ANNUAL FINANCIAL REPORT for 2022

This document is an unofficial transcription of the official version of the Annual Financial Report of Colt CZ Group SE for the year 2022, which was prepared in the XHTML format in accordance with the European Single Electronic Format (ESEF) Regulation. The official version of the Annual Financial Report of Colt CZ Group SE for the year 2022 is available on https://www.coltczgroup.com/en/investors-financial-results-and-presentations/.

COLT CZ GROUP

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1. 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 defence, hunting, sport shooting, and other commercial uses. Colt CZ primarily sells its products under the Colt, CZ-USA, Colt Canada, Dan Wesson, Spuhr, and 4M Systems brands.

The Company's history dates to 1836 when Samuel Colt registered its first patent for Colt brand pistol and built the first factory. Nowadays, Colt has been supplying commercial and military and law enforcement customers not only in the USA, but also around the world for more than 185 years. Colt is a supplier to the US Army and an exclusive supplier to the Canadian Army. Colt is headquartered in West Hartford, Connecticut, and its Canadian subsidiary, Colt Canada, is located in Kitchener, Ontario. Colt has been part of the Group since May 2021, when 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").

In 1936 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 October 2022, the Company acquired the remaining 75% stake in Spuhr i Dalby AB, a Swedish manufacturer of optical mounting solutions for weapons.

The Colt CZ Group has its registered office in the Czech Republic and manufacturing capacities in the Czech Republic, the United States, Canada, and Sweden. As at 31 December 2022, the Group's average FTE number of employees was 2,205. Colt CZ's shares are traded at the Prague Stock Exchange. The majority shareholder is Česká zbrojovka Partners SE with a 76.9% stake, the rest is free float.

2. KEY FINANCIAL INDICATORS IN 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (AUDITED)

(CZK '000)	For the year ended 31 December 2022	2021	Change in %
Revenues from the sale of own products, goods, and services	14,589,774	10,688,927	36.5%
Operating profit	2,198,682	1,011,181	117.4%
EBITDA	3,109,117	1,800,804	72.7%
Adjusted EBITDA[1]	3,365,297	2,168,797	55.2%
Profit before tax	2,356,170	931,548	152.9%
Profit for the period	2,034,192	760,462	167.5%
Adjusted profit for the period	2,280,464	1,161,012	96.4%
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	60	23	156.5%
Diluted	59	23	156.5%
Adjusted[2]	67	34	97.0%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (AUDITED)

(CZK '000)	As at 31 December 2022	31 December 2021	Change in %
Total assets	19,503,514	17,013,073	14.6%
Total equity	7,681,371	5,241,828	46.5%
Total liabilities	11,822,143	11,771,245	0.4%
Total liabilities and equity	19,503,514	17,013,073	14.6%

[1] Adjusted EBITDA in 2022 for extraordinary one-time costs associated with unrealized acquisitions in 2022 and share-based payments associated with the employee option plan that are generally unrelated to the current period's results of operation and value creation. In 2021, EBITDA was adjusted by expenses of professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, and the revaluation of inventories and their allowances in connection with the acquisition of Colt. These one-time items are described in Section 14. Alternative Performance Measures

[2] Adjusted net income in 2022 for extraordinary one-time costs associated with unrealized acquisitions in 2022 and share-based payments associated with the employee option plan, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs that are generally unrelated to the current period's results of operation and value creation. In 2021, net income was adjusted by expenses of professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, the revaluation of inventories and their allowances in connection with the acquisition of Colt, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs.

3. KEY EVENTS IN 2022

JANUARY 2022

The Company issued 666 bonds of a nominal value of CZK 1,998,000,000. The bonds bear variable interest yield (coupon) of six-month PRIBOR plus a margin of 1.4% p.a. The bonds were admitted to trading on the regulated market of the Prague Stock Exchange.

MARCH 2022

On 9 March 2022, the Company signed an amendment to the framework agreement dated April 2020 with the Czech Ministry of Defense for the purchase of small arms. This amendment enables the Czech Army to draw on supplies of firearms for up to CZK 1.18 billion more than the originally agreed limit of CZK 2.35 billion.

APRIL 2022

CZG – Česká zbrojovka Group SE announced a change in its corporate identity and name to Colt CZ Group SE. The new name is effective as of 12 April 2022.

The Company donated a limited edition of the CZ 75 TOBRUK pistol to a charity auction in aid of Ukraine. The auction was held by the "Svobodu Ukrajině" (Freedom to Ukraine) initiative in cooperation with the Forbes magazine. The pistol was auctioned off for CZK 5 million.

SEPTEMBER 2022

A limited edition of the CZ 75 REPUBLIKA pistol was auctioned off at an auction evening hosted by Goltzova tvrz Gallery. It was auctioned off for CZK 980,000, the highest amount of all auctioned works-of-art that evening.

OCTOBER 2022

On 12 October 2022, Colt CZ completed the acquisition of the remaining 75% stake in the Swedish subsidiary Spuhr i Dalby AB.

NOVEMBER 2022

Colt CZ Group is the first small arms manufacturer in the world to offer the combination of the purchase of its products and non-fungible tokens (NFT) based on the blockchain technology platform by launching the first NFT auction of Colt CZ Group products, in connection with a limited 100-piece edition of hand-engraved CZ 75 Order of the White Lion pistols. Colt CZ Group donates a part of the proceeds from the sale to charitable purposes, specifically to the collection account of the Embassy of Ukraine in the Czech Republic in support of the Ukrainian army.

Proceeds of CZK 1.7 million, raised by auctioning off a set of two hand-engraved pistols – CZ 75 and Colt 1911 – from the limited edition Tribute to Legends, will be donated by Colt CZ to the Military Solidarity Fund, the Foundation of Police Officers and Firefighters, and to the collection account of the Embassy of Ukraine in the Czech Republic in support of the Ukrainian army.

DECEMBER 2022

The Group signed a joint venture agreement with N7 Holding Ltd., a Hungarian state company. Under this agreement, the parties together intend to establish Colt CZ Hungary. While Colt CZ Group will own a 51% stake in the joint venture, the Hungarian government will own a 49% stake. The aim of the joint venture is to establish a small arms factory on Hungarian soil to supply arms to the Hungarian military and law enforcement.

On 14 December 2022, EG-CZ Academy, a brand new multifunctional indoor shooting range, was opened in Quimper, in French Bretagne. One of the most sophisticated facilities of this type in the world was established as a cooperation between Česká zbrojovka a.s. and Eric Grauffel, a shooting sport icon and a nine-times IPSC shooting world champion. It is the first officially approved professional sports shooting centre in France.

4. LETTER FROM THE PRESIDENT OF COLT CZ

Dear Shareholders,

2022 was without a doubt a turning point for the Western civilization. Russia's unprecedented aggression against Ukraine significantly undermined the world order established after the Second World War and caused human tragedy immediately outside the borders of NATO and the EU. The war also drove up the price of energy and raw materials and caused significant growth in inflationary pressures in virtually all economies.

At the same time, our government and society became fully aware of the necessity to invest in our security and our defence capabilities, to be able to protect our civilization and values. The war also demonstrated the need to have a strong defence industry, capable of developing technologically advanced products, to give our armed forces the upper hand on the battlefield. This complies with our mission to provide products our customers can rely on in any situation. I am proud that the Colt CZ Group has joined the material aid to Ukraine in coordination with Czech, US, and Canadian governments.

2022 was the first year when we operated together as an extended group, after the acquisition of Colt and Colt Canada. This manifested itself not only in the new name, reflecting both key brands and enhancing the awareness of our Group, but also in our day-to-day work. Our teams across all companies in the Group cooperate on projects in the R&D, product, production, business, and IT areas. We offer our customers a wider product portfolio in tenders for the military and law enforcement. Our brands benefit from a wider commercial network. We made our first significant investment in Colt's machinery. Nevertheless, the integration between the Group companies has not yet been completed and undoubtedly represents a further significant potential. We are therefore considering more flexible production models and significant future investments in our products, competences, production capacities, and our people on both sides of the Atlantic.

The acquisition of Colt has had a positive impact on the Group's financial performance. We are stronger in financial, product, technological, business, and human capital terms. We have come closer to our vision of becoming the acknowledged undisputed firearms leader. Our strong financial results enable us to finance ambitious growth plans. In October 2022, we completed the acquisition of the remaining stake in Spuhr i Dalby, a renowned Swedish manufacturer of optical mounting solutions and upgrade kits for firearms. It is our obligation to further develop this brand, which is an undisputed paradigm in its category. Together with Hakan Spuhr and Ulf Nillsson, we believe that this combination will bring new opportunities for the whole Group, both in the military and law enforcement market and the commercial market. Further, in December 2022, we signed a joint venture agreement with the Hungarian state and thus virtually took over the production capacity of Arzenál, a company which the Hungarian state has invested in considerably over the past years. I am very happy that our existing cooperation with Hungary, which has been going on since 2018 in the form of technology transfers, has deepened, and that Hungary has joined the list of our government partners alongside the United States, the Czech Republic, Canada, and many others.

Developments in our key markets in 2022 confirmed that we were right in our decision to head towards a balanced ratio between sales to military and law enforcement customers and to commercial market customers. We managed to compensate for a relatively significant decline in the US commercial market by the sales of our products primarily to military customers. We will continue to endeavour to reinforce our position in this segment, where the business potential has increased sharply, due to the deteriorating security situation around the world.

We are a modern company and continuously look for ways to provide our customers with the best services possible. Last year, we offered the combination of our products and blockchain as the first small arms producer in the world, i.e., the possibility of acquiring a work-of-art for your collection, an interesting investment item, and user benefits in one. For the time being, we have auctioned three NFT hand-engraved weapons – two related to the special edition of the CZ 75 Order of the White Lion pistols, and one with the CZ 75 and Colt 1911 Tribute to Legends set, with which we commemorated last year's first anniversary of the acquisition of Colt. The interest surpassed our expectations. NFTs are also a means for us to offer our customers the benefits associated with new products from our major brands. Česká zbrojovka combined its new CZ TS 2 ORANGE sport pistol with several bonuses, including the possibility of winning a shooting course with our elite sport shooter Éric Grauffel. We plan to offer these NFT bonus programs for all new products of CZ and Colt.

Last year, we started creating a new ESG strategy focusing on the sustainability of our business. Sustainability is not something new for us. It is an integral part of our thinking and our processes and embedded in our DNA. In mid-2023, we will publish a separate ESG report for our Group.

Our transatlantic presence is what makes us strong and what will help us increase our productivity, offer quality products, and reinforce our competitiveness in the global market.

In our annual report for 2022, we have decided to thank our customers from among the ranks of the military and law enforcement for their work and trust in our products, by presenting and honouring at least some of them. In addition to the profiles of professional unit members from around the world, you will also find profiles of our customers from the ranks of sport shooters, hunters, and collectors, whom I also want to thank for their support of our brands.

Finally, let me also thank all our employees, business partners, customers, and shareholders.

Jan Drahota
Chairman of the Board of Directors

5. BUSINESS OVERVIEW

5.1 Product portfolio

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

The Group also offers a wide portfolio of tactical equipment through the subsidiary 4M SYSTEMS, such as ballistic vests, helmets and other protection, combat uniforms, backpacks, and other firearms accessories, e.g., handgun holsters and magazine pouches.

Small arms

The Company's small firearms primarily comprise of pistols and revolvers of the CZ and Colt brands. 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 models are the CZ 75 model and the iconic model CZ 1911, which are being produced in an improved form to this day. Through the American handgun manufacturer Dan Wesson, Colt CZ offers upgrades of popular revolver and pistol models.

Long guns

Long guns include arms for military and law enforcement (automatic and self-loading rifles, submachine guns, and sniper rifles), as well as commercial use (especially rimfire rifles, centerfire rifles, and combos). The Group covers all the main markets for long guns. The most sold products include the CZ 457 rimfire rifle series, the CZ 600 centerfire rifle series, the CZ Scorpion EVO 3 submachine gun, the CZ BREN 2 and the Colt AR15/ M4 rifles.

The following table sets forth a breakdown of the Group's firearm units sold by type for 2022 and 2021:

Units	2022	2021	change in %
Long firearms	289,479	246,777	17.3%
Short firearms	403,912	380,695	6.1%
Total firearms	**693,391**	**627,472**	**10.5%**

CAPT. PETR **HOMOLA**

Commander of the 4th Commando of the 43rd Parachute Regiment in Chrudim, Army of the Czech Republic

I have been serving in the Army of the Czech Republic since 2008. I was drawn to the army because of my positive attitude towards nature, sports, scouting and military history. After graduating from the University of Defense in Brno and the C.E.F.E. course of the French Foreign Legion, I joined the Airborne Battalion in Chrudim in 2013. In preparation for international combat deployments, I underwent the "Commando" course of the Czech Army, followed by my first deployment in Afghanistan, where I was the commander of a guard platoon at the Bagram Airbase. At that time, I was equipped with the first-generation CZ BREN 805 A2 assault rifle. During my second deployment in Afghanistan in the role of deputy company commander in 2019, it was already the CZ BREN 2, and recently I have received the CZ P-10 pistol.

I have CZ firearms also in my private collection, among others the "immortal" submachine gun CZ model 58 or model 61, which is the predecessor of today's CZ Scorpion EVO submachine gun. I also have a classic AR-15 from Colt.

Shooting is my great hobby. I am the Czech Army shooting instructor and also member of the SSK Ferus shooting club, where I teach sports and tactical shooting. I am always pleased when practicing shooters bring pistols or long guns from Česká zbrojovka to the shooting range.

5.2 Markets and customers

The Group supplies its products to over 90 countries all over the world. The main markets, according to customer categories, are the military and law enforcement market and the commercial market.

Military and law enforcement market

The customers of the Group Colt CZ in the military and law enforcement market include federal, state, or local governments and government agencies, specifically 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.

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 selected 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. 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.

Framework agreement with the Ministry of Defense of the Czech Republic

In April 2020, the Czech Ministry of Defense and CZUB entered into a framework agreement for the supply of up to 39,000 small arms. The agreement was signed for CZK 2.35 billion for the period until 2025. 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.

On 9 March 2022, the Company signed an amendment to the framework agreement dated April 2020 with the Czech Ministry of Defense on the acquisition of firearms. This amendment will enable the Czech Army to draw on supplies of firearms for up to CZK 1.18 billion more than the originally agreed limit of CZK 2.35 billion.

Commercial market

The commercial market includes weapons for personal defense, hunting, sport shooting, and other commercial use. 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 rim and centerfire rifle competitions. The commercial customers category also includes those who buy arms for their personal defense.

Marketing and distribution

The Group sells its products mainly through wholesalers and distributors. As for military and law enforcement customers, it usually participates in public tenders. Colt CZ operates two company retail stores (located in the Czech Republic) and owns an 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 activities, some of them on-line. It has long supported the shooting sports through its support of competitions, international championships, IPSC and USPSA organizations and its own shooting team.

Colt CZ operates an on-line weapon configurator, which enables customers to individually configure the Company's weapons directly from the phone or computer. The configurator serves customers in seven countries around the world, specifically in the Czech Republic, Slovakia, Poland, France, Austria, Germany, and as of November 2022 also in the USA.

5.3 Acquisition strategy

The Colt CZ continuously monitors and evaluates opportunities for growth through potential acquisitions. In addition to geographic expansion, the main goal of the acquisition strategy is the development of a wider portfolio of products complementing each other and responding to the evolving requirements of our most demanding customers. 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.

The Group's primary focus is on acquisition opportunities among its competitors in the firearms industry, manufacturers and designers of optics, optoelectronics, and firearms accessories in the anticipation of changes in the needs and preferences of its customers and the move towards the digitalization of 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 growing customer demand for more efficient ammunition.

On 12 October 2022, Colt CZ completed the acquisition of the remaining 75% stake in the Swedish subsidiary Spuhr i Dalby AB.

Spuhr i Dalby is a Swedish manufacturer of optical mounting solutions for weapons. The product portfolio of Spuhr consists of optical mounts, accessories, and upgrade kits for firearms, very well complementing the core of the Colt CZ Group's activities. Mounts and accessories by Spuhr are used by many military and law enforcement units all over the world, including the Swedish military and law enforcement, Dutch and Danish military, German police, and Portuguese navy. Spuhr also offers a popular series of premium hunting products.

Joint venture with the Hungarian government

In 2018, the Group entered into a framework agreement on technology transfer cooperation with HM ARZENÁL, a Hungarian company fully owned by the Hungarian state. In December 2022, the Group continued in its existing cooperation by signing a joint venture agreement with the Hungarian state company N7 Holding Ltd. Under this agreement, the parties plan to jointly establish Colt CZ Hungary. While Colt CZ will own a 51% stake, the Hungarian government will own a 49% stake.

The Hungarian party will provide the manufacturing plant, technology, and qualified workforce in the joint venture.

Colt CZ Group will provide its production know-how, supply chain, and access to its extensive business network. The aim of this joint venture is to establish a small arms factory on Hungarian soil which will supply arms to the Hungarian military and law enforcement. The establishment of the joint venture is contingent on obtaining regulatory approvals and other permits in Hungary and is expected in the course of 2023.

5.4 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 2022, the Group's research and development expenditure amounted to approximately CZK 226 million.

In 2022, the Group's R&D team had an average FTE number of 117 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, facilitating the systematic cooperation of the Group with academia and access to cutting-edge scientific knowledge, especially in the field of material research.

The main goals of the Group's R&D are to improve the reliability, functionality, quality, safety, and lifetime of the Group's products, as well as to develop innovative solutions for the Group's products. The Group's R&D team 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 with an emphasis on modularity, development of technological processes, e.g., additive manufacturing.
- Applied research and development of the new technologies and materials such as metals, polymers, and composites as well as coating systems and manufacturing processes connected with them.
- Development of procedures and algorithms for mathematical simulations to optimize their properties and shorten the process of new product development.
- Industry 4.0, which revolves 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.

JUSTINE **WILLIAMS**

Member of the Colt Shooting Team, 28-time National Champion

I began shooting competitively at the age of 9 years old with my family. I quickly grew to love the sport of competition shooting. For the past nine years I have been lucky enough to be able to make my dream become a reality. I compete in a variety of different shooting sports, some of which include USPSA, IPSC, IDPA, PCSL, and Steel Challenge. I have 28 National Champion titles, but my greatest accomplishment is placing second overall at the 2022 USPSA PCC Nationals. Competing with men and placing well has always been a dream of mine and now that has become a reality.

For the past three years, I have been fortunate enough to call Colt my shooting family. I chose to join and compete with Colt because not only do they produce quality products, but the legacy they have created for well over a hundred years gives me inspiration to continue making history with that legacy. I love all of the Colt guns, but I have two specific favorites: One of my favorite Colts is the Colt 9mm Gold Cup, with which I compete in Single Stack and Limited 10. The second one is the 44 Magnum 8-inch Anaconda – I absolutely love hunting with it. It may be a big gun with a big caliber, but the way Colt designed it, makes it an absolute dream to shoot.

6. OVERVIEW OF FINANCIAL RESULTS

Revenues

In 2022, revenues increased by 36.5 % to CZK 14.6 billion compared to 2021, especially thanks to an increased number of sold weapons, a better sales mix, and the consolidation of Colt's revenues. The Group thus met its annual outlook for profit at its upper limit.

Revenues in the Czech Republic grew by 133.7% to CZK 1.9 billion in 2022, due to supplies to the Army of the Czech Republic under a framework contract. Sales revenues in the United States grew by 11.8% to CZK 7 billion in 2022, especially thanks to the full-year consolidation of Colt in the USA, compared to 2021 (Colt was included in the consolidation as of 21 May 2021). Revenues in Canada amounted to CZK 1.8 billion, which is an increase of 221.6% year on year. Revenues generated in Europe (excluding the Czech Republic) grew by 50.3% to CZK 1.6 billion in 2022 year on year, especially thanks to growth in sales in the countries of Central and Eastern Europe.

Revenues generated in Africa fell by 67.7% to CZK 243.3 million in 2022 due to large one-time supplies to military and law enforcement customers made in 2021. Revenues in Asia grew by 103.9% to CZK 1.5 billion in 2022. Sales revenues in other parts of the world amounted to CZK 594.7 in 2022 and thus grew by 12% year on year.

THE GROUP'S REVENUES IN INDICATED PERIODS BY REGIONS:

CZK '000	**For the year ended 31 December 2022**	**For the year ended 31 December 2021**	**Change in %**
Czech Republic	1,926,379	824,128	133.7%
U.S.	6,983,933	6,248,038	11.8%
Canada	1,773,822	551,509	221.6%
Europe (excl. the Czech Republic)	1,584,169	1,053,754	50.3%
Africa	243,317	752,850	(67.7) %
Asia	1,483,412	727,426	103.9%
Other	594,742	531,222	12.0%
Total	**14,589,774**	**10,688,927**	**36.5%**

THE TABLE BELOW SETS FORTH AN OVERVIEW OF THE GROUP'S EMPLOYEES AS AT 31 DECEMBER 2022 AND 2021:

	As at 31 December 2022	**As at 31 December 2021**	**Change in %**
	(Average FTE number of employees)	(Average FTE number of employees)	
Czech Republic	1,627	1,623	0.2%
USA	431	433	(0.5) %
Canada	123	134	(8.2) %
Sweden	17	–	n/a
Other	7	6	16.7%
Total	**2,205**	**2,196**	**0.4%**

Adjusted EBITDA and EBITDA2

EBITDA (including extraordinary effects) grew by 72.7% to CZK 3,109.1 million in 2022 compared to the same period in 2021, especially due to sales growth and the full-year consolidation of Colt compared to 2021 (Colt was included in the consolidation as of 21 May 2021). On the other hand, an increase in the consumption of materials and raw materials, associated with an increase in sales and input prices and higher personnel costs, had the opposite effect. The EBITDA margin amounted to 21.3% in 2022, compared to 16.8% in 2021.

Adjusted EBITDA totalled CZK 3,365.3 million in 2022, which is an increase of 55.2% year on year.

Profit before tax

Profit before tax increased by 152.9% in 2022 year on year and amounted to CZK 2,356.2 million, thanks to an increase in the Group's operating performance and positive financial result, partly caused by gains on derivative transactions.

By hedging the CZK exchange rate against EUR and USD, when market rates were below the Group's average hedged rates, the Group generated gains on hedging derivative transactions in 2022.

Profit for the period after tax and adjusted profit for the period3

Profit for the period after tax increased by 167.5% in 2022 year on year and amounted to CZK 2,034.2 million. Adjusted net income after tax amounted to CZK 2,280.5 million in 2022, which is an increase of 96.4 %, compared to the same period last year.

Investments

The capital expenditures of the Group reached CZK 679.7 million in 2022, i.e., an increase of 7.3% year on year, and thus represented a 4.7% share in total revenues for the period, which is better than the published outlook for 2022 (5-7% of total revenues). Capital expenditures were primarily related to improvements in the Group's production machinery and capacities, where most of the expenditures were incurred in the production plant of Česká zbrojovka a.s. located in the Czech Republic.

