers.

Since 2015, Colt USA has supported Folds of Honor, a non-profit organization that helps raise educational scholarships for families of veterans and fallen or disabled members of the military. From 2020-2021, employees of Colt USA participated in the Connecticut Cancer Foundation’s “No-Shave November” campaign to raise funds to support cancer patients in Connecticut and contributed USD 13,000 to the foundation in 2021. In 2021, employees of Colt contributed to donation “Habitat for Humanity” to help build a house for a very deserving family.

Colt Canada occasionally supports Patriot Love Foundation, a Canadian national charity based in Toronto, which is dedicated to supporting members of the Canadian military, veterans, and their families. In 2021, Colt Canada donated finances to local veterans and food bank.

Anti-corruption and anti-bribery policy

The anti-corruption and anti-bribery policy are described in chapter 14.b) of this report.

Impact of covid-19 on the group

The Group operates its main manufacturing facilities which are critical to the Group’s operations in Uherský Brod, Czech Republic, West Hartford, USA, and Ontario, Canada. The impact of the coronavirus causing the COVID-19 disease on the Group’s operations in 2021 was relatively limited.

While the majority of the Group’s companies in the Czech Republic operated with a relatively little impact of the pandemic in 2021, in strict compliance with the measures and regulations set by the Czech government, the greatest impact was on the Group’s main operating company and largest employer, Česká zbrojovka a.s.

CZUB continued the measures against the spread of COVID-19 taken during 2020 and described in the 2020 annual report. CZUB’s management presented new proposals to improve the work environment in plants where a work-from-home regime was not possible in cooperation with the Zlín region’s regional health protection office based in Zlín.

Since the beginning of the year, the Company has been creating conditions for antigen testing of employees or family members outside the premises of Česká zbrojovka a.s. and, after the mandatory testing was ordered, also directly on the premises of CZUB. Beyond its duties, CZUB also participated in the establishment and subsequent operation of the vaccination center in Uherský Brod, in cooperation with CZUB zdravotní s.r.o. and the town of Uherský Brod. Employees of Česká zbrojovka a.s. were actively involved in auxiliary and support activities to ensure the functionality of the vaccination center. At the end of 2021, the Company’s management also established a vaccination center directly on the company’s premises to support the vaccination of its own employees and thus the collective immunity of the entire company. The organization of both mandatory testing and voluntary vaccination was managed to avoid accumulation of people at the entry to and exit from the vaccination center and had a positive impact on the organization of production.

INFORMATION CONCERNING COVID-19

The Group's operations in the United States were also affected in 2021 by the COVID-19 pandemic, although demand for weapons in the US commercial market continued to grow during the reported period. The pandemic in the US primarily resulted in a slowdown in the global supply chain. Delayed delivery times for production components had a slightly negative impact on production line outputs, which was offset by increased deliveries from the Czech Republic and from business partners in Turkey. The Group's operating companies in the US did not have to suspend operations in 2021 under strict compliance with the rules set by the Centers for Disease Control and Prevention (CDC) and local authorities.

Description of measures taken and recovery from the pandemic

Colt CZ implemented various measures to keep its business and operations going and provide the highest possible protection to its employees in all production plants. The Company bought protective equipment (face masks, respirators, disposable gloves, and disinfection), vitamins for its employees, provided psychological support and extended the spacing at the workplaces. Where distances could not be maintained, the Company built mobile plexiglass barriers to protect its employees as much as possible. Closed work teams of no more than ten employees were created. The work shifts were cut and shortened so that the workers in each shift did not meet in the changing rooms and had an additional time for personal hygiene and disinfection. The Company increased the frequency of cleaning and disinfection of all contact surfaces. Relatively strict anti-epidemiological measures were implemented especially in the plant cafeteria where many people meet. The measures consisted mainly in the organization of giving out food, minimizing the contamination of cutlery, and increasing the distances between diners.

The Company did not receive any government support in connection with the COVID-19 pandemic. The Group's management, having considered all information available and measures adopted by the date of the issuance of this report, 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.

WYATT **HALE**

Assembly Manager, CZ-USA

I have worked for CZ-USA for seven years. I began my career with CZ as a firearms assembler and have worked my way up to Assembly Manager. I have learned a great deal about how to achieve goals while evaluating things like inventory, labor, and cost in my current role. Prior to working at CZ-USA, I served seven years in the United States Army during the Global War on Terror. During my time in the military, I deployed to Afghanistan, and I also earned an associate degree in firearms technology. Serving in the Army was one of the most defining experiences of my life, as it gave me a perspective on loss and gratitude. In 2014, I was declared medically dead after being struck by lightning while riding my Harley in Louisiana on my way to complete a six-month National Rifle Association course. Emergency responders managed to bring me back to life, and I spent months rehabilitating while completing my coursework. My wife, Danae Hale, also works for CZ-USA as the Marketing Manager.

INFORMATION ON INTERNAL CONTROL POLICIES AND PROCEDURES AND THE ISSUER'S AND ITS CONSOLIDATING ENTITY'S APPROACH TO RISKS IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Group uses various technical and governance measures in order to maintain its financial statements. These measures ensure compliance with the relevant accounting standards and provide users of the financial statements with a true and fair view of the financial position, equity position, cash flows and profitability of the Group.

These measures comprise internal governance, namely the Group's consistent accounting policies, and process set-up. This means multi-level controls over transactions being recorded, and maximum attention being paid to the automation of booking accounting entries.

Pursuant to Act No. 563/1991 Coll., on accounting, as amended, the Company presents its consolidated financial statements in accordance with IFRS. The Company and the Subsidiaries prepare their separate financial statements in accordance with local accounting standards and are subject to the IFRS consolidation on the Group level.

The subsidiaries use various accounting systems to keep their books, with the main subsidiaries using SAP S/4HANA, Infor/Syteline and EPICOR.

Governance and process set-up measures control the circulation of documents supporting the journal entries. As a rule, any accounting record may only be posted on the basis of the multi-level approval process. This rule excludes any possibility of a single employee having more than one role in the hierarchy. Approval is carried out on-line through an approval process.

Only users with appropriate rights have access to the accounting system. Access rights for the system are granted by means of a software application and are subject to approval by the superior. Access is provided according to the employee's job position and reviewed on a regular basis. Only employees of the relevant department have rights for active operations (postings) in the accounting system. The accounting system maintains an audit trail which allows for the identification of the user that created, changed, or reversed any accounting record.

The system of monthly reconciliation of the accounts is set up, however this is not formally documented. The documentation of accounts reconciliation is documented on the annual basis. Moreover, the management review of monthly accounts compared to prior year and also budgeted figures is performed in a thorough way.

Based on stock exchange rules, the Group as a securities issuer also publishes its quarterly consolidated financial statements.

In addition, annual financial statements are audited by an external auditor who carries out the audit of separate and consolidated financial statements as at the balance sheet date, i.e. 31 December of a given year.

BASIC INFORMATION ABOUT COLT CZ GROUP SE

BASIC INFORMATION ABOUT THE COMPANY	
Legal name:	Colt CZ Group SE
Legal form:	European Company (Societas Europaea – SE)
Adress:	Opletalova 1284/37, Nové Město, 110 00 Praha 1
Registered at:	Prague Municipal Court, Section H, File 962
Comp. Id:	291 51 961
VAT Id:	CZ29151961
LEI:	315700O990GR61YDGF96
Telephone:	+420 222 814 617
E-mail:	info@coltczgroup.com
Date of incorporation:	2013
Web:	www.coltczgroup.com

According to article 2 of Colt CZ's articles of association, the scope of business of the Company includes: a) management of its own assets; b) manufacturing, trade, and services other than those listed in Annex 1 through 3 of the Act No. 455/1991 Coll., on trade licensing, as amended and c) accounting consulting, bookkeeping, tax accounting.

Events that are material in assessing the issuer's solvency

The Company's solvency is primarily affected by its ability to generate cash and use it to fund its working capital, repay the Company's external debt, particularly interest and principal, and to pay liabilities arising from its ordinary operating activities.

Description of the expected financing of the issuer's activities

The principal sources of funding for the Group's activities are cash from operating activities, bonds and overdrafts, and the issue of shares. Although the Company is considering other manners of financing, the above are the main sources of financing contemplated for the near future.

INFORMATION ON FEES CHARGED FOR THE FINANCIAL YEAR (2021) BY THE AUDITORS

CZK '000	Colt CZ	Other Group companies
Statutory audit	2,670	10,330
Other services, of which:		
Assurance services	980	–
Tax advisory services	–	–
Other non-audit services	–	–
TOTAL (excl. VAT)	**3,650**	10,330

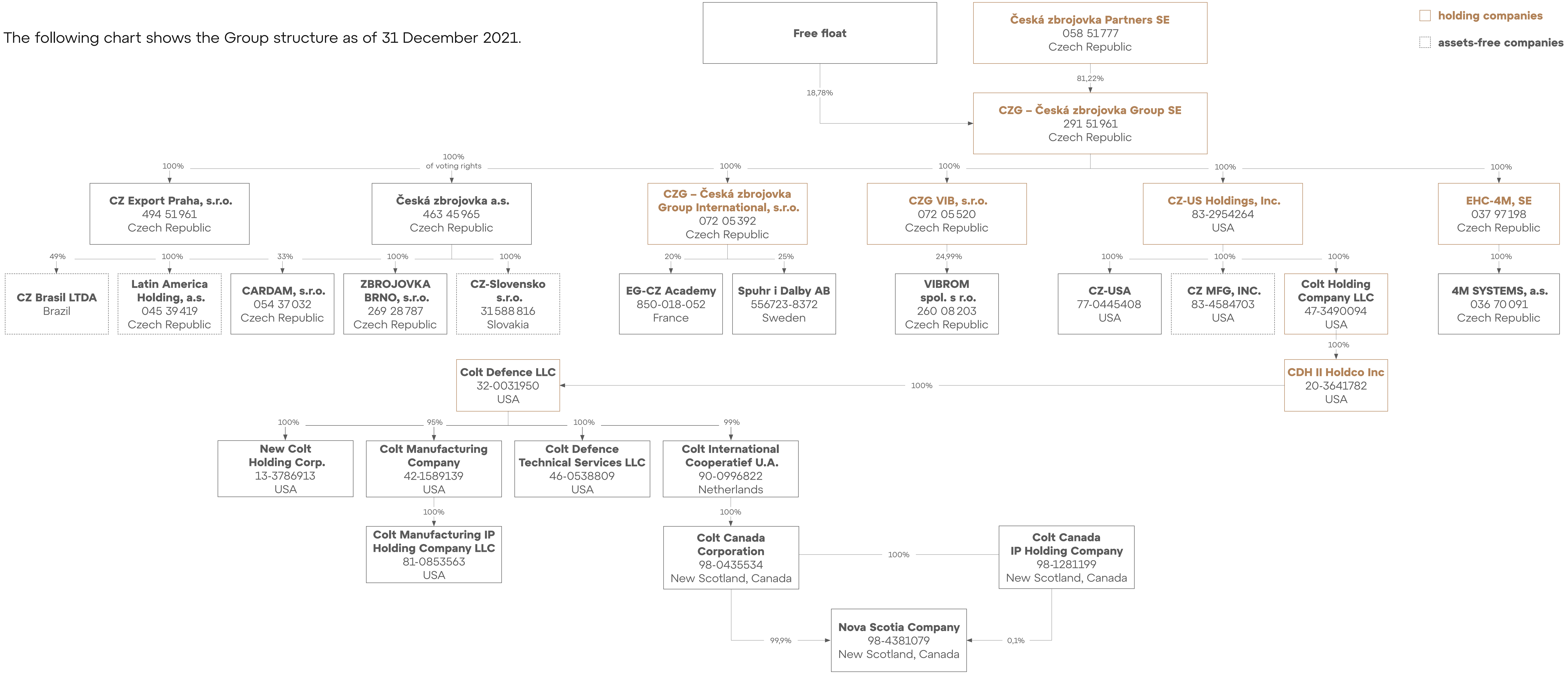
KULJEET **SEHRA**

Assembler/Shooter, Colt Canada

It has been 16 years since I came to Colt Canada, after being a caregiver for my kids. I started as a temporary employee and then became full-time. I am a C6 machine gun assembler and shooter. I had never shot a gun before coming to Colt Canada. It was my goal to learn and to become a shooter. The C6 machine gun is now my favorite gun to shoot. I am proud of what I have learned, and I am proud to work for Colt Canada, the partner of Canada's Armed Forces. Working with guns has given me more confidence and I am thankful for the opportunities.

ORGANISATIONAL CHART AND GROUP'S ENTITIES

The following chart shows the Group structure as of 31 December 2021.



Significant changes in the group's organisational structure in 2021

The following significant changes to the Group's organizational structure were made in 2021:

In May 2021, the Company successfully completed the acquisition of a 100% share in Colt Holding Company LLC, the parent company of the US firearms manufacturer Colt's Manufacturing Company LLC, and its Canadian subsidiary Colt Canada Corporation. Colt Holding Company LLC is the parent company of the Colt Group wholly owned by CZ-US Holdings, Inc., a subsidiary company of Colt CZ. Colt Holding Company LLC owns 100% of CDH II Holdco Inc, a US C corporation. Colt Holding Company LLC and its subsidiaries are among the world's leading designers, developers, and manufacturers of firearms.

A full list of significant subsidiaries, their names, registered offices, percentages of ownership and voting rights is set out in the notes to the consolidated financial statements of xxx.

The Company does not have any branch or other foreign operations or interests.

JOHN **PEASE**

Master Engraver, Colt

As a young child I was fascinated by firearm engraving and with a love for drawing and the outdoors I started to pursue the art form at the age of fourteen. I was self-taught with the guidance of several engravers. I was hired in 1985 where my career began, working for ten years under Master Engraver Thomas W. Freyburger. Soon after I began working independently for many of the leading firearm manufacturers and private collectors. In 2016 Colt honored me with a position as Master Engraver continuing the long-standing legacy of engraving artistry at the factory which will be the pinnacle of my career to continue that legacy for years to come.

SHARE CAPITAL, SHARES AND SHAREHOLDER STRUCTURE

As at 31 December 2021, the Colt CZ's share capital was CZK 3,373,662 and was fully paid up. It was divided into 33,736,620 ordinary registered book-entry shares with nominal value of CZK 0.10 each. The Company has not issued preferred shares, rights, convertible bonds or any other equity or equity-linked securities. All shares bear equal rights. The Company has no authorized but unissued capital. The shares of the Company bear no redemption or conversion rights. No capital of any member of the Group is under option nor is it agreed conditionally or unconditionally to be put under option. Each shareholder of the Company has equal rights, including equal voting rights (one vote per one share), subject to certain exceptions set out in the Act on Business Corporations and Cooperatives ("the Corporations Act"). According to the Articles of Association, each share of the Company entitles to one vote at the General Meeting.

With effect from 1 June 2020, the shares of the Company have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares. During September 2020, the Group finalized its IPO and as of 2 October 2020, its shares are traded on the Prime Market of the Prague Stock Exchange.

Information about shares

Market	BCPP, Prime Market
No. of issued shares (pieces)	33,736,620
Market capitalization (31 December 2021, price of CZK 508)	CZK 17,138,202,960
Ticker	CZG
BIC	BAACZGCE
ISIN	CZ0009008942
Bloomberg ticker	CZG CP Equity
Reuters ticker	CZG. PR
Indices	PX, PX-GLOB, PX-TR, PX-TRnet

Chart – Trading of Colt CZ's shares in the PSE in 2021

Investor relations

In the period since the IPO, Colt CZ has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communications according to the best market standards. At present, the Company has around 5 sell-side analysts who publish research on the Company, and a number of other commenting analysts. Colt CZ is dedicated to open and pro-active communication with its shareholders and has implemented a schedule of investor communications events, all of which is fully compliant with market standards for listed companies.

In 2021, the Company won the European Small and Mid Cap Awards jointly organized by EuropeanIssuers, the Federation of European Securities Exchanges, and the European Commission. Announced at a ceremony on 16 November 2021 in Portorož, Slovenia, Colt CZ Goup was ranked as one of the top three companies in the International Star category out of a total of 27 nominated companies from 17 countries. The award was based on outstanding performance in international business, profit, and market share growth. Companies are selected by an independent committee of experts under the auspices of the European Commission, comprising academics, wealth management experts, securities traders, and media representatives.

Majority shareholders

As at 31 December 2021, the majority shareholder of the Company was Česká zbrojovka Partners SE, incorporated as a European Company (Societas Europaea) in the Czech Republic, (the "Major Shareholder"), owning 27,400,480 shares representing an 81.2% share in the Company's equity and voting rights. The remaining 9.24% of Colt CZ's shares are in free float. The majority shareholder of the Major Shareholder is European Holding Company, SE ("EHC"), holding 97.5% of the share capital and voting rights, while the remaining 2.5% is held by Mr. René Holeček. EHC is 100% owned and controlled by Mr. René Holeček.

In September 2021, Mr. Lubomír Kovařík, Chairman of the Supervisory Board of Colt CZ Goup, and Mr. Jan Drahota, Chairman of the Board of Directors of Colt CZ Goup, sold their shares in the majority shareholder Česká zbrojovka Partners SE and simultaneously purchased Colt CZ shares. Mr. Lubomír Kovařík directly acquired 1,481,107 Colt CZ Goup shares (4.39% of voting rights) and Mr. Jan Drahota acquired 740,554 Colt CZ Group shares (2.20% of voting rights). The completion of these transactions increased the Company's free float to 18.8%.

The Company's major shareholders do not have different voting rights. The majority shareholder does not control the Company other than through the exercise of voting rights at General Meetings.

DIVIDEND POLICY

On 17 September 2020, the Board of Directors of Colt CZ adopted a dividend policy pursuant to which, as from the financial year ended 31 December 2020 onwards and subject to (i) the availability of sufficient distributable cash; and (ii) shareholder approval, the Company intends to target an annual distribution of at least 33 % of its consolidated net profit for the year based on its consolidated annual financial statements.

DIVIDEND PAID IN 2021

The General Meeting of the Company decided outside the General Meeting (per rollam decision-making) to deal with the Company's profit for 2020, i.e., the unconsolidated profit for 2020 of CZK 462,928,714.28 after tax, as follows:

- profit of CZK 253,024,650 was distributed to the shareholders. The profit share thus amounts to CZK 7.50 per share before tax. The relevant date for the exercise of the right to a share of profit was 28 June 2021. The profit share was payable on 19 July 2021. The rules for payment of the profit share are published on the Company's website on https://www.coltczgroup.com under the "Investors" link in the "General meeting" and "Dividend" sections.

- a profit of czk 209,904,064.28 (In words: two hundred and nine million nine hundred and four thousand sixty-four czech crowns and twenty-eight hellers) was transferred to the retained earnings account of previous years.

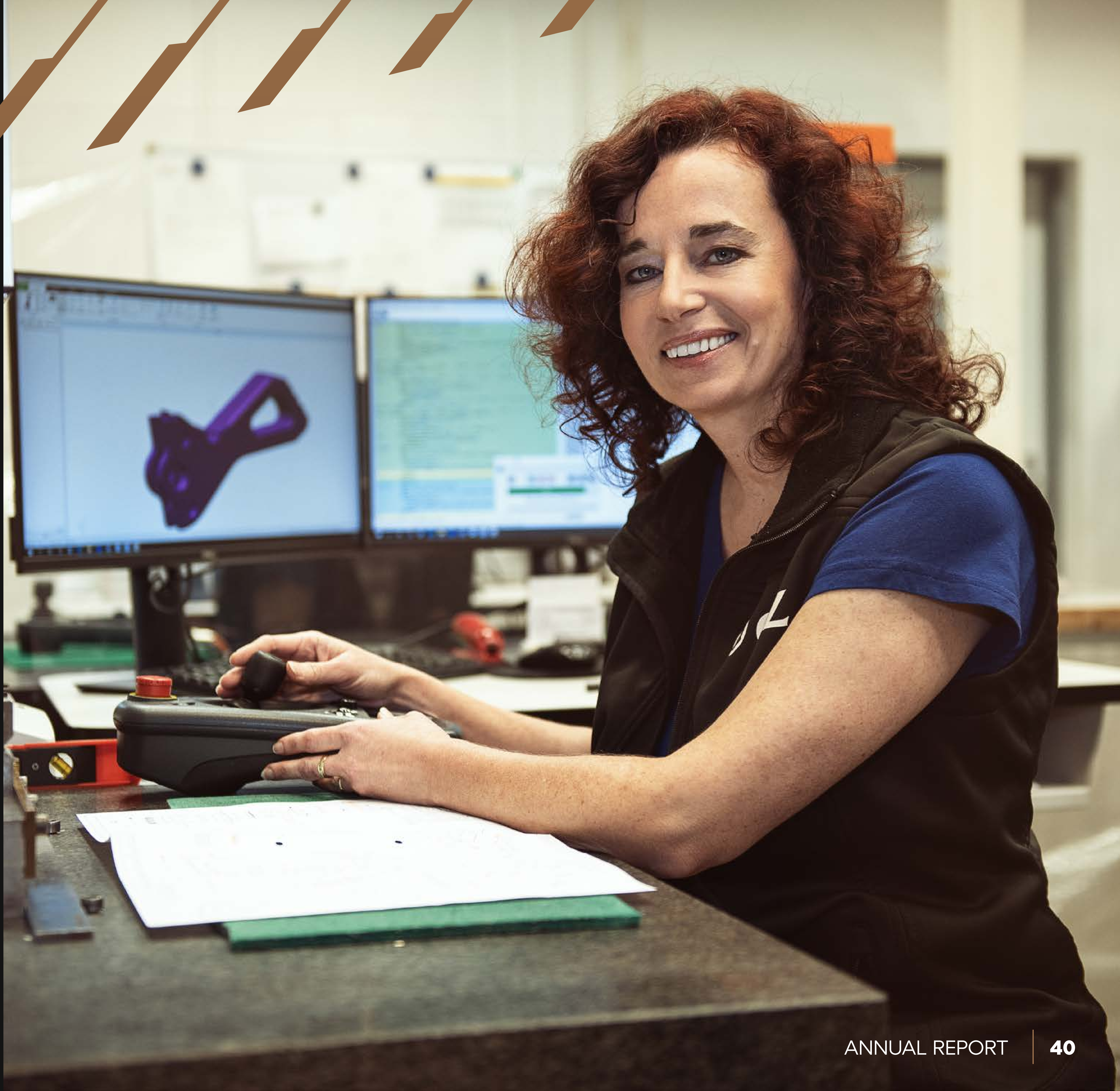
Dividend 2022

The Company will propose a dividend payment of CZK 25 per share from the consolidated net profit for 2021. The proposed dividend payout is more than 3 times higher than the dividend paid last year (CZK 7.5 per share). The dividend payout is subject to the approval by the General Meeting.

KAMILA **PENČÁKOVÁ**

Coordinate-Measuring Machine Programmer, Česká zbrojovka

Already during my high school studies, I was able to find an error in any text and saw at first sight what even the teachers often missed. After my high school and university studies, I became a glassworker-technologist, utilizing my specialization in silicate technology. The hands of the glassmaker masters manufactured proficient products to which I gave the color and form. After maternity leave, I decided to find a job closer to home and joined the team of Česká zbrojovka as a quality controller. Here I encountered measuring machines, measuring methods, designs and great experts from many professions connected with firearm production. I like accuracy, simplicity, and straightforwardness, two points and the distance between them. I again discovered my talent to find things that the other people had overlooked. Now I program state-of-the-art 3D measuring machines that can measure a produced part based on a soft touch or without any contact, i.e., optically, and compare it with the design documentation. I also train my colleagues in operating such machines. Furthermore, I cooperate with suppliers and students. Working with precision is my mission.



OTHER STATUTORY REQUIREMENTS SET FORTH IN SECTION 118(5)(A) THROUGH (K) OF THE CAPITAL MARKETS ACT

This summary is based on the requirements set forth in Section 118(5)(a) through (k) of the Capital Markets Act.

STRUCTURE OF EQUITY

As at 31 December 2021, the Colt CZ's share capital was CZK 3,373,662 and was fully paid up. It was divided into 33,736,620 ordinary shares in book-entry form with a par value of CZK 0.10 per share. The Company did not issue any preference shares, rights, convertible bonds, or any other securities linked to shares or equity. All shares bear equal rights. The Company has no authorized unissued shares[6]. The shares of the Company bear no redemption or conversion rights. No capital of any member of the Group is under option nor is it agreed conditionally or unconditionally to be put under option. Each shareholder of the Company has equal rights, including equal voting rights (one vote per one share), subject to certain exceptions set out in the Corporations Act. According to the Articles of Association, each share of the Company entitles to one vote at the General Meeting. The Company has not issued any different types of shares.

Restrictions on transferability of securities

The transferability of Colt CZ's shares is not restricted.

Information on significant direct and indirect shares in the issuer's voting rights

Information on significant direct and indirect shares is described in Section 12 – Share capital, shares, and shareholder structure in the paragraphs "Majority shareholders".

Information on holders of securities with special rights, including a description of these rights

No special rights are attached to any of Colt CZ's shares.

Information on voting rights restrictions

The voting rights attached to Colt CZ's shares are not restricted.

Information on agreements between shareholders that may result in making transferability more difficult, if known to the issuer

Colt CZ is not aware of any agreements between its shareholders that might restrict or limit the transferability of its shares or voting rights.

Information on special rules governing the election and recall of members of the statutory body and amendments to the issuer's articles of association or similar document

The Articles of Association provide that the Board of Directors consists of seven members that are elected and recalled by the Supervisory Board. A member of the Board of Directors is elected for a period of five years and may be re-elected. The Supervisory Board may recall a member of the Board of Directors at any time. The Board of Directors appoints its Chairman and two Deputy Chairmen from amongst its members. The Articles of Association may be amended by a decision of the General Meeting. Apart from standard legal provisions, no special rules are in place for the appointment of and recalling of members of the Board of Directors and for adoption of the amendments of the Articles of Association.

[6] With the exception of the approved Share Program

Information on the special powers of the statutory body or the administrative board under the corporations act

The Colt CZ's Board of Directors has no special powers.

Information on significant contracts to which the issuer is a party and that will become effective, change, or expire if control over the company changes as a result of a takeover bid

The Company has not entered into significant contracts that will become effective, change, or expire if control over the Company changes as a result of a takeover bid.

Information on contracts between the issuer and members of its statutory body or its employees in which the company would undertake to provide a performance in case their service or employment is terminated in relation to a takeover bid.

The Company has not entered into any contracts with members of its Board members or its employees in which the Company would undertake to provide a performance in case their service or employment is terminated in relation to a takeover bid.

Information on any programs under which employees and members of the company's statutory body are permitted to acquire participating securities, options over these securities or other rights to them on preferential terms, and how the rights are exercised

In December 2021, the Company's Supervisory Board approved the draft Share Program of Colt CZ Group SE (the "Share Program"), which was prepared in accordance with the Remuneration Policy approved by the General Meeting of the Company on 22 June 2021. The total number of stock options to be allocated is 3,373,000. Based on the Share Program, co-workers will be allocated options (rights) to purchase a predetermined number of Colt CZ registered book-entry shares with a nominal value of CZK 0.10 per share. As at 31 December 2021, the Share Program participants had not been allocated any options and no agreements had been signed with them.

JARED **FOX**

Senior Account Manager, CZ-USA

I began my career with CZ-USA four years ago as an Internal Sales Representative. Today I am a member of the CZ-USA Shooting Team, and the Senior Account Manager for chain stores and distributors. I have been able to travel frequently in my career. My trip to the Czech Republic to visit Česká zbrojovka was my favorite. I grew up in northeast Missouri where I competed in wrestling in high school, an experience that taught me valuable lessons in self-discipline. I then began my career in sales, and through friendships I had made in USPSA shooting sports over the years, found CZ-USA. During peak season, I shoot or dry fire 40 hours a week. My favorite gun to shoot is the CZ Shadow 2 Orange, because it is a firearm that is as close to perfect as what currently exists. My CZ Shadow 2 Orange has helped me win numerous titles in practical shooting competitions.

CORPORATE GOVERNANCE PRINCIPLES

CORPORATE GOVERNANCE CODE

The corporate governance structure of the Company complies with the applicable laws, including the Corporations Act. Under Czech law, the Company is not required to comply with any corporate governance code. The Company intends to comply with the Czech companies corporate governance code issued by the Czech Institute of Directors in September 2018 (the "CG Code") based on a "comply or explain" principle which means that the Company either complies with the CG Code or explains why it does not comply with certain rules of the CG Code. The Company currently complies with the CG Code, except for certain principles as follow:

2. 3. 2 The Company should not allow shareholders to make decisions outside the General Meeting (per rollam)
Colt CZ:
Colt CZ: The Articles of Association allow for the per rollam voting at the General Meeting. The Company introduced this manner of voting as one of the measures taken in response to the outbreak of COVID-19. Even when shareholders make decisions outside the General Meeting, the Company will respect shareholders' rights and guarantee full exercise of these rights to all shareholders.

3. 2. 2. Members of the Company's elected bodies should not serve as members of elected bodies in more than four other business corporations, except in business corporations that form a corporate group with the Company.
Colt CZ: Mr. Aquilar holds several non-executive positions in statutory bodies in the US. The Company does not consider such positions conflicting. Mr. Drahota acts as a member of elected bodies of more than four corporations. The Company does not consider such positions conflicting. Ms. Růžičková acts as a member of elected bodies in more than four business corporations associated with the Company's majority owner. The Company does not consider such positions conflicting.

6. 2. The Supervisory Board should have at least three members and a sufficient number of its members should be independent. A member of the Supervisory Board should be considered independent only if he/she has no business, family or other relationships with the Company, its majority shareholder or the Company's management, or/and is not influenced by other circumstances that may create a conflict of interest impairing his/her judgement.
Colt CZ: As at the day of this annual report, only Mr. Vladimír Dlouhý meets the definition of an independent member of the Supervisory Board. Mr. Kovařík and Ms. Růžičková act on the elected bodies of companies owned by the Company's majority shareholder.

9. 2. 1 Non-executive committees should be composed of a majority of non-executive members of the Supervisory Board or the Administrative Board.
Colt CZ: As at the date of this annual report, none of the members of the Audit Committee (out of three members) is a member of the Supervisory Board, however, all members of the Audit Committee are non-executive members.

COMPLIANCE MANAGEMENT SYSTEM

Colt CZ has implemented a comprehensive compliance management system, the aim of which is to respond to cases of non-compliance with legal regulations, requirements, rules, and organizational standards regulating the Group's business, with standards of good governance and generally accepted practices and values declared by the Company, and to respond adequately to identified risks and cases of non-compliance with preventive measures. The compliance management system also includes the Anti-Corruption Policy, the Competition Law Policy, the Privacy Policy, and the Code of Ethics.

Under its compliance management system, Colt CZ's Board of Directors appoints an employee of the Group as a compliance officer. The Compliance Officer is primarily obliged to (i) oversee the proper functioning of the compliance system, (ii) review internal guidelines, (iii) conduct assessments of significant risks, and (iv) deliver measures to prevent instances of non-compliance or acceleration of identified risks to the Board of Directors for approval. Colt CZ also implemented a so-called 'whistleblowing' system for the notification of information relevant for the compliance system by CZUB's employees or any other third party.

The Code of Ethics of Colt CZ sets out the fundamental ethical obligations for employees of the Group, in particular, the obligation to (i) act in line with applicable law, (ii) avoid any acts which may be related to bribery, (iii) avoid any conflicts of interest, and (iv) protect the good standing of Colt CZ.

The anti-bribery policy of Colt CZ sets the main course of behavior of Groups' employees in relation to corruption activities. Its fundamental principles include:

- The Group does not tolerate any acts related to providing, offering, promising, accepting or requesting unauthorized benefits in the form of money, gifts or other advantages in connection with business or work-related activities of the respective individual in order to obtain or keep benefits for oneself or a third party;
- The management of Colt CZ actively acts against any manner of corruption and prevents any suspicious activities which could be labelled as corruption;
- The Group's employees are obligated to avoid any conflict of interest, in particular, such conflicts of interest that lie in the participation of the Group's employees in the business relations of the Group on the side of the suppliers or purchasers which would result in unfair personal benefit;
- Accepting or offering of gifts or any similar advantages exceeding the relevant thresholds is forbidden (except for sponsorship and charity activities).

The Group applies strict oversight to both the supplier selection process and further cooperation with them. Suppliers must accept and comply with the Company's Code of Conduct. Compliance with the Code of Conduct is subject to regular review and evaluation, and in the event of non-compliance, cooperation with the supplier or customer is immediately terminated. The Group and its subsidiaries apply strict verification procedures to suppliers as well as wholesale and retail customers.

JERRY **DEVEAU**

Range Master Handgun Department, Colt

I am a long-time Colt Employee with 37 years at the company, and I have seen much change in those years. From working in the original Hartford facility that Sam Colt started, to working in West Hartford where we have been for the last thirty years. I am also a second-generation Colt employee and I, like my father, am proud to work at Colt's here in Hartford. I currently work as a Handgun Range Master and do trouble shooting on the handgun line to ensure high quality of our products. Also, I was one of the original legendary Python builders. It gives me great joy to see the company come out with something new and that by using modern manufacturing techniques, Colt can produce a Python that more than meets today's customer expectations. It not often that you see a product, so revered as the Python, come back and more than meet the customer's expectations of quality.

DESCRIPTION OF THE DECISION MAKING PROCEDURES AND POWERS OF THE GENERAL MEETING

A description of the decision-making procedures and the powers of the General Meeting is set out in the Company's Articles of Association in Section 7 - General Meeting, its status, and powers, available on the Company's website at https://www.coltczgroup.com/en/investors-corporate-affairs/.

The General Meeting is the highest corporate body of the Company. The powers of the General Meeting under the Corporations Act and the Articles of Association include among others:

a) decisions to amend the Articles of Association, unless it is an amendment resulting from an increase of the share capital by a duly authorized Board of Directors or an amendment occurring based on other legal facts
b) decisions to change the amount of share capital and to authorize the Board of Directors to increase the share capital
c) decisions to allow the possibility to set off a monetary receivable towards the Company against a receivable from the payment of the issue price
d) decisions to increase the share capital by non-monetary contributions
e) decisions on the issue of convertible or preference bonds under Section 286 of the Corporations Act
f) decisions on the exclusion or limitation of the pre-emptive right to acquire convertible or preference bonds under Section 286 of the Corporations Act or on the exclusion or limitation of the shareholders' pre-emptive right to subscribe for new shares in the event of a share capital increase
g) decisions on a change in the type or form of shares, on a change in the rights attached to shares and on a split or merger of shares
h) decisions on the acquisition of treasury shares by the Company, if a decision of the General Meeting is required by law
i) election and recall of Supervisory Board members, decisions on their remuneration and on the provision of benefits to Supervisory Board members within the meaning of Section 61 of the Corporations Act, approval of contracts for the performance of the functions of Supervisory Board members
j) election and recall of Audit Committee members, decisions on their remuneration and on the provision of benefits to the Audit Committee members within the meaning of Section 61 of the Corporations Act, approval of contracts for the performance of the functions of Audit Committee members
k) approval of the annual, extraordinary, and consolidated financial statements and, in the cases provided for by law, the interim financial statements
l) decisions to distribute profit or the Company's other own resources, or to cover loss
m) decisions to file an application to have the Company's participating securities admitted for trading on a European regulated market or to exclude such securities from trading on a European regulated market
n) decisions to dissolve the Company with liquidation
o) appointment and removal of a liquidator (including the determination of their remuneration)
p) decisions on the approval of the final report on the course of the liquidation and on the approval of the proposal for the use of the liquidation balance
q) approval of the transfer, lease or pledge of the plant or such part of the assets as would involve a material change in the Company's actual business or activities
r) decisions on a merger, division, transfer of assets to shareholders, change of the Company's legal form, foreign relocation of the registered office or other transformation of the Company
s) approval of a silent partnership agreement, establishing the right to share in the profits or the Company's other own resources, including its amendments and termination
t) approval of the rules of procedure of the General Meeting, the rules of voting at the General Meeting, and other organizational measures related to the General Meeting
u) approval of the rules of procedure of the Audit Committee
v) the approval of the acquisition or disposal of assets, if required by law
w) decisions on the Company's strategic and conceptual plans
x) the establishment of reserve funds and/or other funds as well as how such funds are to be created and supplemented (in particular for other capital funds), or their cancellation
y) discussion of the measures proposed by the Board of Directors pursuant to the provisions of Section 403 of the Corporations Act
z) discussion of the results of the Supervisory Board's review activities pursuant to the provisions of Section 83(1) and Section 449 of the Corporations Act

aa) appointment and removal of the Company's auditor
bb) the issue of other resolutions entrusted to the General Meeting by the legislation.

The General Meeting may not reserve the decision-making authority in matters that do not fall under its powers under legal regulations or the Articles of Association.

Convening the general meeting

The General Meeting shall be held as necessary, but at least once every accounting period, namely always no later than 6 months after the last day of the preceding accounting period. The General Meeting shall be also convened at the request of a qualified shareholder under the terms stipulated by the Articles of Associations and the Corporations Act. The General Meeting shall be convened by the Board of Directors or its members. If the Company has no elected Board of Directors or the Board of Directors permanently fails to fulfil their duties and none of its members convene the General Meeting, the General Meeting shall be convened by the Supervisory Board. The Supervisory Board may also convene the General Meeting where required in the interest of the Company.

At least 30 days prior to the date of the General Meeting, the convener shall post an invitation to the General Meeting on the Company's website, i.e., https://www.coltczgroup.com/en/, and in the Commercial Bulletin. Sending the invitation to the addressees of the respective shareholders in the meaning of Section 406 (1) of the Corporations Act is replaced by publishing the invitation in the Commercial Bulletin.

If a qualified shareholder requests the Board of Directors to convene the General Meeting, the General Meeting will be convened within 50 days after the delivery date of the request to convene the General Meeting to the Board of Directors. The announcement of the General Meeting shall be published no later than 21 days before the date of the General Meeting.

Matters which are not on the proposed agenda of the General Meeting may only be discussed or approved with the consent of all shareholders. The General Meeting shall be cancelled or postponed only in accordance with the Corporations Act. If the General Meeting is convened at the request of the Qualified Shareholder, then it may only be cancelled or postponed with the consent of the respective Qualified Shareholder.

Meetings and decision-making of the general meeting

The General Meeting shall have a quorum if the shareholders present hold shares whose nominal value exceeds 50% of the Company's share capital as at the relevant date for participation in the General meeting.

Unless provided otherwise in law or the Articles of Association, the General Meeting adopts decision by a majority of votes of the present shareholders.

Decisions taken outside of the general meeting (per rollam decisions) are allowed while the person authorized to convene the General Meeting shall notify all shareholders of a proposal of a decision in the manner provided for in the Articles of Association.

MIROSLAV **MATĚJÍK**

Professional Shooter, Česká zbrojovka

I was born into a family of hunters. My father and grandfather began to take me into the countryside and the forest as soon as I started walking. I developed a bond with nature and wild game and learnt that hunting is mainly about caring for and feeding the wild animals. My father also used to take me to the shooting range. At the age of 12, I was offered to train in one of the best sports clubs specializing in air rifle shooting. I won the Czech Junior Championship in the Olympic Trap discipline several times. Later, I became a member of the national senior team and had a semi-professional contract. Both the school where I studied gunsmithery and later my employer Česká zbrojovka enabled me to combine sports and work duties. Now I am fully devoted to my profession of a professional shooter. Every year, I use up to one million cartridges. My task is to test the serial production. I also participate in new product development. Česká zbrojovka is a family firm for me as already my grandfather worked there, and my father, mother, and uncle followed the tradition. Now I do, too. At the same time, I have a job I love and enjoy.

DESCRIPTION OF DECISION MAKING PROCEDURES, THE COMPOSITION OF THE STATUTORY BODY, THE SUPERVISORY BOARD, AND ITS COMMITTEES, INCLUDING INFORMATION ON THE AUDIT COMMITTEE

The Company has a dual management system consisting of the Board of Directors and the Supervisory Board. The Board of Directors represents the Company in all matters and is charged with its day-to-day business management, while the Supervisory Board is responsible for the supervision of the Company's activities and of the Board of Directors and resolves on matters defined in the Corporations Act and the Articles of Association, particularly matters with material impact on the value of the ownership interests in the Company. Under the Corporations Act, the Supervisory Board may not manage the Company's business. A description of the decision-making procedures and the composition of the Board of Directors is set out in the Company's Articles of Association, Section 13 – the Board of Directors and its powers A description of the decision-making procedures and the composition of the Supervisory Board is set out in the Company's Articles of Association, Section 19 – the Supervisory Board and its powers. Information on the Supervisory Board Committees, including the Audit Committee are set out in the Company's Articles of Association, Section 26 – Meetings and decision-making of the Audit Committee. The current Articles of Association of the Company are available on the Company's website.