[3] The Group's management considers EBITDA a crucial performance measure of the Group's results of operation. EBITDA is calculated as profit after tax for the period, plus income tax, less other financial income, plus other financial expenses, less interest income, plus interest expense, less share of profit of associates, less gain on investments in associated companies (step acquisition), plus depreciation and amortization and adjusted by gains or losses from derivatives transactions. Adjusted EBITDA in 2022 for extraordinary one-time costs associated with unrealized acquisitions in 2022 and share-based payments associated with the employee option plan that are generally unrelated to the current period's results of operation and value creation. In 2021, EBITDA was adjusted by expenses of professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, and the revaluation of inventories and their allowances in connection with the acquisition of Colt.

[4] Adjusted net income in 2022 for extraordinary one-time costs associated with unrealized acquisitions in 2022 and share-based payments associated with the employee option plan, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs that are generally unrelated to the current period's results of operation and value creation. In 2021, net income was adjusted by expenses of professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, the revaluation of inventories and their allowances in connection with the acquisition of Colt, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs.

Colt CZ– Option Share Program

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 share 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,
- The Share Program provides for the issue of new shares,
- Options may be vested upon achievement of relevant targets, namely 15% of options in the period from June 2022 to June 2024, 35% of options as of July 2024 upon achievement of Target 1 and 50% of options as of July 2026 upon achievement of Target 2.

The targets of the Share Program are as follows:

Target 1 Reaching EBITDA of USD 275 million for the period from 2021 to 2023.

Target 2 Achievement of the following targets until 31 December 2025:

- Consolidated revenues of at least EUR 1 billion
- EBITDA of at least EUR 200 million
- Net leverage ratio less than 3.5x

2,807,300 shares were allocated to 74 employees of the Group for the period from 1 January 2022 until 31 December 2022. When allocating share options, each candidate is assigned to one of the allocation levels (i.e., tiers) according to the level of their managerial responsibility.

The impact of the COVID-19 pandemic on the Group in 2022

In general, the impact of the COVID-19 pandemic on the Group's operation in 2022 was relatively small, as anti-epidemic measures started to be gradually relaxed already in the first quarter of 2022. The Company did not record any restrictions caused by the COVID-19 pandemic for the rest of the year.

The impact of the Russian invasion of Ukraine on the Group in 2022

On 24 February 2022, an armed conflict started by Russia invading Ukraine. This invasion is part of the Russian military intervention in Ukraine and an escalation of the Russian-Ukrainian crisis.

In response to Russia's military invasion of Ukraine, the EU has adopted several measures and sanctions against Russia and Belarus, which have complemented the already existing sanctions and restrictive measures, which the EU had been putting in place since 2014.

As for the impact on the respective enterprises, the Czech Republic was affected in greater measure than the United States, especially due to its dependency on Russian gas supplies. The biggest impact from mid-2022 have been the rapidly rising electricity, gas, and fuel prices. Other input commodities have also been affected by shortages and rising prices. The Russian invasion only reinforced supply chain issues, which had already arisen during the COVID-19 pandemic and deteriorated the situation on the labour market.

The Group immediately responded to the situation and mapped the potential risks from embargoes, the growth in energy prices, and input material shortages. The manufacturing plant in the Czech Republic is part of the macroeconomic environment of the Czech Republic, with all current economic impacts, such as the growth in energy prices, inflation, workforce shortages, etc. It faces similar challenges as other business entities, especially rising costs. The Company's management has adopted measures to make internal processes more effective and to compensate for the growth of expenses as much as possible.

The current security situation and armed conflict in Ukraine may result in greater interest in our products on the part of military and law enforcement customers, but also in unpredictable negative impact on the Group's operating and financial performance in 2022. In March 2022, the Company entered into an amendment to the framework agreement of April 2020 for the supply of small arms with the Czech Ministry of Defense. The amendment was concluded in direct connection with the Russian invasion of Ukraine. Revenues from the sale of the Group's products to countries on which the European Union imposed sanctions (Russia and Belarus) by the decision of the European Council have made up less than half a per cent of the Group's total revenues over the last years.

Operating companies in North America, specifically in the USA and Canada, have not been directly affected by the Russian invasion of Ukraine. Nonetheless, the Company records further slowdown of the commercial market in the USA, due to increasing inflationary pressures in the United States, which led the Federal Reserve System to increase interest rates in 2022 seven times in total and to a fifteen-year maximum.

WARRANT OFFICER „FLO“

French National Gendarmerie Intervention Group (GIGN) R&D Unit

I have been a Gendarme since 2001, and an operator within the GIGN for 15 years. I started in operational logistics where I focused on weapons management and ensuring the 1st and 2nd level of maintenance in operational conditions. After 8 years, I moved to a position in the Research & Development cell of the Unit where I continue supporting my GIGN comrades, which is essential for me.

When I arrived at the R&D department, I was entrusted with the CZ BREN 2 file. I knew the CZ brand well before joining the Unit because I practice shooting sports within the French Shooting Federation as a shooter and instructor, and I personally own a CZ 97B pistol and a CZ 75 SP-01 Shadow. Using the BREN 2 helped me discover the CZ brand in a different way. I soon realized the BREN is a tool perfectly adapted to the needs of the elite unit operators. It is a compact platform with outstanding firepower and stopping power.

We have recently added a new product from Colt CZ Group. After successfully evaluating a prototype, we have recently introduced the Colt Canada C20 "Custom" rifle to replace a platform that we have been using since it came on the market in 2005 and whose predecessor we had used even before.

An operator who often finds himself in extreme conditions must have full confidence in his equipment. This is the case only if the supplier provides him with reliable and efficient products. So thank you, CZ and Colt Canada people, such as engineers, workers and all the others, for enabling us to take care of our loved ones and our country.

7. STRATEGIES AND OUTLOOK FOR 2023

Due to the current developments in global markets and the Czech Republic, uncertainties on the demand side and inflationary pressures on the cost side, the Company's management decided to present an outlook for 2023 in three scenarios. This outlook will subsequently be made more specific during the year, depending on performance developments.

In CZK million	Outlook	Year-on-year change in %
Scenario I Pessimistic		
Revenues	15,100 – 15,500	3.5% - 6.2%
Adjusted EBITDA	3,100 – 3,300	(7.9) % – (1.9) %
Scenario II Neutral		
Revenues	16,100 – 16,500	10.4% – 13.1%
Adjusted EBITDA	3,400 – 3,600	1.0% – 7.0%
Scenario III Group Ambitions		
Revenues	16,400 – 16,900	12.4% – 15.8%
Adjusted EBITDA	3,600 – 3,800	7.0% – 12.9%

The Group's capital expenditures in 2023 may reach 5% of the expected total revenues in 2023, which complies with the mid-term outlook.

The Group's operating and financial situation in 2023 will continue to be affected by events that are direct or indirect consequences of the war in Ukraine.

The Czech Republic experiences the effects more strongly than the United States, primarily due to the country's energy dependence on Russia and its dependence on the transit of energy from Russia. As of the end of 2022, the Group companies in the Czech Republic were dealing with rising electricity, gas, and fuel prices, rising inflation, rising prices, and partial shortfalls in input commodities. The Russian invasion only reinforced supply chain issues which had already arisen during the pandemic. The Company estimates that its total energy costs in 2023 will amount to the approximately same level as in 2022. This is caused by a decrease in energy consumption, due to cost-saving measures, a decrease in market energy prices at the end of last year, and state support in the Czech Republic. The Company believes that, to a certain extent, it will be able to reflect the price increases of certain inputs in its selling prices. The creation of the right mix of products and product ranges for sale will be critical, to maintain the Group's profitability in this inflationary environment in 2023.

The sales results in 2023 may be affected by the current slowdown of the Group's most significant market, the US market. The slowdown is a certain correction of the rapid sales growth in prior years, caused by the social situation in the USA. In the context of the ever-increasing labour productivity at the Uherský Brod plant and the ability of achieving the same performance with fewer employees, the Group is ready to respond to further demand fluctuations in the US commercial market, by adjusting its production pace and product mix structure, optimizing the number of employees, and other measures at the Czech Republic's production plant.

8. STATEMENT OF GOVERNANCE

BASIC INFORMATION ABOUT THE COMPANY

Legal name:	Colt CZ Group SE
Legal form:	European Company (Societas Europaea - SE)
Address:	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
Email:	info@coltczgroup.com
Date of incorporation:	2013
Date of incorporation:	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, in the following areas: mediation of business and services, wholesale and retail, advisory and consulting, preparation of expert studies and reports.

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

8.1 Information about compliance with the Company's 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.

Since its listing, the Company has subscribed to the Corporate Governance Code CR 2018 (henceforth referred to as the "CG Code")[4] 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. In 2022, as at the date of this annual report, the Company complied with all provisions of the CG Code, with the exception of the following rules:

2.3.2 The Company should not allow shareholders to make decisions outside the General Meeting (per rollam):
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. General Meetings held in 2022 made decisions outside the meeting (per rollam).

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: Ms. Jana Růžičková, who is a member of the Supervisory Board, 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.

Other members of the executive body do not act in more than four corporations outside the Group.

[4] For download https://justice.cz/web/msp/kodex-spravy-a-rizeni-spolecnosti-cr-2018

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 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 associated with the Company's majority shareholder. The Company does not consider such activities conflicting.

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 day of this annual report, the Chairman of the Supervisory Board is at the same time the Chairman of the respective committees established by the Supervisory Board (i.e., the Remuneration Committee, the Strategic Investments and Acquisitions Committee, and Compliance and Ethics Committee). No member of the Audit Committee is a member of the Supervisory Board. As at the date of this annual report, the majority of the Compliance and Ethics Committee does not consist of non-executive members of the Supervisory Board.

8.2 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 of 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/ 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 quarterly and annual documentation of accounts reconciliation is documented annually. Moreover, the management review of monthly accounts, compared to prior year and budgeted figures, is performed in a thorough way. Further, plan fulfilment is checked monthly, and the expected performance of the individual companies is determined in a relevant year.

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.

8.3 Structure of equity and description of shares

As at 31 December 2022, the Colt CZ's share capital was CZK 3,410,191 and was fully paid up. It was divided into 34,101,911 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 unissued shares. 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 other types of shares than ordinary shares.

In 2022, the Company did not acquire any treasury shares or other equity interests.

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

Significant direct and indirect shares in the issuer's rights
As at 31 December 2022, the majority shareholder of the Company was Česká zbrojovka Partners SE, incorporated as a European Company (Societas Europaea) in the Czech Republic, (henceforth referred to as the "Major Shareholder"), which owns 26,210,480 shares representing a 76.86% share in the Company's equity and voting rights. The remaining 23.14% of Colt CZ's shares are free float. The majority shareholder of the Major Shareholder is European Holding Company, SE (henceforth referred "EHC"), holding 87.5% of the share capital and voting rights, while the remaining 12.5% is held by the Holeček Family Foundation. 25% of EHC is owned by Mr. René Holeček; the remaining 75% in share capital is owned by OMNES holdingový nadační fond.

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.

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 removal 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 Vice Chairs 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.

Information on the special powers of the statutory body or the administrative board under the Corporations Act
The Company's Board of Directors has no special powers.

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.
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 managing body or 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.

Control system of the program under which members of the managing body or employees acquire the Company's participating securities, options over these securities or other rights to them unless they themselves exercise such rights
In December 2021, the Company's Supervisory Board approved the draft Share Program of Colt CZ Group SE (henceforth referred to as 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 share 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 Group SE registered book-entry shares with a nominal value of CZK 0.10 per share.

As at 31 December 2022, 74 program participants were allocated 83% of options under signed contracts.

The control mechanisms for the Share Program in 2022 were the conclusion of contracts between the Company and each individual participant on the one hand, and the approval of candidates by the Company's managing body, on the other. The Share Program participants are proposed by the Board of Directors and approved by the Supervisory Board. As at the date of this annual report, no shares have been allocated based on the allocated options. The first option may be provided as of 2 July 2024, under the terms and conditions of the Share Program.

8.4 Description of decision-making processes and the composition of the Group's managing body and its committees

The Company has a dual management system consisting of the Board of Directors (the managing body) and the Supervisory Board (supervision body). 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 matters defined in the Corporations Act and the Articles of Association, particularly matters with material impact on the value of the Company shares. 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: 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, is 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 https://www.coltczgroup.com/en/investors-corporate-affairs.

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 act 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 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 about changes in the Company's organizational structure and in legal entities controlled by the Company, and
j) 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 consist of 7 (in words seven) members. A member of the Board of Directors may be a legal person or an individual. Member 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 office. 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. It especially grants prior approval for matters under Article 13.6 of the Company's Articles of Association or its view on matters under Article 13.7 of the Company's 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., the 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 detailed description of the Audit Committee and a description of other committees established by the Company are given below in this section.

MATT **EMMONS**

Olympic Medallist and World Champion in Rifle Shooting

I grew up in a family where everyone was a hunter, so naturally, I am a hunter at heart, too. Growing up, however, I never really knew that shooting could be a sport as well, so you can say I got into sport shooting by accident. My first gun was probably some kind of air rifle, but I do remember the first rimfire rifle I used when I was about six or seven years old – my grandpa's Marlin Model 60 semi-automatic.

My love for quality rimfire rifles started my long-term relationship with CZ guns. The CZ 457 is an outstanding rifle with incredibly smooth and refined bolt and trigger. Having the option to change the barrel and caliber is ideal – one can use the same gun at a shooting range, as well as when out hunting. Having the CZ plant right at home, all Czech shooters have a great advantage in access to excellent, well-made guns.

I am no stranger to classical bolt-action CZ rifles either, having been given the opportunity to be the ambassador for the excellent CZ 600 series. The rifle uses a completely new manufacturing solution, is easy to maintain and fully customizable, which is an invaluable combination of features for both sport shooters and hunters. Not to mention, it has a very nice trigger and shoots well.

COMPOSITION OF THE COMPANY'S MANAGING BODY:

BOARD OF DIRECTORS

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE BOARD OF DIRECTORS.

Name	Position on the Board of Directors/Position in senior management	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Jan Drahota	Chairman of the Board of Directors/CEO	17 January 2020	17 January 2025
Josef Adam	Vice-Chairman of the Board of Directors/Legal, Compliance and Risk Management Director	1 November 2021	1 November 2026
David Aguilar	Member of the Board of Directors/independent	17 January 2020	17 January 2025
Jan Zajíc	Member of the Board of Directors/Managing Director of CZUB	24 November 2020	24 January 2025
Jan Holeček	Member of the Board of Directors/Group Sales Director	1 July 2021	1 July 2026
Dennis Veilleux	Member of the Board of Directors/Managing Director of Colt	1 July 2021	01 July 2026
Alice Poluchová	Vice-Chair of the Board of Directors	17 January 2020	11 August 2022

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

JAN DRAHOTA
President and Chairman of the Board of the Company
Mr. Drahota studied Finance at the University of Economics in Prague and holds a Master of Business Administration degree from the University of Chicago's Booth School of Business. Before joining the Group at the level of a major shareholder in 2014, Mr. Drahota worked for about 15 years in the financial markets and investment banking field, spending most of his career at the 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 was 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).

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 the joint LL.M. program of Nottingham Trent University and the Faculty of Law of Masaryk University in Brno. Before joining Colt CZ Group in July 2022, Mr. Adam worked for two years as an attorney and subsequently a partner at HAVEL & PARTNERS, law firm. He has 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
Jan Zajíc graduated in Economics and Management from 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, a 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 its 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 key operating entity, on the Board of Directors in the Czech Republic.

DENNIS VEILLEUX

Member of the Board of Directors

Dennis Veilleux is a graduate of Vermont Technical College. With 35 years of experience in the arms 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 for Sturm, Ruger and U. S. Repeating Arms Company. Dennis has been working for Colt Holding Company LLC since 2006, gradually holding positions of Executive Director of Engineering, Vice President of Manufacturing, and Chief Operating Officer. As the holding's CEO as of 2013, he played a crucial role in its restructuring and transformation, which culminated in it being acquired by the Colt CZ Group.

JAN HOLEČEK

Member of the Board of Directors

Jan Holeček studied economics and finance at Bentley University, USA. In 2016, he started his career at Siemens as a market analyst, and later as a business development specialist. From 2017, he worked at Česká zbrojovka, a. s., first in the position of analyst, then as Marketing Director. From the end of 2019 to December 2021, he was a member of Česká zbrojovka's Board of Directors responsible for business. Since July 2021, he has been a member of the Colt CZ Group's Board of Directors responsible for business.

DAVID AGUILAR

Member of the Board of Directors

On 31 March 2013, Mr. Aguilar retired from his career in the U.S. government services, where he had served for 35 years with the U.S. Customs and Border Protection and the United States Border Patrol. There, he acquired extensive knowledge and expertise in law enforcement, 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 Defense 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.

EDWARD **MBURU**

Law Enforcement Officer with the Kenya Wildlife Service

I am a Kenyan working with the Kenya Wildlife Service (KWS) as a law enforcement officer. I joined the KWS because its mission to protect Kenya's wildlife and its habitats corresponds with my ultimate driving force in life, which is to leave a positive mark in people's lives.

I have worked with KWS for the last two decades, and the last 14 years, I have been at the KWS training school where I am currently deployed as a firearms instructor. This long period has helped me to hone my skills as an accomplished law enforcement instructor specialized in tactical operations planning and execution. I also have a knack for sport shooting and the CZ P 10 has served me well.

My work is to ensure that all the law enforcement officers who come for training are well versed with the proper use of firearms that are in use by the service. Over the years our officers have been using the CZ 75 B pistol in our operations and it proved to be very reliable and hardy. As part of modernization, we brought the CZ BREN 2 assault rifles and the CZ P 10 pistols in 2020, and we have been very satisfied with them. The conditions that we operate in are tough, including sand, wind, and hot and at times humid weather. The CZ weapons have proved reliable under all these adverse conditions. The same can be said about the 4M Systems ballistic helmets, textile plate carriers, and hard ballistic protection which we have also been issued. I very much appreciate CZ's continuous endeavor to offer the best products to the end users.

Changes in the Board of Directors in 2022

In August 2022, Ms. Alice Poluchová resigned from her post of a member of the Board of Directors. As of 1 August 2022, Ms. Poluchová also resigned from all other posts in the Group for personal reasons, including the post of the president and, managing director of CZ-USA.

No other changes were made in the Board of Directors in 2022.

LIST OF COMPANIES IN WHICH MEMBERS OF THE BOARD OF DIRECTORS HAVE BEEN MEMBERS OF ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR SHAREHOLDERS/MEMBERS AT ANY TIME IN THE PRIOR FIVE YEARS, INDICATING WHETHER THAT PERSON IS STILL A MEMBER OF THE ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR A SHAREHOLDER/MEMBER OF THOSE COMPANIES:

Jan Drahota

Past positions:

THERMAL-F, a.s. – Vice-Chairman of the Supervisory Board .... (from October 2014 to March 2018)
Česká exportní banka, a.s. – Member of the Supervisory Board ...... (from June 2017 to June 2019)
CZ-AUTO SYSTEMS a.s. – Member of the Supervisory Board .... (from September 2019 to November 2019)
Zero Emissions Debt Finance, a.s. – Statutory Director .... (from September 2015 to January 2021)
Česká zbrojovka Partners SE – Member of the Board of Directors ... (from February 2018 to October 2021)
ČEPS, a.s. – Member of the Supervisory Board .... (from February 2015 to November 2022)

Current positions:

DCF Partners, s.r.o. – Statutory Representative .... (from January 2012 to date)
Zero Emissions Debt Finance, a.s. – Chairman of the Administrative Board .... (from September 2015 to date)
hypo360.cz, SE – Member of the Board of Directors .... (from October 2016 to date)
Česká zbrojovka Defence SE – Member of the Board of Directors .. (from November 2021 to date)

Dennis Veilleux

None

David Aguilar

Past positions:

Global Security and Innovative Strategies – Principal .... (from April 2014 to May 2022)
Drone Aviation Holding Corp – Member of the Board of Directors .. (from May 2019 to April 2021)
University of Houston – Borders, Trade, and Immigration Institute External Advisory Board Member .... (term expired in 2022)
SAP NS2 Advisory Board Member .... (from April 2014 to April 2022)

Current positions:

U.S. Border Patrol Foundation – Member of the Board of Directors .. (from 2013 to date)
Spectredge Wireless Inc. (Non-publicly held): Member of the Board of Directors .... (2013 to date)

Josef Adam

Past positions:

České aerolinie a.s. – Member of the Board of Directors .... (from April 2014 to October 2018)
ellipse aero s.r.o. – Member of the Supervisory Board .... (from December 2020 to January 2022)
KOVACO Electric, a.s. – Member of the Supervisory Board .... (from January 2020 to April 2021)

Current positions:

European Holding Company – Member of the Supervisory Board .... (from November 2021 to date)

Jan Zajíc

Past positions:

None

Current positions:

Iteuro, a.s. – Chairman of the Supervisory Board .... (from October 2020 to date)
Sdružení pro rozvoj Zlínského kraje – Management Member .... (from September 2021 to date)

Jan Holeček

None

COMPOSITION OF THE COMPANY'S MANAGING BODY: SUPERVISORY BOARD

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chair of the Supervisory Board	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	1 November 2021	1 November 2026

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

LUBOMÍR KOVAŘÍK

Chair of the Supervisory Board

Mr. Kovařík graduated from the Military Air Force University and completed a Master of Business Administration degree at Sheffield University. He began his career as a pilot in the Army of the Czech Republic, where he reached the rank of major before he retired from the military in the mid-1990's. He began his civilian career in 1995 as manager of Aulis. After a year, he joined Škoda Praha as Production Director, where he worked his way up to the position of Chief Executive Officer. He later worked for Eltodo EG and Mavel. From 2006 to 2017, he served as the Managing Director of CZUB. From 2018 to 2021, he was the President and the Chairman of the Board of Directors of the Company.

In his post of the Chairman of the Supervisory Board, Mr. Kovařík supervises the strategic development of the Group and sustainable development activities.

JANA RŮŽIČKOVÁ

Member of the Supervisory Board

Ms. Růžičková graduated from the University of Economics in Prague. Since 1997, she has been working for several companies belonging to the Group. She acts as the key economics expert and is responsible for audit, accounting, tax, and legal matters of the Group. She specializes in corporate restructuring and M&A transactions. She is a member of the Supervisory Boards and boards of directors of several companies within the Group. She was co-opted into the Company's Supervisory Board effective from 1 November 2021. Before that, she was Secretary and Vice-Chair of the Board of Directors of Colt CZ Group.

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 from 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 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 of 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.

LIST OF COMPANIES IN WHICH MEMBERS OF THE SUPERVISORY BOARD HAVE BEEN MEMBERS OF ADMINISTRATIVE, MANAGING OR SUPERVISORY BODIES OR SHAREHOLDERS/MEMBERS AT ANY TIME IN THE PRIOR FIVE YEARS, INDICATING WHETHER THAT PERSON IS STILL A MEMBER OF THE ADMINISTRATIVE, MANAGING OR SUPERVISORY BODY OR A SHAREHOLDER/MEMBER OF THOSE COMPANIES:

Lubomír Kovařík

Past positions:

Česká zbrojovka Partners SE – Chairman of the Board of Directors ... (February 2018 – October 2021)
CZ-SKD Solutions a.s. – Member of the Board of Directors ... (January 2019 – September 2020)

Current positions:

Česká zbrojovka Defence SE – Chairman of the Board of Directors .. (November 2021 to date)
Holeček Family Foundation – Vice-Chairman of the Administrative Board ... (from December 2021 to date)

Vladimír Dlouhý

Past positions:

National Committee of the International Chamber of Commerce in the Czech Republic – Chairman ... (from January 2015 to December 2018)

Current positions:

BOHEMIAE Foundation, in liquidation – Vice-Chairman ... (from March 1999 to date)
Academia Medica Pragensis Foundation – Auditor ... (from July 2002 to date)
Tatra Aerospace, a.s., "in liquidation" – Member of the Board of Directors ... (from October 2003 to date)
Czech Chamber of Commerce – President ... (from June 2014 to date)
Výzkumný ústav pro podnikání a inovace, z.ú. – Chairman of the Administrative Board ... (from July 2017 to date)
Kooperativa pojišťovna, Vienna Insurance Group – Supervisory Board member ... (from January 2019 to date)
Meridiam Infrastructure – Advisory Board Member ... to date
Goldman Sachs – International Advisory Board Member ... to date

Jana Růžičková

Past positions:

CZ AGRO Servis a.s. – Member of the Supervisory Board ... (from June 2014 to June 2019)
V.F.H EKONOMICKÝ SERVIS a.s. – Member of the Supervisory Board .. (from January 2011 to December 2020)
RAIL CARGO a.s. – Member of the Board of Directors ... (from February 2008 to June 2020)
CZ-SKD Solutions a.s. – Member of the Supervisory Board ... (from November 2017 to September 2020)
M&H Management a.s. – Statutory Director and Chair of the Administrative Board ... (from February 2014 to January 2021)
Minezit SE– Member of the Board of Directors ... (from July 2013 to November 2021)
Kykulin Trade a.s. – Chair of the Administrative Board and Statutory Director ... (from April 2015 to November 2021)
Minezit Property Investments a.s. – Member of the Board of Directors ... (from February 2008 to October 2022)

Current positions:

IT eCompany Management a.s. – Member of the Supervisory Board .. (from November 2014 to date)
Silesia Invest SE – Member of the Board of Directors ... (from September 2016 to date)
CZ AGRO Servis a.s. – Member of the Supervisory Board ... (from June 2019 to date)
AIT Group – Advanced Industrial Technology Group a.s. – Member of the Supervisory Board... (from September 2019 to date)
Česká zbrojovka Partners SE – Member of the Board of Directors ... (from October 2021 to date)
M&H Management a.s. – Member of the Board of Directors ... (from October 2021 to date)
European Holding Company, SE – Member of the Board of Directors ... (from November 2021 to date)
Kykulin Trade a.s. – Member of the Administrative Board ... (from November 2021 to date)
Minezit SE – Member of the Board of Directors ... (from November 2021 to date)
Holeček Family Foundation – Member of the Supervisory Board .... (from December 2021 to date)
Lundmonte s.r.o. – Statutory Representative ... (from January 2022 to date)
Minezit Property Investments a.s. – Member of the Supervisory Board ... (from October 2022 to date)
CZ-AUTO SYSTEMS a.s. – Member of the Supervisory Board ... (from December 2022 to date)

LT. COL. NATTAWUT **NOOTONG**

Member of Royal Thai Police, Deputy Superintendent, Special Operations Supervision Division, Provincial Police Investigation Division 8

I had been inspired to become a police officer since I was young and decided to join the Police force in 2006. After I had the opportunity to train under the Special Operations Division of the Royal Thai Police, I became interested in the weapons and tactical trainings. I have been part of the SWAT team in many divisions, including the station, provincial, and regional level. For myself, a firearm of choice needs to be reliable, versatile, and easy to maintain. Colt's rifles meet all these requirements.

I've been using Colt firearms since I joined the Police force 17 years ago. I've started with the M16A1, A2 and A4, and now I have the M4. The M4 is light and easy to maneuver. It's suitable for our combat environments, both in the jungle and the city. M4 is my current choice of firearm, because it has a long effective range and is also a perfect fit for close quarter combat missions.

Colt's products have been a trusted choice for the Royal Thai Police for more than 50 years. They are reliable and dependable. The M4 is a weapon that I would choose to protect my life and my fellow team members.

AUDIT COMMITTEE

The majority of members of the Audit Committee are required to be independent and professionally qualified pursuant to applicable provisions of the 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 the area of accounting entail the presumption and proper performance of the functions 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 PRINCIPAL POSITION OF EACH MEMBER OF THE AUDIT COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Věslava Piegzová	Chair 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. in Třinec, initially as a member of the accounting and reporting department. She later led the team responsible for the implementation of financial and controlling systems. In 1996, she was appointed Chief Financial Officer of Vesuvius CR, a producer of isostatic pressed refractory for steel industry. At the same time, she began an MBA program 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 served as the Managing Director of Barrandov Studios. From 2007 to 2010, Ms. Piegzová was the Chief Financial Officer and the Chair of the Board of Directors of České loděnice a.s., a ship-building company based in Děčín. In 2010, she became the Chief Financial Officer of 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. From 2020 to 2021, Ms. Piegzová was a member of the Supervisory Board of Colt CZ Group.

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. He is currently working with Staněk, Tomíček & Partners tax offices. Mr. Ondroušek is a licensed auditor of the Chamber of Auditors of the Czech Republic and a member of the Association of Chartered Certified Accountants, an international professional organization. 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 acts as corporate secretary. In addition, he is responsible for corporate compliance and personal data protection at CZUB.

REMUNERATION COMMITTEE

The key function of the Remuneration Committee is to ensure the integrity and fairness of the remuneration system in the Company and companies directly or indirectly controlled by the Company.

The Remuneration Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to remuneration in the Group, covering the following areas:
(a) executive service agreements for members of the Board of Directors;
(b) setting and evaluating the achievement of annual targets and key performance indicator (KPIs) for members of the Board of Directors;
(c) extraordinary remuneration (salary) for members of the Board of Directors;
(d) parameters and conditions of the Group's Share Program for members of statutory and supervisory bodies, or, if applicable, for key employees of the Group; (e) strategies for human resources management;
(f) appointing members of the statutory and supervisory bodies in the Group.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Committee. The Chairman of the Supervisory Board is a mandatory member of the Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Committee. The Chairman of the Board and the member of the Board responsible for human resources management are permanent guests of the Committee.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approval that have been recommended by the Committee to the Company's Supervisory Board.

LUBOMÍR KOVAŘÍK

Chairman of the Remuneration Committee
Mr. Kovařík's CV is provided earlier in this section.

RENÉ HOLEČEK

Member of the Remuneration Committee
Mr. Holeček graduated from Department of Economics and Management in metallurgy at the Technical University in Ostrava. In 1990, he started his career in banking working at Komerční banka and Pragobanka in various executive positions. Since 1994, Mr. Holeček has become an entrepreneur and industrialist investor. He was part of the landmark privatization of Třinecké železárny and since then has built an outstanding industrial track record. Together with his business partner at the time, he bought CZUB when it was on the verge of bankruptcy and managed to turn it around to become one of the leading small arms manufacturers worldwide. Since 2014, he has been the majority owner of the Company.

HANA BALOUNOVÁ

Member of the Remuneration Committee
Ms. Balounová has been working for over 20 years in various holding companies owned by the Company's majority shareholder. Her specialization includes business, audit, and tax advisory, and legal matters. She graduated from a business college.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE REMUNERATION COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chairman of the Remuneration Committee	2 September 2021	2 September 2026
René Holeček	Member of the Remuneration Committee	2 September 2021	2 September 2026
Hana Balounová	Member of the Remuneration Committee	2 September 2021	2 September 2026

DIANA **AFFAH**

Officer, Ghanian Police

I am a female Ghanian Police officer, currently serving in the United Nations Mission in South Sudan (UNMISS) as personal assistant to the commanding officer of the contingent and section leader within the platoon where I am positioned.

I joined the Ghanian Police in 2006 with the motive to assist in the protection of life and property within my area of responsibility. For five years I worked with the Rapid Deployment Force (RDF), then later around 2011 when the Ghana Police Service (GPS) formed the Formed Police Unit (FPU) to meet the international requirements for the United Nations and the African Union Missions, I moved to the FPU. After a year in my current unit, I joined the instructional section and built myself into a training specialist on national basis and also to meet the international standards on firearms handling and shooting. This period has helped me gain tactical skills as a trainer to ensure all trainees are well abreast with proper handling of firearms.

From 2020, when the service procured several products from the CZ portfolio as part of modernization, I have been using and training my colleagues with the CZ 805 and 807 assault rifles, the CZ Scorpio EVO 3 submachine gun, and the CZ P07 and P09 pistols. These products have been much appreciated by the country's Law Enforcement officers, and they have proven reliable regardless of the condition and their frequent use. Furthermore, they have brought ease and simplicity in the use of firearms into the system. I have also very much appreciated the ballistic protection delivered to our Police force by 4M SYSTEMS.

STRATEGIC INVESTMENTS AND ACQUISITIONS COMMITTEE

The goal of the Committee is to ensure that the Company and companies directly or indirectly controlled by the Company only undertake investments contributing to the development and growth of the Group value.

The Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to the Company's strategic and conceptual plans requiring the consent of the Company's General Meeting or Supervisory Board, in particular:

(a) acquiring or increasing interest in a business corporation or a company that is a member of the Group

(b) the Company's acquisition strategies and concepts of growth.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Strategic Investments and Acquisitions Committee. The Chairman of the Supervisory Board is a mandatory member of the Strategic Investments and Acquisitions Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Strategic Investments and Acquisitions Committee. The Chairman of the Board of Directors is a permanent guest of the Committee.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approval that have been recommended by the Committee to the Company's Supervisory board.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE STRATEGIC INVESTMENTS AND ACQUISITIONS COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chairman of the Strategic Investments and Acquisitions Committee	2 September 2021	2 September 2026
René Holeček	Member of the Committee for Strategic Investments and Acquisitions	2 September 2021	2 September 2026
Peter Stračár	Member of the Committee for Strategic Investments and Acquisitions	2 September 2021	2 September 2026

Mr. Kovařík's and Mr. Holeček's CVs are provided earlier in this section.

PETER STRAČÁR
Member of the Strategic Investments and Acquisitions Committee
Peter Stračár was the President and Managing Director of GE in Europe from 2018 to 2019. Prior to this post, from 2013, Mr. Stračár worked as the Managing Director for Central and Eastern Europe. Before that, he was the President of Hilti Asia Pacific, based in Hong Kong.

Mr. Stračár obtained his Master's Degree from the Faculty of Electrical Engineering and Informatics of the Technical University in Košice and began his career at IBM Eastern Europe.

COMPLIANCE AND ETHICS COMMITTEE

The goal of the Committee is to review and offer suggestions for the development and enhancement of the risk management system, internal control system, legislation compliance management, industry standards, and the Company's values in the Company and companies directly or indirectly controlled by the Company.
The Compliance and Ethics Committee is established as a permanent advisory body of the Company's Supervisory Board for matters pertaining to the Colt CZ Group in the following areas:

(a) Code of Ethics
(b) Anti-Corruption Policy
(c) Prevention of criminal liability of a legal entity
(d) Internal audit reports
(e) Remedial actions and measures to improve compliance, risk management, internal control system, and building a responsible employee value system
(f) Ethics hotline and whistleblower protection
(g) Measures responding to legislative changes especially in defense, arms regulation, consumer protection, competition, public procurement, etc.
(h) Activities in CSR, sponsorship, donation, and philanthropy with respect to the business areas of the Group companies.

The Committee makes recommendations to the Company's Supervisory Board on its decision-making in the above areas. The Supervisory Board decides on the composition of the Committee. The Chairman of the Supervisory Board is a mandatory member of the Committee. The Chairman of the Supervisory Board is at the same time the Chairman of the Committee. The member of the Board responsible for compliance management is a permanent guest of the Committee.

The Committee meets as needed on agreed-upon dates, usually once in a calendar quarter. Only Committee members are entitled to vote at meetings. Each member of the Committee has one vote. A decision of the Committee shall be deemed adopted if a majority of the members of the Committee present agree with it. In all other cases, the decision is deemed not to have been taken. The Chairman of the Committee shall only submit to the Supervisory Board those decisions for discussion and, where appropriate, approval that have been recommended by the Committee to the Company's Supervisory Board.

GEN. GEORGE W. CASEY (RET.),
Member of the Compliance and Ethics Committee
General Casey (Ret.) has been a member of the Board of Directors of Colt CZ Group North America, a Colt CZ subsidiary, since 2021. He is a published author and currently lectures at the SC Johnson College of Business of Cornell University and is the Rice Family Professor of Practice at the Korbel School of the University of Denver. Before joining Colt CZ, Gen. Casey served 41-years in the U.S. Army, including as the 36th Army Chief of Staff from 2007 to 2011. From 2004 to 2007 he commanded the Multi-National Force – Iraq.

Gen. Casey also serves as the Chairman of the Board of Governors of the United Service Organizations, the premier support organization for U.S. service personnel, as the Director of Leonardo DRS, a leading defense technology innovator, and the Director of the Center for Global Development, a research institute focused on promoting economic growth and development around the world. In addition, he serves as a member of several advisory boards for companies engaged in robotics, resilience, and supporting veterans.

Gen. Casey graduated from the Georgetown University School of Foreign Service and holds a Master's Degree in international relations from Denver University.

THE FOLLOWING TABLE SETS OUT THE NAME AND PRINCIPAL POSITION OF EACH MEMBER OF THE COMPLIANCE AND ETHICS COMMITTEE:

Name	Position	Commencement of Current Term of Office	Date of Expiration of Current Term of Office
Lubomír Kovařík	Chairman of the Compliance and Ethics Committee	2 September 2021	2 September 2026
Gen. George W. Casey	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026
Petr Kolář	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026
Jillair Kubish	Member of the Compliance and Ethics Committee	2 September 2021	2 September 2026

Mr. Kovařík's CV is provided earlier in this section.

ERIC **GRAUFFEL**

Member of the CZ Shooting Team, nine-time IPSC World Champion

Since I started shooting at the age of eight with my father, who was a shooter himself, as well as the president of the local shooting club, I spent all my weekends at the shooting range. I stuck to the hobby and two years later I started competing in the IPSC events, to eventually become a nine-time IPSC World Champion. I chose to join and compete for the CZ Shooting Team because I believe it is one of the strongest teams backed by the support of one of the most well-known gun manufacturers in the world, which is directly involved in shooting sports and dedicated to their development.

Thanks to that, I can fully focus on the preparation for the IPSC competitions, which is basically a never-ending assignment. I enjoy using and I have full confidence in all the CZ products, especially the Shadow 2, the Shadow 2 OR, the CZ 75 TS Czechmate, the CZ P-10 C, and the CZ TS 2 Orange, which is the latest addition to the CZ sport pistol portfolio.

Representing CZ in the IPSC events is not the only form of my cooperation with this outstanding small arms manufacturer. Recently, we opened the EG-CZ Academy in my hometown of Quimper in France, which provides a unique indoor shooting experience. One of the main aims of the facility is to train and educate all sport shooting fans and provide them with better knowledge of firearms safety.

JILLAIR KUBISH
Member of the Compliance and Ethics Committee
Jillair Kubish is the Executive Vice-President for global military and law enforcement business operations at Colt's Manufacturing Company LLC/Colt Defense. Prior to working for Colt, Ms. Kubish was the President of Orchid Advisors, an advisory company for strategic management focusing on transformations in audit and compliance in the defense industry.

Ms. Kubish began her career at the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) within the US Department of Justice. Ms. Kubish has been one of the nation's leading experts in federal and state firearms and explosives for over a decade. Jillair graduated from Temple University.

PETR KOLÁŘ
Member of the Compliance and Ethics Committee
Petr Kolář is a former Czech diplomat and a public figure. He earned his doctoral degree in information technology, library science and ethnography in 1986. He served as the Czech Ambassador to Russia, the United States, Ireland, and Sweden. Mr. Kolář has held several posts at the Czech Ministry of Foreign Affairs and has been collaborating with Czech President Petr Pavel as an advisor.

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.

8.5 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, are 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 on the basis of 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)** appointment and removal 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)** appointment and removal 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 the 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 the 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)** the establishment of reserve funds and/or other funds as well as the manner in which such funds are to be created and supplemented (in particular for other capital funds), or their cancellation
- **x)** discussion of the measures proposed by the Board of Directors pursuant to the provisions of Section 403 of the Corporations Act
- **y)** 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
- **z)** appointment and removal of the Company's auditor
- **aa)** 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 member. In the event that the Company has not elected Board of Directors, or the Board of Directors permanently fails to fulfil their duties and none of its members convenes 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/, 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 present shareholders 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 announce all shareholders a proposal of a decision in the manner provided for in the Articles of Association.

8.6 Description of diversity policy applied to the issuer's managing body

Colt CZ pursues a diversity policy which results in a balanced set of persons in the Company's managing bodies, with respect to a balance of male and female representatives, nationality, age, education, professional experience and expertise. 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.

As at 31 December 2022, women were not represented in the Company's Board of Directors. As at 31 December 2022, women made up 33% of the Supervisory Board.

The Company's managing body includes representatives of different nationalities and countries, reflecting the Group's global orientation. As at the date of the annual report, the youngest member on the Board of Directors was 29 and the oldest member was 67 years old. The members of the Board of Directors have had a variety of professional experience and expertise ranging from defense, industry, arms and accessories, manufacture, to finance, business, law, administration, and politics.

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

The diversity policy is described in the Group's Ethics Code, which is subject to the approval by the Company's managing body. The Code of Ethics defines the corporate and ethical values of conduct in Colt CZ Group. By implementing this Code of Ethics, Colt CZ Group 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 of the diversity policy 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 Group 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.

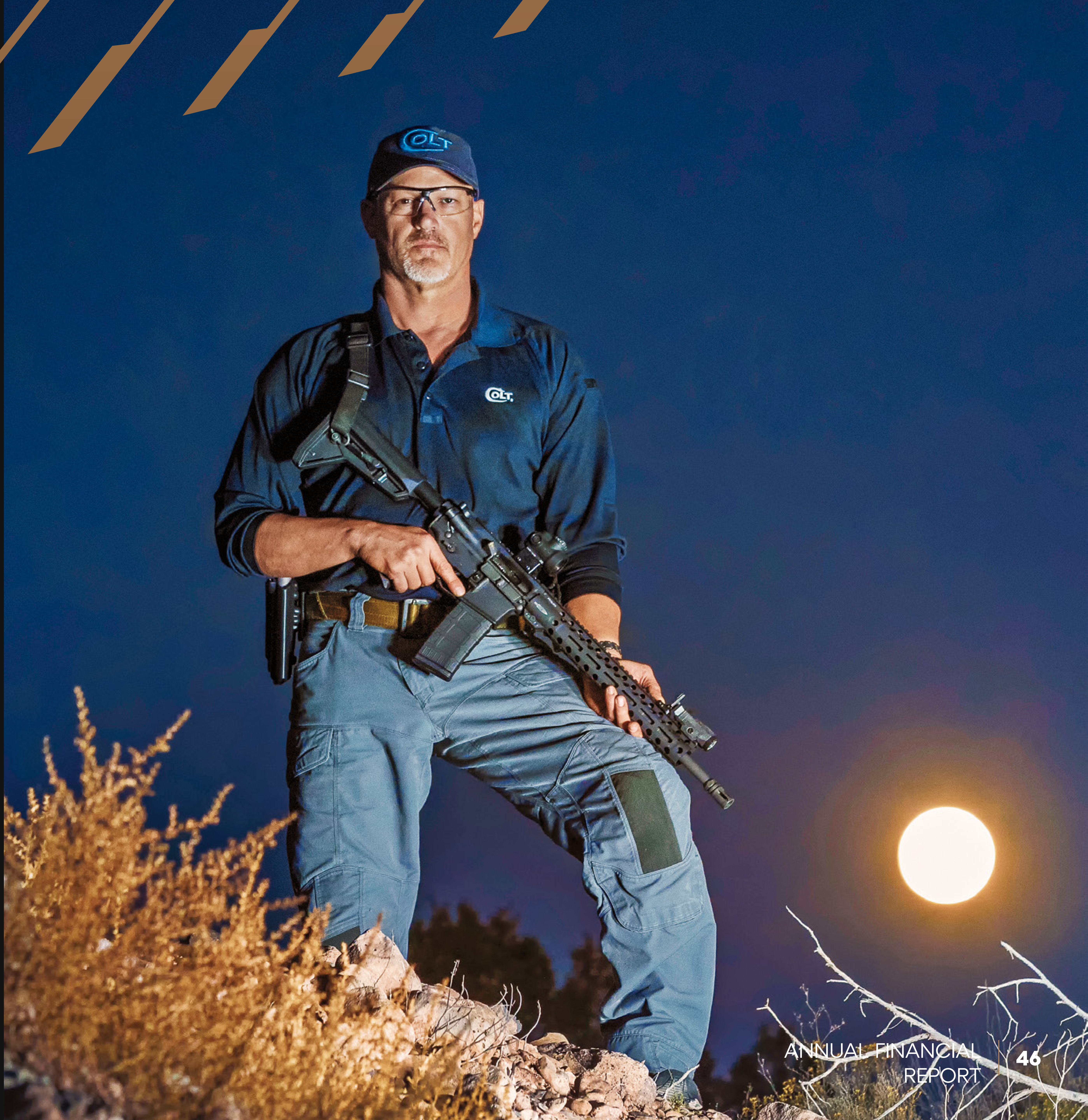
DARYL **HOLLAND**

Colt Combat Unit, retired U.S. Army Sergeant Major

I am a retired U.S. Army Sergeant Major with over 20 years of active-duty experience, 17 of those years in Special Operations. I have traveled the world with the U.S. military as a fighter and a trainer. My expertise in precision operations has always pointed me toward the ideal tools for the job, and they have always been Colt.

I spent five years on two tours with the 1st Special Forces Group (SFG) as a Combat Diver, Weapons Non-Commissioned Officer and Team Sergeant, then 12 years in the 1st SFOD-Delta Force, serving two tours as an Assaulter, Sniper, Team Leader, and OTC (Operator Training Course) Instructor. I conducted several hundred combat missions in Afghanistan, Iraq, Bosnia, Philippines, and on the Mexican border. I also conducted combat missions in Afghanistan's Hindu Kush mountains as a Sniper and experienced Mountaineer, and in the streets of Baghdad as an Assault Team Leader.

I have a strong instructor background starting as an OTC instructor, and since retiring, I now train U.S. Law Enforcement, U.S. Military, and foreign Allied Special Operations personnel from around the world. I am also a founding member of the Colt Combat Unit, an advisory group consulting on special projects and the development of related products.