Board of directors

The Board of Directors is the statutory body of the Company. The Board of Directors shall be in charge of the management of the Company's business and shall acts on the Company's behalf. Matters falling within the powers of the Board of Directors include those that are not entrusted to other bodies of the Company by virtue of the Articles of Association or law.

Matters falling within the powers of the Board of Directors primarily include:

a) management of the company's business and ensuring the operational affairs of the Company
b) ensuring proper maintenance of accounts, books of accounts and other corporate documents required by law
c) submitting the annual, extraordinary and consolidated financial statements to the General Meeting for approval, including interim financial statements if necessary, and a proposal to distribute profits and other own resources or cover the losses
d) submitting the annual report to the General Meeting, including the report on the Company's business activities and state of assets
e) convening the General Meeting and submitting to it matters falling within its powers for discussions and approval
f) decisions on the use of funds, where the use is for a purpose to be decided by the General Meeting
g) increasing the Company's share capital in accordance with the Articles of Association
h) granting of proxy
i) informing the Supervisory Board at least once every 3 months about the progress and expected development of the Company's business, strategy, economic performance, risks, and internal control system.

The Board of Directors of the Company may establish committees and subcommittees as its advisory bodies.

The Board of Directors shall have 7 (in words: seven) members. A member of the Board of Directors may be a legal person or an individual. Members of the Board of Directors shall be appointed and removed by the Supervisory Board. The term of office of the members of the Board of Directors shall be 5 years. A member of the Board of Directors may be re-elected.

The Board of Directors meets once a month, usually at the Company's premises. Ordinary meetings shall be convened by the Chair or Vice-Chair of the Board of Directors or, in their absence, by any member of the Board of Directors by written invitation.

A quorum of the Board of Directors shall be present if an absolute majority of its members are present at the meeting. A member of the Board of Directors who participates in a meeting by technical means shall be deemed to be present at the meeting.

An absolute majority of all members of the Board of Directors, not just those present, shall be required to take a decision on all matters discussed at a meeting of the Board of Directors.

Each member of the Board of Directors shall have one vote. In the event of a tie, the vote of the Chair of the Board shall always prevail.

Two members of the Board of Directors shall act jointly on behalf of the Company, at least one of whom must be the Chair or Vice-Chair of the Board of Directors.

Supervisory board

The Supervisory Board is the supervision body of the Company and shall supervise the exercising of powers by the Board of Directors and the Company's activities.

Matters falling under the powers of the Supervisory Board include those entrusted to it by law and the Articles of Association. The Supervisory Board shall be governed by the principles approved by the General Meeting, unless they conflict with the law or the Articles of Association.

The Supervisory Board may establish committees and subcommittees as its advisory bodies (e.g., a Remuneration Committee, the Compliance and Ethics Committee, and the Strategic Investments and Acquisitions Committee).

The Supervisory Board has three members. The members of the Supervisory Board are elected and dismissed by the General Meeting. The Supervisory Board elects and recalls its Chairman from among its members. The term of office of the members of the Supervisory Board is 5 years. A member of the Supervisory Board may be re-elected.

The Supervisory Board shall meet as necessary, but at least twice a year. Ordinary meetings shall be convened by the Chairman by written invitation. The Supervisory Board shall take decisions at its meetings. Meetings of the Supervisory Board shall be chaired by its Chairman. A quorum of the Supervisory Board shall be present if an absolute majority of its members are present at the meeting. The affirmative vote of an absolute majority of all members of the Supervisory Board, not just those present, is required for the adoption of resolutions on all matters discussed by the Supervisory Board. Each member of the Supervisory Board shall have one vote. In the event of a tie, the vote of the Chair of the Board shall always prevail. If all members of the Supervisory Board agree, the Supervisory Board may also adopt a decision in writing outside the Supervisory Board meeting (per rollam voting) based on a proposal by the Chair of the Supervisory Board.

Audit committee and its powers

The Audit Committee shall take decisions at its meetings. A quorum of the Audit Committee shall be present if an absolute majority of its members are present at the meeting. The Audit Committee decides by an absolute majority of votes of its members. Each member of the Audit Committee shall have one vote. In the event of a tie, the vote of the Chair of the Audit Committee shall prevail. If all members of the Audit Committee agree, the Audit Committee may also adopt a decision in writing outside the Audit Committee meeting (per rollam voting) based on a proposal by the Chair of the Audit Committee. Meetings of the Audit Committee shall be held as necessary. The frequency of meetings may be determined in the Rules of Procedure of the Audit Committee.

A description of other committees established by the Company is set out at page 61.

KRUNO **PEJIC**

Production Supervisor, Colt Canada

I have been with Colt Canada for 22 years, which is most my career. I joined Colt shortly after immigrating to Canada from Croatia. I started as CNC Operator and then was promoted to Afternoon shift Leadhand and subsequently supervisor in 2018. I have been a machinist since I was 15 years old and am proud of the trade. I am proud of the people I work with and the quality of product that we make. I enjoy the challenge of learning to make new parts and products, especially the C6 machine gun. I am thankful to my former supervisor, Gary Freiburger for supporting me and helping me develop in my career at Colt Canada.

MEMBERS OF ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The following table sets out the name and office of each member of the Board of Directors.

Name	Position on the Board of Directors / Position in senior management	Commencement	End of Current Term of Office
Jan Drahota	Chairman of the Board of Directors / President (since 1 July 2021) / Vice-Chairman of the Board of Directors (until 30 June 2021)	17 January 2020	17 January 2025
Alice Poluchová	Vice-Chair of the Board of Directors	17 January 2020	17 January 2025
Josef Adam	Vice-Chairman of the Board of Directors / Head of Legal	1 November 2021	1 November 2026
David Aguilar	Member of the Board of Directors	17 January 2020	17 January 2025
Jan Zajíc	Member of the Board of Directors / CEO of CZUB	24 November 2020	24 January 2025
Jan Holeček	Member of the Board of Director / Group Head of Sales	1 July 2021	1 July 2026
Dennis Veilleux	Member of the Board of Directors / CEO of Colt	1 July 2021	1 July 2026
Lubomír Kovařík	*Chairman of the Board of Directors*	*17 January 2020*	*30 June 2021*
Andrej Chrzanowski	*Member of the Board of Directors*	*17 January 2020*	*31 March 2021*
Jana Růžičková	*Vice-chair of the Board of Directors*	*17 January 2020*	*31 October 2021*

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

JAN DRAHOTA
President of the Company and Chairman of the Board of Directors
Mr. Drahota studied Finance at the University of Economics, Prague and holds a Master of Business Administration degree from the University of Chicago, Booth School of Business. Before joining the Group at the level of the majority shareholder in 2014, Mr. Drahota worked for about 15 years in the financial markets and investment banking field, spending most of his career in Société Générale Group, most recently as its Managing Director, Head of Central and Eastern Europe, based in Paris. From 2014 to 2015, he served as a senior advisor to the Deputy Minister of Finance of the Czech Republic, he also served as an advisor to the Minister for Health with regards to corporate governance of publicly held hospitals and institutions. Mr. Drahota has broad non-executive director experience and is currently acting, inter alia, as a representative of the Ministry of Finance on the supervisory board of ČEPS, a.s. (the sole Czech energy transmission grid owner and operator).

ALICE POLUCHOVÁ
Vice-Chair of the Board of Directors
Ms. Poluchová has a Master's degree in Management from the Business College of the Silesian University, Karviná, Czech Republic. She joined the Group directly after her graduation in 1995, as the Export Sales Manager in the Czech Republic. She relocated to the United States in 1998 and became the Vice President and Treasurer of the newly established CZ-USA. In 2004 she was appointed to the positions of President and Chief Executive Officer of CZ-USA. Ms. Poluchová has been instrumental in the growth of CZ-USA, which has helped transform the Group into a sizeable player in the small arms market. She has established a strong team that is continuously growing the Group's presence and recognition in the United States. Ms. Poluchová represents the North American activities in the Board of Directors of the Group.

JOSEF ADAM
Vice-Chairman of the Board of Directors
Mr. Adam is a graduate of the Faculty of Law of Charles University in Prague, and of the joint LL.M. programme of Nottingham Trent University and the Faculty of Law of Masaryk University in Brno. Before joining Colt CZ in July this year, Mr. Adam worked for two years as an attorney and partner at HAVEL & PARTNERS, a law firm. Before that, he worked for eleven years in various managerial positions at Airport Prague, Czech Aeroholding, and Czech Airlines, including nine years as a member of the board of directors. In addition to the legal department, he also managed the finance, HR and IT departments. In Colt CZ, Mr. Adam is responsible for legal affairs, compliance and risk management.

JAN ZAJÍC
Member of the Board of Directors
Mr. Zajíc graduated in Economics and Management at the Faculty of Business and Economics of Mendel University in Brno. Prior to joining CZUB, he held various managerial positions in industrial companies in the Czech Republic and abroad. He started his career in Fatra, the plastic producer based in Napajedla, then in the Continental Barum plants in Otrokovice and Púchov, Slovakia. In the Continental Group, he held various positions in the financial management and controlling at the production plant in Kuala Lumpur, Malaysia, and subsequently at the company's headquarters in Hannover, Germany. Mr. Zajíc has been working at CZUB as is chief financial officer since 2019. Since November 2020, he has served as chief executive officer and chairman of the Board of Directors of CZUB. Mr. Zajíc represents CZUB, the main manufacturing entity in the Czech Republic, on the Board of Directors.

DENNIS VEILLEUX

Member of the Board of Directors

Dennis Veilleux graduated from Vermont Technical College. With 35 years of experience in the industry, Mr. Veilleux has deep expertise in firearms design, engineering and manufacturing. He started his career at GE Armament where he participated in the development and manufacture of military weapon systems. He also worked at Sturm, Ruger and Company, and at U. S. Repeating Arms Company. Dennis Veilleux joined Colt in 2006, serving gradually as its Executive Director of Engineering, Vice President of Manufacturing, and Chief Operating Officer. Since 2013 as the CEO of the holding, he has been instrumental to its restructuring and transformation, which culminated in the merger with the Colt CZ Group.

JAN HOLEČEK

Member of the Board of Directors

Jan Holeček studied economics and finance at Bentley University in the USA. In 2016, he started his career at Siemens as a market analyst and continued as a business development specialist. In 2017 he joined Česká zbrojovka, first as an analyst and later as marketing director. Since 2019 until end 2021, he wasthe member of the Board of Directors of Česká zbrojovka responsible for sales. Since July 2021, he has been member of the Board of the Company responsible for sales.

DAVID AGUILAR

Member of the Board of Directors

Mr. Aguilar retired from his career in the U.S. Government's service on 31 March 2013 where he served 35 years with U.S. Customs and Border Protection and the United States Border Patrol, acquiring a wealth of knowledge and experience in border law enforcement and administration, domestic and international policing, strategy, tactics, and policy development. He served the last three and a half years of his career as the Acting Commissioner of U.S. Customs and Border Protection, the highest-ranking career officer in the U.S. largest federal law enforcement organization.

Mr. Aguilar's leadership, professional integrity and commitment to excellence have earned him numerous awards, including the Presidential Rank Award in 2008, the President's Excellence Award in 2005, the Department of Homeland Security Distinguished Service Medal, the Washington Homeland Security Roundtable Lifetime Achievement Award, and the Institute for Defence and Government Advancement Lifetime Achievement Award. Currently, besides his role in the Group, David is a Principal at Global Security and Innovative Strategies, where he advises clients on a broad range of national homeland and international security matters including border security and logistics, global trade and commerce, supply chain management and security, risk management, viability assessments, and strategic planning and implementation. Mr. Aguilar focuses on tailoring global risk management solutions related to supply chain security, customs compliance, and all issues related to border protection at and between international ports of entry. Mr. Aguilar acts as an independent, non-executive member of the Board of Directors.

The table below sets out positions held by members of the Board of Directors outside the Group in the past 5 years stating if this is the past or present position:

JAN DRAHOTA

Past positions:

U.C.H, a.s., in liquidation – member of the board of directors .... (09/2014–07/2017)
UniControls, a.s. – chairman of the supervisory board .... (06/2014–07/2017)
THERMAL-F, a.s. – vice-chairman of the supervisory board .... (10/2014–03/2018)
Česká exportní banka, a.s. – member of the supervisory board .... (06/2017–06/2019)
CZ-AUTO SYSTEMS, a.s. – member of the supervisory board .... (09/2019–11/2019)
Zero Emissions Debt Finance, a.s. – statutory director .... (09/2015–01/2021)
Česká zbrojovka Defence SE – chairman of the board of directors .... (08/2017–11/2021)
Česká zbrojovka Partners SE – member of the board of directors .... (02/2018–10/2021)

Present positions:

DCF Partners, s.r.o. – executive .... (od 01/2012–to date)
ČEPS, a.s. – member of the supervisory board .... (02/2015–to date)
Zero Emissions Debt Finance, a.s. – chairman of the management board .... (9/2015–to date
hypo360.cz, SE – member of the board of directors .... (10/2016–to date)
Česká zbrojovka Defence SE – member of the board of directors .... (11/2021–to date)

ALICE POLUCHOVÁ

none

JAN ZAJÍC

Past positions:

none

Present positions:

ITeuro, a.s. – chairman of the supervisory board .... (10/2020–to date)
Sdružení pro rozvoj Zlínského kraje – management member .... (09/2021–to date)

DAVID AGUILAR

Past positions:

none

Present positions:

U.S. Nadace pohraniční stráže – member of the board of directors .... (2013–to date)
Global Security and Innovative Strategies – principal .... (04/2013–to date)
Drone Aviation Holding Corp – member of the board .... (05/2019–to date)
University of Houston – Borders, Trade, and Immigration Institute External Advisory Board member
SAP NS2 advisory board member
Aviation Holding Corp – member of the board of directors

JOSEF ADAM

Past positions:

České aerolinie, a.s. – member of the board of directors .... (4/2014–10/2018)
ellipse aero, s.r.o. – member of the supervisory board .... (12/2020–01/2022)
KOVACO Electric, a.s. – member of the supervisory board B .... (01/2020–04/2021)

Present positions:

European Holding Company – member of the supervisory board .... (11/2021–to date)

JAN HOLEČEK

none

SUPERVISORY BOARD

The following table sets out the name and term of office of each member of the Supervisory Board:

Name	Position	Commencement of Current Term of Office	End of Current Term of Office
Lubomír Kovařík	Member of the Supervisory Board (since 1 July 2021)	1 July 2021	1 July 2026
Vladimír Dlouhý	Member of the Supervisory Board	17 January 2020	17 January 2025
Jana Růžičková	Member of the Supervisory Board (since 1 November 2021)	1 November 2021	1 November 2026
René Holeček	*Chairman of the Supervisory Board (until 1 July 2021)*	*17 January 2020*	*1 July 2021*
Věslava Piegzová	*Member of the Supervisory Board (until 31 October 2021)*	*17 January 2020*	*31 October 2021*

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

LUBOMÍR KOVAŘÍK

Chairman of the Supervisory Board

Mr. Kovařík graduated from Military Air Force University and he also completed an MBA program at Sheffield University. He started his career in Army of the Czech Republic as a pilot, were he reached the rank of lieutenant before leaving the army in in the mid-1990s. His civilian career started in 1995 as a manager in Aulis. After a year he joined Škoda Praha as Production Director, where he worked his way up to the position of CEO. He later worked for Eltodo EG and Mavel. Between 2006 and 2017, he was a CEO of CZUB. From 2018 to 2021, he was the President and Chairman of the Board of Directors of the Company.

As the Chairman of the Supervisory Board, Mr. Kovařík oversees the Group's strategic development and sustainability activities.

JANA RŮŽIČKOVÁ

Member of the Supervisory Board

Ms. Růžičková graduated from the Prague University of Economics and Business. Since 1997, she has worked at several companies of the issuer's Group. As a key expert in economics, she oversees audit, accounting, and the tax and legal matters of the Group. Her expertise covers business restructuring as well as mergers and acquisitions. She is a member of supervisory boards and boards of directors of numerous companies within the Group. She was co-opted into the Company's Supervisory Board effective 1 November 2021, after she was acting Secretary and Vice-Chair of the Board of Directors of Colt CZ.

VLADIMÍR DLOUHÝ

Member of the Supervisory Board

Mr. Dlouhý is a graduate of the University of Economics in Prague. He subsequently earned a Master of Business Administration degree at the Catholic University of Louvain, Belgium in 1978 and pursued postgraduate studies in mathematical statistics and probability at Charles University in Prague.

Mr. Dlouhý began his professional career as a lecturer. In 1983, he moved to the Czechoslovak Academy of Sciences as a researcher and later became Deputy Director of the Forecasting Institute. In 1989, Mr. Dlouhý was invited by Václav Havel to join the first post-communist government and until 1992 he served as the Minister of Economy of Czechoslovakia. After the split of the country, he served as Minister of Industry and Trade of the Czech Republic until June 1997. Simultaneously, he was a member of the Czech Parliament and vice-chairman of Civic Democratic Alliance, which was part of the governing coalition.

In 1997, he announced his departure from politics and currently serves as an International Advisor for Central and Eastern Europe at Goldman Sachs. Since 2014, he has been the president of the Czech Chamber of Commerce. Mr. Dlouhý is also an Associate Professor of Macroeconomics and Economic Policy at Charles University in Prague. Between 2000 and 2011, he was a member the Board of International Overseers at the Illinois Institute of Technology, Chicago, USA. He is also a member of the Trilateral Commission and in the past, he was a Deputy Chairman of its European Group. From 2009 to 2012, he was a member of the European Advisory Group to the Managing Director of the International Monetary Fund.

The table below sets out positions held by members of the Supervisory Board outside the Group in the past 5 years stating if this is the past or present position:

LUBOMÍR KOVAŘÍK

Past positions:

Česká zbrojovka Partners SE – chairman of the board of directors .... (02/2018–10/2021)
CZ-SKD Solutions a.s – member of the board of directors .... (01/2019–09/2020)

Present positions:

Česká zbrojovka Defence SE – chairman of the board of directors .... (11/2021–to date)
Nadace rodiny Holečkových – vice-chairman of the management board .... (12/2021–to date)

VLADIMÍR DLOUHÝ

Past positions:

National Committee of International Chamber of Commerce in the Czech Republic – president .... (01/2015–12/2018)
Prague Twenty, o. p. s., in liquidation – chairman of the management board .... (08/2011–01/2017)

Present positions:

Nadace BOHEMIAE, in liquidation – vice-president .... (03/1999–to date)
Nadace Academia Medica Pragensis – auditor .... (07/2002–to date)
Tatra Aerospace, a.s., „in liquidiation“ – member of the board of directors .... (10/2003–to date)
Hospodářská komora ČR – President .... (06/2014–to date)
Výzkumný ústav pro podnikání a inovace, z.ú. – chairman of the management board .... (07/2017–to date)
Kooperativa pojišťovna, Vienna Insurance Group – member of the supervisory board .... (01/2019–to date)
Meridiam Infrastructure – advisory board member .... to date
Goldman Sachs – International Advisory Board member .... to date

JANA RŮŽIČKOVÁ

Past positions:

U.C.H, a.s., v likvidaci – supervisory board member .... (11/2014–07/2017)
CZ AGRO Servis, a.s. – supervisory board member .... (06/2014–06/2019)
V.F.H EKONOMICKÝ SERVIS, a.s. – supervisory board member .... (01/2011–12/2020)
RAIL CARGO, a.s. – member of the board of directors .... (02/2008–06/2020)
CZ-SKD Solutions, a.s. – supervisory board member .... (11/2017–09/2020)
M & H Management, a.s. – statutory director and chair of the management board .... (02/2014–01/2021)
Minezit SE – member of the board of directors .... (07/2013–11/2021)
Kykulin Trade, a.s. – chair of the management board and statutory director .... (04/2015–11/2021)

Present positions:

IT eCompany Management, a.s. – supervisory board member .... (11/2014–to date)
Silesia Invest SE – member of the board of directors .... (09/2016–to date)
CZ AGRO Servis, a.s. – chair of the supervisory board .... (06/2019–to date)
AIT Group – Advanced Industrial Technology Group, a.s. – supervisory board member .... (09/2019–to date)
M & H Management, a.s. – member of the board of directors .... (10/2021–to date)
European Holding Company, SE – member of the board of directors .... (11/2021–to date)
Kykulin Trade, a.s. – management board member .... (11/2021–to date)
Minezit SE – chair of the board of directors .... (11/2021–to date)
Nadace rodiny Holečkových – supervisory board member .... (12/2021–to date)

AUDIT COMMIITEE

The majority of the members of the Audit Committee are required to be independent and professionally qualified pursuant to applicable provisions of Czech Act No. 93/2009 Coll., on Auditors, as amended, and at least one member of the Audit Committee is required to be a current or former statutory auditor or a person whose knowledge and previous experience in accounting warrants the proper performance of the office of a member of the Audit Committee with respect to the business of the Company. The chairman of the Audit Committee is required to be independent pursuant to applicable provisions of the Czech Act on Auditors. The business address of each member of the Audit Committee is at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic.

The Articles of Association provide that the Audit Committee consists of three members that are appointed for a period of five years. A member of the Audit Committee may be reappointed. No member of the Audit Committee may be a member of the Board of Directors. The powers, responsibilities and decision-making process of the Audit Committee are defined by the Articles of Association, the Czech Act on Auditors and the rules of procedure of the Audit Committee.

Key responsibilities and powers of the Audit Committee include, inter alia, monitoring the effectiveness of the Company's internal control and risk management system, the effectiveness of the Company's internal audit and ensuring its functional independence; the process of preparation of the Company's consolidated and non-consolidated financial statements; and the statutory audit process.

The following table sets out the name and office of each member of the Audit Committee:

Name	Position	Commencement of Current Term of Office	End of Current Term of Office
Věslava Piegzová	Chairman of the Audit Committee	17 January 2020	17 January 2025
David Ondroušek	Member of the Audit Committee	17 January 2020	17 January 2025
Tomáš Machuča	Member of the Audit Committee	17 January 2020	17 January 2025

VĚSLAVA PIEGZOVÁ
Chair of the Audit Committee
In 1978, Ms. Piegzová graduated from VŠB, the Technical University in Ostrava, Faculty of Economics. From 1978 to 1996, she was employed at TŘINECKÉ ŽELEZÁRNY, a. s., initially as a member of the accounting and reporting department. Later she became a leader of the team responsible for the implementation of the financial and controlling systems. In 1996, she was appointed chief financial officer of Vesuvius CR, a producer of isostatic materials for the steel industry. At the same time, she began an MBA programme at the Ostrava branch of the Open University of London and eventually completed her degree at Newport International University. In 2001, she returned to TŘINECKÉ ŽELEZÁRNY, a. s. as the Director for Strategy of Moravia Steel and a member of the management board. From 2005 to 2006, she also served as the Managing Director of Barrandov Studios. From 2007 to 2010, Ms. Piegzová was chief financial officer and chair of the board of directors of České loděnice a.s. in Děčín, a ship-building company. Then in 2010, she became CFO at Barkmet a.s. In 2013, Ms. Piegzová joined CZUB as its chief financial officer and later became the vice-chair of its board of directors. In 2020 and 2021, Ms. Piegzová served as a member of the Supervisory Board.

DAVID ONDROUŠEK
Member of the Audit Committee
Mr. Ondroušek worked for more than ten years in Deloitte's Audit Department, followed by 10 months in the WOOD & Company Finance Department and is currently working with Staněk, Tomíček & Partners tax advisors. Mr. Ondroušek is a licensed auditor of the Chamber of Auditors of the Czech Republic and a member of the international professional organization Association of Chartered Certified Accountants. In addition to providing audit services, he focuses primarily on IFRS and transfer pricing advice.

TOMÁŠ MACHUČA
Member of the Audit Committee
Mr. Machuča graduated from the Faculty of Law at Masaryk University in Brno, in 2013 and from the Faculty of Management and Economics at Tomas Bata University in Zlín, in 2017. After his studies at Faculty of Law, he started his career as a company lawyer at CZUB. He currently holds the position of Head of the Legal Department and also acts as corporate secretary of CZUB. In addition, he is responsible for corporate compliance and personal data protection at the Company.

Remuneration Committee
The key function of the Remuneration Committee is to ensure integrity and fairness of the remuneration system for senior management of the Group.

Committee for the Strategic Investments and Acquisitions
The key task of the Committee for the Assessment of Strategic Investments is to approve and review proposals of the senior management for potential M & A transactions and/or joint venture initiatives in order to ensure the industrial logic and desired financial benefits for the Group.

Compliance and Ethics Committee
The Compliance and Ethics Committee oversees the Group' compliance management and CSR policy.

Other information concerning members of the Board of Directors, Supervisory Board, Audit Committee, and other senior managers of the Company
In the last five years, none of the members of the Board of Directors, Supervisory Board, Audit Committee, and other senior managers of the Company:
- has been convicted of a criminal fraud
- has been officially publicly accused or penalized by a statutory or regulatory body (including designated professional bodies) and has not been legally disqualified from exercising an office of a member of an administrative, management or supervisory body of any issuer or a management position, or from carrying out the activity of any other issuer
- has been associated with bankruptcy, administration, or liquidation proceedings or with companies that have been placed under receivership in the last five years, except for companies listed above in this chapter.

Conflicts of Interest
There are no conflicts of interest between the duties of the members of the Board of Directors, Supervisory Board, Audit Committee and other senior managers of the Company and their private interests or other duties.

DESCRIPTION OF DIVERSITY POLICY APPLIED TO THE ISSUER'S STATUTORY BODIES

Colt CZ pursues a diversity policy which results in a balanced set of persons in the Company's governing bodies with respect to a balance of male and female representatives, nationality, age, education, professional experience and expertise. Female members are represented in both Board of Directors as well as in the Supervisory Board. Female members represent 14.3% of Board of Directors and 33% of Supervisory Board members. The Group evaluates candidates for open positions, whether in the Board of Directors, Supervisory Board or in broader management group, considering diversity principles in order to get the most benefits from the mixed background in respect of age, education and gender for the Group.

The diversity policy is part of the agenda of the Remuneration Committee under the Supervisory Board. The activities of the Remuneration Committee include, inter alia, ensuring and regularly reviewing the structure and composition of the governing bodies in order to reflect professional experience, technical knowledge, managerial skills and other requirements.

The diversity issues are part of the Company's Code of Ethics. The Code of Ethics defines the corporate and ethical values of conduct in Colt CZ. By implementing this Code of Ethics, Colt CZ commits to respecting the defined values and principles that form the basic framework for its business and social actions, conduct and behaviour. Key ethical values stipulated in the Code of Ethics include equal opportunities, equal treatment, non-discrimination, respect for personal dignity, privacy, and creating conditions for good interpersonal relationships. Colt CZ creates a work environment where all employees are treated with respect and dignity. In the Code of Ethics, the Company also promotes generally accepted rules of morality and decency.

SUBSEQUENT EVENTS

A summary of subsequent events is disclosed in the Notes to the financial statements, chapter 42.

JUSTIN **BALDINI**

Vice President Product Strategy, Colt

In 2007 I began my tenure with Colt Defense as a Systems Engineer for special projects within the manufacturing team. Since 2014, I have run the Product Management and Marketing Groups at Colt, which later became an important part of the restructuring efforts of the Commercial Business. Prior to joining Colt, I worked for Tribune Media for 8 years in various technical roles at different subsidiaries as part of the IT group. I continue to be active in the shooting community and had been prior to working in the firearms industry, having attended, and assisted with some of the most well-known shooting schools and instructors in the USA. I also enjoy the technical aspects of firearms and have been to as many armorer courses as I can attend. I am a current National Rifle Association Certified Instructor, Range Safety Officer and Benefactor Life Member.

REPORT ON RELATIONS BETWEEN CONTROLLING ENTITY AND CONTROLLED ENTITY AND BETWEEN CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY FOR THE ACCOUNTING PERIOD OF THE YEAR 2021

Colt CZ Group SE with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, corporate ID: 291 51961, registered in the Commercial Register maintained by the Municipal Court in Prague under file No. H 962 (the "Controlled Entity or "Colt CZ") is obliged to prepare a report on relations between the controlling entity and the Controlled Entity and between the Controlled Entity and entities controlled by the same controlling entity pursuant to Section 82 et seq. of Act No. 90/2012 Coll., on Business Companies and Cooperatives, as amended, (the "Corporations Act") for the accounting period of the year 2021 (i.e. the period from 1 January to 31 December 2021, the "Relevant Period") (the "Report on Relations).

Controlling entity

In relation to Colt CZ, the direct controlling entity is Česká zbrojovka Partners SE with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, corporate ID: 058 51777. registered in the Commercial Register maintained by the Municipal Court in Prague under file No. H 1879.

Česká zbrojovka Partners SE owns 81.22% of shares in the Controlled Entity.

Česká zbrojovka Partners SE controls the Controlled Entity by exercising its voting rights at the General Meeting of the Controlled Entity.

The direct controlling entity of Česká zbrojovka Partners SE is European Holding Company, SE with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, corporate ID: 24196975, registered in the Commercial Register maintained by the Municipal Court in Prague under file No. H 499. The beneficial owner of European Holding Company, SE is Mr. René Holeček.

Role of controlled entity within the business group

The Controlled Entity is a part of a business group engaged in the production and sale of firearms and tactical accessories for military and law enforcement, personal defense, hunting, sport shooting and other commercial uses. The Group is one of the leading global producers in the industry.

The Controlled Entity's role is mainly to cover the activities of the subsidiaries within the business group. Control over the subsidiaries is exercised by voting at the companies' general meetings.

Companies controlled by the same controlling entity are listed in Appendix No. 1.

Method and means of control

Česká zbrojovka Partners SE as a majority shareholder exercises its influence over the Controlled Entity by voting at the General Meeting of Shareholders, and by electing members of the Supervisory Board who elect members of the Board of Directors.

Control is exercised through the decision-making of the Board of Directors and of the General Meeting, as described in the Controlled Entity's Articles of Association.

Overview of actions pursuant to section 82 (2) (d) of the corporations act

In the accounting period of 2021, the Controlled Entity did not undertake any actions at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity that would concern the Company's assets exceeding 10% of the Company's equity as determined from its last financial statements.

Overview of mutual relations

In the accounting period of 2021, the following agreements existed or were concluded between the Company and the controlling entity or entities controlled by the same controlling entity:

Company	Content of the relationship	Concluded on	Term of effect
Česká zbrojovka Partners SE	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
Česká zbrojovka a.s.	Payment of approved dividend for 2020	–	–
Česká zbrojovka a.s.	Service agreement – advisory	26/11/2019	Since 01/01/2020
Česká zbrojovka a.s.	Car sublease agreement	30/12/2020	30/12/2020 – 31/10/2021
CZ Export Praha, s.r.o.	Service agreement – advisory	04/01/2021	Since 01/01/2021
CZ Export Praha, s.r.o.	Payment of approved dividend for 2020	–	–
EHC-4M, SE	Service agreement – accounting	31/01/2020	Since 01/02/2020
EHC-4M, SE	Loan provided under Loan Agreement	29/07/2020	29/07/2020 – 31/12/ 2025

Company	Content of the relationship	Concluded on	Term of effect
EHC-4M, SE	Loan provided under Loan Agreement	31/08/2020	31/08/2020 – 31/12/ 2025
EHC-4M, SE	Loan provided under Loan Agreement	14/09/2020	14/09/2020 – 31/12/2025
EHC-4M, SE	Loan provided under Loan Agreement	19/10/2020	19/10/2020 – 31/12/2025
CZG VIB, s.r.o.	Service agreement – accounting	31/01/2020	Since 31/01/2020
CZG – Česká zbrojovka Group International, s.r.o.	Service agreement – accounting	31/01/2020	Since 01/02/2020
CZG – Česká zbrojovka Group International, s.r.o.	Loan provided under Loan Agreement	31/12/2020	31/12/2020 – 31/12/2025
CZ-US Holdings Inc.	Loan provided under Loan Agreement	12/08/2019	12/08/2019 – 31/12/2024

Company	Content of the relationship	Concluded on	Term of effect
CZ-US Holdings Inc.	Loan provided under Loan Agreement	09/03/2020	09/03/2020 – 31/12/2025
CZ-US Holdings Inc.	Loan provided under Loan Agreement	07/12/2020	07/12/2020 – 31/12/2025
CZ-US Holdings Inc.	Loan provided under Loan Agreement	29/12/2020	29/12/2020 – 31/12/2025
CZ-US Holdings Inc.	Loan provided under Loan Agreement	21/05/2021	21/05/2021 – 31/12/2026
CZ-US Holdings Inc.	Loan provided under Loan Agreement	21/05/2021	21/05/2021 – 31/12/2026
CZ-US Holdings Inc.	Consolidating loan provided under Change Agreement relating to the loan dated 09/03/2021 and to both loans dated 21/05/2021	01/06/2021	09/03/2021 – 31/12/2026
CZ-US Holdings Inc.	Agreement on assumption of shareholder's commitment to provide additional payment outside the company's registered capital	30/06/2021	Since 30/06/2021

Company	Content of the relationship	Concluded on	Term of effect
4M Systems, a.s.	Service agreement – advisory	31/12/2019	Since 01/01/2020
4M Systems, a.s.	Service agreement – accounting	31/01/2020	Since 01/02/2020
COLT Manufacturing Company	Service agreement – advisory	21/05/2021	21/05/2021
Zbrojovka Brno, s.r.o.	Service agreement – advisory	04/01/2021	01/01/2021
Česká zbrojovka Defence SE	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
AIT Group – Advanced Industrial Technology Group, a.s. (till 30/04/2021 AUTO-CZ International, a.s.)	Service agreement – accounting	31/01/2020	Since 01/02/2020
CZ AGRO zemědělská, s.r.o.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
M & H Management, s.r.o.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021

Company	Content of the relationship	Concluded on	Term of effect
Silesia Invest SE	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
Kykulin Trade, a.s.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/9/2021
Robousy, s.r.o.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
Minezit SE	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
RAIL CARGO, a.s.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
IT eCompany Management, a.s.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
CZ AGRO Servis, a.s.	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
European Holding Company SE	Service agreement – accounting	31/01/2020	01/02/2020 – 30/09/2021
Keriani, a.s.	Lease agreement	20/12/2019	Since 01/01/2020

From the Controlled Entity's perspective, the supplies under the above agreements were at arm's length, i.e., under conditions usual in business relations for supplies provided to and by third parties on the market. No other actions pursuant to the provisions of Section 82 (2) (e) of the Corporations Act took place in the Relevant Period.

Assessment of whether damage was incurred by the company and of its settlement pursuant to sections 71 and 72 of the corporations act

Following the assessment, the Board of Directors of the Controlled Entity represents that:

a) actions described in this Report on Relations did not result in any damage to the Controlled Entity in the Relevant Period

b) they are not aware of any other measures, actions or supplies that would result in any damage to the Controlled Entity in the Relevant Period.

Advantages and disadvantages arising from the relations within the business group

The Board of Directors of the Company assessed the actions effected between the Controlled Entity, the controlling entities, and other entities controlled by them in the Relevant Period and concludes that they have been effected at arm's length and that no advantages and/or disadvantages for the Controlled entity arise in connection with the control. The Controlled Entity did not incur any damage to be settled pursuant to Sections 71 and 72 of the Corporations Act.

The relations between the Controlled Entity, the controlling entities and entities controlled by them do not pose any risks for the future.

Conclusions

This Report was discussed and approved at the regular session of the Board of Directors of the Controlled entity. The Board of Directors of the Company represents that they made reasonable efforts to obtain and verify information for the purposes of this Report on Relations, and that the conclusions they have arrived at were formulated after thorough consideration, and that they consider all information disclosed in this Report on Relations to be complete and accurate.

This Report will be submitted to the Supervisory Board of the Controlled Entity for their review pursuant to Section 83 (1) of the Corporations Act. This Report shall also be submitted to the auditor carrying out the audit of the Controlled Entity's financial statements under a special legal regulation. As the Controlled Entity prepares an annual report, this Report will be attached to it pursuant to Section 84 of the Corporations Act and as its part will be deposited in the Collection of Deeds maintained by the Municipal Court in Prague, within the statutory deadline.

Prague, 10 March 2022

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

RADIM **DOLEŽÁLEK**

Team Leader – Pistol Assembly, Česká zbrojovka

At the age of five I started to play ice hockey, and at the age of 20 I left for an ice hockey camp in Canada. My life motto was speed, endurance, tenacity, determination, team spirit and the desire to win. However, my fate was to come back home and trade sport for a job with Česká zbrojovka. The workshop has become my playfield. I started my career at Česká zbrojovka in the press plant, manufacturing the metal sheet parts for firearms, and then transferred to pistol assembly. I endeavor to become one of the best employees and my effort has brought me new opportunities. I got the opportunity to train our colleagues in other countries, such as Mexico, Peru, and Hungary. I continue to look for opportunities for my personal improvement. So far, I have submitted several proposals for innovation that make our work easier, help us to cut costs, and expedite the manufacturing process. I regard my work as a mission – I give life to the individual parts, which cannot do anything on their own, by assembling them into a whole. Currently, I am working as a team leader. I lead the colleagues in my team and assign work to them. My goal for the future is to continue my professional growth. I still have the sport spirit and the desire to win, which serve as drivers for my personal victories.

APPENDIX NO. 1

LIST OF COMPANIES DIRECTLY OR INDIRECTLY CONTROLLED BY THE SAME CONTROLLING ENTITY

Corporate name	Corporate ID	State	Method and means of control	Note
European Holding Company, SE	241 96 975	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Česká zbrojovka Partners SE	058 51 777	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Česká zbrojovka Defence SE	063 72 082	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Colt CZ Group SE	291 51 961	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Česká Zbrojovka	463 45 965	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZ Export Praha	494 51 961	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZG Česká zbrojovka Group International	072 05 392	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZG VIB	072 05 520	Czech Republic	Entity controlled by the same controlling entity through equity interest	
EHC-4M, SE	037 97 198	Czech Republic	Entity controlled by the same controlling entity through equity interest	
ZBROJOVKA BRNO	269 28 787	Czech Republic	Entity controlled by the same controlling entity through equity interest	
4M SYSTEMS	036 70 091	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZ-Slovensko	31 588 816	Slovakia	Entity controlled by the same controlling entity through equity interest	
Latin America Holding	045 39 419	Czech Republic	Entity controlled by the same controlling entity through equity interest	

Appendix No. 1

List of companies directly or indirectly controlled by the same controlling entity

Corporate name	Corporate ID	State	Method and means of control	Note
CZ-US Holdings, Inc	832 954 264	USA	Entity controlled by the same controlling entity through equity interest	
CZ-USA INC	770 445 408	USA	Entity controlled by the same controlling entity through equity interest	
CZ MFG INC	834 584 703	USA	Entity controlled by the same controlling entity through equity interest	
COLT Holding Company LLC	47-3490094	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
CDH II Holdco Inc	20-3641782	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Defence LLC USA	32-0031950	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
New Colt Holding Corp	13-3786913	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Manufacturing Company	42-1589139	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Manufacturing IP Holding Company LLC	81-0853563	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Defence technical Services LLC	46-0538809	USA	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt International Cooperatief U.A. (NL)	90-0996822	Netherlands	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Canada Corporation CA	98-0435534	Canada	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021
Colt Canada IP Holding Company CA	98-1281199	Canada	Entity controlled by the same controlling entity through equity interest	od 21. 5. 2021

Appendix No. 1

List of companies directly or indirectly controlled by the same controlling entity

Corporate name	Corporate ID	State	Method and means of control	Note
Nova Scotia Company 43 81079	43 81079	Canada	Entity controlled by the same controlling entity through equity interest	Founded in December 2021
CZ Brasil LTDA	The company carries out no activity	Brazil	Entity controlled by the same controlling entity through equity interest	
CARDAM	054 37 032	Czech Republic	Entity controlled by the same controlling entity through equity interest	
EG-CZ Academy	850-018-052	France	Entity controlled by the same controlling entity through equity interest	
Spuhr i Dalby AB	556723-8372	Sweden	Entity controlled by the same controlling entity through equity interest	
VIBROM	260 08 203	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Moran Investment	282 13 793	Czech Republic	Entity controlled by the same controlling entity through equity interest	
Keriani	269 32 628	Czech Republic	Entity controlled by the same controlling entity through equity interest	
AIT Group Advanced Industrial Technology Group	085 47 301	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZ-SKD Solutions	065 97 211	Czech Republic	Entity controlled by the same controlling entity through equity interest	
CZ-AUTO SYSTEMS	085 15 972	Czech Republic	Entity controlled by the same controlling entity through equity interest	
New Lachaussée SA	446 425 969	France	Entity controlled by the same controlling entity through equity interest	

DECLARATION OF AUTHORIZED PERSONS

To the best of our knowledge, we believe that this consolidated annual report gives a true and fair view of the Group's financial position, business activities, results for the year ended 31 December 2021, and outlook for the future development of the Group's financial standing, business activities, and results.