9. SHARE TRADING AND DIVIDEND POLICY

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)	34,101,911
Market capitalization (as at 31 December 2022, price of CZK 552)	CZK 18.8 billion
Ticker	CZG
BIC	BAACZGCE
ISIN	CZ0009008942
Bloomberg ticker	CZG CP Equity
Reuters ticker	CZG PR
Indices	PX, PX-GLOB, PX-TR, PX-TRnet, CECE (Vienna)

CHART – TRADING OF COLT CZ´S SHARES IN THE PSE IN 2022

Source: Bloomberg

In the period since the IPO, Colt CZ Group 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 Group 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.

Dividend policy

On 17 September 2020, the Board of Directors of Colt CZ Group adopted a dividend policy pursuant to which, subject to (i) the availability of sufficient distributable cash and (ii) shareholder approval, the Company intends to target a minimum annual distribution of 33% of its consolidated net profit for the year, based on its consolidated annual financial statements. In 2022, the Company paid out a dividend of CZK 25 per share before tax, which comprised of approximately 72% of adjusted net income for 2021. The Company subsequently communicated this change in its dividend policy and its intention to pay out at least 50% of net income in dividends the future periods. No official dividend policy had been adopted as at the date of the annual report.

Dividend paid in 2022

In May 2022, the General Meeting of the Company decided outside the General Meeting (per rollam) on the distribution of profit for 2021 and dividend payment. The dividend for 2021 amounted to CZK 25 per share before tax.

Dividend for 2022

The Company will propose the payment of a dividend of CZK 30 per share from its net income for 2022, comprising a 20% increase compared to last year's payment of CZK 25. Shareholders will be able to choose between a cash dividend and a dividend in the form of shares. Dividend payment is subject to approval by the General Meeting, which will be held at the end of the first half 2023.

10. NON-FINANCIAL INFORMATION OF SECTION 32G OF THE ACT ON ACCOUNTING

Non-financial information in the extent required by Section 32g of the Act on Accounting especially relating to a) environmental issue, b) social and employee issues c) issues of respecting human rights, and d) issues of fighting corruption and bribery, including information to disclosed in accordance with Article 8 of the Taxonomy Regulation, will be published by the Company in a separate report outside of this annual financial report (henceforth referred to as the "Sustainable Development Report").

The Sustainable Development Report will also contain information on the issuer's activities in the environmental and employment relations areas.

The Sustainable Development Report will be published at the end of June 2023 on the webpage https://www.coltczgroup.com/ and reported to the Czech National Bank.

JALISE **WILLIAMS**

Member of the Colt Shooting Team, 18-time National Champion

I was still in diapers when I started hunting with my father, and at the age of 10 I discovered handguns and competition. I felt the pull of the shooting sports and I decided at that young age that is what I wanted to dedicate my life to. Nine years later the passion is still there and I'm hungry to gain as many titles as possible.

I joined the Colt team back in 2020 and I found a family there that I didn't know I was missing. They have supported me so much in the last three years in chasing my dream of being a pro shooter. Colt is a legendary company that pursues the balance of preserving history and still making history. It's important to me to be part of a company that saveguards its roots while still innovating. That is exactly what Colt is doing with the re-release of the Colt Python and Anaconda while also releasing the new CBX Precision bolt gun and the King Cobra Target 22lr.

I mainly dedicate myself to USPSA, but I have been expanding my horizons to other shooting sports, including IPSC, IDPA, UHRC, and Multigun. With Colt's expanding list of firearms ever growing, there is more competitions to shoot and dominate in. I mainly shoot single stack 1911 in my competitions. I also shoot the Colt Gold Cup Trophy in 9mm. I have won approximately 5 national titles with this gun. It is my sweetheart and my baby. I love how natural it feels in my hand and how easy it returns to point of aim. I am honored to be representing and shooting for Colt firearms.

11. SUBSEQUENT EVENTS

An overview of subsequent events is set out in the consolidated financial statements in the note 45.

INTERNATIONAL UNIT FIGHTING IN UKRAINE

We are currently a 12-member unit made up of volunteers from several countries, including the Czech Republic, USA, UK, France, and Canada. We are fighting on the side of Ukraine, alongside the Ukrainian Army. We fall under the chain of command of the Directorate of Intelligence of the Ukrainian Ministry of Defense, which also provides us with equipment and gear. We operate on the frontline on the line of contact. During operations, our unit is integrated under the command of a brigade of the Ukrainian Army operating in the area. Our task is to prepare positions for the Ukrainian infantry.

We were all lucky to receive the CZ BREN 807 rifles for all the members of our unit as well as several CZ Scorpion submachine guns from the international donations of materiel military aid to the Ukrainian Army. We have been using these weapons for more than a year in difficult combat conditions - snow, mud, temperatures ranging from well below the freezing point to summer heat – and they have proven to be excellent. We have also received a donation of ballistic protection, helmets, and clothing from 4M Systems. They are very comfortable to wear and have great protective qualities, which is important for operators in the field.

12. REPORT ON RELATIONS BETWEEN THE CONTROLLING AND THE CONTROLLED ENTITY, AND THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY FOR 2022

Colt CZ Group SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 291 51 961, registered in the Commercial Register of the Regional Court in Brno under File No. B 962 (the **"Controlled Entity"** or **"Colt CZ"**), is obligated to prepare a report of the Board of Directors for the 2022 reporting period (i.e., from 1 January until 31 December 2022, the **"Reporting Period"**), on relations between the Controlling Entity and the Controlled Entity, and between the Controlled Entity and entities controlled by the same Controlling Entity (the **"Report on Relations"**) in compliance with S. 82 et seq. of Act No. 90/2021 Coll., on Business Corporations and Cooperatives (the **"Act on Business Corporations"**).

12.1Controlling entity

The entity directly controlling the Controlled Entity is Česká zbrojovka Partners SE, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, company ID: 058 51 777, registered in the Commercial Register of the Municipal Court in Prague under File No. H 1879.

Česká zbrojovka Partners SE owns 76.86 % of shares in the Controlled Entity.

Česká zbrojovka Partners SE controls the Controlled Entity by exercising voting rights at the Controlled Entity's general meeting.

The directly 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, Identification No.: 241 96 975, registered in the Commercial Register of the Municipal Court in Prague under File No. H 499. The ultimate owner of European Holding Company, SE is René Holeček.

12.2 Role of Controlled Entity within the holding entity

The Controlled Entity is a part of a holding entity focused on the production and sale of firearms and tactical accessories for military and law enforcement units, personal defense, hunting, sport shooting and other commercial uses. The holding is one of the major global producers in this segment.

The role of the Controlled Entity primarily comprises of the activities of the subsidiaries within the holding. Control over the subsidiaries is exercised through voting at the companies' general meeting.

12.3 Manner and means of control

Česká zbrojovka a.s. as a majority shareholder exercises its control of the Controlled Entity through voting at the general meeting and electing members of the Supervisory Board who then elect members of the Board of Directors.

Control is exercised through decisions of the Supervisory Board and General Meeting as stated in the statutes of the Controlled Entity.

12.4 Overview of actions pursuant to Section 82 (2)(d) of the Act on Business Corporations

In the 2022 reporting period, no actions were performed by the Controlled Entity in the interest, or at the initiative, of the Controlling Entity, or the entities controlled by the Controlling Entity in respect of assets exceeding 10% of the controlled entity's equity as determined based on the most recent set of financial statements.

12.5 Overview of mutual relations

In the 2022 reporting period, the following agreements existed or were concluded between the Company and the Controlling Entity or entities controlled by the same Controlling Entity:

Entity	Mutual relation	Concluded on	Effective from
Česká zbrojovka a.s.	Payment of approved dividend for 2021	–	–
Česká zbrojovka a.s.	Agreement on provision of services – advisory (intercompany service agreement)	15 December 2022	From 2021 to 2022
Česká zbrojovka a.s.	Agreement on sublease of vehicle	1 August 2022	From 1 August 2022 to 30 September 2022
Česká zbrojovka a.s.	Personal data processing agreement	18 May 2022	From 18 May 2022
Česká zbrojovka a.s.	Short-term loan agreement	26 April 2022	From 26 April 2022 to 31 December 2022
Česká zbrojovka a.s.	Settlement agreement	9 February 2022	9 February 2022
Česká zbrojovka a.s.	Agreement on sublease of apartment	3 January 2022	From 3 January 2022 to 31 December 2022
Česká zbrojovka a.s.	Long-term loan agreement	26 January 2022	From 26 January 2022 to 22 January 2029
Česká zbrojovka a.s.	Agreement on provision of IT services – advisory	26 August 2021	From 26 August 2021

Entity	Mutual relation	Concluded on	Effective from
Colt CZ Defence Solution s.r.o.	Agreement on provision of services – advisory (intercompany service agreement)	15 December 2022	From 2021 to 2022
EHC-4M, SE	Agreement on provision of services – accounting services	31 January 2020	From 1 February 2020
EHC-4M, SE	Loan provided under a loan agreement	29 July 2020	From 29 July 2020 to 31 December 2025
EHC-4M, SE	Loan provided under a loan agreement	31 August 2020	From 31 August 2020 to 31 December 2025
EHC-4M, SE	Loan provided under a loan agreement	14 September 2020	From 14 September 2020 to 31 December 2025
EHC-4M, SE	Loan provided under a loan agreement	19 October 2020	From 19 October 2020 to 31 December 2025
CZG VIB s.r.o.	Agreement on provision of services – accounting services	31 January 2020	From 31 January 2020
Colt CZ Group International s.r.o.	Agreement on provision of services – accounting services	31 January 2020	From 1 February 2020
Colt CZ Group International s.r.o.	Short-term loan agreement	5 September 2022	31 December 2022

Entity	Mutual relation	Concluded on	Effective from
Colt CZ Group International s.r.o.	Loan provided under a loan agreement	31 December 2020	From 31 December 2020 to 31 December 2025
Colt CZ Group International s.r.o.	Netting agreement	31 December 2022	31 December 2022
Colt CZ Group International s.r.o.	Agreement on the assumption of member's liability to provide premium outside the Company's share capital	31 December 2022	31 December 2022
Colt CZ Group North America Inc.	Loan provided under a loan agreement	12 August 2019	From 12 August 2019 to 31 December 2024
Colt CZ Group North America Inc.	Loan provided under a loan agreement	9 March 2020	From 9 March 2020 to 31 December 2025
Colt CZ Group North America Inc.	Loan provided under a loan agreement	7 December 2020	From 7 December 2020 to 31 December 2025
Colt CZ Group North America Inc.	Loan provided under a loan agreement	29 December 2020	From 29 December 2020 to 31 December 2025
Colt CZ Group North America Inc.	Loan provided under a loan agreement	21 May 2021	From 21 May 2021 to 31 December 2026
Colt CZ Group North America Inc.	Loan provided under a loan agreement	21 May 2021	From 21 May 2021 to 31 December 2026

Entity	Mutual relation	Concluded on	Effective from
Colt CZ Group North America Inc.	A consolidation loan provided under an agreement on change relating to loans of 9 March 2021 and both loans from 21 May 2021	1 June 2021	From 9 March 2021 to 31 December 2026
Colt CZ Group North America Inc.	Agreement on the assumption of shareholder's liability to provide premium outside the Company's share capital	31 July 2022	31 July 2022
4M SYSTEMS a.s.	Agreement on provision of services – advisory (intercompany service agreement)	15 December 2022	From 2021 to 2022
4M SYSTEMS a.s.	Agreement on provision of services – accounting services	31 January 2020	From 1 February 2020
Colt Manufacturing Company	Agreement on provision of services – advisory (intercompany service agreement)	15 December 2022	From 2021 to 2022
Zbrojovka Brno, s.r.o.	Agreement on provision of services – advisory (intercompany service agreement)	15 December 2022	From 2021 to 2022
Keriani, a.s.	Lease agreement	20 December 2019	From 1 January 2020 to 30 November 2022

From the point of view of the Controlled Entity, performances under the above agreements corresponded with the arm's length principle, i.e., usual for performances provided to third persons, or by third persons, on the market. No other acts or performances pursuant to Section 82 (2)(e) of the Act on Business Corporations occurred in the reporting period.

12.6 Assessment whether any damage was caused to the Company and assessment of its settlement pursuant to Sections 71 and 72 of the Act on Business Corporations

Upon evaluation, the Board of Directors of the Controlled entity states that:

(a) no acts described in this Report on Relations resulted in a loss by the Controlled Entity in the Reporting Period

(b) it is not aware of any other measures, acts or other performances in the reporting period which would result in a loss of the Controlled Entity.

12.7 Assessment of advantages and disadvantages arising from the relations between related parties

The Board of Directors of the Controlled Entity evaluated the acts realised between the Controlled Entity, Controlling Entity, and entities controlled by the Controlling Entity in the Reporting Period and states that they were concluded under conditions corresponding with the arm's length principle and no advantages or disadvantages related to the control arose from them for the Controlled Entity.

The Controlled Entity did not incur any harm to be settled in accordance with Sections 71 and 72 of the Act on Business Corporations.

No risks arise from the relations between the Controlled Entity, Controlling Entity, and entities controlled by the Controlling Entity for the future.

12.8 Conclusion

This report has been discussed and approved at the regular meeting of the Board of Directors of the Controlled Entity. The Board of Directors of the Company declares that it expended all due effort when collecting and verifying the information included in this report, and that its conclusions were formulated following thorough consideration, and that all data in this report on relations are considered correct and complete.

This report will be submitted to the Supervisory Board of the Controlled entity for review pursuant to S. 83 (1) of the Act on Business Corporations and submitted to the auditor performing the audit of the financial statements of the Controlled entity pursuant to a specific Act. As the Controlled Entity prepares an annual report, this report will be appended to it within the meaning of S. 84 of the Act on Business Corporations, and as its inherent part will be filed in the Collection of Deeds of the Commercial Register maintained by the Municipal Court in Prague.

In Prague, on 31 March 2023

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

GREGG **RITZ**

Professional Hunter, Television and Social Media Personality, Firearms and Shooting Enthusiast

I have dedicated my life to shooting sports which began at the early age of ten years old. Throughout the years, I have had the honor of working with the Olympic Shooting Team in Colorado Springs and have turned my passion for hunting and shooting into my career.

Learning how the Shooting Sports industry works started from the ground up as a manufacturing representative for some of the most iconic brands in the industry. Having honed my skills and knowledge, I went on to work in an executive capacity for some of the top firearms companies. It was during these years that I began handgun hunting and purchased my first Colt Anaconda. One trip to the range confirmed that a master gunmaker built this pistol. My professional hunting career started almost thirty years ago, and my adventures have taken me around the world. I have hunted and subjected my gear and firearms to very harsh conditions. Colt firearms are designed and built for the unknown and come with a legacy to pass on to the next generation.

I have been blessed with three daughters that hunt, shoot and manage land for the wildlife. The outdoor lifestyle is who we are and time at the range or in the field with a Colt firearm is a natural extension of that. I have no doubt that my Colt will perform when the time comes. I am thankful for all the men and woman who take their craft so passionately to make the legendary Colt firearms.

13. DECLARATION OF AUTHORIZED PERSONS

To the best of our knowledge, these consolidated financial statements prepared in accordance with the applicable set of accounting standards, gives a true and fair view of assets, liabilities, financial position, and profit of the Group and entities included in the consolidated group, and the consolidated annual report contains a true overview of the development and results of Colt CZ Group SE and the position of Colt CZ Group SE and entities included in the consolidated group, together with a description of major risks and uncertainties it is facing.

In Prague, on 21 April 2023

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

14. ALTERNATIVE PERFORMANCE MEASURES

This Report contains certain financial measures, that are not defined or recognized under IFRS, and which are considered to be "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 includes the following alternative Performance Measures: EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income margin, adjusted earnings per share, net financial debt, and net leverage ratio. 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. The 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 the 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 amortization are non-monetary charges, the assets being depreciated and amortized 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 terms used for alternative measures may not have the same or similar meaning as other terms, that may be defined in other documentation for other financial liabilities of the Group.
- alternative measures presented in this annual financial report may differ from alternative measures in annual reports of prior periods. To assess the Group's financial performance, the Company uses such Alternative Performance Measures that it deems relevant and indicative of its financial position in a given year.

THE FOLLOWING TABLE GIVES A DESCRIPTION OF THE RESPECTIVE ALTERNATIVE MEASURES IN RELATION TO THE GROUP'S FINANCIAL STATEMENTS

(in thousand CZK unless stated otherwise)	For the year ended 31 December	
	2022	**2021**
EBITDA[1]	3,109,117	1,800,804
EBITDA margin[2]	21.3%	16.8%
Adjusted EBITDA[3]	3,365,297	2,168,797
Adjusted EBITDA margin[4]	23.1%	20.3%
Net income margin[5]	13.9%	7.1%
Adjusted net income[6]	2,280,464	1,161,221
Adjusted net income margin[7]	15.6%	10.9%
Adjusted earnings per share[8]	67	34
Net financial debt at the end of the period[9]	3,669,615	3,770,060
Net leverage ratio (x)[10]	1.18 x	1.42 x

(1) The Group's management considers EBITDA a crucial performance measure in assessing the Group's business. As described above, EBITDA is not a measure described or acknowledged under IFRS. The Group calculates EBITDA based on the figures included in the Audited Financial Statements. EBITDA is calculated as profit after tax for the period, plus income tax, less other financial income, plus other financial expenses, less interest income, plus interest expense, less share of profit of associates and profit from investments in associated companies, adjusted by gains or losses from derivatives operations, plus depreciation and amortization minus gain on investments in associated companies. All items of the EBITDA calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(2) EBITDA margin is defined as a percentage of EBITDA and revenues from the sale of own products, goods, and services. EBITDA margin allows for a comparison of one company's performance relative to others in its industry. All items of the EBITDA margin calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(3) In 2022, adjusted EBITDA was calculated as EBITDA less extraordinary one-time costs associated with unrealized acquisitions and share-based payments associated with the employee option plan. In 2021, adjusted EBITDA was calculated as EBITDA less expenses on professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, and the revaluation of inventories and their allowances in connection with the acquisition of Colt. Expenses on professional advisors and expenses associated with unrealized acquisitions are presented under Services in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements. Share-based payments are presented under Personnel expenses and Other operating expenses in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements. The wasted investment cost is presented under Other operating expenses in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements.

(4) Adjusted EBITDA margin is defined as a percentage of adjusted EBITDA and revenues from the sale of own products, goods, and services. All items of the adjusted EBITDA margin calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(5) Net income margin is defined as a percentage of profit for the period and revenues from the sale of own products, goods, and services. Both items of the percentage are taken over from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements. Net income margin is used in ratio analysis to determine the proportional profitability of a business.

(6) Adjusted net income in 2022 was calculated as net income less extraordinary one-time costs associated with unrealized acquisitions in 2022, share-based payments associated with the employee option plan, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs that are generally unrelated to the current period's results of operation and value creation. In 2021, adjusted net income was calculated as net income less expenses of professional advisors and other services connected with the acquisition of Colt, the wasting assets depreciation in relation to a project in Arkansas, the revaluation of inventories and their allowances in connection with the acquisition of Colt, the revaluation of contingent consideration for the acquisition of Colt to a market price, and bond issue costs. The cost of bond issue and the revaluation of contingent consideration for the acquisition of Colt to a market price are presented under Other financial expenses in the consolidated statement of profit or loss and other comprehensive income of the Audited Financial Statements.

(7) Adjusted net income margin is defined as a percentage of profit for the period and revenues from the sale of own products, goods, and services. Both items of the percentage are taken over from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(8) The Company calculates adjusted net earnings per share as adjusted net income for the period divided by the average number of shares issued by the Company. All items of the adjusted net earnings per share calculation come from the consolidated statement of profit or loss and statement of other comprehensive income of the Audited Financial Statements.

(9) The Group defines net financial debt as long-term and short-term bank loans and borrowings and lease payables (non-current and current), less cash and cash equivalents as reported in the consolidated statement of financial position in the 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.

(10) Net leverage ratio is defined as the ratio of net financial debt at the end of the period to EBITDA for the period.

THE FOLLOWING TABLE SETS FORTH THE GROUP'S NET FINANCIAL DEBT FOR THE PERIODS INDICATED.

(CZK '000)	For the year ended 31 December	
	2022	**2021**
Bank loans and borrowings (long-term and short-term)	7,181,495	7,290,226
Lease payables (current and non-current)	70,735	53,301
Less: Cash and cash equivalents and other financial assets	3,582,615	3,573,467
Net financial debt at the end of the period	**3,669,615**	**3,770,060**

THE FOLLOWING TABLE PROVIDES A COMPARISON OF PROFIT OR LOSS AFTER TAX AND EBITDA FOR THE PERIODS.

CZK '000)	For the year ended 31 December	
	2022	**2021**
Profit for the period	2,034,192	760,462
Income tax	321,978	171,086
Interest income	440,453	50,038
Interest expense	612,056	204,985
Depreciation and amortization	910,435	789,623
Other financial income	172,833	32,488
Other financial expenses	133,802	168,509
Gains or losses from derivative transactions	236,826	184,139
Share in the profit of associates	14,302	27,196
Gain on investments in associated companies (step acquisition)	38,932	–
EBITDA	**3,109,117**	**1,800,804**
Costs of acquisition-related services	47,474	144,087
Wasting assets depreciation	–	61,471
Share-based payments associated with the employee option plan	208,706	–
One-time costs associated with the acquisition of Colt – inventory step up and their allowances	–	162,435
Adjusted EBITDA	**3,365,297**	**2,168,797**

THE FOLLOWING TABLE PROVIDES THE CALCULATION OF ADJUSTED NET INCOME AND ADJUSTER NET EARNINGS PER SHARE.

(CZK '000)	For the year ended 31 December	
	2022	**2021**
Profit attributable to the owner of the parent company	2,034,192	760,462
Share-based payments relating to employee option plan	208,706	–
Costs of acquisition-related services	47,474	144,087
One-time costs associated with the acquisition of Colt – inventory step up and their allowances	–	162,435
Wasting assets depreciation	–	61,471
One-time financial expenses associated with bond issue	7,402	4,059
Elimination of the revaluation of contingent consideration for the Colt acquisition to market value (earn-out)	21,671	118,868
Tax effect on the adjustment	(38,981)	(90,161)
Numerator		
Adjusted net income	**2,280,464**	**1,161,221**
Denominator		
Average number of shares	34,172	33,462
Adjusted net earnings per share (CZK/share) attributable to the owner of the parent company	**67**	**34**

SERGEANT MAJOR 1ST CLASS **CHAIWAT**

Assault Team Leader, Assault Platoon, Special Operations Company, Special Operations Unit of the King's Guard, 3rd Special Forces Regiment, Royal Thai Army

Since I was very young, I had dreamt of becoming a soldier. I have always wanted to serve my country, and I thought that it would be really nice to be able to wear a red beret one day. I joined the Special Forces when I was 18 and have been in the unit ever since. It has been a privilege to be able to do what I love and to follow my own principles. Today, I'm proud to be part of the Assault Platoon, Special Operations Company, Special Operations Unit of the King's Guard. Our regiment is responsible for countering international terrorism, performing special operations in the three Southern border provinces and other special missions.

I've been using Colt weapons since I joined the Army. We, soldiers at the Royal Thai Army, are very familiar with Colt's rifles, especially the M16. I've used Colt's rifles for more than 10 years now, starting from M16, M4A1, ACC-M, and today the M5. The Colt rifle platform is easy to use and maintain. I'm very satisfied with the 10.3-inch barrel M5 carbine, which is our unit's current service weapon. The short barrel allows us to easily maneuver around buildings and mountainous forest areas. This type of the M5 is also suitable for shooting in a combat marksmanship (CMMS) style because of its short barrel and effective range. It is compact, lightweight, easy to use for both right and left hand, and very easy to disassemble and maintain.

15. 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. 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 Colt's manufacturing plant in Kitchener, 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 small arms, spare parts, and accessories to the Canadian government.

Colt CZ Group SE
Colt CZ Group SE (until 12 April 2022 under the name "CZG – Česká zbrojovka Group SE") is a holding and parent company of all Group subsidiaries, with a registered address at Opletalova 1284/37, 110 01 Prague 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 Holding Company LLC
Colt Holding Company LLC is the parent company of the Colt Group wholly owned by Colt CZ Group North America Inc., a subsidiary company of Colt CZ. Colt Holding Company LLC owns 100% of CDH II Holdco Inc, a US C corporation.

Colt International Coöperatief U.A.
Colt International Coöperatief U.A. is a Dutch cooperative in the Netherlands.

Colt's Manufacturing Company LLC
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.

Colt CZ Group North America Inc.
Colt CZ Group North America 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 a share in Colt Holding Company LLC. the Group plans to use tax consolidation for the United States tax purposes and also financing of the United States activities.

CZ-USA Inc.
CZ-USA is a fully owned subsidiary of Colt CZ Group North America 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.

Colt CZ Defence Solutions s.r.o.
Colt CZ Defence Solutions is a fully owned subsidiary of the Company based in the 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.

Colt CZ Group International s.r.o.
Colt CZ Group International is a fully owned subsidiary of the Company based in Prague, Czech Republic. Colt CZ Group 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 and a 100% stake in Spurh i Dalby.

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. It 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 87.5% stake is held and controlled by EHC. The remaining 12.5% stake is held by Holeček Family Trust.

EG-CZ Academy
EG-CZ Academy is a partially owned subsidiary of CZG-Česká zbrojovka Group International s.r.o. based in Quimper, France. The Group owns a 20% stake in EG-CZ Academy.

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 87.5% of the share capital and voting rights in Česká zbrojovka Partners SE. 25% of EHC is owned by Mr. René Holeček; the remaining 75% in share capital is owned by OMNES holdingový nadační fond.

Four Horses Apparel Ltd.
Four Horses Apparel Ltd. is a company founded to sell luxury clothings and apparels reflecting history of Colt, USA and military motifs.

New Colt Holding Corp
New Colt Holding Corp is a US C corporation and a holding company. New 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.

VERONIKA **M.**

Collector of engraved CZ firearms & shooting enthusiast

Being a shooting fan and a Czech patriot, I have always appreciated Česká zbrojovka's products, especially their limited editions where one can clearly see the relationship between precision machining, skillful hand-engraving, and history. Collecting these handcrafted pieces of art has become a hobby for me and my partner.

We are proud owners of several of these unique CZ pistols and rifles, including the CZ 75 Order of the White Lion edition with serial number ŘBL-001, which I managed to purchase in a charitable auction organized by Colt CZ Group in cooperation with the Kodl Gallery in December 2022. I am excited to own this special edition not only because it is a beautiful firearm connected with Czech history, but also because this is the first firearm in the world with a digital proof of ownership on the blockchain. I consider this pistol, therefore, a great long-term investment. Moreover, I am happy that this pistol is linked to a good cause, with all the proceeds from the auction having been donated to the Endowment Fund of Miloš Zeman, former President of the Czech Republic, which supports the activities of non-state institutions providing temporary family care for children.

Spuhr i Dalby AB
Spuhr is a renowned Swedish manufacturer of class leading optical mounting solutions for weapons and is wholly owned by the Group. The Group acquired a minority stake (25%) in Spuhr on 6 May 2020 and the remaining 75% stake in October 2022.

VIBROM spol. s r.o.
VIBROM is a strategic equity investment of the Group and is based in Třebechovice pod Orebem, Czech Republic. It specialises 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.

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.

4M SYSTEMS a.s.
4M SYSTEMS is a fully owned subsidiary of EHC-4M, SE based in Prague, Czech Republic. 4M SYSTEMS operations include the development, production, and sale of tactical equipment for military and law enforcement, such as the military, police, customs, prison service, border guards, etc.

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.

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.

Long guns
all firearms except pistols and revolvers.

Small arms
pistols or revolvers.

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.

Bolt-action
a 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.

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

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.

Centerfire rifle
a rifle which has a primer located in the centre of the cartridge case head.

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.

Assault rifle
a 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).

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

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

GLOSSARY OF OTHER TERMS

IDPA
The International Defensive Pistol Association (IDPA), based in Texas, USA.

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

IPSC
International Practical Shooting Confederation is a shooting association, that originated in the US from advanced shooting practiced by the police and military.

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.

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

USPSA
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).

KANE **CANNEDY**

Executive Director, TALO Distributors Inc.

At TALO, relationships are of the utmost importance to the success of our business and our distributor members. We consider our partners at the Colt CZ Group to be valued friends as well as a trusted vendor. As a wholesale cooperative, TALO has a relatively small number of vendor partners that drive our business, and we have been able to keep it this way due to the overwhelming support of our members and vendors.

Colt has been a long-term partner, and together we have been able to create many special edition runs. Many of these are still highly desirable in the secondary market which is great for both of our brands. I took over the role at TALO in early 2022 after many years with a TALO member distributor. One of the great parts of this change for me was being able to work with the incredible team at Colt bringing desirable and profitable products to the market. We look forward to many more years of successful ventures with Colt and the whole Colt CZ Group. I am excited for the future of these iconic brands and hold great value in knowing that TALO will continue to play a role in that success.

SEPARATE FINANCIAL STATEMENTS

for the Year Ended 31 December 2022
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 2022

		2022	2021
	Note	CZK '000	CZK '000
Revenues from provided services	5	133,427	98,545
Other operating income	6	689	128
Share in profit of subsidiaries	7	952,025	1,221,629
Raw materials and consumables used	8	-1,255	-298
Personnel expenses	9	-153,438	-74,550
Depreciation and amortisation	12	-5,790	-2,625
Services	11	-99,663	-40,011
Other operating expenses	13	-5,808	-203
Change in allowances		-212	–
Operating profit or loss		**819,975**	**1,202,615**
Interest income	15	700,810	180,872
Other financial income	15	60,098	–
Interest expense	15	-609,849	-141,013
Other financial expenses	15	-95,840	-30,139
Gains or losses from derivative transactions	16	78,058	51,199
Profit before tax		**953,252**	**1,263,534**
Income tax	17, 18	-26,628	3,601
Profit for the period		**926,624**	**1,267,135**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments	19	525,914	50,406
Other comprehensive income		**525,914**	**50,406**
Total comprehensive income for the period		**1,452,538**	**1,317,541**

Notes are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	31 Dec 2022	31 Dec 2021
		CZK '000	**CZK '000**
Assets			
Non-current assets			
Intangible assets	20	14,111	593
Property, plant, and equipment	20	20,312	3,435
Investments in subsidiaries	21	4,281,021	3,561,866
Provided loans	22	6,258,822	4,860,020
Financial derivatives	36	748,614	–
Other receivables	26	3,748	–
Total non-current assets		**11,326,628**	**8,425,914**
Current assets			
Trade and other receivables	25	77,973	83,615
Provided loans	22	309,651	314,774
Other financial assets	24	756,834	–
Financial derivatives	36	24,581	–
Other receivables	26	12,699	2,194
Cash and cash equivalents	27	1,550,408	1,727,564
Total current assets		**2,732,146**	**2,128,147**
Total assets		**14,058,774**	**10,554,061**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	28	3,410	3,374
Share premium	28	1,366,386	1,139,211
Capital funds	29	1,712,111	1,528,735
Cash flow hedge reserve	29	576,320	50,406
Accumulated profits		2,979,306	2,706,869
Total equity		**6,637,533**	**5,428,595**
Non-current liabilities			
Bonds, bank loans and borrowings	30	6,964,157	4,972,647
Deferred tax liabilities	18	128,330	7,124
Lease liabilities	33	7,548	1,246
Provisions	14	5,391	–
Financial derivatives	36	–	49,466
Total non-current liabilities		**7,105,426**	**5,030,483**
Current liabilities			
Bonds, bank loans and borrowings	30	202,445	42,200
Trade and other payables	31	45,107	22,712
Lease liabilities	33	4,743	1,807
Other payables	32	35,470	28,057
Tax liabilities	17	28,050	207
Total current liabilities		**315,815**	**94,983**
Total liabilities		**7,421,241**	**5,125,466**
Total equity and liabilities		**14,058,774**	**10,554,061**

Notes are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Registered capital (Note 28)	Share premium (Note 28 and 29)	Other capital funds (Note 29)	Cash flow hedge reserve (Note 29)	Accumulated profits	Total equity
	CZK '000	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**	**CZK '000**
Balance as 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	110	416,267	–	–	–	**416,377**
Dividends	–	–	–	–	-253,025	**-253,025**
Rounding	–	–	–	–	-1	**-1**
Balance as at 31 Dec 2021	**3,374**	**1,139,211**	**1,528,735**	**50,406**	**2,706,869**	**5,428,595**
Profit for the period	–	–	–	–	926,624	926,624
Other comprehensive income	–	–	–	525,914	-	525,914
Total comprehensive income for the period	**–**	**–**	**–**	**525,914**	**926,624**	**1,452,538**
Issue of shares	36	227,175	–	–	–	227,211
Dividends	–	–	–	–	-852,548	-852,548
Effect of demerger by spin-off associated with acquisition	–	–	183,377	–	–	183,377
Share-based payments	–	–	–	–	198,360	198,360
Rounding	–	–	-1	–	1	–
Balance as at 31 Dec 2022	**3,410**	**1,366,386**	**1,712,111**	**576,320**	**2,979,306**	**6,637,533**

Notes are an integral part of these financial statements.

SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022 AND 2021

	Note	2022	2021
		CZK '000	CZK '000
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		953,252	1,263 534
Adjustments for non-cash transactions			
Depreciation/amortisation of non-current assets	12,19	5,790	2,625
Change in allowances and provisions	14	5,603	–
Revenues from profit shares	7	-952,025	-1,221,629
Interest expense and interest income	15	-90,961	-39,599
Effect of unrealised foreign exchange gains and losses		-125,111	-241,593
Acquisition of subsidiaries – partial earnout settlement	28	227,211	–
Cash flow hedge - revaluation of the effective part of hedging instruments	36	525,914	–
Share based payment	10	79,762	–
Adjustments for other non-cash transactions (remeasurement of derivative transactions, etc.)		6,938	52,388
Net operating cash flows before changes in working capital		**636,373**	**-184,274**
Change in working capital			
Change in receivables and deferrals	25,26	-693,850	-80,244
Change in liabilities and accruals	31,32	148,883	73,725
Net cash flow from operating activities		**91,406**	**-190,793**
Paid interest		-449,604	-56,989
Interest received		592,037	72,739
Income tax paid for ordinary activity	17	-1,841	–
Profit shares received	7	952,025	1,221,629
Net cash flow from operating activities		**1,184,023**	**1,046,586**
Cash flows from investing activities			
Acquisition of non-current assets	20	-20,691	-2,157
Increase of shares in subsidiaries without change of control	21	–	-531,093
Other financial assets	24	-756,834	–
Provided loans	22	-2,333,272	-5,198,783
Provided loans – received repayments	20	659,612	528,133
Net cash flow from investing activities		**-2,451,185**	**-5,203,900**
Cash flows from financing activities			
Repayment of loans and interests	30	-42,200	–
Repayment of lease contract liabilities	33	–	-2,643
Dividends	28	-852,548	-253,025
Proceeds from issue of shares	28	–	416,377
Proceeds from issue of bonds	30	1,984,796	4,972,647
Net cash flow from financing activities		**1,090,048**	**5,133,356**
Net change in cash and cash equivalents		**-177,114**	**976,042**
Opening balance of cash and cash equivalents	**27**	**1,727,564**	**751,522**
Effect of exchange rate on cash and cash equivalents		-42	–
Closing balance of cash and cash equivalents	**27**	**1,550,408**	**1,727,564**

Notes are an integral part of these financial statements.

COLT CZ GROUP SE

Separate Financial Statements
under International Financial Reporting Standards
as Adopted by the European Union
as at 31 December 2022

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1. GENERAL INFORMATION ABOUT THE COMPANY

Colt CZ 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 established to hold interests in subsidiaries and to provide 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 2022	**31. prosinci 2021**
Česká zbrojovka Partners SE	76.86%	81.22%

Since 2017, the majority owner of the Company has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1 Czech Republic.

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, 110 00 Prague 1, Czech Republic. 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:	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

On 11 April 2022, the business activity recorded in the Register of Companies (the "RC") changed to the management of own assets. Another change in the scope of business recorded in the RC was production, trade and services not specified in Annexes 1 to 3 to the Trade Licensing Act in the following lines of business:

- Mediation of trade and services,
- Wholesale and retail,
- Consulting and advisory services, preparation of expert studies and reports.

On 12 April 2022, the Company's name changed in the RC to Colt CZ Group SE.

On 30 May 2022, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 11 August 2022, Ms Alice Poluchová resigned from her position as vice-chair of the Board of Directors. This fact was recorded in the Register of Companies on 30 September 2022.

The data in these financial statements are expressed in thousands of Czech crowns (CZK '000), which is also the functional currency.

2. MATERIAL EVENTS IN THE CURRENT PERIOD

Employee Stock Option Plan became effective in 2022 (the "Share Program"). The potential impact of the Share Program on the Company's financial statements was assessed in accordance with IFRS 2 Classification and Measurement of Share-based Payment Transactions. Shares designated for the Share Program will be newly issued. The maximum number of shares issued will be 3,373 thousand. Contracts with managers were signed during the course of 2022. See details in Note 10.

On 27 January 2022, the Company issued bonds with a nominal value of CZK 1,998,000 thousand. On the same date, the Company used CZK 1,500,000 thousand to grant a loan to its subsidiary Česká zbrojovka a.s. The loan was denominated in EUR. Subsidiary Česká zbrojovka a.s. used the loan to repay its bonds at a nominal value of CZK 2,250,000 thousand also maturing 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 24 February 2022, Russia launched its invasion of Ukraine. In response to this aggression, the global community imposed stringent economic and trade embargoes. An exodus of Ukrainian inhabitants followed with several hundreds of thousands coming to the Czech Republic and more still arriving. Energy prices started to grow and some commodities essential for production started to be in short supply. This situation had a significant impact on both the European and global economy.

The Company immediately responded to the situation at hand and mapped the potential risks from embargoes, the growth in energy prices, and commodity shortages.

The Company is exposed to the current economic impacts, such as the growth of energy prices or inflation. The Company's management has adopted measures to make internal processes more effective and to compensate for the growth of expenses as much as possible.

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 from CZG – Česká zbrojovka Group SE 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 May 2022, the Company's General Meeting decided on the distribution of dividends for 2021 totalling CZK 852,548 thousand (CZK 25 per share). Dividends were paid out on 29 June 2022.

On 30 June 2022, the demerger by spin-off associated with acquisition was approved where Colt CZ Group SE is the successor company and Česká zbrojovka a.s. is the subsidiary subject to demerger. The subsidiary's own shares and trademarks are the subject-matters of the demerger project.

The effective date of the spin-off is 1 January 2022. On 29 August 2022, the opening balance sheets were approved by the boards of directors of both companies, and on 1 September 2022, an entry in the Register of Companies was made. As a result of the spin-off associated with acquisition of own shares from from České zbrojovka, a.s. amounting to CZK 175,043 thousand, the Company acquired a 100% ownership interest in this company on 1 January 2022. As a result of the spin-off associated with acquisition, the Company also acquired Other valuable rights (trademarks) with a net book value of CZK 8,334 thousand as at 1 January 2022.

On 29 July 2022, the loan of CZK 229,713 thousand granted by Colt CZ Group SE to Colt CZ Group North America, Inc. was capitalised.

On 14 October 2022, the share of majority owner Česká zbrojovka Partners SE in the Company changed to 76.86%.

3. NEWLY APPLIED STANDARDS AND INTEPRETATIONS

In the current year, the Company has applied the below existing 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 accounting periods beginning on or after 1 January 2022:

- **Amendments to IFRS 3 Business Combinations** – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also amend IFRS 3 with the requirement for the acquirer to apply IAS 37 to liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to determine whether a present obligation exists as at the date of an acquisition which is a direct consequence of past events.

- **Amendments to IAS 16 Property, Plant and Equipment** – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before the asset is put in use, i.e., proceeds produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The entity subsequently recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The entity measures the costs of these items under IAS 2 Inventories.

- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Onerous contracts – Cost of Fulfilling a Contract

The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018-2020)"** resulting from the annual improvement project of IFRS with a view to removing inconsistencies and clarifying wording. Annual improvements comprise of amendments to four standards (IFRS 1, IFRS 9, IFRS 16, and IAS 41). Only the amendment to IFRS 9 Financial instruments is relevant for the Company. The amendment clarifies that in applying the "10 per cent" test in assessing whether to derecognise a financial liability, the entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The commencement of compliance with these amendments to existing standards did not result in any changes to the Company's accounting policies.

New standards and 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 new 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 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** – 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 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 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.

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 16 Leases** – Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024).
- **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 2024).
- **Amendments to IAS 1 Presentation of Financial Statements** – Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024).

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.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Statement of compliance

These financial statements have been prepared under the International Financial Reporting Standards as adopted by the European Union ("IFRS").

4.2. 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 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 considers 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.

4.3. Provision of services
Services primarily include accounting and other advisory services provided to related 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.

4.4. 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 gross carrying amount of the financial asset.

4.5. 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 Company 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 4.12.

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.

4.6. 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 as of 31 December is used.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange rate differences on monetary items are recognised in the profit or loss for the period in which they occurred, except for exchange rate differences on transactions designated to hedge certain monetary risks (see Notes 4.19.).

4.7. Share-based payments

The fair value of agreements on equity-settled share-based payments granted to an entity's own employees is usually recognised as a payroll expense as at the grant date with a corresponding increase in equity over the vesting period.

The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term/function term and the non-market performance condition so that the amount finally recognised is based on the number of cases meeting the condition of the employment term/function term and the non-market performance condition on the vesting date.

The fair value of agreements on equity-settled share-based payments granted to other employees of the Colt CZ Group SE group is usually recognised as an increase in investments in subsidiaries as at the grant date with a corresponding increase in equity over the vesting period. The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term/function term and the non-market performance condition so that the amount finally recognised is based on the number of cases meeting the condition of the employment term/function term and the non-market performance condition on the vesting date.

As for remuneration in the form of share-based payments with non-vesting conditions, the grant date fair value of share-based payments is determined considering those conditions and no adjustments are made to reflect differences between the expected and actual result.

4.8. Taxation

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

4.8.1. 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.

4.8.2. 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 deferred tax 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.

4.8.3. 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.

4.9. Property, plant, and equipment – tangible non-current assets

Property, plant, and equipment is recognised at acquisition cost net of accumulated depreciation and accumulated impairment losses.

Purchased property, plant and equipment is 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 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 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	**2–5**
Office equipment	**2–3**
Right of use	**3–4**
Furniture and fixtures	**2–4**

Right of use assets are depreciated from the lease commencement date to the earlier of the end of the useful life of the right of 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 of 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.

4.10. Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with

the effect of any changes in estimates 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.

Amortisation 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)
Software	3–5
Other valuable rights	4–8

4.11. Investments in subsidiaries
Subsidiaries are entities in which the Company exercises control.

Control is established if the Company:

- has power over the investee,
- is exposed to, or has the right to, variable returns by virtue of its involvement with the investee,
- has the ability to use its power over the investee to influence the level of their returns.

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.

Investments in new subsidiaries are measured at cost less any impairment.

If there is an objective indication of impairment, any impairment loss on an investment in a subsidiary is calculated by comparing the recoverable amount with the carrying amount. In assessing the existence of such an indication, the Company primarily considers the subsidiary's current and potential financial difficulties, breaches of contracts, default, possible bankruptcy, decline in market value, failure to implement the plan, and dividends paid. The recoverable amount is determined as the higher of the value in use and the fair value of the asset less costs to sell. The value in use is determined based on estimated future cash flows discounted to their present value.

4.12. Impairment of tangible and intangible assets
At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the 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.

4.13. Cash and cash equivalents
Cash comprises of cash on hand and demand deposits. Cash equivalents comprise of 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.

4.14. Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

The Company primarily establishes provisions for share-based payments.

4.15. 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.

4.16. 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.

4.16.1. Impairment of financial assets
For trade receivables, the Company determines an impairment loss by means of the simplified model. Therefore, the impairment loss for current 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 current receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of expected losses for each class of receivables is based on historical experience and information about the future that is available without unreasonable cost or effort. The amount of the expected losses for each class of receivables is assessed annually by the Company's management.

For non-current receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant deterioration 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.

4.16.2. Effective interest rate method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross 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.

4.17. Financial liabilities and equity instruments

4.17.1. 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.

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

4.17.2.1. 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 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.

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

4.17.3. Bonds
The Company issued book-entry bearer bonds in 2021 and 2022. The bonds are listed on the regulated market of the Prague Stock Exchange. Issued bonds are recognised at fair value. Unpaid interest on bonds is recognized in the Current bonds, bank loans and borrowings position. Transaction costs are accrued and recognised in Long-term or Short-term bonds, bank loans and borrowings.

4.17.4. 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.

4.18. 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 the statement of profit or loss and other comprehensive income and presented as Gains/losses from derivative transactions.

4.19. Hedge accounting

The Company used the option to continue applying 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 and credit 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 Company 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 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 Company prepares its financial statements.

The Company classified the transaction as a cash flow hedge. Hedging derivative instruments are measured at fair value as at the end of the reporting period and the fair value is reported under Cash flow hedge reserve in the Company's equity.

4.19.1. 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.

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.

4.20. 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 relevant information available to it as of the balance sheet date. 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 4.12. and 20);
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 4.16. and 22);
- The valuation of investments in subsidiaries is based on market parameters existing as at 31 December 2021 (Note 4.11., Note 21).
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as at 31 December 2021 (Notes 4.18, 4.19, 29, 34, and 35).
- The use of estimates is also applied to the creation of provisions (Note 14) and the recognition of share-based payments (Note 10).

4.21. 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.

5. REVENUES FROM PROVIDED SERVICES

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

	2022	2021
Revenues from provision of services	133,427	98,545
Total	**133,427**	**98,545**

Revenues from provision of services primarily include accounting and advisory services. All revenues generated in 2022 and 2021 were within the scope of IFRS 15 Revenue from Contracts with Customers. All contractual obligations were satisfied, and revenues were thus recognized 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 2022 or 2021 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 recognised 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.