Prague, 28 April 2022

Signed on behalf of the Board of Directors:

....	....
Jan Drahota Chairman of the Board of Directors	Josef Adam Vice-Chairman of the Board of Directors

GLOSSARY AND ALTERNATIVE **PERFORMANCE MEASURES**

ALTERNATIVE PERFORMANCE MEASURES

This Report contains certain financial measures that are not defined or recognized under IFRS and which are considered "alternative performance measures" as defined in the "ESMA Guidelines on Alternative Performance Measures" issued by the European Securities and Markets Authority on 5 October 2015 (the "Alternative Performance Measures"). This Report presents the following Alternative Performance Measures: EBITDA; EBITDA margin; adjusted EBITDA; adjusted EBITDA margin; net income margin; net earnings per share, adjusted; and net financial debt. The Company has included the Alternative Performance Measures because they represent key measures used by management to evaluate the Group's operating performance. Further, management believes that the presentation of the Alternative Performance Measures is helpful to prospective investors because these and other similar measures and related ratios are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity to evaluate the efficiency of a company's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. Management also believes that the presentation of Alternative Performance Measures facilitates operating performance comparisons on a period-to-period basis to exclude the impact of items, which management does not consider being indicative of the Group's core operating performance.

The Alternative Performance Measures are not sourced directly from the Audited Financial Statements, but are derived from the financial information contained therein. These measures have not been audited or reviewed by an independent auditor. The Alternative Performance Measures are not defined in the IFRS and should neither be treated as metrics of financial performance or operating cash flows nor deemed an alternative to profit. Those performance measures should only be read as additional information to, and not as a substitute for or superior to, the financial information prepared in accordance with the IFRS as adopted by the EU. The Alternative Performance Measures should not be given more prominence than measures sourced directly from the Audited Financial Statements. The Alternative Performance Measures should be read in conjunction with the Audited Financial Statements. There are no generally accepted principles governing the calculation of the Alternative Performance Measures and the criteria upon which the Alternative Performance Measures are based can vary from company to company, limiting the usefulness of such measures as comparative measures. Even though the Alternative Performance Measures are used by management to assess the Group's financial results and these types of measures are commonly used by investors, they have important limitations as analytical tools and, by themselves, do not provide a sufficient basis to compare the Company's performance with that of other companies and should not be considered in isolation or as a substitute to the revenue, profit before tax or cash flows from operations calculated in accordance with IFRS for analysis of the Group's position or result. The Alternative Performance Measures have limitations as analytical tools, such as:

- they do not reflect the Group's cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, the Group's working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on the Group's debt;
- although depreciation and amortisation are non-monetary charges, the assets being depreciated and amortised will often need to be replaced in the future and the Alternative Performance Measures do not reflect any cash requirements that would be required for such replacements;
- some of the exceptional items the Company eliminates in calculating the Alternative Performance Measures reflect cash payments that were made, or will be made in the future; and
- the fact that other companies in the Group's industry may calculate the Alternative Performance Measures differently than the Company does, which limits their usefulness as comparative measures.

The table below describes individual Alternative Performance Measures and reconciles them to the Company's financial statements:

(TCZK, unless otherwise stated)	For the year ended 31 December	
	2021	2020
EBITDA[1]	1,800,804	1,449,815
EBITDA margin[2]	16.8%	21.2%
Adjusted EBITDA[3]	2,168,797	n/a
Adjusted EBITDA margin[4]	20.3%	n/a
Net income	760,462	676,571
Net income margin[5]	7.1%	9.9%
Net earnings per share, adjusted[6]	34	21
Net financial debt at the end of the period [7]	3,770,060	561

[1] Group management considers EBITDA a key performance indicator in assessing the Group's business. As described above, EBITDA is not an indicator defined or recognized under IFRS accounting standards. The Group calculates EBITDA based on the figures reported in the audited financial statements. EBITDA is calculated as post-tax profit for the period plus income tax less other financial income plus other financial expenses less interest income plus interest expenses less share in the profit of associates plus depreciation and amortization. Each item is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements.

[2] The EBITDA margin is calculated as EBITDA as a percentage of revenues from the sale of own products, goods, and services. The EBITDA margin allows for a comparison of one company's performance relative to others in its industry. Each item is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements.

[3] Adjusted EBITDA is calculated as EBITDA less expenses related to the acquisition of Colt. These include mainly expenses for professional advisors wasting assets depreciation. The expenses for professional advisors are shows in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements, item Services. The wasting assets depreciation is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements. Item Other operating costs. It is an auxiliary indicator, allowing investors, creditors, and shareholders to interpret the results achieved excluding extraordinary, one-time effects unrelated to common performance and value generation in the period.

[4] The adjusted EBITDA margin is calculated as adjusted EBITDA as a percentage of revenue from the sale of own products, goods, and services. Each item is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements.

[5] Net income margin is calculated as profit for the period as a percentage of revenue from the sale of own products, goods, and services, each as shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements. Net income margin is used in a ratio analysis to determine the proportional profitability of a business.

[6] The Group calculates net earnings per share, adjusted as profit for the period attributable to owner of the parent company plus one-time expenses related to the Colt acquisition, plus wasting assets depreciation, plus costs of financing the acquisition divided by the number of shares issued by the Company. Each item is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements. The expenses for professional advisors are shows in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements, item Services. The wasting assets depreciation is shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements. Item Other operating costs. One-time costs related to the acquisition financing are shown in the consolidated statement of profit and loss and statement of profit and loss and other comprehensive Income in the audited financial Statements, item Other financial costs.

[7] The Group calculates net financial debt as long- and short-term bank loans and borrowings and lease payables (non-current and current), less cash and cash equivalents as reported in the consolidated audited financial statements. Net financial debt is used by the Group to assess its indebtedness to financial institutions, including banks, leasing companies and bond investors.

The following table sets forth the Group's net financial debt for the periods indicated:

(TCZK)	For the year ended 31 December	
	2021	**2020**
Bank loans and borrowings (long- and short-term)	7,290,226	2,271,794
Lease payables (current and non-current)	53,301	87,375
Less: Cash and cash equivalents	3,573,467	2,358,608
Net financial debt at the end of the period	**3,770,060**	**561**

The following table reconciles profit after tax to EBITDA for the periods indicated

(TCZK)	For the year ended 31 December	
	2021	**2020**
Profit for the period	760,462	676,571
Income tax	171,086	174,452
Interest income	50,038	17,280
Interest expense	204,985	76,504
Depreciation and amortization	789,623	393,496
Other financial income	32,488	513
Other financial expenses	168,509	66,218
Profit/loss from derivatives transactions	184,139	101,255
Share in profit of associates	27,196	20,888
EBITDA	**1,800,804**	**1,449,815**
One-time expenses for services related to Colt acquisition	306,522	–
Assets impairment	61,471	–
Adjusted EBITDA	**2,168,797**	**–**

The following table shows the calculation of net earnings per share, adjusted.

(TCZK/Tshare)	For the year ended 31 December	
	2021	**2020**
Profit attributable to the owner of the parent company:	760,462	672,948
One-time expenses for services related to Colt acquisition	144,087	–
One-time expenses related to Colt acquisition – inventory step up	162,435	–
Assets Impairment	61,471	–
One-time financial expenses connected with bond issue	4,059	–
Elimination of the revaluation of contingent consideration for the Colt acquisition to market value (earn-out)	118,868	–
Numerator		
Profit attributable to the owner of the parent company, adjusted	1,161 012	672,948
Denominator		
Average number of shares issued	33,462	32,638
Net earnings per share (CZK/share) attributable to the owner of the parent company, adjusted	34	21

GLOSSARY

CARDAM, s.r.o.
CARDAM is a partially owned subsidiary of CZUB based in Dolní Břežany, Czech Republic, with CZUB owning 33% of CARDAM's share capital. Besides CZUB, the founding members and shareholders of CARDAM are the Institute of Physics of The Czech Academy of Sciences and foundry Beneš and Lát. The shareholding grants the Group access to research conducted at the Institute of Physics of the Czech Academy of Sciences as well as an in-house research and development platform. CARDAM serves as the Group's centre of research and development for additive manufacturing and advanced surface treatment.

CDH II Holdco Inc
CDH II Holdco Inc is a US C corporation and a holding company. CDH II Holdco owns a 100% stake in Colt Defense LLC, a limited liability company.

Colt Canada Corporation
Colt Canada Corporation is a Nova Scotia company and Colt's manufacturing plant in Canada. Colt Canada manufactures and supplies firearms including submachine guns, assault rifles, sniper rifles, carbines, and grenade launchers to the Canadian government and European defence corps. Colt Canada Corporation is a member of the Canadian Munitions Supply Program and has a Strategic Source Agreement with the Canadian government as a key supplier of handguns, spare parts, and accessories to the Canadian government.

Colt Canada IP Holding Company
Colt Canada IP Holding Company is a company registered in Nova Scotia and together with Colt Canada Corporation owns 100% of Colt Canada IP Holding Partnership.

Colt Canada IP Holding Partnership
Colt Canada IP Holding Partnership is a company registered in Ontario and owns intellectual property rights.

Colt CZ Group SE (former „CZG – Česká zbrojovka Group SE“)
Colt CZ Group SE (until 12 April 2022 under the legal name CZG – Česká zbrojovka Group SE) is a holding and mother company of all Group companies, with a registered address Opletalova 1254/37, 110 01 Praha 1, Czech Republic.

Colt Defense LLC
Colt Defense LLC is a limited liability company and a holding company that owns 100% of New Colt Holding Corp., a US C corporation, and Colt Defense Technical Services LLC, a limited liability company. Colt Defense LLC and New Colt Holding Corp. together own 100% of Colt's Manufacturing Company LLC, the operating company of Colt in the USA. Colt Defense LLC and Colt Defense Technical Services LLC together own 100% of Colt International Coöperatief U.A., a Dutch entity that owns 100% of Colt Canada Corporation.

Colt Defense Technical Services LLC
Colt Defense Technical Services LLC is a holding company that together with Colt Defense LLC owns 100% of the Dutch entity Colt International Coöperatief U.A.

Colt Holding Company LLC
Colt Holding Company LLC is the parent company of the Colt Group, and is 100% owned by CZ-US Holdings, Inc., a subsidiary of Colt CZ. Colt Holding Company LLC owns 100% of CDH II Holdco Inc, a US C corporation. Colt Holding Company LLC and its subsidiaries ("Colt") is one of the world's leading designers, developers and manufacturers of firearms.

Colt International Coöperatief U.A.
Colt International Coöperatief U.A. I a Dutch cooperative that owns 100% of Colt Canada Corporation. Colt International Coöperatief U.A. was established to hold and manage Colt's equity interests outside the USA, such as Colt Canada Corporation.

Colt’s Manufacturing Company LLC
Colt’s Manufacturing Company LLC is the operating company of Colt in the US. Colt’s Manufacturing Company LLC is a 100% owner of Colt’s Manufacturing IP Holding Company LLC, which holds the intellectual property rights. Colt’s Manufacturing Company LLC manufactures and supplies firearms to the US commercial market, to the government of the USA, to foreign military forces and global defence corps, and to security agencies. Colt offers a wide range of quality firearms, including rifles, carbines, pistols, and other hand firearms to US and international military and law enforcement customers. Colt also offers a wide range of rifles, pistols and revolvers to US and international commercial customers for sports and self-defence, and collectors’ purposes.

Colt’s Manufacturing IP Holding Company LLC
Colt’s Manufacturing IP Holding Company LLC is a holding company that holds intellectual property rights. Colt’s Manufacturing IP Holding Company LLC owns Colt’s intellectual property and brands in the USA. Colt’s Manufacturing IP Holding Company LLC generates revenues from licensing Colt trademarks.

CZ-US HOLDINGS Inc.
CZ-US HOLDINGS is a fully owned subsidiary of the Group based in Kansas City, Kansas, United States. The company is a holding company which does not conduct any business operations of its own and has no employees. The main asset of the company is its direct shareholdings in CZ-USA and CZ MFG, Inc. The importance of CZ-US HOLDINGS will grow gradually with implementation of the Little Rock Project as the Group plans to use tax consolidation for the United States tax purposes and also financing of the United States activities via CZ-US HOLDINGS.

CZ-USA Inc.
CZ-USA is a fully owned subsidiary of CZ-US HOLDINGS based in Kansas City, Kansas, United States. CZ-USA mainly imports its products from the Group’s production facility in the Czech Republic, but also imports shotguns from Turkey. Due to United States regulations, CZ-USA does not sell directly to the end customers but rather sells its product through wholesalers and other merchants.

CZ MFG, Inc.
CZ MFG is a newly established entity, fully owned subsidiary of CZ-US HOLDINGS. CZ MFG was established in order to implement the Little Rock project.

CZ Brasil
CZ Brasil is a subsidiary of CZUB based in Brazil. CZ Brasil is no longer an active company. CZ Brasil was originally founded as a joint venture with its local partner R & T with the intention to enhance the visibility of the Group on the Brazilian market. The project is no longer actively pursued by the Group.

CZ Export Praha, s.r.o.
CZ EXPORT is a fully owned subsidiary of the Company based in Uherský Brod, Czech Republic. The company specializes in the international trade of military equipment and material. It also provides services in the field of financing, training and support throughout the entire lifecycle of the delivered products and technologies.

CZG – Česká zbrojovka Group International
CZG International is a fully owned subsidiary of the Company based in Prague, Czech Republic. CZG International does not conduct any business operations of its own and has no employees. The main asset of the company is its direct 20% shareholding in EG-CZ Academy.

CZG VIB, s.r.o.
CZG VIB is a fully owned subsidiary of the Company based in Prague, Czech Republic. The company does not conduct any business operations of its own and has no employees. The main asset of CZG VIB is its approximately 24.99% direct shareholding in VIBROM spol. s r.o.

Česká zbrojovka a.s.
CZUB is the main operating company of the Group and is based in Uherský Brod. The Group effectively owns 99.32% of the outstanding share capital of CZUB while the remaining outstanding share capital is owned by CZUB’s management. Due to the dual share structure, the Group controls 100% of voting rights of CZUB.

Česká zbrojovka Partners SE
The majority shareholder of the Company. A 97.5% stake is held and controlled by EHC. The remaining 2.5% stake is held by Mr. René Holeček.

EG-CZ Academy
A partially owned subsidiary of CZG-Česká zbrojovka Group International s.r.o. based in Quimper, France. Colt CZ owns a 20% shareholding in Academy. Academy was founded in cooperation with Eric Grauffel, the seven-time World IPSC Champion. Academy aims to provide a new experience in indoor shooting. It operates a modern training facility providing its members (from sport shooters to government bodies) with access to all types of modern shooting disciplines. Academy serves as a marketing tool for the Group and its importance lies mainly in its impact on increasing brand and product awareness and loyalty.

EHC-4M, SE
EHC 4M is a fully owned subsidiary of the Company based in Prague, Czech Republic. The company does not conduct any business operations of its own and has no employees. The main asset of the company is its 54.26% shareholding in 4M SYSTEMS a.s.

European Holding Company, SE
The majority shareholder of Česká zbrojovka Partners SE which holds 90% of the share capital and voting rights in Česká zbrojovka Partners SE. EHC is owned and controlled by Mr. René Holeček, who controls 100% of the share capital in EHC.

Nova Scotia
Nova Scotia is a holding company founded in December 2021 in Canada.

New Colt Holding Corp
New Colt Holding Corp is a US C corporation and a holding company. New Colt Holding Corp together with Colt Defense LLC owns 100% of Colt's Manufacturing Company LLC, Colt's operating company in the USA.

Spuhr i Dalby AB
SPUHR is a renowned Swedish manufacturer of class leading optical mounting solutions for weapons. The Group acquired a minority stake (25%) in SPUHR on 6 May 2020. SPUHR was founded in 2007 and has its own factory in Löddeköpinge.

VIBROM, spol. s r.o.
VIBROM is a strategic equity investment of the Group and is based in Třebechovice pod Orebem, Czech Republic. It specializes in powder injection moulding (PIM) which is a modern technology that combines plastics and a conventional powder method, allowing for the cost-effective series production of durable precision MIM (metal) or ceramic powder injection moulding (CIM) parts. The company utilizes modern and innovative technology and a system of 100% quality control (3D measurement, defectoscopy station) and is a holder of an ISO 9001 certificate.

ZBROJOVKA BRNO, s.r.o.
Zbrojovka Brno is a fully owned subsidiary of CZUB based in Brno, Czech Republic. Zbrojovka Brno used to be an independent firearm producer with its own rich production history. It was acquired by the Group in 2004. Zbrojovka Brno currently produces mainly hunting rifles and provides customized solutions for the Group customers. CZUB intends to use Zbrojovka Brno as the customization centre for its online firearms configurator.

4M SYSTEMS, a.s.
4M SYSTEMS is a 100% owned subsidiary of EHC 4M based in Prague, Czech Republic. The remaining 45.74% share was acquired by EHC 4M in September 2020 from the minority shareholders for CZK 3.3 million. The Group is in discussions with its financing bank regarding a potential recapitalisation of 4M SYSTEMS in order to prepare 4M SYSTEMS to realize the commercial potential of certain military and law enforcement contracts. 4M SYSTEMS operations include the design, production and sale of tactical equipment for armed forces such as the military, police, customs, prison service, border guards, etc. 4M SYSTEMS enhances the ability of the Group to offer its customers a broader scope of products in complex orders such as rearmaments.

Other companies

Latin America Holding, a.s. and CZ - Slovensko s.r.o. are special purpose vehicles which do not conduct any business operations, have no material assets or liabilities and no employees.

Glossary of technical terms

The glossary of technical terms contains explanations and definitions of certain terms used in this Report in connection with the Group and the Group's business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

Assault rifle
any type of the self-loading automatic or semi-automatic rifles with detachable magazine chambered in intermediate cartridge. Primarily designed for military or commercial use depending on the region-specific legislation (in Czech: útočná puška).

Bolt-action
type of firearm action where the handling of cartridges into and out of the barrel chamber is operated by manually manipulating the bolt directly via a handle.

Break-action
type of firearm action in which the barrel is hinged and rotate perpendicularly to the bore axis to expose the breech and allow loading and unloading of cartridges.

Centrefire rifle
a rifle loaded with cartridges which have a primer located in the centre of the cartridge case head.

Handguns
pistols and revolvers.

Locked breech
one of the wide-spread designs of firearm mechanisms used to slow down the opening of the breech to ensure flawless function.

Long guns
all firearms except pistols and revolvers.

Magazine-fed
a firearms' design in which ammunition is drawn from a magazine.

MIM
Metal injection moulding is a metalworking process in which finely-powdered metal is mixed with binder material to create a "feedstock" that is then shaped and solidified using injection moulding. The moulding process allows high volume, complex parts to be shaped in a single step.

Rimfire rifle
a rifle in which the firing pin strikes the rim of the cartridge case to ignite the primer.

Striker-fired
one of the most common pistol fire-action systems that eliminated the use of the hammer. Striker-fired pistols use a spring that provides energy to the firing pin that initiates the cartridge primer.

Submachine gun
self-loading automatic or semi-automatic firearm with detachable magazine commonly chambered in pistol cartridges. Primarily designed for military and law enforcement use. Depending on region-specific legislation available for commercial use in semi-auto variants.

Tactical accessories
firearms accessories, tactical and ballistic equipment and apparel.

Glossary of other terms

Centers for Disease Control and Prevention
The Centers for Disease Control and Prevention (CDC) is a national public health agency of the United States. It is a United States federal US agency under the Department of Health and Human Services and headquartered in Atlanta, Georgia.

IDPA
The International Defensive Pistol Association (IDPA), is an organization that has created a shooting sport based on defensive pistol techniques, based in Texas, USA.

IFRS
International Financial Reporting Standards are accounting standards issued by the IFRS Foundation and the International Accounting Standards Board.

IPSC
The International Practical Shooting Confederation (IPSC) is the world's largest shooting sport association and the largest and oldest within practical shooting.

ESMA
European Securities and Markets Authority is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

Prime Market
Prime Market is a market intended for trading in shares of the largest and most profitable (blue chip) Czech and foreign companies accepted for trading on the Prague Stock Exchange.

BCPP
Prague Stock Exchange (PSE) is the main organizer of the securities market in the Czech Republic.

USPSA
The United States Practical Shooting Association (USPSA) is the national governing body of practical shooting in the United States under the International Practical Shooting Confederation (IPSC).

SEPARATE FINANCIAL STATEMENTS

of Colt CZ Group SE (formerly “CZG – Česká zbrojovka Group SE”) for the Year Ended 31 December 2021 under International Financial Reporting Standards as Adopted by the European Union

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Note	**CZK '000**	**CZK '000**
Revenues from provided services	5	98,545	40,396
Other operating income	6	128	-
Share in profit of subsidiaries	7	1,221,629	612,669
Raw materials and consumables used	8	-298	-1,275
Personnel costs	9	-74,550	-37,907
Depreciation and amortisation	11	-2,625	-2,473
Services	10	-40,011	-54,894
Other operating expenses	12	-203	-161
Operating profit		**1,202 615**	**556,355**
Interest income	13	180,872	1,762
Interest expense	13	-141,013	-
Other financial expense	13	-30,139	-6,457
Gains or losses from derivative transactions	14	51,199	-
Profit before tax		**1,263,534**	**551,660**
Income tax	15.16	-3,601	-
Profit for the period		**1,267,135**	**551,660**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments	17	50,406	-
Other comprehensive income:		**50,406**	**-**
Total comprehensive income for the period		**1,317,541**	**551,660**
Profit per share:			
Basic profit/loss (-) per share in CZK '000	38	38	17
Diluted profit/loss (-) per share in CZK '000	38	38	17

Notes are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	31 Dec 2021	31 Dec 2020	2 Jan 2020
		CZK '000	CZK '000	CZK '000
Assets				
Non-current assets				
Intangible assets	18	593	–	–
Property, plant and equipment	18	3,435	4,496	6,969
Investments in subsidiaries	19	3,561,866	3,030,773	2,934,097
Provided loans	20	4,860,020	176,659	92,526
Total non-current assets		**8,425,914**	**3,211,928**	**3,033,592**
Current assets				
Trade and other receivables	21	83,615	4,989	14,455
Provided loans	20	314,774	21,914	11,734
Other receivables	22	2,194	576	–
Tax assets	15	–	896	–
Cash and cash equivalents	23	1,727,564	751,522	22,822
Total current assets		**2,128,147**	**779,897**	**49,011**
Total assets		**10,554,061**	**3,991,825**	**3,082,603**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	24	3,374	3,264	2,984
Share premium	24	1,139,211	722,944	–
Capital funds	25	1,528,735	1,528,735	1,528,735
Cash flow hedge reserve	25	50,406	–	–
Accumulated profits		2,706,869	1,692,760	1,469 317
Total equity		**5,428,595**	**3,947,703**	**3,001,036**
Non-current liabilities				
Bonds, bank loans and borrowings	26	4,972,647	–	–
Deferred tax liabilities	16	7,124	–	–
Lease liabilities	29	1,246	2,063	4,540
Financial derivatives	34	49,466	–	–
Total non-current liabilities		**5,030,483**	**2,063**	**4,540**
Current liabilities				
Bonds, bank loans and borrowings	26	42,200	–	–
Trade and other payables	27	22,712	30,735	73,575
Lease liabilities	29	1,807	2,477	2,429
Other payables	28	28,057	8,847	4
Tax liabilities	15	207	–	1,019
Total current liabilities		**94,983**	**42,059**	**77,027**
Total liabilities		**5,125,466**	**44,122**	**81,567**
Total equity and liabilities		**10,554,061**	**3,991,825**	**3,082,603**

Notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital (Note 24)	Share premium (Note 24 and 25)	Other capital funds (Note 25)	Cash flow hedge reserve (Note 25)	Accumulated profits	Total equity
	CZK '000	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**
Balance at 2 Jan 2020	**2,984**	**–**	**1,528,735**	**–**	**1,469,317**	**3,001,036**
Profit for the period	–	–	–	–	551,660	551,660
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**551,660**	**551,660**
Issue of shares – Note 26	280	811,720	–	–	–	**812,000**
Costs of subscription of shares	–	–88,776	–	–	–	**–88,776**
Dividends	–	–	–	–	–328,218	**–328,218**
Rounding	–	–	–	–	1	**1**
Balance at 31 Dec 2020	**3,264**	**722,944**	**1,528,735**	**–**	**1,692,760**	**3,947,703**
Profit for the period	–	–	–	–	1,267,135	1,267,135
Other comprehensive income	–	–	–	50,406	–	50,406
Total comprehensive income for the period	**–**	**–**	**–**	**50,406**	**1,267,135**	**1,317,541**
Issue of shares – Note 26	110	416,267	–	–	–	**416,377**
Dividends	–	–	–	–	–253,025	**–253,025**
Rounding	–	–	–	–	–1	**–1**
Balance at 31 Dec 2021	**3,374**	**1,139,211**	**1,528,735**	**50,406**	**2,706,869**	**5,428,595**

Notes are an integral part of these financial statements.

SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021 AND 2020

	Note	31 Dec 2021	31 Dec 2020
		CZK '000	CZK '000
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		1,263,534	551,660
Adjustments for non-cash transactions			
Depreciation/amortisation of non-current assets	11.18	2,625	2,473
Change in allowances and provisions		–	–
Loss from the sale of non-current assets		–	–
Revenues from profit shares	7	–1,221,629	–612,669
Interest expense and interest income	13	–39,599	–1,762
Effect of unrealised foreign exchange gains and losses		–241,593	–
Adjustments for other non-cash operations (remeasurement of derivative transactions, etc.)		52,388	4,854
Net operating cash flows before changes in working capital		**–184,274**	**–55,444**
Change in working capital			
Change in receivables and deferrals	21.22	–80,244	8,890
Change in liabilities and accruals	27.28	73,725	–33,997
Change in inventories		–	–
Net cash flow from operating activities		**–190,793**	**–80,551**
Paid interest		–56,989	–
Interest received		72,739	1,324
Income tax paid for ordinary activity	15	–	–1,915
Profit shares received	7	1,221,629	612,669
Net cash flow from operating activities		**1,046,586**	**531,527**
Cash flows from investing activities			
Acquisition of non-current assets	18	–2,157	–
Income from the sale of non-current assets		–	–
Increase of shares in subsidiaries without change of control	19	–531,093	–96,676
Income from the sale of subsidiaries		–	–
Acquisition of share in other companies		–	–
Provided loans	20	–5,198,783	–111,885
Provided loans – received payments	20	528,133	13,269
Net cash flow from investing activities		**–5,203,900**	**–195,292**
Cash flows from financing activities			
Proceeds from issued bonds		–	–
Repayment of loans and borrowings		–	–
Repayment of lease contract liabilities	29	–2,643	–2,541
Proceeds from loans and borrowings		–	–
Dividends	24	–253,025	–328,218
Proceeds from issue of shares	24	416,377	723,224
Cash flow hedges – remeasurement of effective portion of hedging instruments – non-cash, Income from issue of bonds	26	4,972,647	–
Net cash flow from financing activities		**5,133,356**	**392,465**
Net change in cash and cash equivalents		**976,042**	**728,700**
Opening balance of cash and cash equivalents	23	**751,522**	**22,822**
Effect of exchange rate on cash and cash equivalents		–	–
Closing balance of cash and cash equivalents	23	**1,727,564**	**751,522**

Notes are an integral part of these financial statements.

COLT CZ GROUP SE
(formerly „CZG - Česká zbrojovka GROUP SE“)

Separate Financial Statements for the Year Ended 31 December 2021 under International Financial Reporting Standards as Adopted by the European Union

Table of Contents

1. GENERAL INFORMATION ABOUT THE COMPANY

Colt CZ Group SE (formerly “CZG – Česká zbrojovka Group SE”) (the “Company”) is a societas Europaea 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 principal activities are the manufacture, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act. The Company is a holding company which was established for the purposes of holding shares in subsidiaries and providing management services to related parties.

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

Shareholder	Ownership percentage as at		
	31 December 2021	31 December 2020	2 January 2020
Česká zbrojovka Partners SE	81%	91%	100%

Since 2017, the majority owner of the Company has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, Prague 1. The Company is part of a larger consolidation group of the ultimate parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, Prague. Ultimate majority owner of the Company 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:	Jan Zajíc
Member:	Jan Holeček
Member:	David Aguilar
Member:	Dennis Veilleux
Supervisory Board	
Chair:	Lubomír Kovařík
Member:	Jana Růžičková
Member:	Vladimír Dlouhý

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

2. BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements have been prepared under the International Financial Reporting Standards as adopted by the European Union (“IFRS”). These financial statements are first financial statement of the company prepared in accordance with IFRS. For detail of transition to IFRS are described in chapter 4.

Impact of the initial application of the Interest Rate Benchmark Reform

Amendments to Phase 1 of the Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39, and IFRS 7 effective from 1 January 2020 have changed specific hedge accounting requirements so that hedge accounting of affected hedges can continue during periods of uncertainty before hedged items or hedging instruments are adjusted as a result of the interest rate benchmark reform.

Amendments to Phase 2 of the Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – are effective from 1 January 2021. The adoption of these amendments enables entities to reflect the effect of the transition from interbank offered rates (IBOR) to alternative benchmark rates (also referred to as risk-free rates (RFR) without accounting implications on the usefulness of information provided to financial statement users.

Amendments to Phase 1 and Phase 2 are not relevant for the Company regarding to Company does not used hedge accounting to risks arising from the reference interest rates. In current year there were no changes in derivatives and non-derivatives financial instruments connected with these amendments.

Impact of initial application of amendments to IFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021

In March 2021, the IASB issued amendments to IFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021, which extends the practical expedient for reducing lease payments originally due up to and including 30 June 2022.

The Company did not use the practical expedient presented in amendments to IFRS 16 (issued by IASB in March 2021) in the current accounting period.

Impact of initial application of amendments to IFRS 4 Insurance contracts – Extension of the Temporary Exemption from Applying IFRS 9

Amendments to IFRS 4 were issued together with Amendments to IFRS 17 in June 2020. Amendments to IFRS 4 have changed the fixed expiry date of the temporary exemption from applying IFRS 9 Financial Instruments presented in IFRS 4 Insurance Contracts so that entities apply IFRS 9 to annual periods beginning on or after 1 January 2023 (instead of 1 January 2021).

Amendments to IFRS 4 are not relevant for the Company.

Amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by the IASB and adopted by the EU which are not yet effective:

- IFRS 17 Insurance Contracts, including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2018-2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) with a view to removing inconsistencies and clarifying wording. (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022). The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Company does not expect that the adoption of the standard above and amendments to the existing standards will have a material impact on the financial statements of the Company in future periods.

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU

The following amendments to the existing standards have not been adopted by the EU yet, and thus the Company could not apply them (The effective dates are presented as stipulated by the IASB. It is expected that the EU will adopt the amendments with the same effect):

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale of Assets between an Investor and Associate or Joint Venture (effective date deferred until the project on the equity method has been concluded),
- Amendments to IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).

The Company anticipates that the adoption of these amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of preparation

a) Basis of measurement
The separate financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value 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 or received in exchange for goods and services.

b) Fair value determination
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 Company applies Level 2 to financial instruments – derivatives.

c) Going concern
The Company has, at the time of approving the financial statements, a reasonable expectation that Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

d) Functional and presentation currency
The functional currency of the Company is the Czech crown (CZK).

The presentation currency of the Company is the Czech crown (CZK). All financial information presented in these financial statements has been rounded to the nearest thousand ("CZK '000") unless stated otherwise.

3.2. Provision of services
Services primarily include accounting and other advisory provided to releated parties. Services are provided based on contracts or confirmed orders. For provided services, performance obligations are agreed in contracts.

For the supply of services, the performance obligation is fulfilled when the customer acquires control of the service. This point in time is usually specified in the contract.

The costs of obtaining a contract are directly expensed if they are insignificant or if the depreciation period of the asset consisting of the costs of obtaining the contract is less than one year.

3.3. 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 brutto carrying amount of the financial asset.

3.4. Leases

The Company 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 (or the incremental borrowing rate in case the interest rate implicit in the lease is not readily available). Lease payments may include both fixed and variable payments. As of the lease commencement, the variable element of rent depending on the development of a price index or rate is determined according to the index or rate value as of the lease commencement date. 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 Company remeasures 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 presented on separate lines of the separate statement of financial position.

As of the lease commencement date, the right-of-use asset is 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 losses, if any. The right-of-use asset is depreciated on a straight-line basis over the shorter 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 separate statement of financial position are presented 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 in accordance with the policy described in Note 3.9.

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.

3.5. Foreign currencies
During the course of the reporting period, assets and liabilities denominated in foreign currencies are translated by the Company 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' exchange rate 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.

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 3.17).

3.6. Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

3.6.1. 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 separate 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.

3.6.2. Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the separate 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.6.3. 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.

3.7. 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.

Subsequent costs incurred on a replacement part for property, plant and equipment or major inspections or overhauls are recognised in the carrying amount of the affected item of property plant and equipment.

Costs of day-to-day servicing, repair or maintenance are expensed when incurred.

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)
Machinery, devices and equipment	2–4
Office equipment	2–3
Right of use	3–4
Furniture and fixtures	2–4

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 Company 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.

3.8. Investments in subsidiaries
Subsidiary companies are entities in which the Company has control over financial and operating procedures. The Company is deemed to control subsidiaries by meeting the requirements under IFRS 10 – Consolidated Financial Statements. This also includes the Company holding more than 50 per cent of the voting rights of another entity and no other factors precluding control.

Control is achieved if the Company:
- has power over entity in which investment was made
- has rights on variable income based on involment in entity in which investment was made, and
- has ability to use power over entity in which investment was made to affect the amount of revenues.

Investments in new subsidiaries are measured at cost reduced by possible impairment.

An impairment loss for investments in subsidiaries and associates is calculated by comparing the recoverable amount with the carrying amount if there is objective evidence of impairment. In assessing whether objective evidence exists, the Company primarily considers the subsidiary's or associate's current or potential financial difficulties, breach of contract, default, or possible bankruptcy. Realisable value is determined based on estimated future cash flows discounted to their present value.

3.9. Impairment of tangible assets
At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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 Company 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.

3.10. Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. The Company considers as short-term investments with an initial maturity of three months or less.

3.11. Financial instruments
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instruments.

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 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.

3.12. Financial assets
Under IFRS 9, 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 instrument except for shares in subsidiaries and associates are subsequently measured at fair value. The Company does not use the option to measure selected equity instruments through other comprehensive income; all equity instruments are measured at fair value through profit or loss (FVTPL).

Shares in subsidiaries and associates are measured at cost less any impairment losses.

The classification and subsequent measurement of debt financial assets depends on the business model and cash flow characteristics of the respective asset. Debt financial assets held to collect contractual cash flows representing solely the payment of interest and principal are measured at amortised cost. Debt 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 measured at fair value through other comprehensive income.

3.12.1. Impairment of financial assets
For trade receivables and investments in associates, the Company determines an impairment loss by means of the simplified model. Therefore, the impairment loss for short-term receivables is determined in an amount corresponding to expected losses for the entire duration of the receivable. To determine the impairment loss, the Company divides short-term receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of the expected losses for each group of receivables is based on historical experience and information about the future that are available without necessity of expending extra costs or effort. Is assessed annually by the Company's management.

For long-term receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant increase in the credit risk of the receivable. In that case, the losses are determined in the amount of the expected losses for the entire remaining period to maturity. Indicators of increased credit risk are mainly breaches of contractual conditions.

3.12.2. Financial assets write-off policy

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 brutto 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.

3.13. Financial liabilities and equity instruments

3.13.1. Classification as debt or equity

Debt and equity instruments issued by the Company 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.

3.13.2. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.13.3. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability isheld 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 IFRS 9 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 separate statement of other comprehensive income/ statement of profit or loss.

3.13.3.1. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

3.13.3.2. Bonds

The Company issued book-entry bearer bonds in March 2021. Bonds are publicly traded and listed on the regulated market of the Prague Stock Exchange. Issued bonds are initially recognised at fair value net of transaction costs. Unpaid interest on bonds are recognised in the Current bonds, bank loans and borrowings position. Transaction costs are deferred and recognised in Other current or non-current bonds, bank loans and borrowings position.

3.13.3.3. Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are extinguished, i.e. they are discharged, cancelled or have expired. If the existing obligation is modified substantially, it is accounted for as an extinguishment of the original liability and recognition of a new liability. The modification is deemed to be substantial if the cash flows under the new liability is at least 10% different from the net present value of the remaining cash flows of the existing liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.14. Financial derivatives

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks by means of interest rate swaps and currency swaps. The Company arranges hedging derivatives to hedge cash flows.

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 value of hedging derivatives 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. The portion of the gain or loss on the derivatives determined to be an effective cash flow hedges is recognised through other comprehensive income. Any remaining gain or loss is recognised in profit or loss and presented as Gains or losses from derivative transactions in the statement of profit or loss and other comprehensive income.

3.15. Hedge accounting

The Company used the option to apply IAS 39 to assess and maintain hedge accounting after 1 January 2018.

The Company designates certain hedging instruments containing derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges.

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.

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 Company 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 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 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 Company 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 least at the time the Company prepares its financial statements.

3.15.1. 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 Gains or losses from derivative transactions transactions 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 Company 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.

3.16. Use of estimates

The presentation of financial statements in line with IFRS requires the Company'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 Company 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 (Notes 3.9. and 18);
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 3.14. and 20);
- The valuation of investments in subsidiaries is based on market parameters existing as of 31 December 2021 (Notes 3.8. and 19)
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as of 31 December 2021 (Notes 3.14, 3.24., 3.25., 3.26.,3.27., and 34).

3.17. Sources of uncertainty and risk factors

The Company's business may be negatively affected in the future by the following factors beyond the Company's control:

- Bad acquisition failing to meet expected performance
- Loss of key employees
- Political risks: Political developments may lead to a reduction in the subsidiaries' ability to supply weapons to selected areas. Such developments could adversely affect the financial performance of the Company's subsidiaries and thus the Company's business.
- Exchange rate and interest rate movements, including a change in the risk-free reference rate: The Company is active in different markets and its financial performance may be affected by unexpected changes in exchange rates; The Company is partially funded by variable interest-bearing bonds, interest expenses may be impacted by unexpected changes in reference rates, including changes in the method of benchmark market rate determination.

The Company continuously analyses and assesses factors that may influence the Company'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 Company.

4. INITIAL ADOPTION OF IFRS

The above accounting policies were applied in the preparation of the financial statements for the year ended 31 December 2021, the comparative information presented in the financial statements for the year ended 31 December 2020 and in the preparation of the opening IFRS statement of financial position as at 2 January 2020, the Company's date of transition to IFRS.

The Company thus no longer prepared the financial statements for the year ended 31 December 2021 in accordance with the Czech Accounting Standards.

On transition to IFRS, the Company made use of the optional exemption for investments in subsidiaries under IFRS 1, which on initial adoption of IFRS allows the Company to measure the initial cost of its investment in a subsidiary, the 'deemed cost', either at its fair value or at its carrying amount in accordance with the previous accounting standards. The Company thus elected to use the carrying amounts to measure its investments in subsidiaries in accordance with Czech accounting standards.

In preparing its opening IFRS statement of financial position, the Company adjusted the amounts previously reported in the financial statements prepared in accordance with the accounting legislation of the Czech Republic applicable to businesses (Czech Accounting Standards ["CAS"]).

The following tables and notes describe how the transition from CAS to IFRS has affected the Company's financial position and financial performance.

In accordance with IFRS 1, it is not permitted to retrospectively restate accounting estimates made in preparing the financial statements under previous accounting policies after the date of transition to IFRS. Therefore, no adjustments were made to the previous estimates except where necessary due to the different treatment under IFRS and CAS.

Reconciliation of the Company's financial situation as at 2 January 2020

		CAS	Differences	IFRS
	Note	CZK '000	CZK '000	CZK '000
Assets				
Non-current assets				
Property, plant and equipment	A	–	6,969	6,969
Investments in subsidiaries		2,934,097	–	2,934,097
Provided loans		92,526	–	92,526
Total non-current assets		**3,026,623**	**6,969**	**3,033,592**
Current assets				
Trade and other receivables		14,455	–	14,455
Provided loans		11,734	–	11,734
Cash and cash equivalents		22,822	–	22,822
Total current assets		**49,011**	**–**	**49,011**
Total assets		**3,075,634**	**6,969**	**3,082,603**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital		2,984	–	2,984
Capital funds		1,528,735	–	1,528,735
Accumulated profits		1,469,317	–	1,469,317
Total equity		**3,001,036**	**–**	**3,001,036**
Non-current liabilities				
Lease contract liabilities	A	–	4,540	4,540
Total non-current liabilities		**–**	**4,540**	**4,540**
Current liabilities				
Trade and other payables		73,575	–	73,575
Lease contract liabilities	A	–	2,429	2,429
Other payables		4	–	4
Tax liabilities		1,019	–	1,019
Total current liabilities		**74,598**	**2,429**	**77,027**
Total liabilities		**74,598**	**6,969**	**81,567**
Total equity and liabilities		**3,075,634**	**6,969**	**3,082,603**

Reconciliation of the Company's financial situation as at 31 December 2020

	Note	CAS	Differences	IFRS
		CZK '000	CZK '000	CZK '000
Assets				
Non-current assets				
Property, plant and equipment	A	–	4,496	4,496
Investments in subsidiaries		3,030,773	–	3,030,773
Provided loans		198,573	–21,914	176,659
Total non-current assets		**3,229,346**	**–17,418**	**3,211,928**
Current assets				
Trade and other receivables		4,989	–	4,989
Provided loans		–	21,914	21,914
Other receivables		576	–	576
Tax assets		1,187	–291	896
Cash and cash equivalents		751,522	–	751,522
Total current assets		**758,274**	**21,623**	**779,897**
Total assets		**3,987,620**	**4,205**	**3,991,825**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital		3,264	–	3,264
Share premium	D	811,720	–88,776	722,944
Capital funds		1,528,735	–	1,528,735
Accumulated profits	A, D	1,604,028	88,732	1,692,760
Total equity		**3,947,747**	**–44**	**3,947,703**
Non-current liabilities				
Lease contract liabilities	A	–	2,063	2,063
Total non-current liabilities		**–**	**2,063**	**2,063**
Current liabilities				
Trade and other payables		30,735	–	30,735
Lease contract liabilities	A	–	2,477	2,477
Provisions	B	4,807	–4,807	–
Other payables	B	4,331	4,516	8,847
Total current liabilities		**39,873**	**2,186**	**42,059**
Total liabilities		**39,873**	**4,249**	**44,122**
Total equity and liabilities		**3,987,620**	**4,205**	**3,991,825**

Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2020

		CAS	Differences	IFRS
	Note	CZK '000	CZK '000	CZK '000
Revenues from the sale of own products, goods and services		40,396	–	40,396
Share in profit of subsidiaries	C	–	612,669	612,669
Raw materials and consumables used		–1,275	–	–1,275
Personnel costs	B, C	–33,100	–4,807	–37,907
Depreciation and amortisation	A	–	–2,473	–2,473
Services	A, D	–83,452	28,558	–54,894
Other operating expenses	B, C	–4,968	4,807	–161
Operating profit		**–82,399**	**638,754**	**556,355**
Interest income		1,762	–	1,762
Other financial income	C	613,893	–613,893	–
Other financial expenses	A, C, D	–70,328	63,869	–6,457
Profit before tax		**462,928**	**88,730**	**551,660**
Income tax		–	–	–
Profit for the period		**462,928**	**88,730**	**551,660**
Items that may be subsequently reclassified to the statement of profit or loss				
Cash flow hedges – remeasurement of effective portion of hedging instruments		-	-	-
Other comprehensive income:		-	-	-
Total comprehensive income for the period		**462,928**	**88,730**	**551,660**

Appendix to the reconciliation of the Company's financial situation and comprehensive income

All significant differences between CAS and IFRS are explained below.

A. Leases

The Company applied IFRS 16 Leases. Under IFRS 16, a contract is considered a lease if it conveys the right to make decisions about the use of the asset for a period of time in exchange for consideration. For such contracts, the new model requires the lessee to recognise the right to use the asset and the lease liability. The right to use the asset is amortised and the related lease liability is interest-bearing. For most leases, this results in a gradually decreasing amount of recorded lease expenses over the term of the lease, even if the lessee pays constant lease payments.

The standard introduces several scope exemptions for lessees, which include:

- leases with a lease term of 12 months or less with no purchase option at the end of the lease and leases where the underlying asset is of low value.

The Company applied the above exemption under the IFRS 16 to short-term equipment leases (remaining lease term shorter than 12 months) and leases of low-value assets and continues to recognise lease payments under these leases as an expense in Services caption.

The Company applied the practical expedient of applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Company will recognise the right to use the asset and the lease liability in accordance with the general requirements of IFRS 16.

The Company leases office space and cars.

Lease liabilities recognised by the Company as at the date of initial application of the standard are measured at the present value of the remaining lease payments, including those to be paid over reasonably certain periods covered by lease extension options (if extension options exist) or excluding those to be paid over periods covered by termination options that are reasonably certain to be exercised (in the case of termination rights), and are discounted using the Company's incremental borrowing rate.

As at the date of initial application, the Company applied the exemption under IFRS 1 and recognised a right to use assets in an amount equal to the lease liability, adjusted for the amount of any prepaid or accrued lease payments related to those leases recognised in the statement of financial position immediately prior to the date of initial application.

The effect on the items in the statement of financial position is as follows:

	2 Jan 2020	31 Dec 2020
Right of use of buildings	4,872	2,923
Right of use of machinery, devices and equipment	2,097	1,573
Lease liabilities – non-current	−4,540	−2,063
Lease liabilities – current	−2,429	−2,477
Effect on retained earnings	**-**	**−44**

Effect on items in the statement of profit or loss and other comprehensive income is as follows:

	2020
Depreciation	−2,473
Rent	2,541
Interest expense	−112
Effect on profit	**−44**

B. PROVISIONS

The Company establishes a provision for unpaid annual bonuses, including the related contributions to social security and health insurance, which are recognised as Other payables – current under IFRS.

The effect on the items in the statement of financial position is as follows:

	2 Jan 2020	31 Dec 2020
Other payables – current	–	4,807
Provisions – current	–	−4,807
Effect on retained earnings	**-**	**-**

Effect on items in the statement of profit or loss and other comprehensive income is as follows:

	2020
Wages and salaries	−4,807
Other operating expenses	4,807
Effect on profit	**-**

C. DIFFERENT RECOGNITION IN CAS AND IFRS FOR SOME ITEMS OF THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

There are a number of differences between CAS and IFRS in the recognition of revenues and expenses in individual items of the statement of comprehensive income.

Differences within the Company include:

1. Change in provisions
Under CAS, changes in provisions are recognised under Other operating expenses. Under IFRS, changes in other provisions (annual bonuses) are recognised under Personnel costs. The change in other provisions for the year ended 31 December 2020 amounted to CZK (4,807) thousand.

2. Exchange rate differences
While under CAS, exchange rate gains and losses are recognised in their gross amount, they are recognised in their net amount under IFRS. Exchange rate gains amounted to CZK 1,224 thousand and exchange rate losses to CZK 7,093 thousand for the year ended 31 December 2020.

3. Shares in profit of subsidiaries
Under CAS, shares in profit of subsidiaries are recognised in the financial profit or loss. Under IFRS, these revenues are recognised in the operating profit or loss as holding of financial investments represents the principal business activity for a holding company.

D. DIFFERENT RECOGNITION OF COSTS RELATED TO THE PUBLIC OFFERING

Under CAS, all costs related to a public offering of shares are charged to the statement of profit or loss in the period to which they relate in terms of substance and time. For IFRS purposes, a portion of these costs was derecognised from the statement of profit or loss and recognised in equity under Share premium.

The effect on the items in the statement of financial position is as follows:

	2 Jan 2020	31 Dec 2020
Share premium	–	−88,776
Retained earnings	–	88,776
Effect on retained earnings	**–**	**88,776**

Effect on items in the statement of profit or loss and other comprehensive income is as follows:

	2020
Services	26,017
Other financial expenses	62,759
Effect on profit	**88,776**

Reconciliation of changes in the Company's equity as at 2 January 2020 and 31 December 2020
The table below shows the main changes between the Czech Accounting Standards and IFRS: Changes have had an effect on the prior and current year's profit

	2 Jan 2020	31 Dec 2020
Value of equity under the Czech Accounting Standards	3,001,036	3,947,747
Effect of different recognition under IFRS:		
Leases	–	−44
Value of equity under IFRS	**3,001,036**	**3,947,703**

Reconciliation of cash flow statement as at 31 December 2020

	CAS	Differences	IFRS
	CZK '000	**CZK '000**	**CZK '000**
Net cash flow from operating activities	483,681	47,846	531,527
Net cash flow from investing activities	-199,899	4,607	-195,292
Net cash flow from financing activities	444,918	-52,453	392,465
Net change in cash and cash equivalents	**728,700**	**-**	**728,700**
Opening balance of cash and cash equivalents	**22,822**	**-**	**22,822**
Closing balance of cash and cash equivalents	**751,522**	**-**	**751,522**

5. REVENUES FROM PROVIDED SERVICES

The table below shows a breakdown of the Company's revenues by type (in CZK '000):

	2021	2020
Revenues from provision of services	98,545	40,396
Total	**98,545**	**40,396**

Revenues from provision of services primarily include accounting and advisory services. All revenues generated in 2021 and 2020 were within the scope of IFRS 15 Revenue from Contracts with Customers. All contractual obligations were satisfied and revenues were thus recognised at a certain point in time. Invoicing was also performed at the same point in time. It was not customary for the Company to require payment in advance for its services. The Company did not provide any discounts either. Revenues were not sub-categorised as they were all generated by one type of revenue.

No revenue was recognised in 2021 or 2020 related to a contractual obligation that was satisfied or partially satisfied in prior periods. The Company has not recognised any contractual asset or contractual liability; trade receivables arising from contracts with customers are recognised in Trade and other receivables. The Company has not incurred any costs to obtain or perform the contract, therefore no asset has been recognised in respect of the contract.

The Company used the option not to recognise information on revenues arising from the existing contracts agreed for less than a year.

6. OTHER OPERATING INCOME

The table below shows a breakdown of the Company's other operating income in individual years (CZK '000):

	2021	2020
Profit/loss from the sale of non-current assets	128	-
Total	**128**	**-**

7. SHARE IN PROFIT OF SUBSIDIARIES

The table below shows a breakdown of the Company's other operating income in individual years (CZK '000):

	2021	2020
Česká zbrojovka, a.s.	1,191,629	595,496
CZ Export Praha, s.r.o.	30,000	17,173
Total	**1,221,629**	**612,669**

The share in profit of subsidiaries in 2021 includes a dividend of CZK 1,191,629 thousand (2020 – CZK 595,496 thousand) received from Česká zbrojovka, a.s. and a dividend of CZK 30,000 thousand (2020 – CZK 17,173 thousand) received from CZ Export Praha, s.r.o.

8. RAW MATERIAL AND CONSUMABLES USED

The table below shows the breakdown of consumption in individual years (CZK '000):

	2021	2020
Consumed material	298	1,275
Total	**298**	**1,275**

9. PERSONNEL COSTS

Breakdown of personnel expenses excluding management personnel expenses (CZK '000):

	2021	2020
Average FTE number of employees	12	9
Wages and salaries	17,452	10,933
Social security and health insurance	4,688	3,146
Employee bonuses	5,586	1,983
Total	**27,726**	**16,062**

Breakdown of management personnel expenses (CZK '000):

	2021	2020
Average FTE number of employees	8	9
Wages and salaries	26,980	15,409
Social security and health insurance	5,551	3,612
Management bonuses	14,293	2,824
Total	**46,824**	**21,845**

In 2021, the key management personnel included all Board of Directors and Supervisory Board members. The Company provided no other benefits (e.g. post-employment benefits, termination benefits or share-based payments) to its key management personnel in 2021 or 2020.

10. SERVICES

The breakdown of the Company's services in individual years is as follows (CZK '000):

	2021	2020
Outsourcing costs and other external costs*	24,499	15,641
Transportation and travel	522	1,177
IT costs, connectivity, SW license	1,363	1,083
Marketing costs	2,539	1,247
Initial public offering	–	31,424
Variable lease costs	885	424
Costs of short-term leases	198	–
Costs relating to low-value assets not included in the short-term leases above	17	19
Other services	9,988	3,879
Total	**40,011**	**54,894**

*Outsourcing costs and other external costs mainly includes consulting services costs.

11. DEPRECIATION AND AMORTISATION

The table shows the composition of the Company's expenses in individual years (CZK '000):

	2021	2020
Depreciation of non-current tangible assets (Note 18)	54	–
Depreciation of right of use of assets (Note 18)	2,571	2,473
Total	**2,625**	**2,473**

12. OTHER OPERATING EXPENSES

The table shows the composition of other operating expenses of the Company in individual years is as follows (CZK '000):

	2021	2020
Taxes and levies	2	7
Insurance	197	154
Other operating expenses	4	–
Total	**203**	**161**

13. INTEREST AND OTHER FINANCIAL INCOME AND EXPENSES

Financial income and expenses in individual years (CZK '000):

	2021	2020
Interest income	180,872	1,762
Total	**180,872**	**1,762**

Financial expenses in individual years (CZK '000):

	2021	2020
Interest expense	141,013	–
Total interest expense	**141,013**	**–**
Exchange rate gains	–241,721	–1,224
Exchange rate losses	267,023	7,093
Other financial expenses	4,837	588
Total Other financial costs	**30,139**	**6,457**

14. GAINS OR LOSSES FROM DERIVATIVE TRANSACTIONS

Income and expenses from derivative transactions in individual years (CZK '000):

	2021	2020
Income from derivative transactions	57,862	–
Expenses from derivative transactions	–6,663	–
Total	**51,199**	**–**

15. INCOME TAX

Income tax in individual years was as follows (CZK '000):

	2021	2020
Current income tax	1,099	–
Changes in estimates relating to prior year	–	–
Total current income tax	**1,099**	**–**
Deferred tax	–4,700	–
Total (expense + / income –)	**–3,601**	**–**

The current tax liability of CZK 207 thousand as at 31 December 2021 is composed of prepayments made in 2020 of CZK 892 thousand and a tax liability for 2021 of CZK 1,099 thousand (as as at 31 December 2020 – current tax asset of CZK 896 thousand was composed of prepayments of CZK 896 thousand . As at 2 January 2020, the current tax liability of CZK 1,019 thousand was composed of a tax liability for 2019 of CZK 1,019 thousand).

Reconciliation of effective tax rate

The table below shows the reconciliation of the profit before tax with current tax in individual years (CZK '000):

	2021	%	2020	%
Profit before tax	1,263,534	–	551,660	–
Income tax calculated using the Company's tax rate (19%)	240,071	19%	104,815	19%
Tax non-deductible expenses (permanent)	3,291	0,26%	14,521	2,63%
Share in profit of subsidiaries recorded after tax	–232,109	–18,37%	–116,407	21,10%
This year's tax loss on which deferred tax asset is not recognised	–	–	13,930	2,53%
Impact of initial application of IFRS – permanent difference	–	–	–16,867	–3,06%
Other	–924	–0,07%	8	0,00%
Utilisation of prior years' tax losses for which no deferred tax asset has been recognised	–13,930	–1,10%	–	–
Income tax (expense +/ – income) / effective tax rate	**–3,601**	**–0,29%**	**–**	**0%**

16. DEFERRED TAX

In accordance with the accounting policies described in Note 3.6, the applicable tax rate in the Czech Republic of 19% was used to calculate deferred tax.

Based on the financial outlook, the Company expects to be able to utilise the deferred tax asset against future profits. The Company has quantified the deferred tax and its year-on-year change as follows (in thousands)

2021	Balance at 1 Jan 2021	Change 2021		Balance at 31 December 2021
Deferred tax components	**Deferred tax asset (+) / liability (–)**	**Recognised in profit or loss**	**Recognised in OCI**	**Deferred tax asset (+) / liability (–)**
Difference between the carrying and tax book value of non-current assets	–	9	–	9
Other temporary differences:				
Provisions	–	–	–	–
Other payables – current	–	4,691	–	4,691
Allowance for receivables	–	–	–	–
Derivative instruments (impact on equity)	–	–	–11,824	–11,824
Other	–	–	–	–
Total	–	4,700	–11,824	–7,124
Deferred tax asset (+) / liability (–)	**–**	**4,700**	**–11,824**	**–7,124**

As at 31 December 2020 and 2 January 2020, the Company did not recognise a deferred tax asset due to the uncertainty of future utilisation.

17. OTHER COMPREHENSIVE INCOME

	2021	2020
Change in the fair value of hedging instruments before tax	62,230	–
Change in the fair value of hedging instruments – deferred tax	-11,824	–
Change in the fair value of hedging instruments after tax	**50,406**	**–**
Total other comprehensive income	**50,406**	**–**

18. NON-CURRENT ASSETS

18.1. Intangible assets

COST

For the year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Impact of FX rate fluctuations	Closing balance
Software	–	229	–	–	–	229
Intangible assets under construction or being acquired	–	372	–	–	–	372
Total	**–**	**601**	**–**	**–**	**–**	**601**

For the year ended 31 December 2020 with opening balance as at 2 January 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Impact of FX rate fluctuations	Closing balance
Software	–	–	–	–	–	–
Intangible assets under construction or being acquired	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

ACCUMULATED DEPRECIATION AND ALLOWANCES

For the year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	–	-8	–	–	-8	221
Intangible assets under construction or being acquired	–	–	–	–	–	372
Total	**–**	**-8**	**–**	**–**	**-8**	**593**

For the year ended 31 December 2020 with opening balance as at 2 January 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	–	–	–	–	–	–
Intangible assets under construction or being acquired	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

18.2. Non-current tangible assets

COST

For the year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Impact of FX rate fluctuations	Closing balance
Right of use of buildings	4,872	–	–	–	–	4,872
Machinery, devices and equipment	–	471	–	–	–	471
Right of use of machinery, devices and equipment	2,097	1,085	–	–	–	3182
Total	**6,969**	**1,556**	**–**	**–**	**–**	**8,525**

Right-of-use assets primarily comprise leases relating to office space and cars.

For the year ended 31 December 2020 with opening balance as at 2 January 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Impact of FX rate fluctuations	Closing balance
Right of use of buildings	4,872	–	–	–	–	4,872
Machinery, devices and equipment	–	–	–	–	–	–
Right of use of machinery, devices and equipment	2,097	–	–	–	–	2,097
Total	**6,969**	**–**	**–**	**–**	**–**	**6,969**

ACCUMULATED DEPRECIATION AND ALLOWANCES

For the year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Right of use of buildings	–1,949	–1,948	–	–	–3,897	975
Machinery, devices and equipment	–	–46	–	–	–46	425
Right of use of machinery, devices and equipment	–524	–623	–	–	–1,147	2,035
Total	**–2,473**	**–2,617**	**–**	**–**	**–5,090**	**3,435**

For the year ended 31 December 2020 with opening balance as at 2 January 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Right of use of buildings	–	–1,949	–	–	–1,949	2,923
Machinery, devices and equipment	–	–	–	–	–	
Right of use of machinery, devices and equipment	–	–524	–	–	–524	1,573
Total	**–**	**–2,473**	**–**	**–**	**–2,473**	**4,496**

19. INVESTMENTS IN SUBSIDIARIES

Investments owned by the Company during the accounting period ended 31 December 2021. Amounts in the table are presented in CZK ´000.

ENTITY	Country	Principal activity	Equity investment in %	Cost of investments in subsidiaries	Accumulated impairment loss	Carrying amount
			31 Dec 2021	**31 Dec 2021**	**31 Dec 2021**	**31 Dec 2021**
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	93.27*	2,207,541	-	2,207,541
EHC-4M, SE	Czech Republic	Lease of real estate	100	2,700	-	2,700
CZ-US HOLDINGS, INC	USA	Holding company	100	1,071,110	-	1,071,110
CZ Export Praha s.r.o.	Czech Republic	Purchase and sale of firearms and ammunition	100	185,069	-	185,069
CZG-Česká zbrojovka Group International s.r.o.	Czech Republic	Lease of real estate	100	73,908	-	73,908
CZG VIB s.r.o.	Czech Republic	Lease of real estate	100	21,538	-	21,538
Total				**3,561,866**	**-**	**3,561,866**

*The Company has a 100% share in voting rights in Česká zbrojovka a.s.

Investments owned by the Company during the accounting period ended 31 December 2020. Amounts in the table are presented in CZK ´000.

ENTITY	Country	Principal activity	Equity investment in %	Cost of investments in subsidiaries	Accumulated impairment loss	Carrying amount
			31 Dec 2020	**31 Dec 2020**	**31 Dec 2020**	**31 Dec 2020**
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	92.64	2,182,666	-	2,182,666
EHC-4M, SE	Czech Republic	Lease of real estate	100	2,700	-	2,700
CZ-US HOLDINGS, INC	USA	Holding company	100	564,892	-	564,892
CZ Export Praha s.r.o.	Czech Republic	Purchase and sale of firearms and ammunition	100	185,069	-	185,069
CZG-Česká zbrojovka Group International s.r.o.	Czech Republic	Lease of real estate	100	73,908	-	73,908
CZG VIB s.r.o.	Czech Republic	Lease of real estate	100	21,538	-	21,538
Total				**3,030,773**	**-**	**3,030,773**

Investments owned by the Company as at 2 January 2020. Amounts in the table are presented in CZK ´000.

Entity	Country	Principal activity	Equity investment in %	Cost of investments in subsidiaries	Accumulated impairment loss	Carrying amount
			2 Jan 2020	2 Jan 2020	2 Jan 2020	2 Jan 2020
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	92.64	2,159,632	-	2,159,632
EHC-4M, SE	Czech Republic	Lease of real estate	100	2,700	-	2,700
CZ-US HOLDINGS, INC	USA	Holding company	100	564,892	-	564,892
CZ Export Praha s.r.o.	Czech Republic	Purchase and sale of firearms and ammunition	100	185,069	-	185,069
CZG-Česká zbrojovka Group International s.r.o.	Czech Republic	Lease of real estate	100	266	-	266
CZG VIB s.r.o.	Czech Republic	Lease of real estate	100	21,538	-	21,538
Total				**2,934,097**	**-**	**2,934,097**

The development of investments in subsidiaries in 2021 and 2020 was as follows:

	2021	2020
Opening balance as at 1 Jan 2021 / 2 Jan 2020	**3,030,773**	**2,934,097**
Investment acquisition	-	-
Spin-off of investment	-	-
Additional capital contribution	531,093	96,676
Impairment loss	-	-
Closing balance as at 31 Dec	**3,561,866**	**3,030,773**

In 2021, the Company made an additional contribution outside the share capital of Česká zbrojovka a.s. of CZK 24,875 thousand and of CZ-US HOLDINGS, INC. of CZK 506,218 thousand. The additional contribution to CZ-US HOLDINGS, INC. consists of loan capitalisation of CZK 506,218 thousand (USD 24,252 thousand) (see Note 20).

In 2020, the Company made an additional contribution outside the share capital of CZG-Česká zbrojovka Group International s.r.o. of CZK 73,641 thousand and of Česká zbrojovka, a.s. of CZK 23,035 thousand.

Aggregate financial information as at 31 December 2021 is presented in thousands of CZK.

	Česká zbrojovka a.s.	EHC-4M, SE	CZ-US HOLDINGS, INC	CZ Export Praha, s.r.o.	CZG-Česká zbrojovka Group International, s.r.o.	CZG VIB, s.r.o.
	31 Dec 2021 1)	31 Dec 2021 2)	31 Dec 2021 2)	31 Dec 2021 1)	31 Dec 2021 2)	31 Dec 2021 2)
Aggregate statement of financial position						
Non-current assets	2,321,308	31,527	6,173,007	–	72,491	15,000
Current assets, incl. cash	3,379,033	420	560,195	142,684	28,422	665
Non-current liabilities	–392,005	–29,800	–5,201,751	–24,936	–1,000	–
Current liabilities	–3,658,517	–47	–500,711	–90,850	–36	–25
Total net assets / (liabilities)	**1,649,819**	**2,100**	**1,030,740**	**26,898**	**99,877**	**15,640**
Aggregate statement of comprehensive income						
Revenues	5,839,905	–	–	155,659	–	–
Profit / (loss) before tax	1,157,098	–120	–144,713	7,014	27,324	–117
Income tax	205,064	–	28,957	–1,230	–	–
Profit / (loss) for the period	**952,034**	**–120**	**115,756**	**5,784**	**27,324**	**–117**

1) financial information based on audited separate financial statements as at 31 December 2021
2) financial information based on unaudited financial statements as at 31 December 2021

Aggregate financial information as at 31 December 2020 is presented in thousands of CZK.

	Česká zbrojovka a.s.	EHC-4M, SE	CZ-US HOLDINGS, INC	CZ Export Praha, s.r.o.	CZG-Česká zbrojovka Group International, s.r.o.	CZG VIB, s.r.o.
	31 Dec 2020 1)	**31 Dec 2020 2)**	**31 Dec 2020 2)**	**31 Dec 2020 1)**	**31 Dec 2020 2)**	**31 Dec 2020 2)**
Aggregate statement of financial position						
Non-current assets	2,518,545	31,527	534,517	–	72,491	15,000
Current assets, incl. cash	3,291,002	494	151,000	127,976	1,089	758
Non-current liabilities	-2,709,684	-29,800	–	-29,533	-1,000	–
Current liabilities	-1,096,148	-1	-177,628	-47,328	-27	-1
Total net assets / (liabilities)	**2,003,715**	**2,220**	**507,889**	**51,115**	**72,553**	**15,757**
Aggregate statement of comprehensive income						
Revenues	4,713,035	–	–	354,476	–	–
Profit / (loss) before tax	689,660	-117	-5,198	8,505	-1,288	-34
Income tax	-117,450	–	2,923	-1,684	-26	–
Profit / (loss) for the period	**572,210**	**-117**	**-2,275**	**6,821**	**-1,314**	**-34**

1) financial information based on audited separate financial statements as at 31 December 2020
2) financial information based on unaudited financial statements as at 31 December 2020

Aggregate financial information as at 2 January 2020 is presented in thousands of CZK.

	Česká zbrojovka a.s.	EHC-4M, SE	CZ-US HOLDINGS, INC	CZ Export Praha, s.r.o.	CZG-Česká zbrojovka Group International, s.r.o.	CZG VIB, s.r.o.
	31 Dec 2019 1)	**31 Dec 20219 2)**	**31 Dec 2019 2)**	**31 Dec 2019 1)**	**31 Dec 2019 2)**	**31 Dec 2019 2)**
Aggregate statement of financial position						
Non-current assets	1,653,907	10,027	565,358	–	26	15,000
Current assets, incl. cash	3,901,326	312	35,130	737,352	200	792
Non-current liabilities	-2,361,654	-8,000	–	–	–	–
Current liabilities	-1,230,161	-2	-61,076	-675,885	-1	-1
Total net assets / (liabilities)	**1,963,418**	**2,337**	**539,412**	**61,467**	**225**	**15,791**
Aggregate statement of comprehensive income						
Revenues	4,455,504	–	–	961,430	–	–
Profit / (loss) before tax	906,553	-33	-26,305	64,362	-41	-48
Income tax	-171,516	–	–	-12,323	–	–
Profit / (loss) for the period	**735,037**	**-33**	**-26,305**	**52,039**	**-41**	**-48**

1) financial information based on audited separate financial statements as at 31 December 2019
2) financial information based on unaudited financial statements as at 31 December 2019

The Company reviews the carrying amounts at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Impairment losses are recognised in the statement of profit or loss.

20. PROVIDED LOANS

The structure of other provided loans in individual years was as follows (CZK '000):

			31 Dec 2021	31 Dec 2020	2 Jan 2020
	Maturity date	**Aggregate limit as at 31 Dec 2021 (CZK '000)**	**CZK '000**	**CZK '000**	**CZK '000**
EHC-4M, SE	31 Dec. 2025	29,800	29,800	29,800	8,000
CZG Česká zbrojovka International s.r.o.	31 Dec. 2025	1,000	1,000	1,000	-
CZ-US HOLDINGS, INC.	31 Dec. 2026	5,143,994	5,143,994	145,859	61,077
Other	31 Dec. 2022	21,914	-	21,914	35,183
Total			**5,174,794**	**198,573**	**104,260**
Non-current			4,860,020	176,659	92,526
Current			314,774	21,914	11,734
Total			**5,174,794**	**198,573**	**104,260**

The table below shows the reconciliation of movements in the balance of other provided loans (CZK '000) in individual years:

	2021	2020
Opening balance as at 1 Jan 2021 / 2 Jan 2020	**198,573**	**104,260**
Loan provision	5,198,783	110,350
Loan repayment	-21,914	-11,734
Unpaid interest income	64,157	-
Loan capitalisation	-506,218	-
Impairment loss	-	-
Impact of FX rate differences	241,413	-4,303
Closing balance as at 31 Dec	**5,174,794**	**198,573**

Provided loans of CZK 5,198,783 thousand in 2021 primarily comprise loans to subsidiary CZ-US HOLDINGS, INC., and were used to finance the purchase of a financial investment in Colt Holding Company LLC.

The credit quality of other provided loans is discussed in Note 33 Credit risk management.

21. TRADE AND OTHER RECEIVABLES

The structure of trade and other receivables in individual years was as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Trade receivables	16,982	4,989	-
Estimated receivables	62,744	-	-
Other receivables	2,488	-	14,454
Accrued income	1,401	-	1
Total	**83,615**	**4,989**	**14,455**
Non-current	-	-	-
Current	83,615	4,989	14,455
Total	**83,615**	**4,989**	**14,455**

Overdue current trade receivables as at 31 December 2021 amounted to CZK 519 thousand net (as at 31 Dec 2020 – CZK 0, as at 2 Jan 2020 – CZK 0). The Company did not provide any allowances for trade and other receivables as at 31 December 2021, 31 December 2020 or 2 January 2020. The credit quality of these receivables is discussed in Note 33 Credit risk.

Estimated receivables consist of uninvoiced management fees as at 31 December 2021 amounted to CZK 62,744 thousand (as at 31 Dec 2020 – CZK 0, as at 2 Jan 2020 – CZK 0).

22. OTHER RECEIVABLES

The structure of other receivables in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Short-term prepayments made	21	70	–
Short-term deferred expenses	447	506	–
Value added tax	1,726	–	–
Other taxes	–	–	–
Total	**2,194**	**576**	**–**

23. CASH AND CASH EQUIVALENTS

The structure of cash and cash equivalents is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Cash on hand	27	751,469	22,820
Cash at bank	1,727,537	53	2
Total	**1,727,564**	**751,522**	**22,822**

The credit quality is discussed in Note 33 Credit risk management.

24. SHARE CAPITAL AND SHARE PREMIUM

In March 2021, the General Meeting of the Company decided to increase the Company's share capital by a cash contribution of CZK 110 thousand to a total amount of CZK 3,374 thousand. The increase in the share capital was carried out by the subscription of new ordinary registered shares up to 1,098,620 with a nominal value of CZK 0.1 per share. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 416,267 thousand was recorded as share premium. As at 31 December 2021, the Company's share capital comprises 33,737 ordinary registered shares.

In October 2020, the Company completed the subscription of its shares in a public offering, resulting in gross proceeds at CZK 811,720 thousand designated to finance the Group's growth. Transaction costs directly attributable to the issue of new shares of CZK 88,776 thousand were recognised in equity.

Following the completion of the subscription, the Company's share capital comprised 32,639 ordinary registered shares as at 31 December 2020. The shares are in the certificate form with a nominal value of CZK 0.1 per share. The difference between the net proceeds from the issue and the carrying amount of issued shares of CZK 722,944 thousand was recorded as share premium.

25. OTHER COMPONENTS OF EQUITY

The structure of other components of equity in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Other capital funds	1,528,735	1,528,735	1,528,735
Share premium	1,139,211	722,944	–
Revaluation of derivatives	50,406	–	–
Total	**2,718,352**	**2,251,679**	**1,528,735**

Other capital funds comprise an amount of additional capital funds relating to the acquisition of a 50% share in Česká zbrojovka a.s. in 2013.

26. BONDS, BANK LOANS AND BORROWINGS

As at 31 Dec 2021, the Company used the following external financing in the form of issued bonds (CZK '000).

				31 Dec 2021	31 Dec 2020	2 Jan 2020
	Terms	Interest rate %	Aggregate limit as at 31 Dec 2021 (CZK '000)	CZK '000	CZK '000	CZK '000
Issued bonds	23 Mar 2027	6M Pribor + margin % p.a	5,000,000	5,000,000	–	–
Issued bonds – unpaid interests				42,200		
Issued bonds -issue costs				–27,353		
Total				**5,014,847**	**-**	**-**
Repayments in the following year			–	42,200	–	–
Repayments in future years			–	4,972,647	–	–

In 2021, the Company issued bonds totalling CZK 5,000,000 thousand maturing in 2027. The Company does not expect to call the bonds in 2022.

As at 31 December 2021, interest expense amounted to CZK 99,194 thousand (2020 – CZK 0) of which outstanding interest expense amounted to CZK 42,200 thousand (2020 – CZK 0)

Expenses relating to the issue of bonds of CZK 31,412 thousand are deferred until the maturity of the bonds. Outstanding balance as at 31 December 2021 is CZK 27,353 thousand.

The issued bonds bear variable interest and their fair value did not differ significantly from their carrying amount as at 31 December 2021.

27. TRADE AND OTHER PAYABLES

The structure of trade and other payables in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Trade and other payables	2,426	7,008	1,474
Liabilities arising from share transfer agreements	–	–	57,728
Liabilities to related entities	–	–	14,373
Accrued expenses	968	23,727	–
Estimated payables	16,873	–	–
Other payables	2,445	–	–
Total	**22,712**	**30,735**	**73,575**
Non-current	–	–	–
Current	22,712	30,735	73,575
Total	**22,712**	**30,735**	**73,575**

Overdue current trade payables as at 31 December 2021 amounted to CZK 189 thousand (as at 31 Dec 2020 – CZK 4,468 thousand) as at 2 Jan 2020 – CZK 826 thousand).

The accrued expenses recorded as at 31 December 2020 mainly related to the payment of fees to banks associated with the implementation of the public offering of shares.

As at 2 January 2020, the Company recorded liabilities arising from share transfer agreements of 31 October 2019, which were due on 30 June 2020 and were repaid during 2020.

As at 2 January 2020, the Company also recorded liabilities arising from agreements on assignment of receivables of 30 October 2019, which were due on 30 June 2020 and were repaid during 2020.

As at 31 December 2021, 31 December 31 2020 and 2 January 2020, the Company neither recorded any liabilities with maturities greater than five years nor pledged any liabilities.

The structure of other current liabilities in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Current employee liabilities	1,669	2,426	–
Current liabilities of outstanding vacation days	185	84	–
Social security and health insurance	566	895	–
Value added tax	–	45	–
Other taxes	315	674	–
Deferred income	821	–	4
Employee liabilities arising from bonuses – current	24,501	4,723	–
Total	**28,057**	**8,847**	**4**

29. LEASE LIABILITIES

The Company as a lessee
In line with its common practice, the Company holds, e.g., office space and cars under leases.

Interest expense arising from lease contracts, depreciation of right-of-use assets and expenses related to short-term contracts and contracts for low-value assets are disclosed in Notes 10, 13 and 18 respectively. Total cash outflows arising from lease contracts amounted to CZK 2,643 thousand in 2021 (2020 – CZK 2,540 thousand).

The Company does not lease any leased property to other persons.

The table below shows liabilities arising from lease contracts (CZK '000):

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Lease liabilities – non-current	1,246	2,063	4,540
Lease liabilities – current	1,807	2,477	2,429
Total	**3,053**	**4,540**	**6,969**

The table below shows terms and due dates of lease liabilities (CZK '000):

			31 Dec 2021		31 Dec 2020		2 Jan 2020	
	Currency	Nominal interest rate	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Liabilities from building leases	CZK	2% p. a.	998	994	2,994	2,952	4,989	4,872
Liabilities from car leases	CZK	2% p. a.	2,112	2,059	1,635	1,588	2,180	2,097
Total			**3,110**	**3,053**	**4,629**	**4,540**	**7,169**	**6,969**

Reconciliation of movements of lease liabilities with cash flows:

	2021	2020
Opening balance of lease liability of 1 Jan 2021/2 Jan 2020	**4,540**	**6,969**
Lease payments	−2,643	−2,540
Total cash flows	**−2,643**	**−2,540**
Interest expense	70	111
Lease additions and modifications	1,086	–
Closing balance as at 31 Dec	**3,053**	**4,540**

As at 31 December 2021, the Company recorded the following in the statement of profit or loss in connection with leases:

	2021	2020
Depreciation of right of use of assets	2,571	2,473
Interest expense of lease liability (included in finance costs)	70	111
Costs of short-term leases (included in service costs)	198	–
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	17	19
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	885	424
Total	**3,741**	**3,027**

The table below shows the ageing structure of lease liabilities (CZK '000):

	2021	2020
Within 3 months	698	615
3 months to 1 year	1,109	1,862
1 to 2 years	829	1,523
2 to 3 years	294	540
3 to 4 years	123	–
4 to 5 years	–	–
Total	**3,053**	**4,540**

30. LIABILITIES FROM DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2021	31 Dec 2020	2 Jan 2020
Non-current liabilities from derivative financial instruments			
Non-current liabilities from hedging derivatives	49,466	–	–
Total non-current liabilities from derivative financial instruments	**49,466**	**–**	**–**

31. 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 2021	31 Dec 2020	2 Jan 2020
Short-term portion			
Cash and cash equivalents	1,727,564	751,522	22,822
Trade and other receivables	83,615	4,989	14,455
Provided loans	314,774	21,914	11,734
Total	**2,125,953**	**778,425**	**49,011**
Long-term portion			
Provided loans	4,860,020	176,659	92,526
Total	**4,860,020**	**176,659**	**92,526**

Financial assets	31 Dec 2021	31 Dec 2020	2 Jan 2020
Short-term portion			
Trade and other payables	22,712	30,735	73,575
Lease liabilities	1,807	2,477	2,429
Issued bonds	42,200	–	–
Total	**66,719**	**33,212**	**76,004**
Long-term portion			
Lease liabilities	1,246	2,063	4,540
Financial derivatives used for hedge accounting	49,466	–	–
Issued bonds	4,972,647	–	–
Total	**5,023,359**	**2,063**	**4,540**

31. 1. Fair value

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

		Carrying amount			Fair value	
2021	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in the statement of profit or loss – other**	**Total**	**Level 2**	**Total**
Financial liabilities measured at fair value						
Financial derivatives used for hedge accounting						
Open interest rate swaps	34	49,466	–	49,466	49,466	49,466
Total		**49,466**	**-**	**49,466**	**49,466**	**49,466**

*Trading derivatives were concluded on 17 May 2021. On 21 May 2021, hedge accounting was applied and these derivatives are reported as hedging.

In 2020, the Company did not record any financial assets or financial liabilities measured at fair value for which the carrying amount did not approximate fair value.

There were no transfers between levels during the period.

31.2. Fair value measurement

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques used for fair value measurement at Level 2 for financial instruments in the statement of financial position as well as significant unobservable inputs used.

Type of instrument	Valuation techniques	Significant unobservable inputs
Cross currency interest rate swaps	Fair value is determined as the present value of future cash flows. The estimate of future variable cash flows is based on quoted swap rates and interbank deposit rates. The estimated future cash flows are discounted using a yield curve constructed from the above sources.	None

32. RISK MANAGEMENT PROCEDURES

This section details the financial risks the Company is exposed to and how these risks are managed. Risk management is a fundamental part of the Company's management. The main emphasis is on identifying the risks the Company is exposed to in the market (risk of changes in exchange rates and interest rates). The risk management strategy focuses on the minimisation of potential negative impact on the Company's financial performance.