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):

	2022	2021
Profit/loss from the sale of non-current assets	649	128
Other operating income	40	–
Total	**689**	**128**

7. SHARE IN PROFIT OF SUBSIDIARIES

The table below shows a share in profit of subsidiaries in individual years (CZK '000):

	2022	2021
Česká zbrojovka, a.s.	952,025	1,191,629
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	–	30,000
Total	**952,025**	**1,221,629**

The share of profit of subsidiaries for 2022 includes the dividend received from Česká zbrojovka, a.s. of CZK 952,025 thousand (2021 – CZK 1,191,629 thousand) and the dividend received from Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o) of CZK 0 (2021 – CZK 30,000 thousand).

8. RAW MATERIAL AND CONSUMABLES USED

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

	2022	2021
Consumed material	711	298
Costs of energy and other supplies	544	–
Total	**1,255**	**298**

9. PERSONNEL COSTS

Breakdown of employee personnel expenses excluding executives (CZK '000):

	2022	2021
Average FTE number of employees	17	12
Wages and salaries	23,828	17,452
Social security and health insurance	6,396	4,688
Other personnel expenses	831	–
Employee bonuses	16,185	5,586
Share-based payments	890	–
Total	**48,130**	**27,726**

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

	2022	2021
Average FTE number of key management personnel	9	8
Wages and salaries	14,677	26,980
Social security and health insurance	3,137	5,551
Other personnel expenses	120	–
Management bonuses	8,502	14,293
Share-based payments	78,872	–
Total	**105,308**	**46,824**

In 2022, the key management personnel included all Board of Directors and Supervisory Board Members. The Company did not provide any additional benefits to its key management personnel in 2022 and 2021 that are not included in the table above (e.g., post-employment or termination benefits).

10. SHARE-BASED PAYMENT ARRANGEMENTS

10.1. Description of share-based payment arrangements – stock option plans (equity-settled)
On 27 December 2021, the Company's Supervisory Board approved the Share Program.

The Share Program entitles the Company's key executives and employees (option holders) to purchase the Company's shares. The plan is currently only available to executives and senior employees.

The basic principles of the Share Program are as follows:

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

- Target 1 – achieving consolidated EBITDA for the 2021 to 2023 period of USD 275,000,000

- Target 2 – achieving the following performance parameters at the consolidated level as at 31 December 2025:

  i) a turnover of EUR 1,000,000,000
  ii) EBITDA of EUR 200,000,000, and
  iii) net liabilities to EBITDA ratio below 3.5, in compliance with the Group's strategy.

Shares designated for the Share Program will be newly issued. The maximum number of shares issued will be 3,373 thousand. Agreements for 2,807 shares were signed with the Company's executives for the period ended 31 December 2022.

The Share Program comprises of five tranches:

- Tranche 1-3: conditional only on employment term/function term
- Tranche 4: employment term/function term condition and a non-vesting condition (EBITDA related Target 1)
- Tranche 5: employment term/function term condition and vesting non-market performance condition (EBITDA related Target 2).

The participants in share-based payment arrangements must not sell or transfer the options.

Employees terminating their employment are divided into two groups:
- Leaving on good terms (over the entire term of 10 years): unexercised options granted are not forfeited;
- Leaving on bad terms (over the entire term of 10 years): the unexercised options granted are forfeited.

Grant date/entitlement date	Number of instruments	Vesting conditions	Contractual maturity of the option
Granted options			
Tranche 1			
May 2022	44,500	employment term/function term from the grant date to 1 June 2022	The option may be exercised until 30 September 2029.
December 2022	4,350	ditto	ditto
Tranche 2			
May 2022	44,500	employment term/function term from the grant date to 1 June 2023	The option may be exercised until 30 June 2029.
December 2022	4,350	ditto	ditto
Tranche 3			
May 2022	44,500	employment term/function term from the grant date to 1 June 2024	The option may be exercised until 30 June 2029.
December 2022	4,350	ditto	ditto
Tranche 4			
May 2022	311,500	employment term/function term from the grant date to 1 July 2024 and non-vesting condition (EBITDA related Target 1)	The option may be exercised until 30 June 2029.
December 2022	30,450	ditto	ditto
Tranche 5			
May 2022	445,000	employment term/function term from the grant date to 1 July 2026 and vesting non-market performance condition (EBITDA related Target 2)	The option may be exercised until 30 June 2031.
December 2022	43,500	ditto	ditto
Total stock options	**977,000**		

10.2. Fair value measurement

To determine the fair values of equity-settled share-based payments (stock option plans settled with equity instruments) as at the grant date, the following input information was used:

Stock option plan (equity-settled)					
Key executives	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**	**Tranche 5**
Fair value at the grant date (in CZK) (average)	512.79	512.79	512.79	512.79	473.31
Share price at the grant date (in CZK) (average)	576.88	576.88	576.88	576.88	576.88
Exercise price of the option	0.10	0.10	0.10	0.10	0.10
Expected volatility (weighted average)	26.16%	26.16%	26.16%	26.16%	26.16%
Expected maturity of the option (weighted average) in years	4.0	4.0	4.0	4.0	6.0
Dividend income	4.00%	4.00%	4.00%	4.00%	4.00%
Risk-free interest rate (based on the CZK IRS* rate)	4.61%	4.61%	4.61%	4.61%	4.31%

* Interest rate swaps in CZK with corresponding maturity

The expected volatility was based on an assessment of the historical volatility of the Company's share price for the historical period corresponding to the expected maturity.

10.3. Reconciliation of stock options

The following table shows the number and weighted average exercise price of shares in the Share Program.

	2022	
Total options	**Number of options**	**Weighted average exercise price**
Not settled as at 1 January	–	–
Granted during the period	977,000	0.10
Not settled as at 31 December	977,000	–

10.4. Expenses recorded in the statement of profit or loss

For more details on the Share Program expenses see Note 9 and Note 13.

10.5. Items recorded in the statement of financial position

The total fair value of 2,807,300 stock options from share-based payment transactions as at 31 December 2022 is CZK 198,360 thousand.

The fair value of 977,000 stock options allocated to own employees of CZK 79,762 thousand is recognised in retained earnings with a corresponding double entry in the statement of profit or loss (see Note 9).

The fair value of 1,830,300 stock options allocated to other employees of Colt CZ Group SE of CZK 118,598 is recognised in retained earnings with a corresponding double entry in investments in subsidiaries (see Note 21).

The related social security and health insurance liabilities as at 31 December 2022 of CZK 5,391 thousand are recognised in long-term provisions with a corresponding double entry in the statement of profit or loss (see Note 13). The Company also recognised deferred tax in respect of these liabilities (see Note 18).

11. SERVICES

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

	2022	2021
Consultancy and other external costs	77,244	24,499
Transportation and travel	7,145	522
IT costs, connectivity, SW license	2,075	1,363
Marketing costs	7,004	2,539
Variable lease costs	276	885
Costs of short-term leases	151	198
Costs relating to low-value assets not included in the short-term leases above	23	17
Other services	5,745	9,988
Total	**99,663**	**40,011**

12. DEPRECIATION AND AMORTISATION

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

	2022	2021
Depreciation of non-current intangible assets (Note 18)	386	8
Depreciation of non-current tangible assets (Note 18)	460	46
Depreciation of right of use of assets (Note 18)	4,944	2,571
Total	**5,790**	**2,625**

13. OTHER OPERATING EXPENSES

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

	2022	2021
Taxes and levies	61	2
Insurance	346	197
Additions to, utilisation and release of provisions - share-based payments	5,391	–
Other operating expenses	10	4
Total	**5,808**	**203**

14. PROVISIONS

The table below shows changes in long-term provisions (CZK '000):

Provisions	Balanceaas at 31 Dec 2020	Additions to provisions	Balanceas at 31 Dec 2021	Additions to provisions	Utilisation of provisions	Balance as at 31 Dec 2022
Provisions for share-based payments – non-current	–	–	–	5,391	–	5,391
Total	**–**	**–**	**–**	**5,391**	**–**	**5,391**

15. INTEREST AND OTHER FINANCIAL INCOME AND EXPENSES

Financial income in individual years (CZK '000):

	2022	2021
Interest income	700,810	180,872
Total interest income	**700,810**	**180,872**
Exchange rate gains	225,039	–
Exchange rate losses	-164,941	–
Total other financial income	**60,098**	**–**

Financial expenses in individual years (CZK '000):

	2022	2021
Interest expense	609,849	141,013
Total interest expense	**609,849**	**141,013**
Exchange rate gains	–	-241,721
Exchange rate losses	–	267,023
Other financial expenses	95,840	4,837
Total other financial expenses	**95,840**	**30,139**

Other financial expenses of CZK 95,840 thousand (31 December 2021 – CZK 4,837 thousand) include mainly the revaluation of Other financial assets of CZK 86,110 thousand (31 December 2021 – CZK 0). See Note 24.

16. GAINS/LOSSES FROM DERIVATIVE TRANSACTIONS

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

	2022	2021
Income from derivative transactions	103,247	57,862
Expenses from derivative transactions	-25,189	-6,663
Total	**78,058**	**51,199**

17. INCOME TAX

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

	2022	2021
Current income tax	28,784	1,099
Deferred tax	-2,156	-4,700
Total (expense + / income -)	**26,628**	**-3,601**

The current income tax liability of CZK 28,050 thousand as at 31 December 2022 comprises of the income tax prepayments paid in 2022 of CZK 734 thousand and the tax liability for 2022 of CZK 28,784 thousand (31 December 2021 – current income tax liability of CZK 207 thousand comprising the income tax prepayments paid of CZK 892 thousand and the tax liability for 2021 of CZK 1,099 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):

	2022	%	2021	%
Profit before tax	953,252	–	1,263,534	–
Income tax calculated using the Company's tax rate (19%)	181,118	19%	240,071	19%
Tax non-deductible expenses (permanent)	27,007	2.83%	3,291	0.26%
Share in profit of subsidiaries recorded after tax	-180,886	-18.98%	-232,109	-18.37%
Other	-611	-0.06%	-924	-0.07%
Utilisation of prior years' tax losses for which no deferred tax asset has been recognized	–	–	-13,930	-1.10%
Income tax (expense +/ - income) / effective tax rate	**26,628**	**2.79%**	**-3,601**	**-0.29%**

18. DEFERRED TAX

In accordance with the accounting policies described in Note 4.8., the applicable tax rate in the Czech Republic of 19% was used to calculate deferred tax.

The Company has quantified the deferred tax and its year-on-year change for 2022 as follows (CZK '000):

2022	Balance as at 1 Jan 2022		Change in 2022	Balance as at 31 December 2022
Deferred tax components	**Deferred tax asset (+) /liability (-)**	**Recognized in profit or loss**	**Recognized in OCI**	**Deferred tax asset (+) /liability (-)**
Difference between the carrying and tax book value of non-current assets	9	22	–	31
Other temporary differences:				
Provisions	–	1,024	–	1,024
Other payables – current	4,691	1,110	–	5,801
Derivative instruments (impact on equity)	-11,824	–	-123,362	-135,186
Total	-7,124	2,156	-123,362	-128,330
Deferred tax asset (+)/liability (-)	**-7,124**	**2,156**	**-123,362**	**-128,330**

The Company has quantified the deferred tax and its year-on-year change for 2021 as follows (CZK '000):

2021	Balance as at 1 Jan 2021		Change 2021	Balance as at 31 December 2021
Deferred tax components	**Deferred tax asset (+) /liability (-)**	**Recognized in profit or loss**	**Recognized 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
Derivative instruments (impact on equity)	–	–	-11,824	-11,824
Total	–	4,700	-11,824	-7,124
Deferred tax asset (+)/liability (-)	**–**	**4,700**	**-11,824**	**-7,124**

19. OTHER COMPREHENSIVE INCOME

	2022	2021
Change in the fair value of hedging instruments before tax	649,276	62,230
Change in the fair value of hedging instruments – deferred tax	-123,362	-11,824
Change in the fair value of hedging instruments after tax	**525,914**	**50,406**
Total other comprehensive income	**525,914**	**50,406**

20. NON-CURRENT ASSETS

20.1. INTANGIBLE ASSETS

COST

Year ended 31 December 2022 with opening balance as at 31 December 2021 Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Effect of demerger by spin-off associated with acquisition	Opening balance as at 1 Jan 2022	Additions	Disposals	Transfer	Closing balance
Software	229	–	229	4,720	–	372	5,321
Intangible assets under construction or being acquired	372	–	372	–	–	-372	–
Other valuable rights	–	8,334	8,334	850	–	–	9,184
Total	**601**	**8,334**	**8,935**	**5,570**	**–**	**–**	**14,505**

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

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

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 Dec 2022 with opening balance as at 31 Dec 2021 Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Effect of demerger by spin-off associated with acquisition	Opening balance as at 1 Jan 2022	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Software	-8	–	-8	-284	–	-292	5,029
Intangible assets under construction or being acquired	–	–	–	–	–	–	–
Other valuable rights	–	–	–	-102	–	-102	9,082
Total	**-8**	–	**-8**	**-386**	**–**	**-394**	**14,111**

Year ended 31 Dec 2021 with opening balance as at 31 Dec 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Software	–	-8	–	-8	221
Intangible assets under construction or being acquired	–	–	–	–	372
Total	**–**	**-8**	**–**	**-8**	**593**

20.2. PROPERTY, PLANT AND EQUIPMENT

COST

Year ended 31 Dec 2022 with opening balance as at 31 Dec 2021. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Closing balance
Machinery, devices, and equipment	471	7,969	-90	–	8,350
Tangible assets under construction	–	134	–	–	134
Total	**471**	**8,103**	**-90**	**–**	**8,484**

Year ended 31 Dec 2021 with opening balance as at 31 Dec 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Closing balance
Machinery, devices, and equipment	–	471	–	–	471
Total	**–**	**471**	**–**	**–**	**471**

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 Dec 2022 with opening balance as at 31 Dec 2021. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Machinery, devices, and equipment	-46	-460	90	-416	7,934
Tangible assets under construction	–	–	–	–	134
Total	**-46**	**-460**	**90**	**-416**	**8,068**

Year ended 31 Dec 2021 with opening balance as at 31 Dec 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Machinery, devices, and equipment	–	-46	–	-46	425
Total	**–**	**-46**	**–**	**-46**	**425**

20.3. RIGHT OF USE

COST

Year ended 31 Dec 2022 with opening balance as at 31 Dec 2021. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Closing balance
Right of use of buildings	4,872	12,428	-6,815	–	10,485
Right of use of machinery, devices, and equipment	3,182	1,750	–	–	4,932
Total	**8,054**	**14,178**	**-6,815**	**–**	**15,417**

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

Year ended 31 Dec 2021 with opening balance as at 31 Dec 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Additions	Disposals	Transfer	Closing balance
Right of use of buildings	4,872	–	–	–	4,872
Right of use of machinery, devices, and equipment	2,097	1,085	–	–	3,182
Total	**6,969**	**1,085**	**–**	**–**	**8,054**

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 Dec 2022 with opening balance as at 31 Dec 2021. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings	-3,897	-3,724	6,815	-806	9,679
Right of use of machinery, devices, and equipment	-1,147	-1,220	–	-2,367	2,565
Total	**-5,044**	**-4,944**	**6,815**	**-3,173**	**12,244**

Year ended 31 Dec 2021 with opening balance as at 31 Dec 2020. Amounts in the table are presented in CZK ´000.

GROUP	Opening balance	Amortisation	Disposals, sale, liquidation	Closing balance	Carrying amount
Right of use of buildings	-1,949	-1,948	–	-3,897	975
Right of use of machinery, devices, and equipment	-524	-623	–	-1,147	2,035
Total	**-2,473**	**-2,571**	**–**	**-5,044**	**3,010**

21. INVESTMENTS IN SUBSIDIARIES

Investments owned by the Company during the reporting period ended 31 Dec 2022. 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 2022	31 Dec 2022	31 Dec 2022	31 Dec 2022
Česká zbrojovka a.s.	Czech Republic	Production, purchase and sale of firearms and ammunition	100	2,433,588	–	2,433,588
EHC-4M, SE	Czech Republic	Holding company	100	2,700	–	2,700
Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC)	USA	Holding company	100	1,365,843	–	1,365,843
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	Czech Republic	Purchase and sale of firearms and ammunition	100	187,417	–	187,417
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	Czech Republic	Holding company	100	269,935	–	269,935
CZG VIB s.r.o.	Czech Republic	Holding company	100	21,538	–	21,538
Total				**4,281,021**	**–**	**4,281,021**

Investments owned by the Company during the reporting period ended 31 Dec 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	Holding company	100	2,700	–	2,700
Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC)	USA	Holding company	100	1,071,110	–	1,071,110
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	Czech Republic	Purchase and sale of firearms and ammunition	100	185,069	–	185,069
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	Czech Republic	Holding company	100	73,908	–	73,908
CZG VIB s.r.o.	Czech Republic	Holding company	100	21,538	–	21,538
Total				**3,561,866**	**–**	**3,561,866**

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

The development of investments in subsidiaries in 2022 and 2021 was as follows:

	2022	2021
Opening balance as at 1 January	**3,561,866**	**3,030,773**
Investment acquisition	–	–
Effect of demerger by spin-off associated with acquisition	175,043	–
Additional capital contribution	425,740	531,093
Employee bonuses – share-based payment arrangements	118,598	
Impairment loss	–	–
Other	-226	–
Closing balance as at 31 Dec	**4,281,021**	**3,561,866**

As a result of the spin-off associated with acquisition of own shares from Česká zbrojovka, a.s. amounting to CZK 175,043 thousand, the Company acquired a 100% ownership interest in this company on 1 January 2022.

In 2022, the Company made additional contributions outside the registered capital of Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC), amounting to CZK 229,713 thousand, and of Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka International s.r.o.), amounting to CZK 196,134 thousand. Both additional contributions outside the registered capital represent capitalisation of previously granted loans.

In 2021, the Company made additional contributions outside the registered capital of Česká zbrojovka, a.s., amounting to CZK 24,875 thousand, and of Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC), amounting to CZK 506,218 thousand. The additional contribution to Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC) represents capitalisation of a loan of CZK 506,218 thousand (USD 24,252 thousand) – see Note 22.

Aggregate financial information as at 31 Dec 2022 is presented in CZK ´000.

	Česká zbrojovka a.s.	EHC-4M, SE	Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC)	Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	CZG VIB s.r.o.
	31 Dec 2022	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**	**31 Dec 2022**
	1)	2)	2)	1)	2)	2)
Aggregate statement of financial position						
Non-current assets	2,750,036	31,527	6,111,205	3,082	298,680	15,000
Current assets incl. cash	3,172,119	294	523,900	147,630	22,793	540
Non-current liabilities	-1,762,519	-29,800	-4,920,608	-177	-1,000	–
Current liabilities	-1,710,495	-5	-531,702	-95,882	-2,184	-6
Total net assets/(liabilities)	**2,449,141**	**2,016**	**1,182,795**	**54,653**	**318,289**	**15,534**
Aggregate statement of comprehensive income						
Revenues	6,328,164	–	–	127,176	–	–
Profit/(loss) before tax	1,635,081	-83	-121,215	35,468	22,385	-106
Income tax	-302,565	–	-33,078	-6,822	–	–
Profit/(loss) for the period	**1,332,516**	**-83**	**-154,293**	**28,647**	**22,385**	**-106**

1) financial information based on audited separate financial statements as at 31 Dec 2022
2) financial information based on unaudited financial statements as at 31 Dec 2022

Aggregate financial information as at 31 Dec 2021 is presented in CZK ´000.

	Česká zbrojovka a.s.	EHC-4M, SE	Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC)	Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	CZG VIB s.r.o.
	31 Dec 2021	**31 Dec 2021**	**31 Dec 2021**	**31 Dec 2021**	**31 Dec 2021**	**31 Dec 2021**
	1)	2)	2)	1)	2)	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 Dec 2021
2) financial information based on unaudited financial statements as at 31 Dec 2021

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.

22. PROVIDED LOANS

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

			31 Dec 2022	31 Dec 2021
	Maturity date	Aggregate limit as at 31 Dec 2022 (CZK '000)	CZK '000	CZK '000
EHC-4M, SE	31 Dec 2025	29,800	29,800	29,800
Česká zbrojovka, a.s.	22. 01. 2029	1,500,000	1,495,605	–
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	31 Dec 2025	1,000	1,000	1,000
Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC)	31 Dec 2026	5,143,994	5,042,068	5,143,994
Total			**6,568,473**	**5,174,794**
Non-current			6,258,822	4,860,020
Current			309,651	314,774
Total			**6,568,473**	**5,174,794**

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

	2022	2021
Opening balance as at 1 January 2022/1 January 2021	**5,174,794**	**198,573**
Loan provision	2,333,272	5,198,783
Loan repayment	-659,612	-21,914
Unpaid interest income	20,605	64,157
Loan capitalisation	-425,740	-506,218
Impairment loss	–	–
Impact of FX rate differences	125,153	241 413
Closing balance as at 31 Dec	**6,568,472**	**5,174,794**

The loans of CZK 2,333,272 thousand provided in 2022 mainly include loans provided to the subsidiary Česká zbrojovka, a.s. in the total amount of CZK 1,900,000 thousand, of which CZK 1,500,000 thousand was used to settle bonds, and CZK 400,000 thousand was repaid in 2022.

Moreover, the Company provided CZK 203,558 thousand to subsidiary Colt CZ Group International s.r.o. (formerly CZG – Česká zbrojovka Group International, s.r.o.) for the purchase of the remaining part of a share in Spuhr i Dalby AB and CZK 229,713 thousand to subsidiary Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC) for the partial settlement of acquisition of Colt. These provided loans were capitalised in 2022.

The loans of CZK 5,198,783 thousand provided in 2021 mainly include loans to subsidiary Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC) used to finance the purchase of an investment in Colt Holding Company LLC.

The credit quality of other provided loans is discussed in Note 35 Credit risk management.

23. RECEIVABLES AND LIABILITIES FROM FINANCIAL DERIVATIVES

	31 Dec 2022	31 Dec 2021
Non-current receivables from derivative financial instruments		
Non-current receivables from hedging derivatives	684,057	–
Non-current receivables from trading derivatives	64,557	–
Total non-current receivables from derivative financial instruments	**748,614**	**–**
Current receivables from derivative financial instruments		
Current receivables from trading derivatives	24,581	–
Total current receivables from derivative financial instruments	**24,581**	**–**

	31 Dec 2022	31 Dec 2021
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**

24. OTHER FINANCIAL ASSETS

	31 Dec 2022	31 Dec 2021
Other financial assets at fair value through profit or loss	756,834	–
Total	**756,834**	**–**

Other financial assets represent the Company's short-term investment in listed shares held for trading. The Company completed this investment through an intermediary, i.e., a securities dealer. The fair values of these shareholdings are determined based on prices quoted in an active market - see Note 34.