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk. Details are provided in Note 32.

32.1. Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty in a transaction fails to meet its contractual obligations, such as payment, acceptance of a service at the agreed price, or failure to deliver an agreed service.

The overall credit risk of the business portfolio is continuously monitored. The Company primarily conducts transactions with companies in the consolidation unit. As the subsidiaries are fully controlled and financed by the parent company, the Company has full control over credit risk management and therefore has not identified any significant credit risk for these companies.

There is no concentration of credit risk.

The Company has not recorded any impairment losses on financial assets recognised in the statement of profit or loss in 2021 or 2020.

Credit risk by territory (counterparty seat)

31 Dec 2021 CZK '000	**Czech Republic**	**USA**	**Canada**	**Total**
Provided loans	30,800	5,143,994	–	5,174,794
Trade and other receivables	28,008	51,239	4,368	83,615
Cash and cash equivalents	1,727,564	–	–	1,727,564
Total	**1,786,372**	**5,195,233**	**4,368**	**6,985,973**

31 Dec 2020 CZK '000	**Czech Republic**	**USA**	**Other**	**Total**
Provided loans	52,714	145,859	–	198,573
Trade and other receivables	4,989	–	–	4,989
Cash and cash equivalents	751,522	–	–	751,522
Total	**809,225**	**145,859**	**–**	**955,084**

2 Jan 2020 CZK '000	**Czech Republic**	**USA**	**Other**	**Total**
Provided loans	43,183	61,077	–	104,260
Trade and other receivables	14,455	–	–	14,455
Cash and cash equivalents	22,822	–	–	22,822
Total	**80,460**	**61,077**	**–**	**141,537**

Provided loans, trade and other receivables

The Company records provided loans and trade and other receivables only due from subsidiaries or related parties. Based on the above, the Company has not identified any significant credit risk that would result in expected credit losses and should be covered by an allowance.

The table below shows information on credit risk exposure and the expected credit loss rate for provided loans and trade and other receivables.

31 Dec 2021 CZK '000	**External credit rating equivalent**	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit loss**	**Net carrying amount**	**Credit-impaired**
Grade 1–6: Low risk	BBB-to AAA	0%	5,258,409	–	5,258,409	No
Grade 7–9: Reasonable risk	BB-to BB+	0%	–	–	–	No
Grade 10: Non-standard	B-to CCC-	0%	–	–	–	No
Grade 11: Doubtful	C to CC	0%	–	–	–	No
Grade 12: Loss risk	D	0%	–	–	–	Yes
Total			**5,258,409**	**-**	**5,258,409**	

31 Dec 2021 CZK '000	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit loss**	**Net carrying amount**	**Credit-impaired**
Within due date	0%	5,257,890	–	5,257,890	No
1–90 days overdue	0%	519	–	519	No
90–180 days overdue	0%	–	–	–	No
180–360 days overdue	0%	–	–	–	No
More than 360 days overdue	0%	–	–	–	Yes
Total		**5,258,409**	**-**	**5,258,409**	

31 Dec 2020 CZK '000	**External credit rating equivalent**	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit loss**	**Net carrying amount**	**Credit-impaired**
Grade 1-6: Low risk	BBB-to AAA	0%	203,563	–	203,563	No
Grade 7-9: Reasonable risk	BB-to BB+	0%	–	–	–	No
Grade 10: Non-standard	B-to CCC-	0%	–	–	–	No
Grade 11: Doubtful	C to CC	0%	–	–	–	No
Grade 12: Loss risk	D	0%	–	–	–	Yes
Total			**203,563**	**-**	**203,563**	

31 Dec 2020 CZK '000	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit loss**	**Net carrying amount**	**Credit-impaired**
Within due date	0%	203,563	–	203,563	No
1-90 days overdue	0%	–	–	–	No
90-180 days overdue	0%	–	–	–	No
180-360 days overdue	0%	–	–	–	No
More than 360 days overdue	0%	–	–	–	Yes
Total		**203,563**	**-**	**203,563**	

2 Jan 2020 CZK '000	**External credit rating equivalent**	**Expected credit loss rate**	**Gross carrying amount**	**Allowances for credit loss**	**Net carrying amount**	**Credit-impaired**
Grade 1-6: Low risk	BBB-to AAA	0%	118,715	–	118,715	No
Grade 7-9: Reasonable risk	BB-to BB+	0%	–	–	–	No
Grade 10: Non-standard	B-to CCC-	0%	–	–	–	No
Grade 11: Doubtful	C to CC	0%	–	–	–	No
Grade 12: Loss risk	D	0%	–	–	–	Yes
Total			**118,715**	**-**	**118,715**	

2 Jan 2020 CZK '000	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Within due date	0%	118,715	–	118,715	No
1-90 days overdue	0%	–	–	–	No
90-180 days overdue	0%	–	–	–	No
180-360 days overdue	0%	–	–	–	No
More than 360 days overdue	0%	–	–	–	Yes
Total		**118,715**	**–**	**118,715**	

Cash and cash equivalents

As at 31 December 2021, the Company held cash and cash equivalents of CZK 1,727,564 thousand (2020 – CZK 751,522 thousand, 2 January 2020 – CZK 22,822 thousand).

The impairment of cash and cash equivalents was measured based on a 12-month expected loss and reflects the short maturity of the exposures. The Company believes that its cash and cash equivalents have low credit risk based on the external credit ratings of counterparties. The potential impact of IFRS 9 is insignificant.

32.2. Liquidity risk management

The Company 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.

Liquidity risk

Liquidity risk is the possibility that the Company will not have sufficient available resources to meet its payables arising from financial contracts.

The Company continuously monitors the risk of shortage of funds by managing liquidity and monitoring the maturity of debts and financial investments, other assets, and expected cash flows from its operations.

The Company holds unrestricted liquid resources, i.e., cash, cash equivalents and short-term financial assets in currencies in which future cash requirements are expected to be denominated.

The Company also monitors the level of expected cash flows from trade and other receivables together with the expected cash flows from trade and other payables.

The remaining contractual maturities of financial liabilities at the balance sheet date are shown below. Amounts are gross and undiscounted, include contractual interest payments, and exclude the impact of netting arrangements. Liabilities past their due dates are included in the 'Within 3 months' column.

The table below shows information as at 31 December 2021 (CZK '000):

	Contractual cash flows						
31 Dec 2021 CZK '000	**Carrying amount**	**Total**	**Within 3 months**	**3–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	22,712	22,712	19,241	3,471	–	–	–
Lease liabilities	3,053	3,053	698	1,109	829	417	–
Issued bonds	5,014,847	6,500,752	120,839	171,073	291,106	786,558	5,131,176
Total non-derivative financial liabilities	**5,040,612**	**6,526,517**	**140,778**	**175,653**	**291,935**	**786,975**	**5,131,176**
Derivative financial liabilities							
Cross currency interest rate swaps for hedging	49,466	49,466	–	–	–	–	49,466
Total derivative financial liabilities	**49,466**	**49,466**	**–**	**–**	**–**	**–**	**49,466**
Total	**5,090,078**	**6,575,983**	**140,778**	**175,653**	**291,935**	**786,975**	**5,180,642**

Contractual cash flows							
31 Dec 2020 CZK '000	**Carrying amount**	**Total**	**Within 3 months**	**3–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	30,735	30,735	30,735	–	–	–	–
Lease liabilities	4,540	4,540	615	1,862	1,523	540	–
Total non-derivative financial liabilities	**35,275**	**35,275**	**31,350**	**1,862**	**1,523**	**540**	**–**
Total	**35,275**	**35,275**	**31,350**	**1,862**	**1,523**	**540**	**–**

Contractual cash flows							
2 Jan 2020 CZK '000	**Carrying amount**	**Total**	**Within 3 months**	**3–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	73,575	73,575	1,474	72,101	–	–	–
Lease liabilities	6,969	6,969	603	1,826	2,477	2,063	–
Total non-derivative financial liabilities	**80,544**	**80,544**	**2,077**	**73,927**	**2,477**	**2,063**	**–**
Total	**80,544**	**80,544**	**2,077**	**73,927**	**2,477**	**2,063**	**–**

32.3. Market risk management

Market risk is the risk of changes in the value of assets, liabilities, and cash flows denominated in foreign currencies due to changes of exchange rates, interest rates, and commodity prices. The Company has implemented policies and methods to monitor and hedge the risks to which it is exposed. Exposure to market risk is measured using sensitivity analyses.

32.3.1. Currency risk management

The Company's exposure to currency risk primarily arises from its purchases and sales in currencies other than the Company's functional currency. Exposure to currency risks is governed by parameters approved based on cross currency interest rate swaps. The Company's objective is to minimize the impact of foreign currency rates changes on the value of profit.

The carrying amount of the Company's financial assets and financial liabilities denominated in foreign currencies at the end of the reporting period:

31 Dec 2021 CZK '000	**CZK**	**EUR**	**USD**	**CAD**	**Other**	**Total**
Financial assets						
Provided loans	30,800	–	5,143,994	–	–	5,174,794
Trade and other receivables	83,516	–	99	–	–	83,615
Cash and cash equivalents	1,664,204	22,261	41,099	–	–	1,727,564
Total financial assets	**1,778,520**	**22,261**	**5,185,192**	**–**	**–**	**6,985,973**
Financial liabilities						
Trade and other payables	9,537	8,031	–	–	5,144	22,712
Lease liabilities	3,053	–	–	–	–	3,053
Issued bonds	5,014,847	–	–	–	–	5,014,847
Total financial liabilities	**5,027,437**	**8,031**	**–**	**–**	**5,144**	**5,040,612**
Effect of cross currency interest rate swaps – nominal value	**–**	**–**	**3,292,650**	**–**	**–**	**3,292,650**
Total currency risk exposure	**–3,248,917**	**14,230**	**1,892,542**	**–**	**–5,144**	**–1,347,289**

31 Dec 2020 CZK '000	CZK	EUR	USD	CAD	Other	Total
Financial assets						
Provided loans	52,714	–	145,859	–	–	**198,573**
Trade and other receivables	4,989	–	–	–	–	**4,989**
Cash and cash equivalents	680,943	55,427	15,126	–	26	**751,522**
Total financial assets	**738,646**	**55,427**	**160,985**	**–**	**26**	**955,084**
Financial liabilities						
Trade and other payables	25,728	5,007	–	–	–	**30,735**
Lease liabilities	4,540	–	–	–	–	**4,540**
Total financial liabilities	**30,268**	**5,007**	**–**	**–**	**–**	**35,275**
Total currency risk exposure	**708,378**	**50,420**	**160,985**	**–**	**26**	**919,809**

2 Jan 2020 CZK '000	CZK	EUR	USD	CAD	Other	Total
Financial assets						
Provided loans	43,183	–	61,077	–	–	**104,260**
Trade and other receivables	14,455	–	–	–	–	**14,455**
Cash and cash equivalents	21,602	254	935	–	31	**22,822**
Total financial assets	**79,240**	**254**	**62,012**	**–**	**31**	**141,537**
Financial liabilities						
Trade and other payables	73,575	–	–	–	–	73,575
Lease liabilities	6,969	–	–	–	–	6,969
Total financial liabilities	**80,544**	**–**	**–**	**–**	**–**	**80,544**
Total currency risk exposure	**–1,304**	**254**	**62,012**	**–**	**31**	**60,993**

32.3.2. Sensitivity to exchange rate fluctuations

The Company is exposed to currency risk, especially in relation to EUR and USD.

The Company used the following most important exchange rates:

in CZK	Average exchange rate			Exchange rate at the end of the period		
	2021	**2020**	**2019**	**2021**	**2020**	**2. 1. 2020**
EUR	25,645	26,444	25,498	24,86	26,245	25,41
USD	21,682	23,196	22,94	21,951	27,387	22,621

The following table shows the Company'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 % with respect to the respective currency.

in CZK	Impact on profit before tax 2021		Impact on profit before tax 2020	
	Foreign currency appreciation 10%	**Foreign currency depreciation 10%**	**Foreign currency appreciation 10%**	**Foreign currency depreciation 10%**
Foreign currency				
EUR	1,423	–1,423	5,042	–5,042
USD	189,254	–189,254	16,099	–16,099

in CZK	Impact on Equity 2021		Impact on Equity 2020	
	Foreign currency appreciation 10%	Foreign currency depreciation 10%	Foreign currency appreciation 10%	Foreign currency depreciation 10%
Foreign currency				
USD	–37,629	20,295	–	–

32.3.3. Interest rate risk management

The Company is exposed to the risk of interest rates changes as it borrows funds with variable interest rates. Interest expense from issued bonds, which represent the most important portion of interest-bearing liabilities, are based on 6M PRIBOR + margin. Amount of interest paying liabilities using other reference rates is not significant (Note 29). The Company has managed interest rate risk using interest rate swap agreements since 2021. This ensures the utilisation of hedging strategies which are economically most effective.

Interest rate risk exposure was as follows:

31 Dec 2021 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	5,174,794	6,187,877	–	6,187,877
Total interest-bearing financial assets	**5,174,794**	**6,187,877**	**–**	**6,187,877**
Issued bonds	5,014,847	6,500,752	6,500,752	–
Lease liabilities	3,053	3,053	–	3,053
Total interest-bearing financial liabilities	**5,017,900**	**6,503,805**	**6,500,752**	**3,053**
Effect of cross currency interest rate swaps – nominal value	**–**	**–**	**3,212,700**	**–**
Total interest rate risk exposure	**156,894**	**–315,928**	**–3,288,052**	**6,184,824**

31 Dec 2020 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	198,573	198,573	–	198,573
Total interest-bearing financial assets	**198,573**	**198,573**	**–**	**198,573**
Interest-bearing financial liabilities				
Lease liabilities	4,540	4,540	–	4,540
Total interest-bearing financial liabilities	**4,540**	**4,540**	**–**	**4,540**
Total interest rate risk exposure	**194,033**	**194,033**	**–**	**194,033**

2 Jan 2020 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	104,260	104,260	–	104,260
Total interest-bearing financial assets	**104,260**	**104,260**	**–**	**104,260**
Lease liabilities	6,969	6,969	–	6,969
Total interest-bearing financial liabilities	**6,969**	**6,969**	**–**	**6,969**
Total interest rate risk exposure	**97,291**	**97,291**	**–**	**97,291**

32.3.4. 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 one percentage point higher/lower and all other variables remained constant, the profit or loss would change based on the values specified below.

	Impact on profit before tax 2021		Impact on profit before tax 2020	
CZK '000	Increase of 1 percentage point	Decrease of 1 percentage point	Increase of 1 percentage point	Decrease of 1 percentage point
Issued bonds with variable interest rate	–41,411	41,411	–	–
Sensitivity of interest rates changes	**–41,411**	**41,411**	**–**	**–**

	Impact on Equity 2021		Impact on Equity 2020	
CZK '000	Increase of 1 percentage point	Decrease of 1 percentage point	Increase of 1 percentage point	Decrease of 1 percentage point
Cross currency interest rate swaps	110,303	–117,195	–	–
Sensitivity of interest rates changes	**110,303**	**–117,195**	**–**	**–**

33. DERIVATIVE INSTRUMENTS

The Company engages in hedging transactions to partially mitigate the foreign exchange ("FX risk") and interest rate risk ("IR risk"). Instruments used to manage these risks include classic cross currency interest rate swaps. The maturity of cross currency interest rate swaps is governed by the maturity of the external liability (currently bonds issued by the Company).

The Company designates certain derivatives as hedging instruments in respect of the foreign currency risk of a portion of highly probable forecasted cash flows in USD (cash flow hedge). 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 – remeasurement of effective portion of hedging instruments; the cumulative balance is recognised in the statement of financial position in cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and is included in the Gains or losses from derivative transactions. Fair value of derivative contracts is presented as financial derivative assets or liabilities in the statement of financial position. Accounting for hedging derivatives is described in detail in Note 3.14. The Company expects to continue its hedging activities in the future.

33.1. Hedging derivatives

The Company has entered into cross currency interest rate swaps in which it is the payer of fixed interest derived from the nominal value in USD and the payee of variable interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD-denominated loan with a fixed interest rate)
- to hedge the interest rate risk arising from variable interest payments on the bonds issued (bonds issued in CZK with a variable interest rate of 6M PRIBOR).

For hedge accounting purposes, the negotiated cross currency interest rate swaps are divided into the following derivatives which are defined as hedging instruments in a combined hedging relationship:

- A cross currency interest rate swap in which the Company is the payer of fixed interest derived from the nominal value in USD and the payee of fixed interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD and CZK. This cross currency interest rate swap is used to hedge the currency risk on the provided USD loan, whereby the exchange rate differences on the hedged portion of the loan (equal to the nominal value of the cross currency interest rate swap - the hedge ratio is 1:1) are offset by the revaluation of the cross currency interest rate swap.
- An interest rate swap in which the Company is the payer of a fixed interest rate derived from the nominal value in CZK and payee of variable interest rate derived from the nominal value in CZK. This interest rate swap is used to hedge the interest rate risk on the bonds issued where the interest paid on the hedged portion of the bonds (equal to the nominal value of the interest rate swap – the hedge ratio is 1:1) derived from the variable interest rate is offset by the revaluation of the interest rate swap (in which the Company is the payee of interest payments derived from the same variable interest rate).

The combined hedging relationship is considered effective and qualifies for hedge accounting (see Section 3.14) only if the two separate derivatives (the hedging relationships in which the derivatives are defined as hedges) meet the hedge accounting requirements.
In the following tables, separate hedging derivatives are always listed separately in the relevant section based on the hedged risk.

The Company began applying hedge accounting on 21 May 2021, at which time hedged items could be hedged. Until then (from 17 May to 21 May 2021), the negotiated cross currency interest rate swaps were classified as trading derivatives. The Company did not apply hedge accounting in any of the previous accounting periods.

The Company assesses the effectiveness of hedges and the existence of an economic relationship between the hedging instruments and the hedged items based on a comparison of their parameters and sensitivity analysis. The Company determines the ineffective portion of the hedge based on the hypothetical derivative method and a comparison of changes in the cumulative fair values of the hedging instruments and hedged items represented by the hypothetical derivative.

The sources of ineffectiveness are mainly the credit risk of the counterparty to the hedging instruments and the Company, which the Company considers to be minimal given that the hedging instruments are negotiated with banks with high credit ratings, and the risk of early payment of the provided loan (for currency hedges) and bonds issued (for interest rate hedges) is very low.

As at 31 December 2021, the Company held the following instruments to hedge its exposure to changes in foreign currency exchange rates and interest rates.

31 Dec 2021 CZK '000			**Due date**
	1–6 months	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure			3,292,650
Average exchange rate CZK/EUR			21,418
Interest rate risk			
Net exposure			3,212,700
Average fixed interest rate			3,525%

As at the reporting date, the amounts relating to the hedged items were as follows:

		31 Dec 2021	
CZK '000	**Change in value used to calculate hedge ineffectiveness**	**Cash flow hedge reserve**	**Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied**
Currency risk			
Provided loan in USD	326,917	-131,520	0
Interest rate risk			
Issued bonds with variable interest rate	-221,885	181,926	0
Total	**105,032**	**50,406**	**0**

Amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

CZK '000	**Nominal value**	**Receivable (+)/ Liability (–)**	**Changes in value of hedging instrument recognised in Other comprehensive income.**	**Hedge ineffectiveness recognised in the statement of profit or loss**	**Amount reclassified from the hedge fund to the statement of profit or loss**
Currency risk					
Cross currency interest rate swaps	3,292,650	–359,484	162,370	–6,663	–164,547
Interest rate risk					
Cross currency interest rate swaps	3,212,700	310,018	-224,600	–	-4,358
Deferred tax effect			11,824		
Total	**–**	**-49,466**	**-50,406**	**-6,663**	**-168,905**

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A liability arising from hedging derivatives of CZK 49,466 thousand (2020 – CZK 0 thousand) is recognised under non-current financial derivatives. Hedge ineffectiveness of CZK 6,663 thousand (2020 – CZK 0 thousand) is recognised in Gains or losses from derivative transactions. CZK 159,851 thousand reclassified from the cash flow hedge reserve to the statement of profit or loss (2020 – CZK 0 thousand) is recognised in Other financial income, CZK 3,043 thousand (2020 – CZK 0 thousand) is recognised in interest expense and CZK 6,011 thousand (2020 – CZK 0 thousand) is recognised in Gains or losses from derivative transactions.

The following table provides a reconciliation of equity components by risk category and an analysis of the items in other comprehensive income, net of tax, arising from hedge accounting.

	2021
CZK '000	**Cash flow hedge reserve**
Opening balance as at 1 Jan	**-**
Cash flow hedges	
Change in fair value:	
– Currency risk	-326,917
– Interest rate risk	220,242
Values reclassified to the statement of profit or loss:	
– Currency risk – other items	164,547
– Interest rate risk	4,358
Tax on movements in funds during the year	-11,824
Closing balance as at 31 Dec	**50,406**

As at 31 December 2020 or 2 January 2020, the Company did not hold any instruments to hedge its exposure to changes in foreign currency exchange rates and interest rates.

34. INFORMATION ON RELATED PARTIES

During the year ended 31 December 2021, the Company had the following transactions with related parties:

		Purchases for the period		Sales for the period	
			2020	2021	2020
European Holding Company, SE	Ultimate parent company	–	–	228	60
Česká zbrojovka Partners SE	Parent company	24	364	228	60
Česká zbrojovka Defence SE	Subsidiary of parent company	–	–	60	60
Česká zbrojovka a.s.	Company under ultimate control	858	–	45,344	30,408
EHC-4M, SE	Company under ultimate control	–	–	53	16
ZBROJOVKA BRNO	Company under ultimate control	–	–	109	–
CZ-US HOLDINGS, INC	Company under ultimate control	–	–	–	252
CZ-USA INC	Company under ultimate control	–	–	22,280	–
Colt Holding Company LLC	Company under ultimate control	–	–	25,887	–
CZ Export Praha, s.r.o.	Company under ultimate control	–	–	672	6,612
CZG-Česká zbrojovka Group International s.r.o.	Company under ultimate control	–	–	70	16
CZG VIB s.r.o.	Company under ultimate control	–	–	70	16
4M SYSTEMS a.s.	Company under ultimate control	–	–	2,047	1,647
CZ AGRO Servis a.s.	Company from group of ultimate owner	–	–	253	192
CZ AGRO zemědělská s.r.o.	Company from group of ultimate owner	–	–	17	16
CZ MFG, Inc.	Company under ultimate control	–	–	–	721
CZ-AUTO SYSTEMS a.s.	Subsidiary of parent company	–	–	652	–
CZ-SKD Solutions a.s.	Subsidiary of parent company	–	–	207	–
IT eCompany Management a.s.	Company from group of ultimate owner	–	–	20	16
Kykulin Trade a.s.	Company from group of ultimate owner	–	–	17	16
Minezit SE	Company from group of ultimate owner	–	–	50	60
RAIL CARGO a.s.	Company from group of ultimate owner	–	–	17	16
Robousy, s.r.o.	Company from group of ultimate owner	–	–	183	120
Keriani a.s.	Associate of the parent company	2,702	2,375	–	–
Silesia Invest SE	Company from group of ultimate owner	–	–	17	16
Lundmonte s.r.o.	Company from group of ultimate owner	–	–	32	–
AIT Group – Advanced Industrial Technology Group a.s. (until 30 April 2021 AUTO-CZ International a.s.)	Subsidiary of parent company	–	–	20	16
M&H Management a.s.	Company from group of ultimate owner	21	–	140	60
Total		**3,605**	**2,739**	**98,673**	**40,396**

In addition to the above, in 2021 the company had income from profit shares in the amount CZK 1,191,629 thousand (2020: CZK 595,496 thousand) in company Česká Zbrojovka a.s. and CZK 30,000 thousand (2020: CZK 17,173 thousand) in company CZ Export Praha, s.r.o.

		Trade and other receivables			Trade and other payables		
		31 Dec 2021	31 Dec 2020	2 Jan 2020	31 Dec 2021	31 Dec 2020	2 Jan 2020
European Holding Company, SE	Ultimate parent company	–	6	–	–	–	–
Česká zbrojovka Partners SE	Parent company	212	6	–	–	–	–
Česká zbrojovka Defence SE	Subsidiary of parent company	–	5	5	–	–	–
Česká zbrojovka a.s.	Company under ultimate control	23,222	3,586	–	134	43	14,373
EHC-4M, SE	Company under ultimate control	5	1	–	–	–	–
CZ-US HOLDINGS, INC.	Company under ultimate control	–	419	–	–	–	–
CZ-USA INC		21,985	–	–	–	–	–
Colt Holding Company LLC	Company under ultimate control	33,622	–	–	–	–	–
CZ Export Praha, s.r.o.	Company under ultimate control	–	13	–	5,298	–	–
CZG-Česká zbrojovka Group International s.r.o.	Company under ultimate control	7	1	–	–	–	–
CZG VIB, s.r.o.	Company under ultimate control	7	1	–	–	–	–
4M SYSTEMS, a.s.	Company under ultimate control	257	179	–	–	–	–
CZ AGRO Servis, a.s.	Company from group of ultimate owner	–	19	–	–	–	–
CZ AGRO zemědělská, s.r.o.	Company from group of ultimate owner	–	1	–	–	–	–
CZ Mfg, Inc.	Company under ultimate control	–	721	–	–	–	–
IT eCompany Management, a.s.	Company from group of ultimate owner	–	1	–	–	–	–
Kykulin Trade, a.s.	Company from group of ultimate owner	2	1	–	–	–	–
Minezit SE	Company from group of ultimate owner	–	6	–	–	–	–
RAIL CARGO, a.s.	Company from group of ultimate owner	2	1	–	–	–	–
Robousy, s.r.o.	Company from group of ultimate owner	–	12	–	–	–	–
Keriani, a.s.	Associate of the parent company	–	–	7	259	250	–
Silesia Invest SE	Company from group of ultimate owner	2	1	–	–	–	–
AIT Group – Advanced Industrial Technology Group, a.s. (until 30 April 2021 AUTO-CZ International a.s)	Subsidiary of parent company	–	1	–	–	–	–
M&H Management, a.s.	Company from group of ultimate owner	–	6	–	24	–	–
ZBROJOVKA BRNO, s.r.o.	Company under ultimate control	109	2	–	–	–	–
Celkem		**79,432**	**4,989**	**12**	**5,715**	**293**	**14,373**

Company provided other loans to releated parties as at 31 December 2021 CZK 29,800 thousand (as at 31 Dec. 2020: CZK 29,800 thousand, 2 Jan. 2020: CZK 8,000 thousand) EHC-4M, SE, CZK 5,143,994 thousand (as at 31 Dec. 2020: CZK 145,859 thousand, 2 Jan. 2020: CZK 61,077 thousand) CZ-US HOLDINGS, INC. and CZK 1,000 thousand (as at 31 Dec. 2020: CZK 1,000 thousand, 2 Jan. 2020: CZK 0). Total value of other loans provided to releated parties as at 31 December 2021 CZK 5,174,794 thousand (31 Dec. 2020: CZK 176,659 thousands, 2 Jan. 2020 CZK 69,077 thousand). The Company did not identified any impairment of loans provided to subsidiaries.

In 2020, the Company paid a dividend of EUR 328,218 thousand to Česká zbrojovka Partners SE.

As at 31 December 2021, the Company recorded receivables arising from the purchase price and accessions under the share transfer agreement of 31 July 2019 of CZK 0 thousand, of CZK 21,914 thousand as at 31 December 2020 and of CZK 35,183 thousand as at 2 January 2020.

35. OFF-BALANCES SHEET COMMITMENTS

As at 31 December 2021, 31 December 2020 and 2 January 2020, the Group issued no guarantees in respect of third-party liabilities.

As at 31 December 2021, the Company records no significant legal disputes where the Company acts as a defendant or investment, environmental and other off-balance sheet commitments.

Some Company executives own shares of the Company. The Company has a call option on these shares at a predetermined exercise price, which represents an increase in equity over a certain period (during the holding period).

36. AUDITOR'S FEE

The statutory auditor's fee is disclosed in the notes to the consolidated financial statements prepared for the consolidated unit in which the Company is included.

37. NET EARNINGS PER SHARE

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

	2021	2020
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	1,267,135	551,646
Denominator (average number of shares in CZK '000)		
Basic	33,462	32,638
Diluted	33,553	32,638
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	38	17
Diluted	38	17

38. SUBSEQUENT MATERIAL EVENTS

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 used the loan to repay its bonds which also matured on 27 January 2022. This transaction was fully hedged by the Company 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 Company 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 to COLT CZ Group SE (approved by amending the Articles of Association) and confirmed the appointment of Ms Jana Růžičková as a member of the Supervisory Board.

On 27 December 2021, the Company's Supervisory Board approved an employee stock option plan. The potential impact of the Option Plan on the Company's financial statements was assessed in accordance with IFRS 2 Classification and Measurement of Share-based Payment Transactions. The basic principles of the Option Plan are as follows:

- to the extent, at the times, and subject to the conditions of the Share Plan, the participant will acquire the following options by way of vesting by the Company
  - 15% of the allocated stock options in the period from June 2022 to June 2024
  - 35% of the allocated stock options in July 2024 if Target 1 is met
  - 50% of the allocated stock options in July 2026 if Target 2 is met

- Target 1 – the EBITDA target on a consolidated basis for the period 2021 to 2023
- Target 2 – performance parameters at consolidated level (turnover, EBITDA and net liabilities/EBITDA ratio) for the 2021 to 2025 period in line with the Group's strategy.

The shares designated for the Option Plan will be newly issued. The maximum amount of shares issued will be 10% of the share capital.

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 Ukrainian 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.Česká zbrojovka a.s. 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 Company's sales to Russia, Belarus, and Ukraine are insignificant in the total volume of the Company's annual sales (accounting 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 Company 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 Company has a sophisticated cyber security system for data stored in secondary locations. The Company 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.

In view of the above assessment, the Company's management believes that this situation does not have a material impact on the measurement of the Company's assets or liabilities and does not affect the going concern assumption on which these financial statements are based.

On 12 April 2022 majority share of parent company Česká Zbrojovka Partners SE was changed. Parent company now holds 77,22% of Company shares up to the reporting date.

No other subsequent events have occurred up to the reporting date that would have any material impact on the financial statements as at 31 December 2021.

CONSOLIDATED FINANCIAL STATEMENTS

under International Financial Reporting Standards as Adopted by the European Union as at 31 Dec 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		31 Dec 2021	31 Dec 2020
	Note	**CZK '000**	**CZK '000**
Revenues from the sale of own products, goods and services	4, 5	10,688,927	6,819,673
Other operating income	6	61,679	67,999
Change in inventories developed internally		166,666	–380,396
Own work capitalised		139,611	123,511
Raw materials and consumables used	7	–5,113,073	–2,736,016
Services	8	–1,764,899	–1,094,683
Personnel costs	9	–2,088,146	–1,299,086
Depreciation and amortization	10	–789,623	–393,496
Other operating expenses	11	–190,090	–122,878
Allowances	12	–99,871	71,691
Operating profit		**1,011,181**	**1,056,319**
Interest income	15	50,038	17,280
Interest expense	16	–204,985	–76,504
Other financial income	15	32,488	513
Other financial expenses	16	–168,509	–66,218
Gains or losses from derivative transactions	17	184,139	–101,255
Share in the profit of associates after tax	23	27,196	20,888
Profit before tax		**931,548**	**851,023**
Income tax	18	–171,086	–174,452
Profit for the period		**760,462**	**676,571**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments		–42,836	274,923
Foreign currency translation of foreign operations		–153,438	–50,402
Other comprehensive income		**–196,274**	**224,521**
Comprehensive income for the period		**564,188**	**901,092**
Profit for the period attributable to:			
Owner of the parent company		760,462	672,948
Non-controlling interests		–	3,623
Comprehensive income for the period attributable to:			
Owner of the parent company		564,188	896,055
Non-controlling interests		–	5,037
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	41	23	21
Diluted	41	23	21

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

		31 Dec 2021	31 Dec 2020
	Note	**CZK '000**	**CZK '000**
ASSETS			
Non-current assets			
Intangible assets	22	3,505,464	770,194
Goodwill	22	2,390,127	280,686
Property, plant and equipment	22	2,810,115	2,050,783
Equity-accounted securities and investments	23	109,445	110,524
Provided loans	25	–	259,260
Financial derivatives	37	171,195	436,267
Trade and other receivables	26	58,999	27,414
Other receivables	27	11,163	9,586
Deferred tax asset	19	–	2,825
Total non-current assets		**9,056,508**	**3,947,539**
Current assets			
Inventories	24	2,861,673	1,622,702
Trade and other receivables	26	1,012,879	589,186
Provided loans	25	197,973	7,000
Financial derivatives	37	156,118	93,303
Other receivables	27	148,098	123,819
Tax assets	18	6,357	34,334
Cash and cash equivalents	28	3,573,467	2,358,608
Total current assets		**7,956,565**	**4,828,952**
Total assets		**17,013,073**	**8,776,491**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	29	3,374	3,264
Share premium	29	1,139,211	722,944
Capital funds	30	1,641,512	1,642,107
Cash flow hedge reserve	30	119,983	161,794
Foreign exchange translation reserve	30	–201,398	–47,960
Accumulated profits		2,539,146	2,027,994
Equity attributable to the owner of the Company		**5,241,828**	**4,510,143**
Equity attributable to the owner of the Company		5,241,828	4,510,143
Non-controlling interests		–	12,543
Total equity		**5,241,828**	**4,522,686**
		31 Dec 2021	**31 Dec 2020**

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	CZK '000	CZK '000
Non-current liabilities			
Bonds, bank loans and borrowings	31	4,972,647	2,250,000
Financial derivatives	37	270,515	268,219
Lease liabilities	34	32,606	75,939
Other financial liabilities	35	372,531	–
Trade and other payables	32	5,422	–
Other payables	33	27,357	160
Provisions	13	63,695	754
Deferred tax liability	19	789,646	324,145
Employee benefit liabilities	14	357,707	6,836
Total non-current liabilities		**6,892,126**	**2,926,053**
Current liabilities			
Bonds, bank loans and borrowings	31	2,317,579	40,747
Financial derivatives	37	20,097	55,372
Lease liabilities	34	20,695	11,436
Other financial liabilities	35	185,568	–
Trade and other payables	32	1,116,373	540,621
Other payables	33	1,073,755	655,267
Provisions	13	50,780	10,649
Tax liabilities	18	76,156	12,682
Employee benefit liabilities	14	18,116	978
Total current liabilities		**4,879,119**	**1,327,752**
Total liabilities		**11,771,245**	**4,253,805**
Total equity and liabilities		**17,013,073**	**8,776,491**

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

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 2019	**2,984**	**–**	**1,641,721**	**–111,045**	**2,442**	**1,921,501**	**3,457,603**	**11,358**	**3,468,961**
Profit for the period	–	–	–	–	–	672,948	672,948	3,623	676,571
Other comprehensive income	–	–	–	273,192	–50,085	–	223,107	1,414	224,521
Total comprehensive income for the period	**–**	**–**	**–**	**273,192**	**–50,085**	**672,948**	**896,055**	**5,037**	**901,092**
Dividends	–	–	–	–	–	–328,218	–328,218	–4,049	–332,267
Impact of the spin-off of the investment in CZ-AUTO	–	–	–	–	–	–207,291	–207,291	–	–207,291
Share issue	280	811,720	–	–	–	–	812,000	–	812,000
Costs of IPO	–	–88,776	–	–	–	–	–88,776	–	–88,776
Change in non-controlling interests and treasury holdings	–	–	386	–353	–317	–30,946	–31,230	197	–31,033
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
Change in non-controlling interests and treasury holdings	–	–	–298	1,025	–	3,715	4,442	–4,442	–
Balance at 31 Dec 2021	**3,374**	**1,139,211**	**1,641,512**	**119,983**	**–201,398**	**2,539,146**	**5,241,828**	**–**	**5,241,828**

Notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	31 Dec 2021 CZK '000	31 Dec 2020 CZK '000
Cash flows from principal economic activity (ordinary activity)			
Profit from ordinary activity before tax		**931,548**	**851,023**
Depreciation/amortization of non-current assets	10, 22	789,623	393,496
Change in allowances and provisions	12, 13	136,836	–53,824
Loss from the sale of non-current assets		–2,340	–791
Interest expense and interest income	15, 16	154,947	73,036
Share in the profit of associates	23	–27,196	–20,888
Urealised foreign exchange gains and losses		–132,775	–
Contingent consideration – revaluation	21	141,722	–
Cash flow hedging – revaluation of the effective part of hedging instruments		–41,811	272,839
Adjustments for other non-cash operations		–3,688	–90,245
Net operating cash flows before changes in working capital		**1,946,866**	**1,424,646**
Change in working capital			
Change in receivables and deferrals	26, 27, 37	51,356	95,187
Change in liabilities and accruals	32, 33, 34, 37	230,620	197,278
Change in inventories	24	–410,095	163,717
Net cash flow from operating activities		**1,818,747**	**1,880,828**
Paid interest		–84,098	–87,891
Interest received		44,934	9,141
Income tax paid for ordinary activity	18	–256,624	–213,839
Net cash flow from operating activities		**1,522,959**	**1,588,239**
Cash flows from investing activities			
Acquisition of non-current assets	22	–633,256	–330,657
Income from the sale of non-current assets		–	1,481
Acquisition of subsidiaries – opening balance	21	–4,695,237	–
Acquisition of subsidiaries – cash and cash equivalents	21	319,499	–
Acquisition of other investments	23	–595	–69,823
Provided loans	25	60,000	–
Employee benefit liabilities	14	–28,558	–
Net cash flow from investing activities		**–4,978,147**	**–398,999**
Cash flows from financing activities			
Proceeds from the bond issue	31	4,972,647	–
Share premium	29	–	722,944
Dividends paid to owners	38	–253,025	–328,218
Dividends paid to non-controlling interests		–8,101	–4,049
Loan and interests repayment	31	–40,747	–17,410
Net cash flow from financing activities		**4,670,774**	**373,267**
Net change in cash and cash equivalents		**1,215,586**	**1,553,105**
Impact of the spin-off of the investment in CZ-AUTO		–	–74,812
Opening balance of cash and cash equivalents		**2,358,608**	**880,315**
Effect of exchange rate on cash and cash equivalents		–727	–9,402
Closing balance of cash and cash equivalents		**3,573,467**	**2,358,608**

Notes are an integral part of these consolidated financial statements.

*Adjusted net cash flow from operating activities including the impact of contingent consideration of COLT acquisition.

		31 Dec 2021	31 Dec 2020
	Note	**CZK '000**	**CZK '000**
Net cash generated from operating activities		**1,522,959**	**1,588,239**
Impact of non-cash year end contingent consideration	21	558,099	–
Impact of non-cash revaluation of non-cash contingent consideration	21	–141,722	–
Net cash and non-cash transactions generated operating activities		**1,939,336**	**1,588,239**

Notes are an integral part of these consolidated financial statements.

COLT
CZGROUP

COLT CZ GROUP SE

(formerly „CZG – Česká zbrojovka GROUP SE“)

Separate Financial Statements for the Year Ended 31 December 2021 under International Financial Reporting Standards as Adopted by the European Union

Obsah

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:

Shareholder	Ownership percentage as at	
	31 Dec 2021	31 Dec 2020
Česká zbrojovka Partners SE	81%	91%

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 (thous. CZK), which are also the functional currency.

2. IDENTIFICATION OF THE GROUP AND MATERIAL EVENTS IN THE PERIOD

2.1. Identification of the Group

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group	
				31 Dec 2021	31 Dec 2020
CZ USA HOLDINGS INC.	Holding company	Kansas City, USA	full	100%	100%
CZ-USA, LLC	Purchase and sale of firearms and ammunition	Kansas City, USA	full	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%
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	100%	100%

Company name	Principal activity	Place of foundation and business operation	Consolida-tion method	Share in voting rights held by the Group	
				31 Dec 2021	31 Dec 2020
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	99%
CZ – Slovensko s.r.o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	100%	99%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	100%	99%
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49%	49%
Latin America Holding, a.s.	Holding company	Uherský Brod, Czech Republic	full	100%	99%
CZ Export Praha, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%
CZG-Česká zbrojovka Group International s.r.o.	Holding Company	Prague, Czech Republic	full	100%	100%
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%
CZG VIB s.r.o.	Holding company	Prague, Czech Republic	full	100%	100%
VIBROM spol. s r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25%	25%
Spuhr i Dalby AB	Manufacture and assembly of optics	Löddeköpinge, Švédsko	equity	25%	25%
CARDAM s.r.o.	Research and development	Dolní Břežany, Czech Republic	equity	33%	33%
Colt Holding Company LLC*	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100%	–
CDH II Holdco Inc	Holding company	West Hartford, Connecticut, USA	full	100%	–
Colt Defence LLC	Holding company	West Hartford, Connecticut, USA	full	100%	–
New Colt Holding Corp.	Holding company	West Hartford, Connecticut, USA	full	100%	–
Colt´s Manufacturing Company LLC	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100%	–
Manufacturing IP Holding Company LLC	Holds, maintains, and licenses Colt USA trademarks	West Hartford, Connecticut, USA Colt USA	full	100%	–
Colt Defence Technical Services LLC	Holding company	West Hartford, Connecticut, USA Colt USA	full	100%	–
Colt International Cooperatief U.A.	Holding company	Amsterdam, the Netherlands	full	100%	–
Colt Canada Corporation	Production, purchase and sale of firearms	Kitchener, Ontario, Canada	full	100%	–
Colt Canada IP Holding Company	Holding company	Kitchener, Ontario, Canada	full	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%	–

* 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 consolidated financial statements. As of 31 December 2021, company did not perform any activities..

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. See Note 21.
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.

2.2. Material events in the period

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

- Bond issue

  On 23 March 2021, the Company issued 500,000 bonds with a nominal value of CZK 10 thousand, totalling CZK 5,000,000 thousand. The issue price of the Notes subscribed in the public offer is 100% of the nominal value of the Notes. The Notes were admitted to trading on the Regulated Market of the Prague Stock Exchange.
- Acquisition of the COLT Group

  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. See Note 19.
- COVID-19 pandemic

  The main operating company and the Group's largest employer Česká zbrojovka a.s. („CZUB") continued the measures it had undertaken during 2020 to contain the outbreak of COVID-19. In 2021, the CZUB's management presented new proposals to improve the work environment in plants where a work-from-home regime was not possible. The proposals for improvement were discussed with the Zlín region's regional health protection office based in Zlín. The management of the company always started the regular meeting with a mandatory briefing on the number of sick employees, the number of people in quarantine, employee testing, and the effectiveness of the measures taken. At such regular meetings, it also issued decisions on new emergency measures based on the current pandemic status.

  For these purposes, a special team was created to monitor the update of the adopted measures and recommendations by the Ministry of Health, to propose new emergency measures or to propose the abolition of already expired/ineffective measures, and to regularly check the implementation of the measures taken at each workplace independently of inspections by the occupational health and safety officer. The results of the checks were subsequently reported to the company's management.

  The Group's operations in the United States and Canada were also affected by the COVID-19 pandemic in 2021 although the demand for weapons on the US civilian market continued to grow in the period under review. The pandemic in the US and Canada primarily caused a slowdown in the global supply chain. Extended delivery times of production components had a slightly negative impact on production line outputs, which was compensated by increased shipments from CZUB to CZ-USA and from business partners in Turkey. All operations, including COLT (both US and Canadian plants), Kansas and the Dan Wesson manufacturing facility in New York State, did not cease operations in 2021 under strict compliance with the rules set by the Centers for Disease Control and Prevention (CDC) and local governments.

  Considering all available information and measures taken, the Group management is convinced that as at the date of this report, the Group has adequate resources to continues its activities in the foreseeable future. Therefore, the Group continues to prepare its consolidated financial statements under the going concern principle. The Group has neither applied for nor is considering applying for public support in relation to the pandemic situation.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Newly adopted standards and interpretations

In the current year, the Group has applied the below amendments to IFRS Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective in the EU for an accounting period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Impact of the initial application of the Interest Rate Benchmark Reform

Amendments to Phase 1 of the Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39, and IFRS 7 effective from 1 January 2020 have changed specific hedge accounting requirements so that hedge accounting of affected hedges can continue during periods of uncertainty before hedged items or hedging instruments are adjusted as a result of the interest rate benchmark reform.

Amendments to Phase 2 of the Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – are effective from 1 January 2021. The adoption of these amendments enables entities to reflect the effect of the transition from interbank offered rates (IBOR) to alternative benchmark rates (also referred to as risk-free rates (RFR) without accounting implications on the usefulness of information provided to financial statement users.

Phase 1 and Phase 2 amendments are not relevant to the Group as it does not apply hedge accounting to its benchmark rate risks and no adjustments were made to the Group's derivative and non-derivative financial instruments in the current year in connection with the reform.

Impact of initial application of amendments to IFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021
In March 2021, the IASB issued amendments to IFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021, which extends the practical expedient for reducing lease payments originally due up to and including 30 June 2022. The Group did not use the practical expedient presented in amendments to IFRS 16 (issued by IASB in March 2021) in the current accounting period.

Impact of initial application of amendments to IFRS 4 Insurance contracts – Extension of the Temporary Exemption from Applying IFRS 9
Amendments to IFRS 4 were issued together with Amendments to IFRS 17 in June 2020. Amendments to IFRS 4 have changed the fixed expiry date of the temporary exemption from applying IFRS 9 Financial Instruments presented in IFRS 4 Insurance Contracts so that entities apply IFRS 9 to annual periods beginning on or after 1 January 2023 (instead of 1 January 2021).

Amendments to IFRS 4 are not relevant for the Group.

Amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective
At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by the IASB and adopted by the EU which are not yet effective:

- IFRS 17 Insurance Contracts, including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- Amendments to various standards due to „Improvements to IFRSs (cycle 2018-2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) with a view to removing inconsistencies and clarifying wording. (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022). The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The Group does not expect that the adoption of the standard above and amendments to the existing standards will have a material impact on the financial statements of the Group in future periods.

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU
The following amendments to the existing standards have not been adopted by the EU yet, and thus the Group could not apply them: (The effective dates are presented as stipulated by the IASB. It is expected that the EU will adopt the amendments with the same effect).

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale of Assets between an Investor and Associate or Joint Venture (effective date deferred until the project on the equity method has been concluded),
- Amendments to IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023). The Group anticipates that the adoption of these amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

3.2. Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

3.3. Basis of preparation
The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value 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 Company applies Level 2 to financial instruments – derivatives.

Going concern

The Group has, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

3.3.1. Changes in accounting and reporting

In 2021, no changes in the Group's general accounting policies were made, with the exception of new standards as disclosed in Note 3.1. In preparing the consolidated financial statements, the Group changed the presentation of the following transactions to provide more accurate information to users of the consolidated financial statements (CZK '000):

	2020 disclosed	Reclassification	2020 adjusted
Personnel expenses	-1,260,091	-38,995	-1,299,086
Other operating income	50,431	17,568	67,999
Other operating expenses	-144,305	21,427	-122,878
Other financial income	295,566	-295,053	513
Other financial expenses	-361,271	295,053	-66,218
Income from derivative transactions*	138,854	-138,854	-
Expenses from derivative transactions*	-240,109	138,854	-101,255
Statement of profit or loss and other comprehensive income total	**-1,520,925**	**0**	**-1,520,925**

*Change in the name of the financial statement item to Gains or losses from derivative transactions

	2020 disclosed	Reclassification	2020 adjusted
Provided loans (long-term)	-	259,260	259,260
Financial derivatives (non-current assets)	-	436,267	436,267
Financial derivatives (current assets)	529,570	-436,267	93,303
Long-term receivables	303,260	-275,846	27,414
Other receivables (short-term)	-	16 586	16,586
Deferred tax asset	3,281	-456	2,825
Trade receivables (short-term)	585,885	3,301	589,186
Other receivables (short-term)	127,120	-3,301	123,819
Tax assets	44,938	-10,604	34,334
Financial derivatives (non-current liabilities)	-	-268,219	-268,219
Other liabilities (non-current)	-307	147	-160
Provisions (non-current)	-7,443	6,689	-754
Deferred tax liability	-324,601	456	-324,145
Bonds, bank loans and borrowings (long-term)	-2,252,246	2,246	-2,250,000
Employee benefit liabilities (non-current)	-	-6,836	-6,836
Financial derivatives (current liabilities)	-323,591	268,219	-55,372
Trade and other payables (current)	-417,503	-123,118	-540,621
Other payables (current)	-727,691	72,424	-655,267
Provisions (current)	-81,274	70,625	-10,649
Tax liabilities	-23,286	10,604	-12,682
Bonds, bank loans and borrowings (short-term)	-19,548	-21,199	-40,747
Employee benefit liabilities (current)	-	-978	-978
Statement of financial situation total	**-2,583,436**	**0**	**-2,583,436**

Balances presented for the 2020 period were adjusted to correspond with the manner of presentation for the 2021 period.

3.3.2. 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 recognized directly in equity and attributed to owner of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized 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 recognized 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.

3.4. 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 recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized 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 recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized 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 with 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.

3.5. 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 recognized as goodwill, which is included within the carrying amount of the investment.

An impairment loss for investments in associates is calculated by comparing the recoverable amount with the carrying amount if there is objective evidence of impairment. In assessing whether objective evidence exists, the Group primarily considers the associate's current or potential financial difficulties, breach of contract, default or, possible bankruptcy. Realisable value is determined based on estimated future cash flows discounted to their present value. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognized 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 recognized 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 recognized 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 recognized 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.

3.6. 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 recognized upon meeting the performance obligation.

Revenues are recognized 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 recognizes 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 recognized as assets under IFRS.

3.7. Sale of products and related additional 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 Company provides no significant bulk discounts or any similar price adjustments linked to the volume of purchases for a specified period.

The revenue is recognized at the moment of its satisfaction occurs, which is when the customer takes control over the products or goods. This moment is determined mainly by the agreed delivery parity. For goods and products delivered from consignment stock, the revenue is recognized 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 recognized in compliance with IAS 2.

The remuneration for obtaining a contract, in particular the remuneration provided to intermediaries, is usually linked to the customer's payment and is, therefore, directly expensed. Similarly, the costs of obtaining contracts are directly expensed if they are insignificant or if the depreciation period of the asset resulting from the costs of obtaining the contract is shorter than one year.

The sale of material (in particular metal waste and scrap) is recognized in a similar way to the sale of products and goods.

3.8. Provision of services and licences

Services primarily include work (machining, grinding) on supplied tools or material. 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.

For the supply of services, the performance obligation is fulfilled when the customer acquires control of 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 of obtaining a contract are directly expensed if they are insignificant or if the depreciation period of the asset consisting of the costs of obtaining the contract is less than one year.

Licences are provided under 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 on sales achieved based on the granted licence (a fixed amount per unit sold or a share on 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. Revenue from the sale of rights to access licenses (license fees) is accounted for an ongoing basis and is not recognized as revenue as it is not generated in the ordinary course of the Group's business.

3.9. Dividends and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income is recognized 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 brutto carrying amount of the financial asset.

3.10. Leases

The Group as a lessor

The Group is not a lessor in any contract that would qualify as a finance lease. Income from lease contracts classified as an operating lease in which the Group acts as a lessor is recognized on a straight-line basis over the term of the contract.

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 (or the incremental borrowing rate in case the interest rate implicit in the lease is not readily available). Lease payments may include both fixed and variable payments. As of the lease commencement, the variable element of rent depending on the development of a price index or rate is determined according to the index or rate value as of the lease commencement date. 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 remeasures 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 presented on separate lines of the consolidated statement of financial position.

As of the lease commencement date, the right-of-use asset is 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 losses, if any. The right-of-use asset is depreciated on a straight-line basis over the shorter 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 presented on 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 recognized in accordance with the policy described in Note 3.19.

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.

3.11. 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 recognized at the rates of exchange prevailing at the dates of the transactions. The functional currencies in the US subsidiaries are US dollars and Canadian dollars in the Czech subsidiaries Czech crowns. 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 recognized 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 3.27).

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. Revenue and expense items are translated using the average exchange rate for the period. If exchange rates have fluctuated significantly during the period, the exchange rate at the date of the transaction shall be used. Exchange differences from translating the functional currency of foreign entities into Czech crowns are recognized in other comprehensive income and accumulated in capital funds as part of equity (and attributed to non-controlling interests as appropriate).

3.12. 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).

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.13. Government grants and investment incentives

Government grants are not recognized 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 recognized 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.

3.14. Employee benefits

In Czech Republic the Group does not operate its own private pension and post-retirement benefit plans. 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 recognized 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.

In the USA the Group has a pension plan, which covers salaried employees and employees covered by a Collective Bargaining Agreement. Pension benefits for both salaried employees and employees covered by the Collective Bargaining Agreement were frozen at various dates prior to 1 January 2015. Accordingly, participants will retain pension benefits that have already been generated. However, no further benefits will be generated from the effective date of the freeze. In accordance with IAS 19, the pension plan liability is accounted for on a net basis. The Group also provides certain post-retirement healthcare benefits and life insurance coverage to certain retired US employees who were covered by its Collective Bargaining Agreement at the time of retirement. The cost of these post-retirement benefits is determined actuarially and is recognized in the Company's consolidated financial statements over the active working lives of the employees. In USA, the Group operates a so called NQDC Plan (A Non-Qualified Deferred Compensation Plan) enabling 10 key employees to defer compensation that they have a legally binding right to receive. NQDC plans are not covered under the Employee Retirement Income Security Act (ERISA).

3.15. Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

3.15.1. 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 separate 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.

3.15.2. Deferred tax
Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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.

3.15.3. Current and deferred tax for the year
Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

3.16. 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 assets 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 recognized 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.

3.17. Property, plant and equipment – tangible fixed assets

Tangible fixed assets are recognized 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. Subsequent costs incurred on a replacement part for property, plant and equipment or major inspections or overhauls are recognized in the carrying amount of the affected item of property plant and equipment.

Costs of day-to-day servicing, repair or maintenance are expensed when incurred.

Depreciation is recognized 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, devices and equipment	4–52
Furnaces, cranes and 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.

An item of property, plant and equipment is derecognized 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 recognized in profit or loss.

Rights of use are depreciated from the commencement of the lease over the shorter of the lease term or the life of the asset. If the Group expects to exercise the option to purchase the leased asset at the end of the lease term, the right to use is depreciated over the period of expected use. The table below summarizes the useful lives by lease item.

Lease item	Number of years (from – to)
Warehouses, offices and other spaces	2–5
Machinery, devices and equipment	2–5
Vehicles	2–7

3.18. Intangible assets

3.18.1. Intangible assets acquired separately

Intangible assets and assets acquired in business combination with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

	Number of years (from – to)
Development	4–20
Software	2–4
Licenses, patents and other intellectual property rights	2–15
Contractual customer relations	10–25
Other intangible assets	2–6

The estimated useful life and amortization 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.

3.18.2. Internally developed intangible assets – research and development expenditure
Expenditure on research activities is recognized 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 recognized 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 from 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 recognized 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 recognized. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

After initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.18.3. Emission allowances
Intangible assets include emission allowances for greenhouse allowances. An initial free-of-charge acquisition of the allowances is measured at its market price with a grant being recognized as a deferred income. 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 on the accrual basis.

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.

3.18.4. Derecognition of intangible assets
An intangible asset is derecognized 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 recognized in profit or loss when the asset is derecognized.

3.19. 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 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 recognized 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 recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized 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.

3.20. Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. The Group considers as short-term investments with an initial maturity of three months or less.

3.21. 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.

3.22. Provisions
Provisions are recognized 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 recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Provisions recognized by the Group principally relate to legal disputes and warranty repairs.

3.22.1. Warranty repairs
Provisions for the expected cost of warranty obligations under local sale of goods legislation or business rules are recognized 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.

3.23. Financial instruments
Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instruments.

All ordinary purchases and sales of financial assets are recognized or derecognized 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 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 recognized immediately in profit or loss.

3.24. Financial assets

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 amortized cost'. Equity instrument except for shares in subsidiaries and associates are subsequently measured at fair value. The Group does not use the option to measure selected equity instruments through other comprehensive income; all equity instruments are measured at fair value through profit or loss (FVTPL).

Shares in subsidiaries and associates are measured at cost less any impairment losses.

The classification and subsequent measurement of debt financial assets depends on the business model and cash flow characteristics of the respective asset. Debt financial assets held to collect contractual cash flows representing solely the payment of interest and principal are measured at amortized cost. Debt 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 measured at fair value through other comprehensive income.

In 2021 and 2020, the Group's business model for all debt financial assets was to hold them and to collect contractual cash flows.

3.24.1. Impairment of financial assets

For trade receivables and investments in associates, the Group determines an impairment loss by means of the simplified model. Therefore, the impairment loss for short-term receivables is determined in an amount corresponding to expected losses for the entire duration of the receivable. To determine the impairment loss, the Group divides short-term receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of the expected losses for each group of receivables is based on historical experience and information about the future that are available without necessity of expending extra costs or effort. Is assessed annually by the Group's management.

For long-term receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant increase in the credit risk of the receivable. In that case, the losses are determined in the amount of the expected losses for the entire remaining period to maturity. Indicators of increased credit risk are mainly breaches of contractual conditions.

Financial assets write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

3.24.2. Effective interest rate method

The effective interest method is a method of calculating the amortized 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 brutto carrying amount on initial recognition.

Income is recognized using the effective interest method for financial assets other than those financial assets classified as at FVTPL.

3.25. Financial liabilities and equity instruments

3.25.1. 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.

3.25.2. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.25.3. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 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 recognized in profit or loss. The net gain or loss recognized 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.

3.25.3.1. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost.

3.25.3.2. Bonds

Bonds are publicly traded and listed on the regulated market of the Prague Stock Exchange. Issued bonds are initially recognized at fair value net of transaction costs. Subsequent to initial recognition, the Group remeasures the issued bonds at their amortized cost using the effective interest rate method. Unpaid interest on bonds are recognized in the Current bonds, bank loans and borrowings position. Transaction costs are deferred and recognized in Other current or non-current bonds, bank loans and borrowings position.

3.25.3.3. 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 the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher:

- Loss allowance determined in accordance with IFRS 9; and
- initial recognition decreased by revenues recognized in line with IFRS 15.

The Group provided no financial guarantees in 2021 and 2020.

3.25.3.4. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are extinguished, i.e. they are discharged, cancelled or have expired. If the existing obligation is modified substantially, it is accounted for as an extinguishment of the original liability and recognition of a new liability. The modification is deemed to be substantial if the cash flows under the new liability is at least 10% different from the net present value of the remaining cash flows of the existing liability.

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.26. 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 recognized 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 recognized to financial expenses, or financial income as appropriate. Changes in the fair value of derivative instruments classified as fair value hedges are also recognized 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. The portion of the gain or loss on the derivatives determined to be an effective cash flow hedges is recognized through other comprehensive income. Any remaining gain or loss is recognized in profit or loss and presented as Income/ Expense for derivative transactions in the Consolidated statement of profit or loss and other comprehensive income.

3.27. 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 Group 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 derivatives instruments are measured at fair value as of the end of the reporting the end of the reporting period and this fair value is reported under Hedging cash-flow funds in the Group's equity.

3.27.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income under cash flow hedges – remeasurement of effective portion of hedging instruments, the cumulative balance is recognized in the Consolidated statement of financial position in Capital funds. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the Gains or losses from derivative transactions transactions line item.

Amounts previously recognized 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 recognized 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 recognized 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 recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

3.28. Non-controlling interests

The Group recognizes 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.

3.29. Use of estimates

The presentation of financial statements in line with IFRS requires the Company'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 Company has made these estimates based on 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 (Notes 3.18., 3.19., and 22);
- Impairment of inventory is based on the expected production and price development (Notes 3.21. and 24);
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 3.14. and 26);
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as at 31 December 2021 (Notes 3.23, 3.24., 3.25., 3.26.,3.27., and 37);
- Impairment of intangible assets with an indeterminable 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 (Notes 3.19., 22.1, and 22.2).

3.30. 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:

- Firearm regulation: stricter regulation of firearms may have an adverse impact on the Group's financial results in future.
- 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 a key success factor but this factor is linked to the need for continuous investment. If investments cannot be used successfully in commerce, the Group's financial performance would be adversely impacted;
- Potential expansion: Bad acquisition failing to meet expected performance
- Loss of key employees
- Political risks: Political developments may lead to a reduction in the possibility of supplying weapons to selected areas. Such development could have an adverse impact on the Group's financial performance.
- Exchange rate and interest rate movements, including a change in the risk-free reference rate: The Group is active in different markets and its financial performance may be affected 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 analyzes 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. 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. As of 31 December 2021 and 31 December 2020, the production, purchase and sale of firearms and accessories represents the only activity of the Group and related revenues and expenses represent substantially all revenues and expenses of the Group.

4.1. Geographical information

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

Sales to external customers		
	2021	**2020**
Czech Republic (home country)	824,128	327,419
USA	6,248,038	4,410,237
Canada	551,509	96,514
Europe (excluding the Czech Republic)	1,053,754	936,257
Africa	752,850	414,641
Asia	727,426	390,575
Other	531,222	244,030
Total	**10,688,927**	**6,819,673**

The Group has production facilities in the Czech Republic, USA, and Canada. Out of the total carrying value of property, plant and equipment of CZK 2,810,115 thousand as at 31 December 2021 (31 December 2020: (CZK 2,050,783 thousand) the value of items located in the USA is CZK 475,243 thousand (31 December 2020: CZK 181,167 thousand) and in Canada CZK 139,887 thousand (31 December 2020: CZK 0 thousand); the remaining part is in the Czech Republic.

Out of the total amount of intangible assets of CZK 3,505,464 thousand (31 December 2020: CZK 770,194 thousand), located outside the Czech Republic, CZK 2,172,557 thousand (31 December 2020: CZK 3,017 thousand) was in the USA and CZK 641,657 thousand (31 December 2020: CZK 0 thousand) in Canada. As at 31 December 2021, goodwill of CZK 280,686 thousand relates to Czech operations (31 December 2020: CZK 280,686 thousand), CZK 1,925,741 thousand (31 December 2020: CZK 0 thousand) to the USA, and CZK 183,700 thousand (31 December 2020: CZK 0 thousand) to Canada.

5. REVENUES FROM THE SALE OF OWN PRODUCTS, GOODS AND REVENUES

The table below shows a breakdown of the Group's revenues by type (in CZK '000):

	2021	2020
Revenues from the sale of own products	8,841,911	5,846,915
Revenues from goods	1,706,280	886,880
Revenues from provision of services	140,736	85,878
Total	**10,688,927**	**6,819,673**

The sale of own products includes the sales of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting, and other civilian uses. The sale of goods includes ammunition and some tactical accessories for military and law enforcement, personal defence, hunting, sport shooting, and other civilian uses.

The Group did not have a customer with a share on its consolidated revenues exceeding 10% threshold in 2021 and 2020.

As at 31 December 2021, the Group had contracts relating to the delivery of products and goods in which contractual obligations will be satisfied after that date. The Group used the option not to recognise information on revenues arising from the existing contracts agreed for less than a year.

No revenue was recognized in 2021 or 2020 related to a contractual obligation that was satisfied or partially satisfied in prior periods.

The Company has not recognized any contractual asset or contractual liability; trade receivables arising from contracts with customers are recognized in Trade and other receivables. The Company has not incurred any costs to obtain or perform the contract, therefore no asset has been recognized in respect of the contract.

6. OTHER OPERATING INCOME

The table below shows a breakdown of the Group's other operating income in individual years (CZK '000):

	2021	2020
Profit from the sale of non-current assets	2,340	790
Profit from the sale of material	21,279	–
Charge, utilisation and release of provisions	–	21,128
Insurance claims	688	2,061
Other income from leases and subleases	7,399	8,801
Other income from the sale of a licence	11,086	19,497
Other	18,887	15,722
Total	**61,679**	**67,999**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

7. RAW MATERIAL AND CONSUMABLES USED

The table below shows a breakdown of consumption and costs of goods sold in individual years (CZK '000):

	2021	2020
Consumed material	4,062,942	2,063,434
Costs of goods sold	942,617	576,117
Consumed energy	107,514	96,465
Total	**5,113,073**	**2,736,016**

8. SERVICES

The breakdown of services of the Group in individual years is as follows (CZK '000):

	2021	2020
Outsourcing costs and other external costs	489,225	103,318
Services of manufacturing nature and subsupplies	351,601	252,503
Transportation and travel	355,218	260,198
IT costs, connectivity, SW license	80,641	38,435
Repairs and maintenance	65,589	48,085
Variable lease costs	4,882	4,703
Costs of short-term leases	24,053	16,723
Costs relating to low-value assets not included in the short-term leases above	1,398	18,829
Commission costs	245,201	189,589
Marketing costs	108,528	79,626
Initial public offering	–	31,424
Other services	38,563	51,250
Total	**1,764,899**	**1,094,683**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

9. PERSONNEL COSTS

Breakdown of personnel expenses excluding management personnel expenses (CZK '000):

	2021	2020
Average FTE number of employees	2,174	1,650
Wages and salaries	1,439,970	893,254
Social security and health insurance	414,551	265,170
Other financial expenses	43,160	30,224
Post-retirement benefit plan	25,207	–
Employee bonuses	32,342	36,719
Total	**1,955,230**	**1,225,367**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Breakdown of management personnel expenses (CZK '000):

	2021	2020
Average FTE number of management	22	23
Wages and salaries	91,849	60,462
Social security and health insurance	15,010	12,833
Other financial expenses	229	424
Employee bonuses	25,828	–
Total	**132,916**	**73,719**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

In 2021, the key management personnel included all members of the Board of Directors and Supervisory Boards of the respective companies. The Group provided no other benefits (e.g., post-retirement benefits, termination benefits or share-based payments) to its key management personnel in 2021 or 2020.

10. DEPRECIATION AND AMORTIZATION

The table shows the composition of the Group's expenses in individual years (CZK '000):

	2021	2020
Amortization of non-current intangible assets (Note 22)	478,547	132,571
Depreciation of non-current tangible assets (Note 22)	290,320	246,450
Depreciation of right of use of assets (Note 22)	20,756	14,475
Total	**789,623**	**393,496**

11. OTHER OPERATING EXPENSES

The table shows the composition of other operating expenses of the Company in individual years is as follows (CZK '000):

	2021	2020
Loss from the sale of material	–	3,520
Charge, utilisation and release of provisions	36,965	–
Taxes and levies	22,851	5,154
Insurance premiums	72,307	44,800
Gifts	3,412	5,625
Write-off of financial assets	64	12,233
Damage compensation	–	11,081
Liquidation of inventories	5,478	22,987
Other operating expenses	49,013	17,478
Total	**190,090**	**122,878**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

12. ALLOWANCES

Allowances constituting an impairment of assets and their changes were as follows (CZK '000):

Allowances for:	Balance at 31 Dec 2019	Charge for allowances	Utilisation of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2020	Balance at the date of entry into consolidation	Charge for allowances	Utilisation of allowances	Release of allowances	Impact of FX rate fluctuations	Balance at 31 Dec 2021
Intangible assets	5,794	–	-738	–	5,056	–	–	–	-807	–	4,249
Property, plant and equipment	11,520	16,547	-7,643	–	20,424	–	5,136	-6,692	–	–	18,868
Inventories	201,584	42,730	-107,602	–	136,712	134,938	159,336	-66,290	-1,813	6,516	369,399
Trade and other receivables	29,625	9,253	-24,932	-12	13,934	7,731	21,285	-10,284	–	685	33,351
Total	**248,523**	**68,530**	**-140,915**	**-12**	**176,126**	**142,669**	**185,757**	**-83,266**	**-2,620**	**7,201**	**425,867**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020 and 2019.

Net change in allowances is presented under allowances line in the consolidated statement of profit or loss and other comprehensive income.

13. PROVISIONS

The table below shows changes in current provisions (CZK '000):

Non-current provisions	Balance As at 31 Dec 2019	Charge of provisions	Release of provisions	Impact of FX rate fluctuations	Balance As at 31 Dec 2020	Balance at the date of entry into consolidation	Charge of provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance As at 31 Dec 2021
Warranty repairs	11,206	3,860	-4,972	-40	10,054	9,007	44,952	-15,818	-554	688	48,329
Provisions for legal disputes	2,600	–	-2,600	–	–	–	–	–	–	–	–
Other current provisions	11	584	–	–	595	2,045	–	-108	-182	101	2,451
Total	**13,817**	**4,444**	**-7,572**	**-40**	**10,649**	**11,052**	**44,952**	**-15,926**	**-736**	**789**	**50,780**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020 and 2019.

The table below shows changes in long-term provisions (CZK '000):

Non-current provisions	Balance at 31 Dec 2019	Release of provisions	Balance As at 31 Dec 2020	Balance at the date of entry into consolidation	Charge of provisions	Release of provisions	Impact of FX rate fluctuations	Balance As at 31 Dec 2021
Warranty repairs	761	–	761	–	9,759	–	–	10,520
Provisions for legal disputes	17,000	-17,000	–	–	–	–	–	–
Provisions for business risks	1,000	-1,000	–	–	–	–	–	–
Other	-7	–	-7	52,346	–	-1,084	1,920	53,175
Total	**18,754**	**-18,000**	**754**	**52,346**	**9,759**	**-1,084**	**1,920**	**63,695**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020 and 2019.

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.

Other non-current provisions primarily comprise potential commitments from customer program in the COLT Group.

14. EMPLOYEE BENEFIT LIABILITIES

Employee benefit liabilities (CZK '000):

	31 Dec 2021	31 Dec 2020
Net employee benefit liability	187,910	7,814
Liability for medical (healthcare) benefits	187,913	-
Total net employee benefit liability	**375,823**	**7,814**
Non-current net employee benefit liabilities	357,707	6,836
Current net employee benefit liabilities	18,116	978
Total net employee benefit liability	**375,823**	**7,814**

The Company did not record any net assets arising from employee benefits in 2021 and 2020. The related revenues and expenses from employee benefits are presented on the Personnel expenses line in the consolidated statement of profit or loss and other comprehensive income.

The increase in employee benefit liability in 2021 is mainly due to acquisition of the group, which have CZK 362,403 thousand employee benefit liability.

The Group provides the following bonuses to its employees in the Czech Republic beyond basic salary and salary bonuses. Based on the Group's bonus policy, its employees are entitled to bonuses on their 50th birthday and retirement bonuses upon becoming eligible for retirement, early retirement, or disability pension. The terms for providing such bonuses are regulated by the Collective Bargaining Agreement for the respective year and their amount depends, inter alia, on the length of employment at the Group. The basis for calculating the liability is the expected liability that the Group is required to pay under internal regulations. The net present value of these liabilities is estimated at the end of each reporting period and adjusted if there are significant indications of impairment of these liabilities. Total liabilities equal discounted future payments considering employee turnover. The discount rate used in 2021 was 2.01% (2020 – 2.01%), the assumptions are based on the Collective Bargaining Agreement.

The Group also contributes to the following post-retirement plan of defined benefits in the United States.

The Group has a pension plan, which covers salaried employees and employees covered by a Collective Bargaining Agreement. Pension benefits for both salaried employees and employees covered by the Collective Bargaining Agreement were frozen at various dates prior to 1 January 2015. Accordingly, participants will retain pension benefits that have already been generated. However, no further benefits will be generated from the effective date of the freeze. In accordance with IAS 19, the pension plan liability is accounted for on a net basis.

The Group also provides certain post-retirement healthcare benefits and life insurance coverage to certain retired US employees who were covered by its Collective Bargaining Agreement at the time of retirement. The cost of these post-retirement benefits is determined actuarially and is recognized in the Company's consolidated financial statements over the active working lives of the employees.
On 16 December 2015, COLT, the International Union, the United Automobile, Aerospace and Agricultural Implement Workers of America („UAW"), and Amalgamated UAW Local No. 376 (collectively with the UAW, the „Union") concluded a Memorandum of Understanding (the „MOU") as a result of the bankruptcy proceedings which, among other things, modified the provisions of the post-retirement healthcare plan. The MOU concluded between the Company and the Union modified eligibility requirements to qualify for post-retirement healthcare coverage and provided for reimbursement of Medicare Part B premiums paid up to USD 1,500 per year plus the eligible participant's pro rata share of any unused administrative costs of USD 120 per year per participant.

The table below shows a reconciliation of the movement from opening balances to closing balances of the net employee benefit liability and its components (in CZK '000).

2021	**Life jubilee bonus**			**Retirement bonus**			**Pension plan**			**Post-retirement healthcare plan**		
	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability
Balance at 1 Jan	1,671	–	1,671	6,143	–	6,143	–	–	–	–	–	–
Acquisition due to business combination	–	–	–	–	–	–	659,204	-499,169	160,035	184,946	–	184,946
Reclassification to the statement of profit or loss												
Present contractual costs	195	–	195	762	–	762	8,012	–	8,012	218	–	218
Interest expense (income)	–	–	–	–	–	–	10,367	–	10,367	2,576	–	2,576
	195	**–**	**195**	**762**	**–**	**762**	**18,379**	**–**	**18,379**	**2,794**	**–**	**2,794**
Included in the statement of profit or loss												
Profit (loss) from remeasurement:												
– Actuarial loss (profit) arising from:												
– demographic assumptions	–	–	–	–	–	–	–	–	–	636	–	636
– experience-based adjustments	–	–	–	–	–	–	22,103	–	22,103	-3,428	–	-3,428
– Return of assets of the plan without interest income	–	–	–	–	–	–	–	-7,809	-7,809	–	–	–
Impact of FX rate fluctuations	–	–	–	–	–	–	30,653	-21,875	8,777	9,176	–	9,176
	–	**–**	**–**	**–**	**–**	**–**	**52,756**	**-29,684**	**23,071**	**6,384**	**–**	**6,384**
Other												
Contributions paid by the employer	–	–	–	–	–	–	–	–	–	–	–	–
Settlement	–	–	–	–	–	–	2,436	-10,748	-8,402	–	–	–
Paid-out benefits	-151	–	-151	-427	–	-427	-105,036	91,669	-13,367	-6,211	–	-6,211
	-151	**–**	**-151**	**-427**	**–**	**-427**	**-102,690**	**80,921**	**-21,769**	**-6,211**	**–**	**-6,211**
Balance at 31 Dec	**1,715**	**–**	**1,715**	**6,478**	**–**	**6,478**	**627,649**	**-447,932**	**179,717**	**187,913**	**–**	**187,913**

2020	Life jubilee bonus			Retirement bonus			Pension plan			Post-retirement healthcare plan		
	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability	Employee plan liability	Fair value of the asset	Net employee benefit liability
Balance at 1 Jan	1,682	–	1,682	5,734	–	5,734	–	–	–	–	–	–
Acquisition due to business combination	–	–	–	–	–	–	–	–	–	–	–	–
Included in the statement of profit or loss												
Present contractual costs	338	–	338	1,552	–	1,552	–	–	–	–	–	–
Past contractual costs	–	–	–	–	–	–	–	–	–	–	–	–
Interest expense (income)	–	–	–	–	–	–	–	–	–	–	–	–
	338	**–**	**338**	**1,552**	**–**	**1,552**	**–**	**–**	**–**	**–**	**–**	**–**
Included in OCI												
Profit (loss) from remeasurement	–	–	–	–	–	–	–	–	–	–	–	–
– Actuarial loss (profit) arising from:	–	–	–	–	–	–	–	–	–	–	–	–
– demographic assumptions	–	–	–	–	–	–	–	–	–	–	–	–
– financial assumptions	–	–	–	–	–	–	–	–	–	–	–	–
– experience-based adjustments	–	–	–	–	–	–	–	–	–	–	–	–
– Return of assets of the plan without interest income	–	–	–	–	–	–	–	–	–	–	–	–
Impact of FX rate fluctuations	–	–	–	–	–	–	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other												
Contributions paid by the employer	–	–	–	–	–	–	–	–	–	–	–	–
Settlement	–	–	–	–	–	–	–	–	–	–	–	–
Paid-out benefits	-349	–	-349	-1,143	–	–	-1,143	–	–	–	–	–
	-349	**–**	**-349**	**-1,143**	**–**	**–**	**-1,143**	**–**	**–**	**–**	**–**	**–**
Balance at 31 Dec	**1,671**	**–**	**1,671**	**6,143**	**–**	**–**	**6,143**	**–**	**–**	**–**	**–**	**–**

Employee plan assets

The fair value of the asset by asset category and level is as follows (CZK ‘000):

2021	Total	Allocation percentage	Level 1
Equity funds	222,833	50%	222,833
Fixed income mutual funds	168,487	38%	168,487
Money market funds	10,028	2%	10,028
Total	**401,348**	**90%**	**401,348**
Stable value	**46,584**	**10%**	–
Total investments	**447 932**	**100%**	–

In 2020, the Group did not record any employee benefit plan assets.

The Group’s overall investment strategy is to achieve a mix of approximately 50% equity securities, 45% fixed income securities, and 5% cash equivalents. This target allocation is unchanged from the previous year.

The Group regularly reassesses its portfolio to align its actual asset allocation with the target allocation. The percentage allocation to each asset class may vary depending on market conditions. Employee benefit plan assets are measured at fair market value. Money market and mutual funds are measured using Level 1 inputs based on the quoted share price as at the balance sheet date.

During the financial years ended 31 December 2021 and 2020, the Group did not make any transfers between levels of the fair value hierarchy.

Employee plan liabilities

Actuarial assumptions
The main actuarial assumptions as at the reporting date (expressed as weighted averages) are set out below.

	2021				2020			
	Life jubilee bonus	**Retirement bonus**	**Pension plan**	**Post-retirement healthcare plan**	**Life jubilee bonus**	**Retirement bonus**	**Pension plan**	**Post-retirement healthcare plan**
Discount rate	2.01%	2.01%	2.5%	2.5%	2.01%	2.01%	–	–
Expected return of plan assets	–	–	1.74%	–	–	–	–	–
Healthcare cost trend rate	–	–	–	4.5%	–	–	–	–
Turnover	78.34%	23.38%	–	–	77.21%	23.24%	–	–
Mortality	0.94%	13.86%	–	–	0.98%	13.81%	–	–
Average retirement age (in years)	–	64.88	–	–	–	64.85	–	–

Discount rate
The Group derives the discount rate from current investment returns of high-quality investments with fixed income over the term of employee benefits.

Turnover and mortality
The probability of retention (pay-out) includes the expected retirement, the probability of leaving the Group, and the mortality rate. The expected retirement is determined for individual employees in accordance with the applicable legislation of the country. Turnover and mortality rates are determined based on an analysis of the Group ‘s historical data.

Expected return of plan assets
The long-term rate of return on pension plan assets represents the average rate of return expected over the long term on assets invested to secure expected future commitments to pay the benefit. The Group uses a building block approach to develop the assumed long-term return on plan assets. Rates of return exceeding inflation were considered separately for equity securities, debt securities, and other assets. Excess returns were weighted by a representative target allocation and added together with an appropriate inflation rate to develop the overall expected long-term return on pension plan assets.

The Group has developed an investment strategy that emphasises the total return of the pension plan, i.e., the total return on capital appreciation, dividend income, and interest income. The primary objective of asset investment management is to emphasize consistent growth, specifically growth in a manner that protects assets from excessive volatility in their market value. The investment policy also considers benefit obligations, including the expected timing of distributions.

Healthcare cost trend rate

The Group's healthcare cost trend rate assumptions are prepared based on historical cost data, a short-term outlook, an assessment of likely long-term trends, and a limit restricting its required contributions. For measurement purposes, the Group has assumed a weighted average annual per capita cost growth rate (health care cost trend) for health benefits of 4.5% for 2021.

Sensitivity analysis

Significant actuarial assumptions used to determine the liability include the discount rate, medical cost trend rate, and fluctuation. The sensitivity analyses presented below were determined based on possible changes in these parameters at the end of the financial year, while all other assumptions remained constant.

	2021		2020	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	194,836	177,326	-589	679
Healthcare cost trend rate (1%)	170,797	202,952	–	-
Turnover (1% movement)	-677	776	-653	749

15. INTEREST INCOME AND OTHER FINANCIAL INCOME

Interest income and other financial income in individual years (CZK '000):

	2021	2020
Interest income	50,038	17,280
Total interest income	**50,038**	**17,280**
Other financial income	32,488	513
Total other financial income	**32,488**	**513**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

16. INTEREST EXPENSE AND OTHER FINANCIAL EXPENSES

Interest expense and other financial income in individual years (CZK '000):

	2021	0220
Interest expense	203,626	75,532
Interest on lease contracts	1,359	972
Total interest expense	**204,985**	**76,504**
Other financial expenses	152,808	25,335
Exchange rate losses	407,056	337,262
Exchange rate gains	–391,355	–296,379
Total other financial expenses	**168,509**	**66,218**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Other financial expenses of CZK 152,808 thousand (2020 – CZK 25,335 thousand) primarily comprise the remeasurement of contingent consideration of CZK 118,868 thousand (2020 – CZK 0 thousand) arising from the acquisition of COLT. See Notes 21 and 35.1.