25. TRADE AND OTHER RECEIVABLES

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

	31 Dec 2022	31 Dec 2021
Trade receivables	65,539	16,982
Estimated receivables	3,552	62,744
Other receivables	8,354	2,488
Accrued income	528	1,401
Total	**77,973**	**83,615**
Non-current	–	–
Current	77,973	83,615
Total	**77,973**	**83,615**

Overdue current trade receivables as at 31 December 2022 amounted to CZK 55,735 thousand (31 December 2021 - CZK 519 thousand). As at 31 December 2022, the Company created an allowance for trade receivables and other receivables of CZK 212 thousand (31 December 2021 – CZK 0). The credit quality of these receivables is discussed in Note 35 Credit risk.

26. OTHER RECEIVABLES

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

	31 Dec 2022	31 Dec 2021
Prepayments made	1,400	21
Deferred expenses	11,428	447
Value added tax	2,871	1,726
Other taxes	748	–
Total	**16,447**	**2,194**
Non-current	3,748	–
Current	12,699	2,194
Total	**16,447**	**2,194**

27. CASH AND CASH EQUIVALENTS

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

	31 Dec 2022	31 Dec 2021
Cash on hand	14	27
Cash at bank	1,550,394	1,727,537
Total	**1,550,408**	**1,727,564**

The credit quality is discussed in Note 35 Credit risk management.

28. REGISTERED CAPITAL AND SHARE PREMIUM

On 30 May 2022, the registered capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. (formerly CZ-US Holdings, Inc.) at a price of CZK 622 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 15 July 2022, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 227,175 thousand was recorded as a share premium. As at 31 December 2022, the Company's registered capital comprises of 34,102 thousand ordinary registered shares totalling CZK 3,410 thousand.

In March 2021, the General Meeting of the Company decided to increase the Company's registered capital by a cash contribution of CZK 110 thousand to a total 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 a share premium. As at 31 December 2021, the Company's registered capital comprises of 33,737 thousand ordinary registered shares.

29. OTHER COMPONENTS OF EQUITY

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

	31 Dec 2022	31 Dec 2021
Other capital funds	1,712,111	1,528,735
Share premium	1,366,386	1,139,211
Revaluation of derivatives	576,320	50,406
Total	**3,654,817**	**2,718,352**

Other capital funds represent additional capital contributions relating to the acquisition of a 50% share in Česká zbrojovka a.s. in 2013 of CZK 1,528,735 thousand (31 December 2021 – CZK 1,528,735 thousand), the effect of spin-off associated with acquisition of own shares of CZK 175,043 thousand, and other valuable rights at the net book value of CZK 8,334 thousand from Česká zbrojovka, a.s.

30. BONDS, BANK LOANS AND BORROWINGS

As at 31 Dec 2022, the Company used the following external financing in the form of issued bonds (CZK '000):

				31 Dec 2022	31 Dec 2021
	Terms	**Interest rate %**	**Aggregate limit as at 31 Dec 2022 (CZK '000)**	**CZK '000**	**CZK '000**
Issued bonds	23 March 2027	6M Pribor + margin % p.a.	5,000,000	5,000,000	5,000,000
Issued bonds – outstanding interest				124,839	42,200
Issued bonds – costs of subscription				-22,118	-27,353
Issued bonds	27 Jan 2029	6M Pribor + margin % p.a.	1,998,000	1,998,000	–
Issued bonds – outstanding interest				77,606	–
Issued bonds – costs of subscription				-11,725	–
Total				**7,166,602**	**5,014,847**
Repayments in the following year				202 445	42 200
Repayments in future years				6 964 157	4 972 647

In 2022, the Company issued bonds totalling CZK 1,998,000 thousand and maturing in 2029. In 2021, the Company issued bonds totalling CZK 5,000,000 thousand and maturing in 2027. The Company does not expect to call the bonds in 2023.

As at 31 December 2022, interest expense amounted to CZK 474,209 thousand (31 December 2021 - CZK 99,194 thousand), of which unsettled interest expense was CZK 202,445 thousand (31 December 2021 - CZK 42,200 thousand).

Costs related to the issue of bonds in 2022 of CZK 13,508 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining balance of these accruals is CZK 11,725 thousand as at 31 December 2022. Costs related to the issue of bonds in 2021 of CZK 31,412 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining balance of these accruals is CZK 22,118 thousand as at 31 December 2022.

The issued bonds bear variable interest and their fair value did not differ significantly from their carrying amount as at 31 December 2022.

31. TRADE AND OTHER PAYABLES

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

	31 Dec 2022	31 Dec 2021
Trade and other payables	31,056	2,426
Accrued expenses	18	968
Estimated payables	4,221	16,873
Other payables	9,812	2,445
Total	**45,107**	**22,712**
Non-current	–	–
Current	45,107	22,712
Total	**45,107**	**22,712**

Overdue current trade payables as at 31 December 2022 amounted to CZK 174 thousand (31 December 2021 – CZK 189 thousand).

As at 31 December 2022 and 31 December 2021, the Company neither recorded any liabilities with maturities greater than five years nor pledged liabilities.

32. OTHER PAYABLES

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

	31 Dec 2022	31 Dec 2021
Employee liabilities - current	3,241	1,669
Untaken holiday - current	605	185
Social security and health insurance	1,087	566
Value added tax	–	–
Other taxes	602	315
Deferred income	–	821
Liabilities arising from employee bonuses – current	29,935	24,501
Total	**35,470**	**28,057**

33. 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 rights-of-use assets and expenses related to short-term contracts and contracts for low-value assets are disclosed in Notes 15, 12, and 11. Total cash outflows arising from lease contracts amounted to CZK 5,057 thousand in 2022 (2021 - CZK 2,643 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 2022	31 Dec 2021
Lease liabilities – non-current	7,548	1,246
Lease liabilities – current	4,743	1,807
Total	**12,291**	**3,053**

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

			31 Dec 2022		31 Dec 2021	
	Currency	Nominal interest rate	Nominal value	Carrying amount	Nominal value	Carrying amount
Liabilities from building leases	CZK	2 % p. a.	9,986	9,702	998	994
Liabilities from car leases	CZK	2 % p. a.	2,637	2,589	2,112	2,059
Total			**12,623**	**12,291**	**3,110**	**3,053**

Reconciliation of movements of lease liabilities with cash flows:

	2022	2021
Opening balance of lease liability as at 1 January	**3,053**	**4,540**
Lease payments	-5,057	-2,643
Total cash flows	**-5,057**	**-2,643**
Interest expense	126	70
Lease additions and modifications	14,169	1,086
Closing balance as at 31 Dec	**12,291**	**3,053**

As at 31 December 2022, the Company recorded the following in the statement of profit or loss in connection with leases:

	2022	2021
Depreciation of right of use of assets	4,944	2,571
Interest expense of lease liability (included in finance costs)	126	70
Costs of short-term leases (included in service costs)	151	198
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	23	17
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	276	885
Total	**5,520**	**3,741**

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

	2022	2021
Within 3 months	1,181	698
3 months to 1 year	3,562	1,109
1 to 2 years	3,942	829
2 to 3 years	3,580	294
3 to 4 years	26	123
4 to 5 years	–	–
Total	**12,291**	**3,053**

34. 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 2022	31 Dec 2021
Short-term portion		
Trade and other receivables	77,973	83,615
Provided loans	309,651	314,774
Other financial assets	756,834	–
Financial derivatives	24,581	–
Cash and cash equivalents	1,550,408	1,727,564
Total	**2,719,447**	**2,125,953**
Long-term portion		
Provided loans	6,258,822	4,860,020
Financial derivatives	748,614	–
Total	**7,007,436**	**4,860,020**

Financial liabilities	31 Dec 2022	31 Dec 2021
Short-term portion		
Trade and other payables	45,107	22,712
Lease liabilities	4,743	1,807
Issued bonds	202,445	42,200
Total	**252,295**	**66,719**
Long-term portion		
Lease liabilities	7,548	1,246
Financial derivatives	–	49,466
Issued bonds	6,964,157	4,972,647
Total	**6,971,705**	**5,023,359**

34.1. 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		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	36	–	64,557	64,557		64,557	64,557
Currency swaps held for trading	36	–	24,581	24,581		24,581	24,581
Financial derivatives used for hedge accounting							
Cross currency interest rate swaps for hedging	36	585,796	–	585,796		585,796	585,796
Interest rate swaps used for hedging	36	98,261	–	98,261		98,261	98,261
Other financial assets							
Other financial assets	24	–	756,834	756,834	756,834	–	756,834
Total		**684,057**	**845,972**	**1,530,029**	**756,834**	**773,195**	**1,530,029**

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

*On 17 May 2021, the Company entered into trading derivatives and began to apply hedge accounting on 21 May 2021, recording these derivatives as hedging derivatives.

In 2022 a 2021, the Company did not record any financial assets or financial liabilities measured at fair value for which their carrying amount did not approximate their fair value.

There were no transfers between levels during the period.

34.2. Fair value measurement

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
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
Currency forwards and swaps	The fair value of currency forwards and swaps is determined based on the present value of future cash flows based on market data such as yield curves of referential interest rate swaps, spot foreign exchange rates and forward points.	None
Share-based payment arrangements	The fair value of employee stock options is determined using the Black-Scholes measurement model. The options are subject to the employment term/function term and non-market performance condition which were not considered in fair value determination.	None
Other financial assets	The fair value is determined based on the quoted bid price in an active market.	None

35. 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 36.

35.1. 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 transaction 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.

No concentration of credit risk occurs.

Impairment losses on financial assets recognised in the statement of profit or loss were as follows (CZK '000):

	2022	2021
Impairment losses on trade receivables	212	-

Credit risk by territory (counterparty seat)

31 Dec 2022 CZK '000	Czech Republic	USA	Canada	Sweden	Total
Provided loans	1,526,405	5,042,068	–	–	6,568,473
Trade and other receivables	20,243	54,904	1,957	869	77,973
Other financial assets	–	756,834	–	–	756,834
Financial derivatives	773,195	–	–	–	773,195
Cash and cash equivalents	1,550,408	–	–	–	1,550,408
Total	**3,870,251**	**5,853,806**	**1,957**	**869**	**9,726,883**

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**

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, trade and other receivables and other financial assets.

31 Dec 2022 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	–	7,403,492	-212	7,403,280	No
Grade 7–9: Reasonable risk	BB-to BB+	–	–	–	–	No
Grade 10: Non-standard	B-to CCC-	–	–	–	–	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	–	–	–	–	Yes
Total			**7,403,492**	**-212**	**7,403,280**	

31 Dec 2022 CZK '000	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Within due date	–	7,347,545	–	7,347,545	No
1–90 days overdue	–	19,190	–	19,190	No
90–180 days overdue	–	17,905	–	17,905	No
180–360 days overdue	–	18,451	–	18,451	No
More than 360 days overdue	52.9%	401	-212	189	Yes
Total		**7,403,492**	**-212**	**7,403,280**	

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	–	5,258,409	–	5,258,409	No
Grade 7–9: Reasonable risk	BB-to BB+	–	–	–	–	No
Grade 10: Non-standard	B-to CCC-	–	–	–	–	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	–	–	–	–	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	–	5,257,890	–	5,257,890	No
1–90 days overdue	–	519	–	519	No
90–180 days overdue	–	–	–	–	No
180–360 days overdue	–	–	–	–	No
More than 360 days overdue	–	–	–	–	Yes
Total		**5,258,409**	**–**	**5,258,409**	

Cash and cash equivalents
As at 31 December 2022, the Company received cash and cash equivalents of CZK 1,550,408 thousand (31 December 2021 – CZK 1,727,564 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.

35.2. 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.

35.2.1. 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 quick liquidity ratio is calculated as ratio between the current financial assets and current financial liabilities. As at 31. December 2022 quick liquidity ratio was calculated as 10.78 (31. December 2021 – 31.86).

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.

			Contractual cash flows				
31 Dec 2022 CZK '000	**Carrying amount**	**Total**	**Within 3 months**	**3–12 months**	**1–2 years**	**2–5 years**	**Over 5 years**
Non-derivative financial liabilities							
Trade and other payables	45,107	45,107	45,107	–	–	–	–
Lease liabilities	12,291	12,291	1,181	3,562	3,942	3,606	–
Issued bonds	7,166,602	9,335,397	361,301	471,471	501,005	5,899,291	2,102,329
Total non-derivative financial liabilities	**7,224,000**	**9,392,795**	**407,589**	**475,033**	**504,947**	**5,902,897**	**2,102,329**
Total	**7,224,000**	**9,392,795**	**407,589**	**475,033**	**504,947**	**5,902,897**	**2,102,329**

			Contractual cash flows				
31 Dec 2021 CZK '000	**Carrying amount**	**Total**	**Within 3 months**	**3–12 months**	**1–2 years**	**2–5 years**	**Over 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**

35.3. 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 and interest rates. 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.

35.3.1. 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 forwards, swaps, and 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 2022 CZK '000	CZK	EUR	USD	CHF	Other	Total
Financial assets						
Provided loans	30,800	1,495,605	5,042,068	–	–	**6,568,473**
Trade and other receivables	73,022	4,612	339	–	–	**77,973**
Other financial assets	–	–	756,834	–	–	**756,834**
Cash and cash equivalents	1,544,952	3,358	2,098	–	–	**1,550,408**
Total financial assets	**1,648,774**	**1,503,575**	**5,801,339**	**–**	**–**	**8,953,688**
Financial liabilities						
Trade and other payables	34,842	4,098	4,621	1,546	–	**45,107**
Lease liabilities	11,798	493	–	–	–	**12,291**
Issued bonds	7,166,602	–	–	–	–	**7,166,602**
Total financial liabilities	**7,213,242**	**4,591**	**4,621**	**1,546**	**–**	**7,224,000**
Effect of financial derivatives – nominal value	**–**	**1,478,662**	**5,579,367**	**–**	**–**	**7,058,029**
Total currency risk exposure	**-5,564,468**	**20,322**	**217,351**	**-1,546**	**–**	**–5,328,341**

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**

35.3.2. 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:

	Average exchange rate		Exchange rate at the end of the period	
In CZK	**2022**	**2021**	**2022**	**2021**
EUR	24.565	25.645	24.115	24.86
USD	23.36	21.682	22.616	21.951

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.

	Impact on profit before tax 2022		Impact on profit before tax 2021	
In CZK	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	2,032	-2,032	1,423	-1,423
USD	21,735	-21,735	189,254	-189,254

	Impact on equity 2022		Impact on equity 2021	
In CZK	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	-66,932	28,340	-	-
USD	-153,292	111,995	-37,629	20,295

35.3.3. 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 33). The Company has managed interest rate risk using cross currency interest rate swap agreements since 2021 and an interest rate swap agreement since 2022. This ensures the utilisation of hedging strategies which are economically most effective.

Interest rate risk exposure was as follows:

31 Dec 2022 CZK '000	**Carrying amount**	**Contractual cash flows**	**Variable interest rate**	**Fixed interest rate**
Provided loans	6,568,473	7,638,568	–	7,638,568
Total interest-bearing financial assets	**6,568,473**	**7,638,568**	**–**	**7,638,568**
Issued bonds	7,166,602	9,335,397	9,335,397	–
Lease liabilities	12,291	12,291	–	12,291
Total interest-bearing financial liabilities	**7,178,893**	**9,347,688**	**9,335,397**	**12,291**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	**–**	**–**	**5,212,700**	**–**
Total interest rate risk exposure	**-610,420**	**-1,709,120**	**-4,122,697**	**7,626,277**

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**

35.3.4. 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 and equity would change based on the values specified below.

	Impact on profit before tax 2022		**Impact on profit before tax 2021**	
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	-69,509	69,509	-41,411	41,411
Sensitivity of interest rates changes	**-69,509**	**69,509**	**-41,411**	**41,411**

	Impact on equity 2022		**Impact on equity 2021**	
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	206,474	-206,474	110,303	-117,195
Interest rate swaps	17,875	-17,875	–	–
Sensitivity to interest rates changes	**224,349**	**-224,349**	**110,303**	**-117,195**

36. DERIVATIVE INSTRUMENTS

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks. To manage these risks, the Company uses the following derivative instruments:

- Cross currency interest rate swaps;
- Interest rate swaps;
- Currency forwards; and
- Currency swaps.

Derivative instruments are classified as trading or hedging.

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk of a portion of highly probable forecasted cash flows in USD and EUR (cash flow hedge). The effective portion of changes in the fair value of derivatives that are designated as hedging instruments 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 in 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 4.19. The Company expects to continue its hedging activities in the future.

36.1. Hedging derivatives

36.1.1. Cross currency interest rate swaps

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 or EUR 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 or EUR and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD or EUR-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:

- The cross currency interest rate swap in which the Company is the payer of fixed interest derived from the nominal value in USD or EUR 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 or EUR and CZK. This cross currency interest rate swap is used to hedge the currency risk on the provided USD or EUR 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 Note 4.19.) 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 for USD/CZK interest rate swaps and on 27 January 2022 for EUR/CZK interest rate swaps. Until the initial application of hedge accounting, the cross currency interest rate swaps negotiated were classified as trading derivatives.

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 prepayment of the provided loan (for currency hedges) and bonds issued (for interest rate hedges) is very low.

36.1.2. Interest rate swaps

On 9 February 2022, the Company purchased an interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2022 was CZK 98,261 thousand.

This interest rate swap contract obliges the Company for the exchange of the difference between the fixed and variable interest calculated on the agreed principal. The interest rate swap agreement has been agreed with the financing bank for the period from 27 January 2022 to 27 January 2027. 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. This interest rate swap is classified by the Company as held for trading.

The hedge ratio is set as 1:0.996 due to a mismatch of 0.04% between the principal amounts of the hedging derivative and the hedged item, which the Company does not consider significant. The sources of hedge ineffectiveness are mainly the credit risk of the counterparty to the hedging instrument, which the Company considers to be minimal due to the fact that the hedging instrument has been negotiated with a bank with a high credit rating, and the risk of early repayment of the issued bonds.

As at 31 December 2022, the Company held the following instruments to hedge its exposure to changes in foreign exchange rates and interest rates.

2022	Due date		
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure – USD	–	–	3,392,400
Net exposure – EUR	–	–	1,478,662
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Interest rate risk			
Net exposure - split USD/CZK interest rate swap	–	–	3,212,700
Net exposure - split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure - interest rate swap	–	–	500,000
Average fixed interest rate - split USD/CZK interest rate swap	–	–	3.524%
Average fixed interest rate - split EUR/CZK interest rate swap	–	–	5.179%
Average fixed interest rate - interest rate swap	–	–	0.740%

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/USD	–	–	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 2022		
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	112,593	47,860	–
Provided loan in EUR	207,373	134,664	–
Interest rate risk			
Issued bonds with variable interest rate	272,673	393,796	–
Total	**592,639**	**576,320**	**–**

	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	–
Interest rate risk			
Issued bonds with variable interest rate	-221,885	181,926	–
Total	**105,032**	**50,406**	**–**

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

		31 Dec 2022			
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 or loss**	**Amount reclassified from the cash flow hedge reserve to the statement of profit or loss**
Currency risk					
Cross currency interest rate swaps	4,871,062	-25,827	-328,767	8,888	-58,943
Interest rate risk					
Interest rate swap*	500,000	98,261	-45,152	249	14,632
Cross currency interest rate swaps	4,712,700	611,623	-304,584	–	73,537
Deferred tax effect	–	–	123,362	–	–
Total	**–**	**684,057**	**-555,140**	**9,137**	**29,226**

* The Company purchased the interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2022 is CZK 98,261 thousand and the change in the value of the hedging instrument recognised in Other comprehensive income is CZK 31,912 thousand.

31 Dec 2021					
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 or loss**	**Amount reclassified from the cash flow hedge reserve 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**

Receivables from hedging derivatives of CZK 684,057 thousand (liabilities of CZK 49,466 thousand as at 31 December 2021) are recognised in Non-current financial derivatives. Hedge ineffectiveness of CZK 9,137 thousand (31 December 2021: CZK 6,663 thousand) is recognised in Gains/losses from derivative transactions. The following amounts were reclassified from the cash flow hedge reserve to the statement of profit or loss: CZK 88,169 thousand (31 December 2021: CZK 0) to Interest income, CZK 58,943 thousand (31 December 2021: CZK 0) to Other financial expenses, CZK 20,217 thousand (31 December 2021: CZK 6,011 thousand) to Gains/losses from derivative transactions, CZK 0 (31 December 2021: CZK 159,851 thousand) to Other financial income, and CZK 0 (31 December 2021: CZK 3,043 thousand) to Interest expense.

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.

	Cash flow hedge reserve	
CZK '000	**2022**	**2021**
Opening balance as at 1 January	**50,406**	**–**
Cash flow hedges		
Change in fair value:		
– Currency risk	328,767	-326,917
– Interest rate risk	349,736	220,242
Values reclassified to the statement of profit or loss:		
- Currency risk - other items	58,943	164,547
– Interest rate risk	-88,169	4,358
Tax on movements in funds during the year	-123,362	-11,824
Closing balance as at 31 Dec	**576,320**	**50,406**

36.2. Derivatives held for trading

36.2.1. Currency contracts

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 2022 and 31 December 2021 (CZK '000):

	31 Dec 2022			31 Dec 2021		
		Fair value			Fair value	
CZK '000	**Nominal**	**Positive**	**Negative**	**Nominal**	**Positive**	**Negative**
Currency swaps	830,007	24,581	–	–	–	–
Currency forwards	1,356,960	64,557	–	–	–	–
Total	**2,186,967**	**89,138**	**–**	**–**	**–**	**–**

Valuation techniques are described in Note 34.2.

The fair values determined by the Company 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 Company 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 Company does not plan to offset these derivatives in the future.

The tables below show open FX forwards and swaps at the end of the reporting period:

Open currency forwards	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	24.234	–	60,000	–	1,356,960	–	64,557	–

Open currency swaps	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	23.25	–	36,700	–	830,007	–	24,581	–

The tables below show the maturity of individual financial derivatives held for trading as at 31 December 2022 and 31 December 2021 according to their fair and nominal values in CZK '000.