17. GAINS OR LOSSES FROM DERIVATIVE TRANSACTIONS

Gain or losses from derivative transactions in individual years (CZK '000):

	2021	2020
Interest expense – swap	–	-13,812
Income from derivative transactions	191,986	138,854
Expenses from derivative transactions	-7,847	-226,297
Total	**184,139**	**-101,255**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

18. INCOME TAX

Income tax in individual years was as follows (CZK '000):

	2021	2020
Current tax	362,610	162,880
Deferred tax	-191,524	11,572
Total	**171,086**	**174,452**

The table below shows the reconciliation of the profit or loss with current tax (CZK '000):

	2021	%	2020	%
Profit before tax	931,548		851,023	
Income tax calculated using parent company tax rate (19%)	176,994	19.00%	161,694	19.00%
Effect of tax rates in foreign jurisdictions	-15,264	-1.64%	4,636	0.50%
Non-deductible expenses	9,487	1.02%	3,231	0.40%
Income exempt from tax	-17,259	-1.85%	–	–
Remeasurement of contingent consideration – COLT	32,784	3.52%	–	–
Tax bonuses	-930	-0.10%	-11,786	-1.30%
Other	-796	-0.08%	16,677	2.00%
Utilisation of prior years' tax losses for which no deferred tax asset has been recognized	-13,930	-1.50%	–	–
Income tax/ effective tax rate	**171,086**	**18.37%**	**174,452**	**20.50%**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

19. DEFERRED TAX

The Group calculated deferred tax as follows (CZK '000):

2021	As at 1 Jan 2021	Change 2021				As at 31 Dec 2021
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Additions arising from acquisition**	**Recognized in profit or loss**	**Recognized in equity**	**Effect of exchange rate movements**	**Deferred tax asset (+) / liability (-)**
Intangible assets	–129,515	–364,786	60,270	–	–9,827	–443,858
Property, plant and equipment	–213,272	–29,265	–706	–	–763	–244,006
Other revaluation – Colt acquisition*	–	–298,409	103,040	–	–14,043	–209,412
Receivables	703	–	423	–	–	1,126
Inventories	38,166	–14,503	55,154	–	–247	78,570
Provisions	1,843	–482	4,965	–	15	6,341
Liabilities	1,434	–	2,847	–	–	4,281
Other payables	13,611	–	6,798	–	–	20,409
Other items of liabilities – Colt acquisition**	–	–274,922	–17,022	–	–12,887	–304,830
Unutilized tax losses	496	334,503	–23,919	–	15,718	326,798
Revaluation of assets and liabilities recorded in equity	–38,192	–	–	10,048	–	–28,145
Other temporary differences	3,406	–	–326	–	–	3,080
Total	**–321,320**	**–647,864**	**191,524**	**10,048**	**–22,034**	**–789,646**
Deferred tax asset (+) / liability (-)	**–321,320**					**–789,646**

*Deffered tax liability from revaluation within business combinations in the Colt Group.
**Deffered tax liability, which represent potential withholding tax on dividends obtained from foreign entities in Colt Group.

2020	As at 1 Jan 2020	Change 2020			As at 31 Dec 2020
Deferred tax components	**Deferred tax asset (+) / liability (-)**	**Recognized in profit or loss**	**Recognized in equity**	**Effect of exchange rate movements**	**Deferred tax asset (+) / liability (-)**
Intangible assets	–162,388	32,873	–	–	–129,515
Tangible fixed assets	–184,786	–29,796	–	1,309	–213,272
Receivables	1,670	–967	–	–	703
Other assets	–	497	–	–	497
Inventories	56,264	–18,098	–	–	38,166
Provisions	16,375	–14,532	–	–	1,843
Liabilities	–	1,434	–	–	1,434
Other payables	–	13,611	–	–	13,611
Revaluation of assets and liabilities recorded in equity	26,296	–	–64,488	–	–38,192
Other temporary differences	–	3,406	–	–	3,406
Total	**–246,569**	**–11,572**	**–64,488**	**1,309**	**–321,320**
Deferred tax asset (+) / liability (-)	**–246,569**				**–321,320**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

20. OTHER COMPREHENSIVE INCOME

	2021	2020
Cash flow hedges – remeasurement of effective portion of hedging instruments, before tax	-52,884	339,411
Cash flow hedges – remeasurement of effective portion of hedging instruments, deferred tax	10,048	-64,488
Cash flow hedges – remeasurement of effective portion of hedging instruments	**-42,836**	**274,923**
Foreign currency translation of foreign operations	-153,438	-50,402
Foreign currency translation of foreign operations	**-153,438**	**-50,402**
Total other comprehensive income	**-196,274**	**224,521**

21. ACQUISITION OF COLT

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.

Colt is one of the world's leading designers, developers, and manufacturers of firearms. It has supplied civilian, military, and law enforcement customers in the US and around the world for over 185 years.

Colt is a supplier to the US military, the exclusive supplier to the Canadian military, and a supplier of cutting-edge products to other military and law enforcements around the world. Colt firearms enjoy a reputation for precision, reliability, and quality. Colt rifles are used by members of military and law enforcement in many countries, as well as hunters and sport shooters all over the world. Colt pistols and revolvers are similarly renowned for both civilian and sporting purposes and military and law enforcement.

The Group believes that the acquisition will bring significant operational, commercial, and R&D synergies to this joint venture, whose total pro-forma sales for 2020 exceeded USD 570 million, in 2021 exceeded USD 590 milion and which has over 2,000 employees in the Czech Republic, the United States, Canada, and Germany. The Group pro-forma financial results are not stated due to differences between accounting standards before and after the acquisition.

The acquisition will provide the Group with additional manufacturing capabilities and position it to become the leading supplier of firearms and key global partner to both military, law enforcement and civilian customers.

Colt revenues from sales of own products, goods and services since the acquisition date until 31 December 2021 are CZK 2 917 440 thousand. Loss since acquisition date until the 31 December 2021 is in total amount CZK 324 563 thousand. This loss is caused by amortization of newly identifiable intangible assets within the purchase price allocation (note 22.1.).

21.1. Consideration transferred

	21 May 2021
	CZK '000
Monetary settlement	4,695 237
Issued securities (1,098,620 ordinary shares of Colt CZ Group SE)	416,378
Contingent consideration (1,098,620 ordinary shares of Colt CZ Group SE)	416,378
	5,527 993

Contingent consideration

Contingent consideration also includes earn-out of up to 1,098,620 of the Company's newly issued shares if the Group's defined EBITDA thresholds are achieved in years 2021–2023. As at the date of the consolidated financial statements, the Group expects that the EBITDA targets will be achieved and therefore the contingent consideration of CZK 372,531 thousand (2020 – CZK 0 thousand) is recognized in Other non-current financial liabilities, and of CZK 185,568 thousand (2020 – CZK 0 thousand) in Other current financial liabilities.

The liability arising from the contingent consideration is measured at fair value. See Note 35.

Acquisition-related costs

In connection with the acquisition, the Group incurred costs of CZK 144,087 thousand, primarily relating to advisory services. These costs are recognized in the Services item in the consolidated statement of profit and loss and other comprehensive income.

21.2. Assets acquired and liabilities assumed at the acquisition date

	21 May 2021
	CZK ,000
Property, plant and equipment	512,441
Intangible assets	3,037,571
Other non-current assets	48,908
Inventories	926,626
Trade and other receivables	317,821
Cash and cash equivalents	319,499
Deferred tax liability	-647,864
Other non-current liabilities	-411,953
Trade payables	-419,612
Other current liabilities	-264,885
Fair value of acquired identifiable net assets	**3,418,552**

21.3. Goodwill

	21 May 2021
	CZK ,000
Consideration transferred	5,527,993
Fair value of acquired identifiable net assets	3,418,552
Goodwill	**2,109,441**

Goodwill primarily includes expected synergies arising from the integration of Colt into the Group's existing activities. The recognized goodwill is not expected to be tax effective.

22. NON-CURRENT ASSETS

22.1. Intangible assets

COST

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Software	194,008	4,896	6,397	-1,777	15,624	93	219,241
Intangible assets under construction or being acquired	40,616	-	41,694	-2,197	-31,434	-1	48,678
Advances on intangible assets	-	-	-	-	-	-	-
Other intangible assets	57,956	794,393	-	-1,172	-	32,807	883,984
Trademarks and logos**	-	1,479,193	-	-	-	62,290	1,541,483
Capitalized development	504,108	-	10,327	224	15,810	1,066	531,535
Concessions, licence rights and other intellectual property rights	73,211	265,154	69	-12	-	1,858	340,280
Contractual customer relations	864,727	493,935	-	-	-	25,360	1,384,022
Total	**1,734,626**	**3,037,571**	**58,487**	**-4,934**	**-**	**123,473**	**4,949,223**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.
**Due to their nature are these assets recognised by the Group as a intangible assets with indefinite useful life.

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Software	192,475	–	1,717	-184	–	–	194,008
Intangible assets under construction or being acquired	29,653	–	31,844	-20,881	–	–	40,616
Advances on intangible assets	420	–	–	-420	–	–	–
Other intangible assets	71,005	–	2,136	-829	-14,274	-82	57,956
Trademarks and logos**	–	–	–	–	–	–	–
Capitalized development	448,134	–	53,741	–	2,399	-166	504,108
Concessions, licence rights and other intellectual property rights	61,628	–	356	-1	11,875	-647	73,211
Contractual customer relations	864,727	–	–	–	–	–	864,727
Total	**1,668,042**	**–**	**89,794**	**-22,315**	**–**	**-895**	**1,734,626**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.
**Due to their nature are these assets recognised by the Group as a intangible assets with indefinite useful life.

ACCUMULATED AMORTIZATION AND ALLOWANCES

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolida-tion	Amortiza-tion	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctua-tions	Closing balance	Carrying amount
Software	-153,914	–	-15,327	2,533	–	-5	-166,713	52,528
Intangible assets under construction or being acquired	-3,350	–	–	–	–	2	-3,348	45,330
Advances on intangible assets	–	–	–	–	–	–	–	–
Other intangible assets	-26,917	–	-113,395	–	–	-2,426	-142,738	741,246
Trademarks and logos	–	–	–	–	–	–	–	1,541,483
Capitalized development	-151,549	–	-27,499	-302	807	-15	-178,558	352,977
Concessions, licence rights and other intellectual property rights	-45,011	–	-8,139	11	–	1,441	-51,698	288,582
Contractual customer relations	-583,691	–	-314,187	–	–	-2,826	-900,704	483,318
Total	**-964,432**	**0**	**-478,547**	**2,242**	**807**	**-3,829**	**-1,443,759**	**3,505,464**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortization	Disposals	Transfers	Changes in allowances, reversal of allowances	Impact of FX rate fluctua-tions	Closing balance	Carrying amount
Software	-141,443	-12,655	184	-	-	-	-153,914	40,094
Intangible assets under construction or being acquired	-1,777	-2,286	713	-	-	-	-3,350	37,266
Advances on intangible assets	-	-	-	-	-	-	-	-
Other intangible assets	-34,826	-2,746	404	10,169	-	82	-26,917	31,039
Trademarks and logos	-	-	-	-	-	-	-	-
Capitalized development	-127,809	-22,858	-	-933	-	51	-151,549	352,559
Concessions, licence rights and other intellectual property rights	-30,727	-5,553	1	-9,236	-	504	-45,011	28,200
Contractual customer relations	-497,218	-86,473	-	-	-	-	-583,691	281,036
Total	**-833,800**	**-132,571**	**1,302**	**-**	**-**	**637**	**-964,432**	**770,194**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Major additions to intangible assets include the acquisition of COLT, which is described in detail in Note 21.

Intangible assets also include intangible assets with indefinite useful lives. This principally relates to trademarks and logos. As disclosed in Note 3.19, 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 at 31 December 2021 and 31 December 2020, no impairment was identified. Goodwill is described in Note 22.2.

Apart from development costs of CZK 26,137 thousand (2020 – CZK 56,140 thousand) recognized as intangible assets, the Group recognized research and development expenditure of CZK 149,734 thousand (2020 – CZK 59,260 thousand) as an expense in 2021.

22.2. Goodwill

COST

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Goodwill	280,686	2,217,747	-	-	-108,306	2,390,127
Total	**280,686**	**2,217,747**	**-**	**-**	**-108,306**	**2,390,127**

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Goodwill	280,686	-	-	-	-	280,686
Total	**280,686**	**-**	**-**	**-**	**-**	**280,686**

ACCUMULATED AMORTIZATION AND ALLOWANCES

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolida-tion	Amorti-zation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctua-tions	Closing balance	Carrying amount
Goodwill	–	–	–	–	–	–	–	2,390,127
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,390,127**

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolida-tion	Amorti-zation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctua-tions	Closing balance	Carrying amount
Goodwill	–	–	–	–	–	–	–	280,686
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**280,686**

Goodwill of CZK 2,390,127 thousand (2020 – CZK 280,686 thousand) presented in the statement of financial position relates to the acquisition of Česká zbrojovka a.s. in 2014 and to the acquisition of the COLT Group in 2021 (CZK 2,109,441 thousand). The acquisition of the COLT Group is described in Note 21. 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 in the coming years. On the grounds of prudence, the values for 2025 are also used for periods following 2025. 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 2021, this value was set at 9.4% (2020 – 9.2%).

22.3. Property, plant and equipment

COST

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Buildings	1,061,074	187,291	157,054	-1,463	102,894	6,427	1,513,277
Machinery, devices and equipment	3,056,983	92,680	250,441	-132,565	60,013	6,747	3,334,299
Other non-current operating assets	7,329	14,666	-1,236	-32	2,521	746	23,994
Tangible fixed assets under construction	146,402	6,884	52,111	-21,273	-94,620	850	90,354
Prepayments made for tangible fixed assets	53,692	5,524	126,047	-242	-70,808	91	114,304
Land	66,219	195,289	–	–	–	9,206	270,714
Total	**4,391,699**	**502,334**	**584,417**	**-155,575**	**–**	**24,067**	**5,346,942**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Buildings	1,018,510	–	20,683	–296	24,209	–2,032	1,061,074
Machinery, devices and equipment	2,937,625	–	278,429	–152,662	396	–6 805	3,056,983
Other non-current operating assets	40,069		224	–6,564	–24,605	–1,795	7,329
Tangible fixed assets under construction	76,014	–	332,262	–259,719	–	–2,155	146,402
Prepayments made for tangible fixed assets	58,054	–	123,952	–128,314	–	–	53,692
Land	69,173	–	–	–	–	–2,954	66,219
Total	**4,199,445**	**–**	**755,550**	**–547,555**	**–**	**–15 741**	**4,391,699**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Depre-ciation	Disposals, sale, liquidation	Changes in allowances, reversal of allowances	Impact of FX rate fluctua-tions	Closing balance	Carrying amount
Buildings	–509,584	–	–41,132	954	–	–423	–550,185	963,092
Machinery, devices and equipment	–1,890,717	–	–246,254	129,939	–	–1,506	–2,008,538	1,325,761
Other non-current operating assets	–1,986	–	–2,934	20	–	-33	–4,933	19,061
Tangible fixed assets under construction	–18,552	–	–	–	1,023	–	–17,529	72,825
Prepayments made for tangible fixed assets	–1,870	–	–	–	533	–	–1,337	112,967
Land	–	–	–	–	–	–	–	270,714
Total	**–2,422,709**	**–**	**–290,320**	**130,913**	**1,556**	**–1,962**	**–2,582,522**	**2,764,420**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Balance at the date of entry into consolidation	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	–474,244	–	–36,209	252	617	–509,584	551,490
Machinery, devices and equipment	–1,798,000		–195,827	100,410	2,700	–1,890,717	1,166,266
Other non-current operating assets	–1,851	–	–154	19	–	–1,986	5,343
Tangible fixed assets under construction	–9,191	–	–10,349	988	–	–18,552	127,850
Prepayments made for tangible fixed assets	–3,204	–	–3,911	5,245	–	–1,870	51,822
Land	–	–	–	–		–	66,219
Total	**–2,286,490**	**–**	**–246,450**	**106,914**	**3,317**	**–2,422,709**	**1,968,990**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Major additions to tangible fixed assets include the acquisition of the COLT Group (see Note 21) and the acquisition of buildings, machinery, devices, and equipment, including provided advances for tangible fixed assets.

22.4. Right of use

COST

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Right of use of buildings and land	86,568	7,322	9,478	-51,199	-316	51,853
Right of use of machinery, devices and equipment	20,365	2,785	17,941	-6,622	–	34,469
Total	**106,933**	**10,107**	**27,419**	**-57,821**	**-316**	**86,321**

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

	Opening balance	Balance at the date of entry into consolidation	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Right of use of buildings and land	80,463	–	6,105	–	–	86,568
Right of use of machinery, devices and equipment	16,339	–	4,026	–	–	20,365
Total	**96,802**	**–**	**10,131**	**–**	**–**	**106,933**

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2021 with opening balance as at 31 December 2020. Amounts in the table are presented in CZK ´000.

	Opening balance	Depreciation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings and land	-11,159	-10,648	–	-21,807	30,046
Right of use of machinery, devices and equipment	-13,981	-10,108	5,270	-18,820	15,649
Total	**-25,140**	**-20,756**	**5,270**	**-40,626**	**45,695**

Year ended 31 December 2020 with opening balance as at 31 December 2019. Amounts in the table are presented in CZK ´000.

	Opening balance	Depreciation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings and land	-7,784	-3,375	–	-11,159	75,409
Right of use of machinery, devices and equipment	-2,881	-11,100	–	-13,981	6,384
Total	**-10,665**	**-14,475**	**–**	**-25,140**	**81,793**

23. EQUITY-ACCOUNTED SECURITIES AND INVESTMENTS

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

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

The carrying amount of all equity-accounted securities and investments changed as follows in the year ended 31 December 2021.

	31 Dec 2021	31 Dec 2020
	CZK '000	**CZK '000**
Beginning of the period	110,524	17,160
Purchase of share in Spuhr i Dalby	–	69,823
Share in the profit of associates after tax	27,196	20,888
Received dividends – Spuhr i Dalby	-28,238	-
Other	–37	2,653
End of the period	**109,445**	**110,524**

24. Inventories

The structure of inventories in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Material	1,066,005	385,842
Finished products	936,913	595,237
Goods	267,009	257,313
Production in progress and semi-finished products	570,133	314,317
Prepayments made for inventories	21,613	69,993
Total	**2,861,673**	**1,622,702**

The measurement 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 include pistols, rimfire rifles, centerfire rifles, semi-automatic rifles, semi-automatic carabines, submachine guns, assault rifles, battle rifles, sniper rifles, and accessories.

25. PROVIDED LOANS

The structure of other provided loans in individual years was as follows (CZK '000):

			31 Dec 2021	31 12 2020
	Maturity date	**Aggregate limit as at 31 Dec 2021 (CZK '000)**	**CZK '000**	**CZK '000**
CZ-AUTO SYSTEMS a.s.	27 Jan 2022	190,000	190,000	250,000
EHC zdravotní s.r.o.	31 Dec 2022	7,000	7,000	7,000
Total			**197,000**	**257,000**

Repayments in the following year, incl. outstanding interest	197,973	–
Repayments in future years, incl. outstanding interest	–	259,260
Total	**197,973**	**259,260**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Total interest income relating to provided loans recognized on the interest income line amounted to CZK 5,865 thousand in 2021 (in 2020 – CZK 8,074 thousand).

26. TRADE AND OTHER RECEIVABLES

The structure of trade and other receivables in individual years was as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Trade receivables	949,348	594,397
Other receivables	96,253	18,108
Estimated receivables	16,747	3,182
Accrued income	9,530	913
Total	**1,071,878**	**616,600**
Long-term	58,999	27,414
Short-term	1,012,879	589,186
Total	**1,071,878**	**616,600**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

The ageing structure and impairment losses recognized for short-term trade receivables are as follows (CZK '000):

	31 Dec 2021			31 Dec 2020		
	Receivables	Allowances	Net receivables	Receivables	Allowances	Net receivables
Within due date	771,649	-14,876	756,773	555,814	-2,600	553,214
Up to 3 months overdue	158,875	-2,111	156,764	14,833	-6	14,827
3 to 6 months overdue	28,502	-999	27,503	25,656	-40	25,616
6 to 12 months overdue	8,642	-879	7,763	498	-7	491
More than 12 months overdue	15,031	-14,486	545	11 530	-11 281	249
Total	**982,699**	**-33,351**	**949,348**	**608 331**	**-13 934**	**594,397**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

The credit quality of trade receivables is discussed in Note 36.

The Group has pledged short-term receivables in favour of the Group's creditors. Receivable pledged in favour of the Group's creditors as at 31 December 2021 (CZK '000):

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s.	467,651	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Česká spořitelna, a.s.	720	Pledge under an overdraft agreement

Receivables pledged in favour of the Group's creditors as at 31 December 2020 (CZK '000)

Receivables	Amount	Description
Short-term trade receivables pledged in favour of Komerční banka, a.s.	965,369	Agreement on a pledge on receivables from business contracts
Short-term trade receivables pledged in favour of Citizens Bank & Trust Company	288,632	Loan agreement – Citizens Bank & Trust Company

27. OTHER RECEIVABLES

The structure of other receivables in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Provided advances	52,005	55,661
Deferred expenses	69,110	16,445
Other receivables – non-financial	147	23,554
Value added tax	37,999	44,745
Total	**159,261**	**140,405**
Long-term	11,163	16,586
Short-term	148,098	123,819
Total	**159,261**	**140,405**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

28. CASH AND CASH EQUIVALENTS

The structure of cash is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Cash on hand	3,618	4,577
Cash at bank	3,569,849	2,354,031
Total	**3,573,467**	**2,358,608**

29. SHARE CAPITAL AND SHARE PREMIUM

In March 2021, the General Meeting of the Company decided to increase the Company's share capital by a cash contribution of CZK 110 thousand to a total amount of CZK 3,374 thousand. The increase in the share capital was carried out by subscription of new ordinary registered shares up to the 1,098,620 with a nominal value of CZK 0.1 per share.

The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 416,267 thousand was recorded as share premium. As at 31 December 2021, the Group's share capital comprises 33,737 ordinary registered shares.

In October 2020, the Company completed the subscription of its shares in a public offering, resulting in gross proceeds at CZK 811,720 thousand designated to finance the Group's growth. Transaction costs directly attributable to the issue of new shares of CZK 88,776 thousand were recognized in equity.

Following the completion of the subscription, the Group's share capital comprised 32,639 ordinary registered shares as at 31 December 2020. The shares are in the certificate form with a nominal value of CZK 0.1 per share.

30. OTHER COMPONENTS OF EQUITY

The structure of other components of equity in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Share premium	1,139,211	722,944
Capital funds	1,641,512	1,642,107
Cash flow hedge reserves	119,983	161,794
Foreign exchange translation reserve	-201,398	-47,960
Total	**2,699,308**	**2,478,885**

Other capital funds comprise an amount of additional capital funds relating to the acquisition of a 50% share in Česká zbrojovka a.s. in 2013.

31. BONDS, BANK LOANS AND BORROWINGS

31.1. Bonds

As at 31 December 2021, the Group used the following external financing in the form of issued bonds (CZK '000):

	Terms	Interest rate %	Aggregate limit as at 31 Dec 2021 (CZK '000)	31 Dec 2021 CZK '000	31 Dec 2020 CZK '000
Issued bonds	27 Jan 2022	6M Pribor + margin % p.a.	2,250,000	2,250,000	2,250,000
Issued bonds – unpaid interest				25,379	20,343
Issued bonds	23 Mar 2027	6M Pribor + margin % p.a.	5,000,000	5,000,000	–
Issued bonds – unpaid interest				42,200	–
Issued bonds – issue cost				–27 353	–
Total			**7,250,000**	**7,290,226**	**2,270,343**
Repayments in the following year				2,290,226	20,343
Repayments in future years				5,000,000	2,250,000

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

In 2016, Česká zbrojovka a.s. issued bonds with a nominal value of CZK 1,500,000 thousand. In 2018, the company issued bonds with a nominal value of CZK 750,000 thousand. Both tranches mature in 2022.

In 2021, the Company issued bonds totalling CZK 5,000,000 thousand, maturing in 2027. The Company does not expect to call the bonds in January 2022.

As at 31 December 2021, interest expense amounted to CZK 151,677 thousand (2020 – CZK 71,416 thousand), of which outstanding interest expense amounted to CZK 67,579 thousand (2020 – CZK 20,343 thousand).

Expenses relating to the issue of bonds of CZK 31,412 thousand are deferred until the maturity of the bonds. Outstanding balance as at 31 December 2021 is CZK 27 353 thousand.

The issued bonds bear variable interest and their fair value did not differ significantly from their carrying amount as at 31 December 2021.

31.2. Bank loans and borrowings

As at 31 December 2021 and 31 December 2020, the Group had the following bank loans and borrowings (CZK '000).

Bank	Terms	Interest rate %	Aggregate limit as at 31 Dec 2020 (CZK '000)	31 Dec 2021 Amount in CZK '000	31 Dec 2020 Amount in CZK '000
Komerční banka, a.s. a Česká spořitelna, a.s.	30 Sep 2021	1M Pribor + margin % p.a.	500,000	–	–
Citizens Bank & Trust Company	30 Sep 2022	Prime lending rate + margin % p.a.	131,724	–	–
Česká spořitelna, a.s.	28 Feb 2021	1D Pribor + margin % p.a.	40,000	–	19,548
Other	–	–	856	–	856
Total	–	–	**672,580**	**–**	**20,404**
Repayments in the following year	–	–	**–**	–	20,404
Repayments in future years	–	–	**–**	–	–

Payables arising from the loans are secured with a pledge of the receivables (as stated in Note 26) or a pledge of equity investments.

32. TRADE AND OTHER PAYABLES

The structure of trade and other payables in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Trade and other payables	934,208	417,503
Accrued expenses	1,424	23,938
Estimated payables	164,171	94,002
State subsidies	4,975	5,178
Other current liabilities – financial	17,017	–
Total	**1,121,795**	**540,621**
Non-current	5,422	–
Current	1,116,373	540,621
Total	**1,121,795**	**540,621**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

As at 31 December 2021 and 31 December 2020, the Group did not record any liabilities with a maturity of more than five years.

As at 31 December 2021, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Amount	Currency	Maturity date	Description of collateral or guarantee
300,000	CZK	28 Feb 2022	Customs guarantee
38,000	EUR	11 Nov 2023	Bank guarantee
52,658	USD	16 May 2022	Bank guarantee
6,143	USD	16 May 2022	Bank guarantee
4,450	USD	15 Oct 2022	Bank guarantee
30,503	USD	15 Oct 2022	Bank guarantee
19,043	USD	30 Jun 2022	Bank guarantee
13,123	USD	16 May 2022	Bank guarantee
24,572	EUR	1 Sep 2022	Bank guarantee
100,000	USD	15 Sep 2022	Bank guarantee
9,495	USD	31 Jan 2023	Bank guarantee
18,852	USD	28 Feb 2023	Bank guarantee
102,138	USD	30 Apr 2023	Bank guarantee
25,626	USD	30 Jun 2022	Bank guarantee
9,875	USD	30 Jun 2022	Bank guarantee
19,954	USD	31 Dec 2020	Letter of credit
2,972,780	USD	1 Oct 2022	Letter of credit
2,292,729	USD	16 Aug 2022	Letter of credit
10,319,047	USD	14 Sep 2022	Letter of credit
8,212,652	USD	16 Aug 2022	Letter of credit
400,080	USD	–	Non-bank guarantee

As at 31 December 2020, the Group recorded the following current liabilities, which were subject to a pledge or guarantee in favour of the creditor:

Amount	Currency	Maturity date	Description of collateral or guarantee
300,000	CZK	28 Feb 2021	Customs guarantee
19,043	USD	30 Jun 2021	Bank guarantee
52,658	USD	31 Aug 2021	Bank guarantee
6,143	USD	31 Aug 2021	Bank guarantee
13,123	USD	31 Aug 2021	Bank guarantee
4,450	USD	15 Feb 2022	Bank guarantee
30,503	USD	15 Feb 2022	Bank guarantee
982,816	GBP	30 Sep 2021	Import letter of credit
81,906	EUR	31 Jan 2021	Bank guarantee
24,572	EUR	1 Sep 2022	Bank guarantee
100,000	USD	15 Sep 2022	Bank guarantee
91,497	EUR	15 Feb 2021	Bank guarantee
390,076	USD	15 Mar 2021	Bank guarantee
230,024	USD	15 Mar 2021	Bank guarantee
112,629	USD	30 Jun 2021	Bank guarantee
82,254	USD	31 Mar 2021	Bank guarantee

33. OTHER PAYABLES

The structure of other payables in individual years is as follows (CZK '000):

	31 Dec 2021	31 Dec 2020
Prepayments received	567,636	407,750
Payables to shareholders	-	131
Employee liabilities	245,838	85,963
Liabilities of outstanding vacation days	28,386	4,240
Employee liabilities arising from bonuses	92,538	73,074
Social security and health insurance	32,048	28,331
Other non-financial liabilities	280	8,217
Other taxes	95 289	23,783
Deferred income	39 098	23,938
Total	**1,101,113**	**655,427**
Non-current	27,357	160
Current	1 073 755	655,267
Total	**1,101,113**	**655,427**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

34. LEASES

34.1. The Group as a lessor

The Group recognized income from operating lease of CZK 7,399 thousand in 2021 (2020 – CZK 8,801 thousand). The income from operating lease is recorded as part of Other operating income (Note 6). The income does not include any variable portion not depending on rate or index.

34.2. Group as a lessee

In line with its common practice, the Group holds a part of machinery, buildings, cars, and IT equipment under leases. The average lease term is 3-5 years.

Interest expense arising from lease contracts, depreciation of rights-of-use assets for the year, acquisition cost of right-of-use assets and expenses related to short-term contracts, contracts for low-value assets, and variable costs arising from lease contracts are disclosed in Notes 8, 10, 16, and 22.4. Total cash outflows arising from lease contracts amounted to CZK 21,811 thousand in 2021 (2020 – CZK 18,550 thousand).

The table below shows liabilities arising from lease contracts (CZK '000):

	31 Dec 2021	31 Dec 2020
Lease liabilities – non-current	32,606	75,939
Lease liabilities – current	20,695	11,436
Total	**53,301**	**87,375**

The table below shows the terms of lease liabilities and their nominal value (CZK '000):

		31 Dec 2021		31 Dec 2020	
	Nominal interest rate	**Nominal value**	**Carrying amount**	**Nominal value**	**Carrying amount**
Liabilities from building and land leases	2% p. a.	31,050	29,218	80,979	75 939
Liabilities from lease of machinery, devices and equipment	2% p. a.	25,129	24,083	13,454	11,365
Total		**56,179**	**53,301**	**94,434**	**87,304**

Reconciliation of movements of lease liabilities with cash flows:

	2021	2020
Opening balance of lease liability of 1 Jan	**87,375**	**63,486**
Lease payments	-21,811	-18,550
Total cash flows	**-21,811**	**-18,550**
Interest expense	1,359	972
Lease additions and modifications	-13,622	41,467
Closing balance as at 31 Dec Dec	**53,301**	**87,375**

In relation to the leases, the Group recognized the following in the statement of profit or loss account as at 31 December:

	2021	2020
Depreciation of right of use of assets	20,756	14,475
Interest expense of lease liability (included in finance costs)	1,359	972
Costs of short-term leases (included in service costs)	24,053	16,723
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	1,398	18,829
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	4,882	4,703
Total	**52,448**	**55,702**

The table below shows the ageing structure of lease liabilities (CZK '000):

Ageing structure of lease liabilities	Balance at 31 Dec 2021	Balance at 31 Dec 2020
Within 3 months	5,605	3,022
3 months to 1 year	15,090	8,414
1 to 2 years	16,849	67,391
2 to 3 years	10,939	7,106
3 to 4 years	3,848	1,433
4 to 5 years	970	9
More than 5 years	–	–
Total	**53,301**	**87,375**

35. 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 2021	31 Dec 2020
Short-term portion		
Trade and other receivables	1,012,879	589,186
Provided loans	197,973	–
Financial derivatives	156,118	93,303
Cash and cash equivalents	3,573,467	2,358,608
Total	**4,940,437**	**3,041,097**
Long-term portion		
Provided loans	–	259,260
Financial derivatives	171,195	436,267
Trade and other receivables	58,999	27,414
Total	**230,194**	**722,941**

Financial liabilities	31 Dec 2021	31 Dec 2020
Short-term portion		
Bonds, bank loans and borrowings	2,317,579	40,747
Financial derivatives	20,097	55,372
Lease liabilities	20,695	11,436
Other financial liabilities	185,568	–
Trade and other payables	1,116,373	540,621
Total	**3,660,312**	**648,176**
Long-term portion		
Bonds, bank loans and borrowings	4,972,647	2,250,000
Financial derivatives	270,515	268,219
Lease liabilities	32,606	75,939
Other financial liabilities	372,531	–
Trade and other payables	5,422	–
Total	**5,653,721**	**2,594,158**

35.1. Fair value

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy in 2021 (CZK '000). It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

		Carrying amount			Fair value	
2021	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognized in the statement of profit or loss – other**	**Total**	**Level 2**	**Total**
Financial assets measured at fair value						
– Financial derivatives held for trading						
Currency forwards held for trading	37	–	14,814	14,814	14,814	14,814
Currency options held for trading	37	–	13,275	13,275	13,275	13,275

2021	Note	Carrying amount Hedging instruments measured at fair value	Mandatorily recognized in the statement of profit or loss – other	Total	Fair value Level 2	Total
– Financial derivatives used for hedge accounting						
Currency swaps used for hedging	37	70,432	–	70,432	70,432	70,432
Currency forwards used for hedge accounting	37	110,106	–	110,106	110,106	110,106
Currency options used for hedge accounting	37	114,645	–	114,645	114,645	114,645
Currency swaps used for hedging	37	4,041	–	4,041	4,041	4,041
Total		**299,224**	**28,089**	**327,313**	**327,313**	**327,313**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

2021	Note	Carrying amount Hedging instruments measured at fair value	Mandatorily recognized in the statement of profit or loss – other	Total	Fair value Level 1	Level 2	Total
Financial liabilities measured at fair value							
– Financial derivatives held for trading							
Currency options held for trading	37	–	23,043	23,043	–	23,043	23,043
– Financial derivatives used for hedge accounting							
Currency forwards used for hedge accounting	37	36,531	–	36,531	–	36,531	36,531
Currency options used for hedge accounting	37	75,081	–	75,081	–	75,081	75,081
Currency swaps used for hedging	37	106,491	–	106,491	–	106,491	106,491
Cross currency interest rate swaps**	37	49,466	–	49,466	–	49,466	49,466
– Other financial liabilities							
Contingent consideration from the acquisition of COLT	21	–	558,099	558,099	558,099	–	558,099
Total		**267,569**	**581,142**	**848,711**	**558,099**	**290,612**	**848,711**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.
**Trading derivatives were concluded on 17 May 2021. On 21 May 2021, hedge accounting was applied, and these derivatives are reported as hedging.

The table below shows carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy in 2020 (CZK '000). It does not include fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount approximates their fair value.

2020	Note	Carrying amount Hedging instruments measured at fair value	Mandatorily recognized in the statement of profit or loss – other	Total	Level 2	Fair value Total
Financial assets measured at fair value						
– Financial derivatives held for trading						
Currency forwards held for trading	37	–	33,250	33,250	33,250	33,250
Currency options held for trading	37	–	798	798	798	798
– Financial derivatives used for hedge accounting						
Interest rate swaps used for hedging	37	13,959	–	13,959	13,959	13,959
Currency forwards used for hedge accounting	37	365,589	–	365,589	365,589	365,589
Currency options used for hedge accounting	37	112,153	–	112,153	112,153	112,153
Currency swaps used for hedging	37	3,821	–	3,821	3,821	3,821
Total		**495,522**	**34,048**	**529,570**	**529,570**	**529,570**

2020	Note	Carrying amount Hedging instruments measured at fair value	Mandatorily recognized in the statement of profit or loss – other	Total	Fair value Level 2	Total
Financial liabilities measured at fair value						
– Financial derivatives held for trading						
Currency forwards held for trading	37	–	254	254	254	254
Currency options held for trading	34	–	69,592	69,592	69,592	69,592
– Financial derivatives used for hedge accounting						
Interest rate swaps used for hedging	34	4,254	–	4,254	4,254	4,254
Currency forwards used for hedge accounting	34	7,244	–	7,244	7,244	7,244
Currency options used for hedge accounting	34	210,533	–	210,533	210,533	210,533
Currency swaps used for hedging	34	31,714	–	31,714	31,714	31,714
Total		**253,745**	**69,846**	**323,591**	**323,591**	**323,591**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group also adjusted the information for 2020.

No transfers between levels were made during the period.

35.2. Fair value measurement

Valuation techniques and significant unobservable inputs.

The table below shows the valuation techniques used for fair value measurement at Level 1 a 2 for financial instruments in the statement of financial position as well as significant unobservable inputs used.

Type of instrument	Valuation techniques	Significant unobservable inputs
Interest rate swaps	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.	None
Currency forwards	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.	None
Currency options	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").	None
Cross currency interest rate swaps	Fair value is determined as the present value of future cash flows. The estimate of future variable cash flows is based on quoted swap rates and interbank deposit rates. The estimated future cash flows are discounted using a yield curve constructed from the above sources.	None
Contingent consideration from the acquisition of COLT	The subject of contingent consideration is the parent company's shares, which are measured using Level 1 inputs based on the quoted share price as at the balance sheet date.	None

36. RISK MANAGEMENT

This section details the financial risks the Group is exposed to and how these risks are managed. Risk management is a fundamental part of the Group's management. The main emphasis is on identifying the risks the Group is exposed to in the market (risk of changes in exchange rates and interest rates), credit risk, and liquidity risk. The risk management strategy focuses on the minimization of potential negative impact on the Group's financial performance.

The policy of the Group is to enter into currency and interest rate hedging derivative instruments to manage its exposure to currency and interest rate risk. Details are provided in Note 37.

36.1. Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty in a transaction fails to meet its contractual obligations, such as payment, acceptance of a service at the agreed price, or failure to deliver an agreed service.

The Group mainly does business with proven partners. The Group has a policy of subjecting all customers wishing to make use of credit facilities to an analysis of their individual creditworthiness. The Company continuously monitors the status of receivables on an individual and aggregate level.

All business counterparties are subject to an analysis of their individual creditworthiness and assigned a credit limit. Credit limits are approved based on an external rating if available or based on an internal risk assessment guideline. Exposure to risk is monitored daily for each counterparty, considering any potential future impact. The overall credit risk of the business portfolio is continuously monitored and calculated with respect to the customer segment.

For the wholesale customer portfolio (state military and law enforcement, government agencies, distributors, etc.), the overall credit risk is determined based on expected loss, i.e., each counterparty is assigned an internal credit rating with an estimated probability of default. The expected loss is calculated by default as the product of the probability of default, the percentage of loss on that exposure in the event of default, and the exposure to the counterparty at that point in time. For the portfolio of retail customers, a model based on the ageing structure of trade receivables is used.

With respect to credit risk arising from the Group's financial assets, the maximum amount of credit risk caused by the counterparty's default corresponds to the carrying amount of these instruments.

There is no concentration of credit risk.

Impairment losses on financial assets recognized in the statement of profit or loss are presented in Note 12.

The table below shows an overview of credit risk based on territory for 2021 (CZK '000):

Úvěrové riziko dle teritorií (sídla protistrany)

31 Dec 2021	Czech Republic	USA	Canada	Europe (excluding the Czech Republic)	Asia	Other	Total
Provided loans	197,973	–	–	–	–	–	**197,973**
Financial derivatives	327,313	–	–	–	–	–	**327,313**
Trade and other receivables	25,634	345,035	182,670	120,456	81,235	316,848	**1,071,878**
Cash and cash equivalents	2,847,794	637,977	87,697	–	–	–	**3,573,468**
Total	**3,398,714**	**983,012**	**270,367**	**120,456**	**81,235**	**316,848**	**5,170,632**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

The table below shows an overview of credit risk based on territory for 2020 (CZK '000):

31 Dec 2020	Czech Republic	USA	Other	Total
Provided loans	259,260	–	–	**259,260**
Financial derivatives	529,570	–	–	**529,570**
Trade and other receivables	87,666	267,464	261,470	**616,600**
Cash and cash equivalents	1,868,695	489,830	83	**2,358,608**
Total	**2,745,191**	**757,294**	**261,553**	**3,764,038**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Trade and other receivables

The Group establishes allowances for impairment based on estimates of expected future losses that may occur for trade receivables. In accordance with IFRS 9 and as part of the measurement of expected credit losses, trade receivables were assessed based on individual customer ratings and days past due (individual approach).

For wholesale customers, the Group assesses receivables individually and considers the rating of a debtor's country as a significant volume of the Group's business transactions is concluded with entities linked directly or very closely to the state and state institutions.

Receivables are categorised based on the country of origin of the company for which a receivable is recorded. These countries have been assigned a rating based on their rating by Standard & Poor's. Using this rating, receivables are divided into five groups based on their potential default risk.

For its analysis, the Group used publicly available data from a document titled Default, Transition, and Recovery: 2020 Annual Global Corporate Default and Rating Transition Study, tab. 26.

The amount of the allowance measured according to the rating system described above is further expanded to include specific allowances that are established based on the individual assessment of the debtor. This individual assessment applies to all trade receivables that are more than 180 days overdue.

For the portfolio of retail customers, a model based on the ageing structure of trade receivables is used. To measure the expected life-time credit losses, trade receivables are grouped based on shared characteristics of credit risk and days past due. These groups of assets are assigned an expected credit loss rate based on historical default rates.

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables as at 31 December 2021 based on the external credit rating equivalent (CZK '000):

31 Dec 2021	External credit rating equivalent	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Grade 1-6: Low risk	BBB-to AAA	2.7%	858,623	–22,754	835,869	No
Grade 7-9: Reasonable risk	BB-to BB+	23.5%	23,901	–5,623	18,278	No
Grade 10: Non-standard	B-to CCC-	3.6%	98,792	–3,591	95,201	No
Grade 11: Doubtful	C to CC	0.0%	–	–	–	No
Grade 12: Loss risk	D	100.0%	1,383	–1,383	–	Yes
Total			**982,699**	**–33,351**	**949,348**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables for as at 31 December 2020 based on the external credit rating equivalent (CZK '000):

31 Dec 2020	External credit rating equivalent	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Grade 1–6: Low risk	BBB-to AAA	1.67%	445,618	–7,432	438,186	No
Grade 7–9: Reasonable risk	BB-to BB+	18.43%	34,609	–6,377	28,232	No
Grade 10: Non-standard	B-to CCC-	0.10%	128,105	–126	127,979	No
Grade 11: Doubtful	C to CC	0.00%	–	–	–	No
Grade 12: Loss risk	D	0.00%	–	–	–	Yes
Total			**608,332**	**–13,935**	**594,397**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables based on ageing structure as at 31 December 2021 (CZK '000):

31 Dec 2021	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Within due date	1.9%	771,649	–14,876	756,773	No
1–90 days overdue	1.3%	158,875	–2,111	156,764	No
90–180 days overdue	3.5%	28,502	–999	27,503	No
180–360 days overdue	10.2%	8,642	–879	7,763	No
More than 360 days overdue	96.4%	15,031	–14,486	545	Yes
Total		**982,699**	**–33,351**	**650,128**	

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables based on ageing structure as at 31 December 2020 (CZK ‘000):

31 Dec 2020	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Within due date	0.5%	555,814	–2,600	553,214	No
1–90 days overdue	0.0%	14,833	–6	14,827	No
90–180 days overdue	0.2%	25,656	–40	25,616	No
180–360 days overdue	1.4%	498	–7	491	No
More than 360 days overdue	97.8%	11,530	–11,281	249	Yes
Total		**608,332**	**–13,935**	**594,397**	

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

Trade and other receivables are written off if their recovery cannot be reasonably expected. Indicators that there is no reasonable expectation of recovery also include the debtor’s failure to engage in a repayment plan and failure to make contractual payments for more than 360 days past due.

Impairment losses on trade and other receivables are recognized as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited to the same line item.

The Group records a lifetime expected credit loss for all other financial assets if there is a significant increase in credit risk after initial recognition. However, if the credit risk of a financial instrument does not significantly increase after initial recognition, the Group calculates an allowance for the loss on that financial instrument equal to 12-month expected credit losses.

Cash and cash equivalents

As at 31 December 2021, the Group held cash and cash equivalents of CZK 3,573,467 thousand (2020 – CZK 2,358,608 thousand).

The impairment of cash and cash equivalents was measured based on a 12-month expected loss and reflects the short maturity of the exposures. The Group has bank accounts only with prestigious banking institutions. The Group believes that its cash and cash equivalents have low credit risk based on the external credit ratings of counterparties. The potential impact of IFRS 9 is insignificant.

36.2. 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.

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 Group continuously monitors the risk of shortage of funds by managing liquidity and monitoring the maturity of debts and financial investments, other assets, and expected cash flows from its operations. The Group holds unrestricted liquid resources, i.e., cash, cash equivalents and short-term financial assets in currencies in which future cash requirements are expected to be denominated. The Group also monitors the level of expected cash flows from trade and other receivables together with the expected cash flows from trade and other payables.

The remaining contractual maturities of financial liabilities at the balance sheet date are shown below. Amounts are gross and undiscounted, include contractual interest payments, and exclude the impact of netting arrangements. Liabilities past their due dates are included in the ‘Within 3 months’ column.

The table below shows information as at 31 December 2021 (CZK '000):

			Contractual cash flows				
31 Dec 2021	**Carrying amount**	**Total**	**Within 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Lease liabilities	53,301	53,301	5,605	5,173	9,917	32,606	–
Other financial liabilities	558,099	558,099	–	185,568	–	372,531	–
Trade and other payables	1,121,794	1,121,794	1,104,253	10,361	1,758	5,422	–
Bonds, bank loans and borrowings	7,290,226	8,765,460	2,359,497	174,980	296,316	802,189	5,132,478
Total non-derivative financial liabilities	**9,023,420**	**10,498,654**	**3,469,355**	**376,082**	**307,991**	**1,212,748**	**5,132,478**
Derivative financial liabilities							
Currency forwards used for hedging	36,531	36,531	–	–	–	36,531	–
Currency options held for trading	23,043	23,043	256	1,723	3,058	18,006	–
Currency options for hedging	75,081	75,081	–	5,426	9,634	60,021	–
Currency swaps for hedging	106,491	106,491	–	–	–	106,491	–
Cross currency interest rate swaps for hedging	49,466	49,466	–	–	–	–	49,466
Total derivative financial liabilities	**290,612**	**290,612**	**256**	**7,149**	**12,692**	**221,049**	**49,466**
Total	**9,314,032**	**10,789,266**	**3,469,611**	**383,231**	**320,683**	**1,433,797**	**5,181,944**

The table below shows information as at 31 December 2020 (CZK '000):

			Contractual cash flows				
31 Dec 2020	**Carrying amount**	**Total**	**Within 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Lease liabilities	87,375	87,375	3,022	2,859	5,555	75,939	–
Trade and other payables	540,621	540,621	537,803	2,818	–	–	–
Bonds, bank loans and borrowings	2,290,747	2,340,611	–	–	66,461	2,274,150	–
Tax liabilities	12,682	12,682	12,682	–	–	–	–
Total non-derivative financial liabilities	**2,931,425**	**2,981,289**	**553,507**	**5,677**	**72,016**	**2,350,089**	**–**
Derivative financial liabilities							
Interest rate swaps for hedging	4,254	4,254	–	–	–	4,254	–
Currency forwards held for trading	254	254	–	60	194	–	–
Currency forwards for hedging	7,244	7,244	–	–	318	6,926	–
Currency options held for trading	69,592	69,592	3,584	6,168	6,126	53,714	–
Currency options for hedging	210,533	210,533	1,542	19,365	17,096	172,530	–
Currency swaps for hedging	31,714	31,714	919	–	–	30,795	-
Total derivative financial liabilities	**323,591**	**323,591**	**6,045**	**25,593**	**23,734**	**268,219**	**–**
Total	**3,255,016**	**3,304,880**	**559,552**	**31,270**	**95,750**	**2,618,308**	**–**

36.3. Market risk management

Market risk is the risk of changes in the value of assets, liabilities, and cash flows denominated in foreign currencies due to changes of exchange rates, interest rates, and commodity prices. The Company has implemented policies and methods to monitor and hedge the risks to which it is exposed. Exposure to market risk is measured using sensitivity analyses.

36.3.1. Currency risk management

The Group's exposure to currency risk primarily arises from its purchases and sales in currencies other than the Group's functional currency. Exposure to currency risks is governed by parameters approved based on currency forwards and options. The objective of the Group is to minimize the impact of foreign currency rates changes on the value of its sales and profit.

The Group measures its exposure to the foreign currency risk by the expected excess of anticipated sales over purchases, excess of foreign currency receivables over payables and sensitivity of the Group's profit or equity to the changes in exchange rates.

The carrying amount of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the end of the reporting period is as follows:

31 Dec 2021	CZK	EUR	USD	CAD	Other	Total
Financial assets						
Provided loans	197,973	–	–	–	–	197,973
Financial derivatives	327,313	–	–	–	–	327,313
Trade and other receivables	22,867	200,122	539,669	260,468	48,752	1,071,878
Cash and cash equivalents	2,141,581	181,042	1,172,365	77,776	704	3,573,468
Total financial assets	**2,689,734**	**381,164**	**1,712,034**	**338,244**	**49,456**	**5,170,632**
Financial liabilities						
Financial derivatives	290,612	–	–	–	–	290,612
Lease liabilities	24,564	–	23,293	5,444	–	53,301
Other financial liabilities	–	–	558,099	–	–	558,099
Trade and other payables	501,227	80,326	456,824	82,417	1,001	1,121,795
Bonds, bank loans and borrowings	7,290,226	–	–	–	–	7,290,226
Total financial liabilities	**8,106,629**	**80,326**	**1,038,216**	**87,861**	**1,001**	**9,314,033**
Total currency risk exposure	**–5,416,895**	**300,838**	**673,818**	**250,383**	**48,455**	**–4,143,401**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

31 Dec 2020	CZK	EUR	USD	Other	Total
Financial assets					
Provided loans	259,260	–	–	–	259,260
Financial derivatives	529,570	–	–	–	529,570
Trade and other receivables	47,878	167,095	400,608	1,019	616,600
Cash and cash equivalents	1,798,116	55,510	504,956	26	2,358,608
Total financial assets	**2,634,824**	**222,605**	**905,564**	**1,045**	**3,764,038**
Financial liabilities					
Financial derivatives	323,591	–	–	–	323,591
Lease liabilities	15,484	–	71,891	–	87,375
Trade and other payables	473,894	61,952	3,226	1,549	540,621
Bonds, bank loans and borrowings	2,290,747	–	–	–	2,290,747
Total financial liabilities	**3,103,716**	**61,952**	**75,117**	**1,549**	**3,242,334**
Total currency risk exposure	**–468,892**	**160,653**	**830,447**	**–504**	**521,704**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

36.3.2. Sensitivity to exchange rate fluctuations

The Group is exposed to currency risk, especially in relation to EUR, USD, and CAD.

The Company used the following most important exchange rates:

In CZK	Average exchange rate		Exchange rate at the end of the period	
	2021	**2020**	**2021**	**2020**
EUR	25.645	26.444	24.86	26.245
USD	21.682	23.196	21.951	21.387
CAD	17.374	17.292	17.275	16.789

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% with respect to the respective currency.

In CZK	Impact on profit before tax 2021		Impact on profit before tax 2020	
	Foreign currency 10% appreciation	Foreign currency 10% depreciation	Foreign currency 10% appreciation	Foreign currency 10% depreciation
Foreign currency				
EUR	–100,342	46,670	–183,486	96,706
USD	43,043	–43,043	44,691	–44,691
CAD	25,038	–25,038	–	–

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

In CZK	Impact on Equity 2021		Impact on Equity 2020	
	Foreign currency appreciation 10 %	Foreign currency depreciation 10 %	Foreign currency appreciation 10 %	Foreign currency depreciation 10 %
Foreign currency				
EUR	–669,360	669,360	–774,419	774,419
USD	–180,176	162,842	–65,982	65,982

36.3.3. Interest rate risk management

The Group is exposed to the risk of interest rates changes as the Group borrows funds with variable interest rates. Interest expenses from issued bonds, that represent the most important portion of interest paying liabilities, are based on 6M PRIBOR rate. Amount of interest-bearing liabilities using other reference rates is not significant (Note 31). The Group has managed interest rate risk using interest rate and cross currency interest rate swap agreements. This ensures the utilisation of hedging strategies which are economically most effective.

As at 31 December 2021, interest rate risk exposure was as follows (CZK '000):

31 Dec 2021 v tis. Kč	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	197,973	198,958	–	198,958
Total interest-bearing financial assets	**197,973**	**198,958**	**–**	**198,958**
Bonds, bank loans and borrowings	7,290,226	8,780,307	8,780,307	-
Lease liabilities	53,301	53,301	–	53,301
Other financial liabilities	558,099	558,099	–	558,099
Total interest-bearing financial liabilities	**7,901,626**	**9,391,707**	**8,780,307**	**611,400**
Effect of interest rate and cross currency interest rate swaps – nominal value	**-**	**-**	**4 912 700**	**-**
Total interest rate risk exposure	**–7,703,653**	**–9,192,749**	**–8,780,307**	**–412,442**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

As at 31 December 2020, interest rate risk exposure was as follows (CZK '000):

31 Dec 2020 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	259,260	264,200	–	264,200
Total interest-bearing financial assets	**259,260**	**264,200**	**–**	**264,200**
Bonds, bank loans and borrowings	2,290,747	2,325,673	2,325,673	–
Lease liabilities	87,375	87,375	–	87,375
Total interest-bearing financial liabilities	**2,378,122**	**2,413,048**	**2,325,673**	**87,375**
Effect of cross currency interest rate swaps – nominal value	**–**	**–**	**1,700,000**	**–**
Total interest rate risk exposure	**–2,118,862**	**–2,148,848**	**–625,673**	**176,825**

*In 2021, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2020.

36.3.4 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 100 basis points and all other variables remained constant, the profit or loss would change based on the values specified below.

	Impact on profit before tax 2021		Impact on profit before tax 2020	
CZK '000	**Increase of 1 percentage point**	**Decrease of 1 percentage point**	**Increase of 1 percentage point**	**Decrease of 1 percentage point**
Issued bonds with variable interest rate	–63,911	63,911	–24,290	24,290
Sensitivity of interest rates changes	**–63,911**	**63,911**	**–24,290**	**24,290**

	Impact on Equity 2021		Impact on Equity 2020	
CZK '000	**Increase of 1 percentage point**	**Decrease of 1 percentage point**	**Increase of 1 percentage point**	**Decrease of 1 percentage point**
Cross currency interest rate swaps	126,811	–133,703	29,183	–29,183
Sensitivity of interest rates changes	**126,811**	**–133,703**	**29,183**	**–29,183**

37. 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, currency swaps, currency options or cross currency interest rate swaps. Usual hedging maturity for the FX hedging contracts is up to five years. The maturity of cross currency interest rate swaps is governed by the maturity of the external liability (currently bonds issued by the parent company). 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.

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) and credit risk. The effective portion of changes in the fair value of derivatives that are designated as hedging and qualify as cash flow hedges is recognized in other comprehensive income under cash flow hedges – remeasurement of effective portion of hedging instruments; the cumulative balance is recognized in the statement of financial position under cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss and is included in the Gains or losses from derivative transactions. Fair value of derivative contracts is presented as financial derivative assets or liabilities in the statement of financial position. Accounting for hedging derivatives is described in detail in Note 3.27. The Group expects to continue its hedging activities in the future.

37.1. Currency contracts

Derivative instruments denominated in USD with the settlement date within 120 days will be reported as trading derivatives (hedging accounting is terminated), depending on the maturity of hedged receivables denominated in USD.

Derivative instruments denominated in EUR with the settlement date within 60 days will be reported as trading derivatives (hedging accounting is terminated), 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 derivatives held for trading as at 31 December (CZK '000):

	31 Dec 2021 Fair value			31 Dec 2020 Fair value		
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Put option	299,563	13,274	–	202,980	797	–
Call option	1,595 391	–	23,043	2,304 811	–	69,592
Forwards	292,636	14,814	–	812,173	33,250	254
Total	**2,187 590**	**28,088**	**23,043**	**3,319 964**	**34,047**	**69,846**

The following table provides an overview of nominal values and positive or negative fair values of open derivatives held for hedging as at 31 December 2021 and 31 December 2020 (CZK '000):

	31 December 2021 Fair value			31 December 2020 Fair value		
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Interest rate swap	1,700,000	70,432	–	1,700,000	13,959	4,254
Put option	3,827,197	114,646	–	6,311,029	112,154	–
Call option	3,827,197	–	75,081	6,311,029	–	210,533
Currency swap	4,084,071	4,041	106,491	1,981,629	3,821	31,714
Forwards	4,574,648	110,106	36,531	3,828,200	365,589	7,244
Total	**18,013,113**	**299,225**	**218,103**	**20,131,887**	**495,523**	**253,745**

Valuation techniques are described in Note 35.2.

The fair values determined by the Group are verified in view of the valuation of transactions regularly obtained from individual counterparties 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 and call options and currency swaps at the end of the reporting period:

Open currency forwards	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Due within 120 days (held for trading)	23.180	23.245	10,500	16,500	243,389	383,538	11,388	30,977
Due in more than 120 days (held for hedging) – SWAP	23.574	–	11,000	–	259,310	–	593	–
Due in more than 120 days (held for hedging)	23.394	23.706	72,500	34,500	1,696,069	817,862	–2,134	80,993
Due in more than 120 days (held for hedging) – USD/EUR	1.106	1.106	103,683	103,683	93,750	93,750	77,611	280,944
EUR	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Due within 60 days (held for trading)	26.222	26.309	2,500	7,500	65,555	197,320	3,426	474
Due in more than 60 days (held for trading)	–	26.452	–	10,000	–	264,518	–	1,545
Due in more than 60 days (held for hedging)	26.772	26.473	26,250	24,000	702,760	635,363	–1,901	–3,591
Due in more than 60 days (held for hedging) – SWAP	27.422	27.055	154,570	75,505	4,238,545	2,042,766	–103,044	–27,892

Open put options	Average exchange rate		Foreign currency		Nominal value		Fair value	
EUR	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Due within 60 days (held for trading)	26.051	26.073	12,050	7,734	313,911	201,649	13,274	797
Due within 60 days (held for hedging)	–	26.011	–	4,316	–	112,262	–	452
Due in more than 60 days (held for hedging)	26.152	26.141	153,950	236,150	4,026,177	6,173,153	114,645	111,701

Open call options	Average exchange rate		Foreign currency		Nominal value		Fair value	
EUR	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Due within 60 days (held for trading)	26.054	26.069	16,490	12,174	429,630	317,368	–256	–3,584
Due within 60 days (held for hedging)	–	26.011	–	4,316	–	112,262	–	–1,542
Due in more than 60 days (held for hedging)	26.152	26.136	153,950	236,150	4,026,177	6,172,082	–75,081	–208,991
Due in more than 60 days (held for trading)	26.151	26.135	47,685	75,645	1,247,029	1,976,986	–22,786	–66,009

The tables below show the maturity of individual financial derivatives as at 31 December 2021 and 31 December 2020 based on their fair and nominal value (CZK ‘000):

		31 December 2021		31 December 2020	
Ageing structure	**Type of transaction**	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**
Within 3 months	trading	24,320	936,287	24,313	1,139,274
	hedging	8,669	124,300	37	344,648
3–6 months	trading	1,789	429,803	–78	494,317
	hedging	79,201	4,313,029	–733	2,350,101
6–12 months	trading	–3,058	213,299	–6,320	318,352
	hedging	25,099	1,801,108	20,712	1,750,571
1–2 years	trading	–18,006	608,200	–24,648	725,937
	hedging	34,571	5,705,741	142,858	7,428,414
2–3 years	trading	–	–	–29,066	642,084
	hedging	–26,394	1,724,738	92,872	5,907,749
3–4 years	trading	–	–	–	–
	hedging	–67,560	2,266,484	25	533,561
4–5 years	trading	–	–	–	–
	hedging	–41,717	1,577,714	–27,953	1,316,843
6–7 years	trading	–	–	–	–
	hedging	69,253	500,000	13,960	500,000
Total		**86,167**	**20,200,703**	**205,979**	**23,451,851**

As mentioned above, the Company designated certain currency derivatives 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 of hedged cash flow as at 31 December (CZK ‘000):

	Volume of hedged sales	Change in the value of hedged sales since the inception of the hedge	Balance of hedged cash flows
2021	18,013 113	69,901	69,901
2020	18,431 887	201,012	201,012

Changes in the fair value of hedging derivatives recognized in other comprehensive income and the amount reclassified to the statement of profit or loss in respective years 2021 and 2020 are as follow:

Cash flow hedges from expected sale	Change in the fair value of hedging instruments	recognized in OCI	Reclassified to the statement of profit or loss
2021	–160,657	–131,111	–29,546
2020	321,823	339,412	–17,589

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 in the following table:

	2021	2020
1 January	201,012	-138,400
Change in fair value	-160,657	321,823
Reclassification to the statement of profit or loss	29,546	17,589
31 December	69,901	201,012

37.2. Interest rate swaps

The interest rate swap agreement obliges the Group to exchange 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	
	2021	2020	2021	2020	2021	2020	2021	2020
	%	%	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000	CZK '000
Komerční banka, a.s.	0.740	0.740	500,000	500,000	–	–	69,252	13,959
Komerční banka, a.s.	0.677	0.677	1,200,000	1,200,000	–	4,254	1,180	–

The interest rate swap agreement is agreed with the financing bank for the period from 27 January 2016 to 27 January 2022 as well as for the period from 27 January 2022 to 27 January 2027. 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 hedging. As of the end of the reporting period, these transactions are remeasured at fair value.

37.3. Cross currency interest rate swaps

The Group has entered into cross currency interest rate swaps in which it is the payer of fixed interest derived from the nominal value in USD and the payee of variable interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD-denominated loan with a fixed interest rate)
- to hedge the interest rate risk arising from variable interest payments on the bonds issued (bonds issued in CZK with a variable interest rate of 6M PRIBOR).

For hedge accounting purposes, the negotiated cross currency interest rate swaps are divided into the following derivatives, which are defined as hedging instruments in a combined hedging relationship:

- a cross currency interest rate swap in which the Group is the payer of fixed interest derived from the nominal value in USD and the payee of fixed interest derived from the nominal value in CZK, and which further include initial and final exchanges of nominal amounts in USD and CZK. This cross currency interest rate swap is used to hedge the currency risk on the provided USD loan, whereby the exchange rate differences on the hedged portion of the loan (equal to the nominal value of the cross currency interest rate swap – the hedge ratio is 1:1) are offset by the revaluation of the cross currency interest rate swap.
- An interest rate swap in which the Group is the payer of a fixed interest rate derived from the nominal value in CZK and payee of variable interest rate derived from the nominal value in CZK. This interest rate swap is used to hedge the interest rate risk on the bonds issued where the interest paid on the hedged portion of the bonds (equal to the nominal value of the interest rate swap – the hedge ratio is 1:1) derived from the variable interest rate is offset by the revaluation of the interest rate swap (in which the Group is the payee of interest payments derived from the same variable interest rate).

The combined hedging relationship is considered effective and qualifies for hedge accounting (see Section 3.27) only if the two separate derivatives (the hedging relationships in which the derivatives are defined as hedges) meet the hedge accounting requirements. In the following tables, separate hedging derivatives are always listed separately in the relevant section based on the hedged risk.

The Group began applying hedge accounting on 21 May 2021, at which time hedged items could be hedged. Until then (from 17 May to 21 May 2021), the cross currency interest rate swaps negotiated were classified as trading derivatives. The Group has not applied hedge accounting in any of the previous accounting periods.

The Group assesses the effectiveness of hedges and the existence of an economic relationship between the hedging instruments and the hedged items based on a comparison of their parameters and sensitivity analysis. The Group determines the ineffective portion of the hedge based on the hypothetical derivative method and a comparison of changes in the cumulative fair values of the hedging instruments and hedged items represented by the hypothetical derivative.

The sources of ineffectiveness are mainly the credit risk of the counterparty to the hedging instruments and the Group , which the Group considers to be minimal given that the hedging instruments are negotiated with banks with high credit ratings, and the risk of prepayment of the provided loan (for currency hedges) and bonds issued (for interest rate hedges) is very low.

As at 31 December 2021, the Group held the following instruments to hedge its exposure to changes in foreign currency exchange rates and interest rates.

2021			Due date
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure	–	–	3,292,650
Average exchange rate CZK/EUR	–	–	21.418
Interest rate risk			
Net exposure	–	–	3,212,700
Average fixed interest rate	–	–	3.525%

As at the reporting date, the amounts relating to the hedged items were as follows:

		31 December 2021	
CZK '000	**Change in value used to calculate hedge ineffectiveness**	**Cash flow hedge reserve**	**Balance in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied**
Currency risk			
Provided loan in USD	326,917	–118,561	–
Interest rate risk			
Issued bonds with variable interest rate	–221,885	181,926	–
Total	**105,032**	**63,364**	**–**

Amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

CZK '000	Nominal value	Receivable (+)/ Liability (-)	Changes in value of hedging instrument recognized in Other comprehensive income.	Hedge ineffectiveness recognized in the statement of profit or loss	Amount reclassified from the hedge fund to the statement of profit or loss
Currency risk					
Cross currency interest rate swaps	3,292,650	–359,482	146,373	–6,663	–180,545
Interest rate risk					
Cross currency interest rate swaps	3,212,700	310,018	–224,600	–	–4,358
Deferred tax effect	–	–	14,863	–	–
Total	**-**	**–49,466**	**–63,364**	**–6,663**	**–184,903**

Liability arising from hedging derivatives of CZK 49 466 thousand (2020 – CZK 0 thousand) is recognized under non-current financial derivatives. The hedge ineffectiveness of CZK 6,663 thousand (2020 – CZK 0 thousand) is recognized in Gains or losses from derivative transactions. The amount reclassified from the cash flow hedge reserve to the statement of profit or loss of CZK 175,849 thousand (2020 – CZK 0 thousand) is recognized in Other financial income, the amount of CZK 3,043 thousand (2020 – CZK 0 thousand) is recognized in interest expense and the amount of CZK 6,011 thousand (2020 – CZK 0 thousand) is recognized in Gains or losses from derivative transactions.

The following table provides a reconciliation of equity components by risk category and an analysis of the items in other comprehensive income, net of tax, arising from hedge accounting.

	2021
CZK ‘000	**Cash flow hedge reserve**
Opening balance as at 1 January	**–**
Cash flow hedges	
Change in fair value:	
– Currency risk	–326,918
– Interest rate risk	220,242
Values reclassified to the statement of profit or loss:	
– Currency risk - other items	180,545
– Interest rate risk	4,358
Tax on movements in reserves during the year	–14,863
Closing balance as at 31 Dec December	**63,364**

As at 31 December 2020 and 2 January 2020, the Group did not hold any instruments to hedge its exposure to changes in foreign currency exchange rates and interest rates

38. INFORMATION ON RELATED PARTIES

The Group had the following transactions with its related parties in 2021:

		Liabilities as at 31 Dec 2021	Purchases for the period from 1 January to 31 December 2021	Receivables as at 31 December 2021	Sales for the period from 1 January to 31 December 2021
European Holding Company, SE	ultimate parent company	–	–	–	229
Česká zbrojovka Partners SE	parent company	–	33	212	229
Česká zbrojovka Defence SE	subsidiary of parent company	–	–	–	60
Keriani, a.s.	associate of parent company	1,039	10,701	2,299	–
Silesia Invest SE	company in the ultimate owner's group	–	–	2	17
EHC zdravotní s.r.o.	company in the ultimate owner's group	–	–	8,656	1,055
CZUB zdravotní s.r.o.	company in the ultimate owner's group	221	3,028	44	40
CZ-SKD Solutions a.s. (Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	3,989	10,687	–	207
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	1,085	14,554	197,439	48,848
AIT Group - Advanced Industrial Technology Group a.s. (untill 30 April 2021 AUTO-CZ International a.s.)	subsidiary of parent company	–	–	19	31
TRX, s.r.o.	company in the ultimate owner's group	85	840	–	–
M&H Management a.s.	company in the ultimate owner's group	24	21	–	140
Kykulin Trade a.s.	company in the ultimate owner's group	–	–	2	17
CZ AGRO Servis a.s.	company in the ultimate owner's group	–	–	–	253
CZ AGRO zemědělská s.r.o.	company in the ultimate owner's group	–	–	–	17
Robousy, s.r.o.	company in the ultimate owner's group	–	–	–	183
RAIL CARGO a.s.	company in the ultimate owner's group	–	–	2	17
hypo360.cz, SE	company in the ultimate owner's group	–	–	–	–
Minezit SE	company in the ultimate owner's group	–	–	–	51
ITeCompany Management a.s.	company in the ultimate owner's group	–	–	–	20
ITeuro, a.s.	company in the ultimate owner's group	–	6,132	–	–
Total		**6,443**	**45,996**	**208,675**	**51,414**

Receivables due from CZ-AUTO SYSTEMS a.s. and EHC zdravotní s.r.o. also include loans provided by the Group and outstanding interest. See Note 25.

Further, the Group paid a dividend of CZK 253,025 thousand to Česká zbrojovka Partners SE.

The Group had the following transactions with its related parties in 2020:

		Liabilities as at 31 Dec 2020 December 2020	Purchases for the period from 1 January to 31 December 2020	Receivables as at 31 December 2020	Sales for the period from 1 January to 31 December 2020
European Holding Company, SE	ultimate parent company	–	–	5	60
Česká zbrojovka Partners SE	parent company	–	1,226	5	60
Česká zbrojovka Defence SE	subsidiary of parent company	–	–	5	60
Keriani, a.s.	associate of parent company	515	9,241	2,299	9
Silesia Invest SE	company in the ultimate owner's group	–	–	1	16
EHC zdravotní s.r.o.	company in the ultimate owner's group	–	7	10,899	993
CZUB zdravotní s.r.o.	company in the ultimate owner's group	–	4,531	324	35
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	777	14,966	263,686	49,320
AIT Group - Advanced Industrial Technology Group a.s. (untill 30 April 2021 AUTO-CZ International a.s.)	subsidiary of parent company	–	–	1	16
TRX, s.r.o.	company in the ultimate owner's group	85	840	–	–
M&H Management a.s.	company in the ultimate owner's group	–	–	5	60
ITeuro, a.s.	company in the ultimate owner's group	–	4,680	2,024	–
Total		**1,377**	**35,491**	**279,254**	**50,629**

Receivables due from CZ-AUTO SYSTEMS a.s. and EHC zdravotní s.r.o. also include loans provided by the Group and outstanding interest. See Note 25.

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

39. OFF-BALANCES SHEET COMMITMENTS

As at 31 December 2021, 31 December 2020 and 2 January 2020, the Group issued no guarantees in respect of third-party liabilities.

As at 31 December 2021, the Company records another significant legal disputes which were not included in point 7 f) in annual report, where the Company acts as a defendant or investment, environmental and other off-balance sheet commitments.

40. AUDITOR'S FEE

The table below shows a breakdown of auditor's fee in 2021:

CZK '000	Colt CZ Group SE	Other Group companies
Statutory audit	2,670	10,330
Other services:		
Assurance services	980	–
TOTAL (excl. VAT)	**3,650**	**10,330**

The table below shows a breakdown of auditor's fee in 2020:

CZK '000	Colt CZ Group SE	Other Group companies
Statutory audit	2,655	4,950
Other services:		
Assurance services	18,708	173
Tax advisory services	35	370
Other non-audit services	0	1
TOTAL (excl. VAT)	**21,398**	**5,494**

41. NET EARNINGS PER SHARE

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

	2021	2020
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	760,462	676,571
Denominator (average number of shares in CZK '000)		
Basic	33,462	32,638
Diluted	33,553	32,638
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	23	21
Diluted	23	21

42. SUBSEQUENT MATERIAL EVENTS

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 27 December 2021, the Company's Supervisory Board approved an employee stock option plan. The potential impact of the Option Plan on the Group's consolidated financial statements was assessed in accordance with IFRS 2 Classification and Measurement of Share-based Payment Transactions. The basic principles of the Option Plan are as follows:

- to the extent, at the times and subject to the conditions of the Share Plan, the participant will acquire the following options by way of vesting by the Company
  - 15% of the allocated stock options in the period from June 2022 to June 2024
  - 35% of the allocated share options in July 2024 if Target 1 is met
  - 50% of the allocated share options in July 2026 if Target 2 is met
- Target 1 – to meet the EBITDA target on a consolidated basis for the period 2021 to 2023
- Target 2 – to meet performance parameters at consolidated level (turnover, EBITDA and net debt/EBITDA ratio) for the 2021 to 2025 period in line with the Group's strategy.

The shares designated for the Option Plan will be newly issued. The maximum amount of shares issued will be 10% of the share capital.

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 (accounting 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.

In view of the above assessment, the Group's management believes that this situation does not have a material impact on the measurement of the Group's assets or liabilities and does not affect the going concern assumption on which these financial statements are based.

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

No other subsequent events have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2021.

AUDITOR’S REPORT

Auditor’s report for shareholders
of the Colt CZ Group SE company

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of
Colt CZ Group SE

Having its registered office at: Opletalova 1284/37, Nové Město, 110 00 Prague 1

Audit Report on the Financial Statements and the Consolidated Financial Statements

Opinion on the Financial Statements and Consolidated Financial Statements

We have audited the accompanying financial statements of Colt CZ Group SE (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the separate income statement and statement of other comprehensive income for the year ended 31 December 2021, separate statement of financial position as of 31 December 2021, separate statement of changes in equity for the year ended 31 December 2021, separate cash flow statement for the year ended 31 December 2021, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We have audited the accompanying consolidated financial statements of the Colt CZ Group SE consolidation group (hereinafter also the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated income statement and statement of other comprehensive income for the year ended 31 December 2021, consolidated statement of financial position as of 31 December 2021, consolidated statement of changes in equity for the year ended 31 December 2021 and consolidated cash flow statement for the year ended 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

The accompanying financial statements give a true and fair view of the financial position of Colt CZ Group SE as of 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Colt CZ Group SE consolidation group as of 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year 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 Financial Statements and the Consolidated Financial Statements section of our report. We are independent of the Company 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How it was addressed**
Revenue related to the sale of firearms	
As of 31 December 2021, sales of firearms amounted to CZK 9,473 million of the total revenue of CZK 10,689 million (Note 5 to the consolidated financial statements). These sales form the most significant part of sales of products and sales of goods. Revenue is one of the key indicators to assess the Company's performance. Revenue is accounted for when the Company meets its contractual obligation to the customer, e.g. the final supply is ready to be dispatched to the customer taking into consideration the terms of delivery. In most cases, the Company applies the EXW (Ex Works) and FCA (Free Carrier) incoterms. One of the key requirements for revenue recognition is an approved order between the Company and its customer. In case of export, receipt of necessary export permissions is important. Based on the above, we consider meeting the conditions for revenue recognition and accounting for revenue at the turn of the reporting period to be a significant risk and the key audit matter.	In addressing this key audit matter, we performed substantive testing. Substantive testing We performed a detailed test using a statement of completed supplies, independent of accounting records, to select a sample of items for which we reviewed their approved order, packing list or shipping note, issued invoice and correctness of accounting. We also performed testing focused on the determination whether an invoice and the related revenue were recognised in the correct reporting period and whether revenue was not misstated by recognition in an incorrect period. We selected a sample of invoices accounted for at the turn of the reporting period and based on the underlying documents related to the invoices, we assessed whether the revenue had been recognised in the correct reporting period.
Acquisition of 100% share in Colt Holding Company LLC	
On 21 May 2021, the Company completed the acquisition of 100% share in Colt Holding Company LLC (hereinafter "Colt"). In relation to this acquisition, the Company recognised goodwill in the amount of CZK 2,109 million. This goodwill is the difference between the total amount of net assets acquired in the amount of CZK 3,419 million and the total acquisition cost of CZK 5,528 million. The agreement between the Company and Colt's original shareholders includes a deferred consideration in the amount of CZK 416 million that the Company will transfer in relation to the fulfilment of performance parameters in the following years (Note 21 to the consolidated financial statements). The recognition of this transaction requires that the Company management uses expert estimates of the fair value of the acquired assets and liabilities of Colt and estimates related to the fulfilment of the parameters for the deferred consideration. For these reasons, the fulfilment of the parameters for the recognition of a 100% share in Colt during 2021 is considered to be a significant risk and a key audit matter.	In addressing this key audit matter, we performed substantive testing. Substantive testing We performed a detailed assessment of contractual documentation related to this acquisition. We assessed the expert estimates of the fair value of the assets and liabilities acquired as part of this acquisition. We also assessed the recognition of the deferred consideration in this transaction. We also performed detailed and analytical tests focusing on the testing of opening balances of Colt's assets and liabilities as of the date of the acquisition. As part of the testing procedures, we assessed the existence and valuation of the assets and liabilities balances on a selected sample, including the assessment of accounting policies applied between the date of acquisition and the balance sheet date.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements, the consolidated financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements and the consolidated financial statements does not cover the other information. In connection with our audit of the financial statements and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the consolidated financial statements or our knowledge obtained in the audit of the financial statements and the consolidated financial statements or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements and the consolidated financial statements is, in all material respects, consistent with the financial statements and the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements and the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements and 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 financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the consolidated financial statements, the Board of Directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements and the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements and 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 financial statements and the 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 financial statements and 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 Company's/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 Company's/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 financial statements and 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 Company/Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements and the consolidated financial statements, including the disclosures, and whether the financial statements and 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, the Supervisory Board and the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Information required by Regulation (EU) No. 537/2014 of the European Parliament and the Council

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 27 May 2021 and our uninterrupted engagement has lasted for 8 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements and the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 April 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Report on Compliance with the ESEF Regulation

We have conducted a reasonable assurance engagement on the verification of compliance of the financial statements and the consolidated financial statements included in the consolidated annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 on the European Single Reporting Format that apply to the financial statements (the "ESEF Regulation").

Responsibilities of the Board of Directors

The Company's Board of Directors is responsible for the preparation of the financial statements and the consolidated financial statements in compliance with the ESEF Regulation. Inter alia, the Company's Board of Directors is responsible for:

- The design, implementation and maintenance of the internal controls relevant for the application of the requirements of the ESEF Regulation;
- The preparation of the financial statements and the consolidated financial statements included in the consolidated annual report in the valid XHTML format; and
- The selection and use of XBRL mark-ups in line with the requirements of the ESEF Regulation.

Auditor's Responsibilities

Our task is to express a conclusion whether the financial statements and the consolidated financial statements included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation, based on the audit evidence obtained. Our reasonable assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000").

The nature, timing and scope of the selected procedures depend on the auditor's judgment. A reasonable assurance is a high level of assurance; however, it is not a guarantee that the examination conducted in accordance with the above standard will always detect a potentially existing material non-compliance with the requirements of the ESEF Regulation.

As part of our work, we performed the following procedures:

- We obtained an understanding of the requirements of the ESEF Regulation;
- We obtained an understanding of the Company's internal controls relevant for the application of the requirements of the ESEF Regulation;
- We identified and evaluated risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- Based on this, we designed and performed procedures responsive to those risks and aimed at obtaining a reasonable assurance for the purposes of expressing our conclusion.

The aim of our procedures was to assess whether

- The financial statements included in the consolidated annual report were prepared in the valid XHTML format;
- The disclosures in the consolidated financial statements were marked up where required by the ESEF Regulation and all mark-ups meet the following requirements:
  - XBRL mark-up language was used;
  - The elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with Annex IV to the ESEF Regulation; and
  - The mark-ups comply with the common rules for mark-ups pursuant to the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Company's financial statements and consolidated financial statements for the year ended 31 December 2021 included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

In Prague on 28 April 2022

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	Martin Tesař registration no. 2030