	31 Dec 2022		31 Dec 2021	
Ageing structure	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**
Within 3 months	–	–	–	–
3-6 months	24,581	830,007	–	–
6-12 months	–	–	–	–
1-2 years	12,111	226,160	–	–
2-3 years	14,409	226,160	–	–
3-4 years	10,675	226,160	–	–
4-5 years	27,362	678,480	–	–
6-7 years	–	–	–	–
Total	**89,138**	**2,186,967**	**–**	**–**

37. INFORMATION ON RELATED PARTIES

In 2022, the Company had the following transactions with related parties:

		Purchases for the period		Sales for the period	
			2021	**2022**	**2021**
European Holding Company, SE	ultimate parent company	–	–	–	228
Česká zbrojovka Partners SE	parent company	14	24	–	228
Česká zbrojovka Defence SE	subsidiary of the parent company	–	–	–	60
Česká zbrojovka a.s.	company under ultimate control	519	858	52,241	45,344
EHC-4M, SE	company under ultimate control	–	–	48	53
ZBROJOVKA BRNO, s.r.o.	company under ultimate control	–	–	308	109
CZ-USA INC	company under ultimate control	–	–	15,602	22,280
Colt Canada Corporation	company under ultimate control	–	–	9,057	4,368
Colt's Manufacturing Company	company under ultimate control	2,241	–	49,307	21,519
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	company under ultimate control	6,254	–	421	672
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	company under ultimate control	–	–	65	70
CZG VIB s.r.o.	company under ultimate control	–	–	65	70
Spuhr i Dalby AB	company under ultimate control	–	–	869	–
4M SYSTEMS a.s.	company under ultimate control	–	–	3,012	2,047
CZ AGRO Servis a.s.	company of the ultimate owner's corporate group	–	–	–	253
CZ AGRO zemědělská s.r.o.	company of the ultimate owner's corporate group	–	–	–	17
CZ-AUTO SYSTEMS a.s.	subsidiary of the parent company	72	–	–	652
CZ-SKD Solutions a.s.	subsidiary of the parent company	–	–	–	207
IT eCompany Management a.s.	company of the ultimate owner's corporate group	–	–	–	20
Kykulin Trade a.s.	company of the ultimate owner's corporate group	–	–	–	17
Minezit SE	company of the ultimate owner's corporate group	–	–	–	50
Minezit Property Investments a.s. (formerly RAIL CARGO a.s.)	company of the ultimate owner's corporate group	–	–	–	17

		Purchases for the period		Sales for the period	
			2021	2022	2021
Robousy, s.r.o.	company of the ultimate owner's corporate group	–	–	–	183
Keriani a.s.	associated company of the parent company	3,443	2,702	30	–
Silesia Invest SE	company of the ultimate owner's corporate group	–	–	–	17
Lundmonte s.r.o.	company of the ultimate owner's corporate group	–	–	–	32
AIT Group - Advanced Industrial Technology Group a.s. (until 30 April 2021, AUTO-CZ International a.s.)	subsidiary of the parent company	–	–	–	20
M&H Management a.s.	company of the ultimate owner's corporate group	–	21	792	140
Total		**12,543**	**3,605**	**131,817**	**98,673**

In addition to the above, in 2022 the Company generated revenues from profit shares of CZK

952,025 thousand (2021 – CZK 1,191,629 thousand) in Česká zbrojovka a.s. and CZK 0 (2021 – CZK 30,000 thousand) in Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.). Interest income from loans provided to subsidiaries, totalling CZK 290,103 thousand (2021 – CZK 142,148 thousand), is not shown in the table.

		Trade and other receivables		Trade and other payables	
		31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Česká zbrojovka Partners SE	parent company	–	212	–	–
Česká zbrojovka a.s.	company under ultimate control	5,500	23,222	197	134
EHC-4M, SE	company under ultimate control	5	5	–	–
CZ-USA INC	company under ultimate control	18,048	21,985	–	–
Colt Canada Corporation	company under ultimate control	1,957	4,368	–	–
Colt's Manufacturing Company	company under ultimate control	36,856	29,254	2,241	–
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha , s.r.o.)	company under ultimate control	139	–	7,655	5,298
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	company under ultimate control	2,184	7	–	–
CZG VIB s.r.o.	company under ultimate control	7	7	–	–
4M SYSTEMS a.s.	company under ultimate control	1,023	257	–	–
Spuhr i Dalby AB	company under ultimate control	869	–	–	–
Kykulin Trade a.s.	company of the ultimate owner's corporate group	–	2	–	–
Minezit Property Investments a.s. (formerly RAIL CARGO a.s.)	company of the ultimate owner's corporate group	–	2	–	–
Keriani, a.s.	associated company of the parent company	–	–	60	259
Silesia Invest SE	company under ultimate control	–	2	–	–
M&H Management a.s.	company of the ultimate owner's corporate group	17	–	–	24
ZBROJOVKA BRNO, s.r.o.	company under ultimate control	39	109		–
Total		**66,644**	**79,432**	**10,153**	**5,715**

As at 31 December 2022, the Company provided loans to related parties, particular a loan of CZK 29,800 thousand (31 December 2021 – CZK 29,800 thousand) to EHC-4M, SE, a loan of CZK 5,042,068 thousand (31 December 2021 – CZK 5,143,994 thousand) to Colt CZ Group North America, Inc. (formerly CZ-US HOLDINGS, INC), CZK 1,000 thousand (31 December 2021 – CZK 1,000 thousand) to Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.), and a loan of CZK 1,495,605 thousand (31 December 2021 – CZK 0) to Česká Zbrojovka a.s. Total other loans provided as at 31 December 2022 amount to CZK 6,568,473 thousand (31 December 2021 – CZK 5,174,794 thousand). The Company had not identified any impairment of the above loans to related parties.

In addition, the Company paid out a dividend of CZK 652,262 thousand to Česká zbrojovka Partners SE in 2022 (2021 – CZK 253,025 thousand).

38. OFF-BALANCE SHEET COMMITMENTS

As at 31 Dec 2022 and 31 Dec 2021, the Company issued no guarantees in respect of third-party liabilities.

As at 31 December 2022, the Company records no significant legal disputes where the Company acts as a defendant or investment, environmental and other off-balance sheet commitments.

39. AUDITOR'S FEE

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

40. SUBSEQUENT MATERIAL EVENTS

In the context of increasing labour productivity and in response to fluctuations in demand on some markets, especially in the USA, Česká zbrojovka a.s. is responding by adjusting the production flow, the structure of the product mix, optimising the number of employees and other measures. The aim is to increase competitiveness and cost efficiency on global markets. The management of Česká zbrojovka a.s. informed the employees in detail about these initiatives. Partial production outage took place from 29 March to 10 April 2023.

On 3 April 2023 the Company signed a loan agreement with Česká zbrojovka, a.s. The Company undertakes to provide Česká zbrojovka, a.s. a short-term loan in the amount of up to CZK 800,000 thousand. On 11 April 2023 the Company provided funds in the amount of CZK 300,000 thousand.

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 2022.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on 21 April 2023.

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022
under International Financial Reporting Standards
as adopted by the European Union

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Note	**CZK '000 CZK**	**CZK '000 CZK**
Revenues from the sale of own products, goods, and services	4,5	14,589,774	10,688,927
Other operating income	6	133,270	61,679
Change in inventories developed internally		521,050	166,666
Own work capitalised		151,781	139,611
Raw materials and consumables used	7	-7,326,333	-5,113,073
Services	8	-1,769,028	-1,764,899
Personnel costs	9	-2,888,813	-2,088,146
Depreciation and amortisation	11	-910,435	-789,623
Other operating expenses	12	-238,086	-190,090
Allowances	13	-64,498	-99,871
Operating profit		**2,198,682**	**1,011,181**
Interest income	16	440,453	50,038
Interest expense	17	-612,056	-204,985
Other financial income	16	172,833	32,488
Other financial expenses	17	-133,802	-168,509
Gains/Losses from derivative transactions	18	236,826	184,139
Share in the profit of associates after tax	24	14,302	27,196
Profit from the investments in associates (successive acquisition)	24	38,932	–
Profit before tax		**2,356,170**	**931,548**
Income tax	20	-321,978	-171,086
Profit for the period		**2,034,192**	**760,462**
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments		948,231	-42,836
Foreign currency translation of foreign operations		-125,035	-153,438
Other comprehensive income	21	**823,196**	**-196,274**
Comprehensive income for the period		**2,857,388**	**564,188**
Profit for the period attributable to			
Owner of the parent company		2,034,192	760,462
Comprehensive income for the period attributable to			
Owner of the parent company		2,857,388	564,188
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	41	60	23
Diluted	41	59	23

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	31 Dec 2022	31 December 2021
		CZK '000	CZK '000
ASSETS			
Non-current assets			
Intangible assets	23	3,462,131	3,505,464
Goodwill	23	2,457,416	2,390,127
Property, plant, and equipment	23	3,066,251	2,810,115
Equity-accounted securities and investments	24	39,401	109,445
Financial derivatives	40	1,181,097	171,195
Trade and other receivables	28	35,515	58,999
Other receivables	29	6,560	11,163
Total non-current assets		**10,248,371**	**9,056,508**
Current assets			
Inventories	25	3,797,557	2,861,673
Trade and other receivables	28	1,346,143	1,012,879
Provided loans	26	7,700	197,973
Other financial assets	27	756,834	–
Financial derivatives	40	217,123	156,118
Other receivables	29	304,005	148,098
Tax assets	19	–	6,357
Cash and cash equivalents	30	2,825,781	3,573,467
Total current assets		**9,255,143**	**7,956,565**
Total assets		**19,503,514**	**17,013,073**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	31	3,410	3,374
Share premium	31	1,366,386	1,139,211
Capital funds	32	1,641,512	1,641,512
Cash flow hedge reserve	32	1,068,214	119,983
Foreign exchange translation reserve	32	-326,433	-201,398
Accumulated profits		3,928,282	2,539,146
Equity attributable to the owner of the Company		**7,681,371**	**5,241,828**
Equity attributable to the owner of the Company		7,681,371	5,241,828
Total equity		**7,681,371**	**5,241,828**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

		31 Dec 2022	31 December 2021
	Note	CZK '000	CZK '000
Non-current liabilities			
Bonds, bank loans and borrowings	33	6,972,898	4,972,647
Financial derivatives	40	28,684	270,515
Lease liabilities	37	46,796	32,606
Other financial liabilities	36	240,468	372,531
Trade and other payables	34	7,825	5,422
Other payables	35	21,169	27,357
Provisions	14	23,654	63,695
Deferred tax liability	20	731,308	789,646
Employee benefit liabilities	15	265,280	357,707
Total non-current liabilities		**8,338,082**	**6,892,126**
Current liabilities			
Bonds, bank loans and borrowings	33	208,597	2,317,579
Financial derivatives	40	38,610	20,097
Lease liabilities	37	23,939	20,695
Other financial liabilities	36	238,593	185,568
Trade and other payables	34	1,154,955	1,116,373
Other payables	35	1,479,267	1,073,755
Provisions	14	51,371	50,780
Tax liabilities	18	269,096	76,156
Employee benefit liabilities	15	19,633	18,116
Total current liabilities		**3,484,061**	**4,879,119**
Total liabilities		**11,822,143**	**11,771,245**
Total equity and liabilities		**19,503,514**	**17,013,073**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

CZK ,000	Share capital (Note 31)	Share premium (Note 31)	Capital funds (Note 32)	Cash flow hedge reserve (Note 32)	Foreign exchange translation reserve (Note 32)	Accumulated profits	Equity attributable to the owner of the parent company	Non-controlling interests	Total equity
Balance as 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 as at 31 December 2021	**3,374**	**1,139,211**	**1,641,512**	**119,983**	**-201,398**	**2,539,146**	**5,241,828**	**–**	**5,241,828**
Profit for the period	–	–	–	–	–	2,034,192	2,034,192	–	2,034,192
Other comprehensive income	–	–	–	948,231	-125,035	–	823,196	–	823,196
Total comprehensive income for the period	**–**	**–**	**–**	**948,231**	**-125,035**	**2,034,192**	**2,857,388**	**–**	**2,857,388**
Dividends	–	–	–	–	–	-843,416	-843,416	–	-843,416
Share issue	36	227,175	–	–	–	–	227,211	–	227,211
Share-based payments	–	–	–	–	–	198,360	198,360	–	198,360
Balance as at 31 December 2022	**3,410**	**1,366,386**	**1,641,512**	**1,068,214**	**-326,433**	**3,928,282**	**7,681,371**	**–**	**7,681,371**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Note	**CZK '000 CZK**	**CZK '000 CZK**
Cash flows from principal economic activity (ordinary activity)			
Profit from ordinary activity before tax		**2,356,170**	**931,548**
Depreciation/amortisation of non-current assets	11,23	910,435	789,623
Change in allowances and provisions	13,14	20,024	136,836
Profit/loss from the sale of non-current assets	6	-12	-2,340
Interest expense and interest income	16,17	171,603	154,947
Share in the profit of associates	24	-14,302	-27,196
Unrealised foreign exchange gains and losses		-229,330	-132,775
Contingent consideration – remeasurement	17	21,671	141,722
Partial settlement of contingent consideration	31	227,211	–
Profit from the investments in associates (successive acquisition)	24	-38,932	–
Cash flow hedges – remeasurement of effective portion of hedging instruments	40	948,231	-41,811
Share-based payments	10	198,360	–
Adjustments for other non-cash transactions		25,616	-3,688
Net operating cash flows before changes in working capital		**4,596,745**	**1,946,866**
Change in working capital			
Change in receivables and deferrals	26,27,37	-1,408,655	51,356
Change in liabilities and accruals	34-37	143,517	230,620
Change in inventories	25	-850,259	-410,095
Net cash flow from operating activities		**2,481,348**	**1,818,747**
Paid interest		-480,233	-84,098
Interest received		353,258	44,934
Income tax paid for ordinary activity	18	-454,197	-256,624
Net cash flow from operating activities		**1,900,176**	**1,522,959**
Cash flows from investing activities			
Acquisition of non-current assets	23	-679,725	-633,256
Acquisition of subsidiaries – opening balance	22	-226,189	-4,695,237
Acquisition of subsidiaries – cash and cash equivalents	22	28,674	319,499
Acquisition of other investments		–	-595
Acquisition of other financial assets	27	-756,834	–
Provided loans	26	190,000	60,000
Employee benefit liabilities	15	-39,679	-28,558
Net cash flow from investing activities		**-1,483,753**	**-4,978,147**
Cash flows from financing activities			
Proceeds from issue of bonds	33	1,984,796	4,972,647
Dividends paid to owners	41	-843,416	-253,025
Dividends paid to non-controlling interests		–	-8,101
Repayment of loans and interest	33	-2,319,825	-40,747
Net cash flow from financing activities		**-1,178,445**	**4,670,774**
Net change in cash and cash equivalents		**-762,022**	**1,215,586**
Opening balance of cash and cash equivalents		**3,573,467**	**2,358,608**
Effect of exchange rate on cash and cash equivalents		14,336	-727
Closing balance of cash and cash equivalents		**2,825,781**	**3,573,467**

These notes are an integral part of these consolidated financial statements.

COLT CZ GROUP SE

Consolidated financial statements
under International Financial Reporting Standards
as adopted by the European Union
as at 31 December 2022

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1. PARENT COMPANY

Colt CZ Group SE, (the “Consolidating Entity” or the “Company”) is a European company recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961. The Company, together with its subsidiaries, is one of the leading European producers of firearms for military and law enforcement, personal defence, hunting, sport shooting and other civilian use. The Group markets and sells its products mainly under the Colt, CZ (Česká zbrojovka a.s.), Colt Canada, CZ-USA, Dan Wesson, Spuhr 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 2022	**31 Dec 2021**
Česká zbrojovka Partners SE	76.86%	81.22%

Since 2017, the majority owner of the Company has been Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic.

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, 110 00 Prague 1, Czech Republic. The ultimate owner of the Company is René Holeček.

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

Board of Directors	
Chair:	Jan Drahota
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

On 11 April 2022, the business activity recorded in the Register of Companies („RC“) changed to the management of own assets. Another change in the scope of business recorded in the RC was production, trade and services not specified in Annexes 1 to 3 to the Trade Licensing Act in the following lines of business:

- Mediation of trade and services,
- Wholesale and retail,
- Consulting and advisory services, preparation of expert studies and reports.

On 12 April 2022, the Company’s name changed in the RC to Colt CZ Group SE.

On 30 May 2022, the share capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share.

On 11 August 2022, Ms Alice Poluchová resigned from her position as Vice-chair of the Board of Directors. This fact was recorded in the Register of Companies on 30 September 2022.

The consolidation group (the “Group”) comprises of 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, 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 2022	31 Dec 2021
Colt CZ Group North America, Inc. (formerly CZ-US 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%
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%
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%
CZ – Slovensko s.r.o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	100%	100%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	100%	100%
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%	100%
Česká zbrojovka a.s. Niederlassung Deutschland	Production, purchase and sale of firearms and ammunition	Regensburg, Germany	full	100%	–
Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha, s.r.o.)	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%
Colt CZ Group International s.r.o. (formerly CZG-Česká zbrojovka Group International s.r.o.)	Holding company	Prague, Czech Republic	full	100%	100%
Four Horses Apparel, Inc.	Production and sale of clothing and fashion accessories	West Hartford, Connecticut, USA	full	100%	–
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%
CZG VIB s.r.o.	Holding company	Prague, Czech Republic	full	100%	100%
Spuhr i Dalby AB	Manufacture and assembly of optics	Löddeköpinge, Sweden	Full (2021 – equity)	100%	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%	100%
CDH II Holdco Inc	Holding company	West Hartford, Connecticut, USA	full	100%	100%
Colt Defence LLC	Holding company	West Hartford, Connecticut, USA	full	100%	100%
New Colt Holding Corp.	Holding company	West Hartford, Connecticut, USA	full	100%	100%
Colt´s Manufacturing Company LLC	Production, purchase, and sale of firearms	West Hartford, Connecticut, USA	full	100%	100%
Manufacturing IP Holding Company LLC	Holds, maintains, and licenses Colt USA trademarks	West Hartford, Connecticut, USA	full	100%	100%
Colt Defence Technical Services LLC**	Holding company	West Hartford, Connecticut, USA	full	–	100%
Colt International Cooperatief U.A.	Holding company	Amsterdam, the Netherlands	full	100%	100%
Colt Canada Corporation	Production, purchase, and sale of firearms	Kitchener, Ontario, Canada	full	100%	100%

* On 21 February 2022, the company was dissolved.
** A restructuring within the Colt Group took place during 2022. The assets and liabilities of the designated companies were transferred to other companies within the Colt Group.

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group	
				31 Dec 2022	31 Dec 2021
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%

** A restructuring within the Colt Group took place during 2022. The assets and liabilities of the designated companies were transferred to other companies within the Colt Group.

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

Employee Stock Option Plan became effective in 2022 (the „Share Program"). The potential impact of the Share Program on the Group's consolidated financial statements was assessed in accordance with IFRS 2 Classification and Measurement of Share-based Payment Transactions. The shares designated for the Share Program will be newly issued. The maximum number of shares issued will be 3,373 thousand. Contracts with managers were signed during the course of 2022. See details in Note 10.

On 1 January 2022, Colt CZ Defence Solutions s.r.o. (formerly 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 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. Subsidiary Česká zbrojovka a.s. used the loan to repay its bonds at a nominal value of CZK 2,250,000 thousand, also maturing 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 9 February 2022, the remaining part of the loan of CZK 190,000 thousand was repaid by CZ-AUTO Systems a.s.

On 24 February 2022, Russia launched its invasion of Ukraine. 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 Company immediately responded to the situation at hand and mapped the potential risks from embargoes, the growth in energy prices, and commodity shortages.

The Company is exposed to the current economic impacts, such as the growth of energy prices or inflation. The Company's management has adopted measures to make internal processes more effective and to compensate for the growth of expenses as much as possible.

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 from CZG – Česká zbrojovka Group SE 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 May 2022, the Company's General Meeting decided on the distribution of dividends for 2021 totalling CZK 852,548 thousand (CZK 25 per share). Within the Consolidated Statement of Changes in Equity, this amount has been reduced by the dividend related to the equity shares held by the subsidiary Colt CZ Group North America, Inc. (formerly CZ-US Holdings, Inc.) until 15 July 2022 in the amount of CZK 9,132 thousand. Dividends were paid out on 29 June 2022.

On 30 May 2022, the share capital was increased through the issue of 365,291 shares in book-entry form with a value of CZK 622 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. (formerly CZ-US Holdings, Inc.), solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 15 July 2022, a total of 365,291 shares of the Company were handed over to the original owners of Colt.

On 30 June 2022, the demerger by spin-off associated with acquisition was approved where Colt CZ Group SE is the successor company and Česká zbrojovka a.s. is the subsidiary subject to demerger. The subsidiary's own shares and trademarks are the subject-matters of the demerger project. The effective date of the spin-off is 1 January 2022. On 29 August 2022, the opening balance sheets were approved by the boards of directors of both companies, and on 1 September 2022, an entry in the Register of Companies was made. This change has no impact on the consolidation.

On 27 July 2022, the subsidiary CZ-US Holdings, Inc. was renamed to Colt CZ Group North America, Inc.

On 12 October 2022, the Group completed the acquisition of the remaining 75% interest in Spuhr i Dalby AB ("Spuhr"), thus acquiring a 100% interest in this company.

On 14 October 2022, the ownership percentage of majority owner Česká zbrojovka Partners SE in the Company changed to 76.86%.

On 1 November 2022, CZG – Česká zbrojovka Group International, s.r.o. changed its name to Colt CZ Group International s.r.o.

On 1 November 2022, CZ Export Praha, s.r.o. changed its name to Colt CZ Defence Solutions s.r.o.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Newly adopted standards and interpretations

In the current year, the Group has applied the below existing 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 accounting periods beginning on or after 1 January 2022:

▶ **Amendments to IFRS 3 Business Combinations** – Reference to the Conceptual Framework
The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also amend IFRS 3 with the requirement for the acquirer to apply IAS 37 to liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to determine whether a present obligation exists as at the date of an acquisition which is a direct consequence of past events.

▶ **Amendments to IAS 16 Property, Plant and Equipment** – Proceeds before Intended Use
The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before the asset is put in use, i.e., proceeds produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The entity subsequently recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The entity measures the costs of these items under IAS 2 Inventories.

▶ **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Onerous contracts – Cost of Fulfilling a Contract
The amendments specify that the "cost of fulfilling" a contract comprises of the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

▶ **Amendments to various standards due to "Improvements to IFRSs (cycle 2018–2020)"** resulting from the annual improvement project of IFRS with a view to removing inconsistencies and clarifying wording. Annual improvements comprise of amendments to four standards (IFRS 1, IFRS 9, IFRS 16, and IAS 41). Only the amendment to IFRS 9 Financial instruments is relevant for the Group. The amendment clarifies that in applying the "10 per cent" test in assessing whether to derecognise a financial liability, the entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The commencement of compliance with these amendments to existing standards did not result in any changes to the Group's accounting policies.

New standards and 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 new 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 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** – 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 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 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.

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 16 Leases** – Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024).
- **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 2024).
- **Amendments to IAS 1 Presentation of Financial Statements** – Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024).

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 under the International Financial Reporting Standards as adopted by the European Union ("IFRS").

3.3. Basis of preparation

a) Basis of measurement

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.

b) Fair value measurement

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 considers 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 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.

d) 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 unrealised 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 the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's controlling interests and the non-controlling interests, are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, is recognised directly in equity and attributed to owner of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassify the gain or loss from equity to profit or loss or transfer directly to retained earnings if required by other IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost, is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost upon initial recognition of an investment in an associate or a joint venture.

3.4. 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 recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively,
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date, and
- Assets (or disposal groups) that are classified as held for sale or held for distribution to owners in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and equity interests held so far (if any), and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests in an acquiree, that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments, depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration, which is classified as an asset or liability, is remeasured to fair value at subsequent reporting dates, in accordance with IFRS 9, Contingent Liabilities and Contingent Assets, with the relating gain or loss recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The Group did not use the exception allowing not to apply IFRS 3 to business combinations implemented before the transition to IFRS.

The Group does not apply business combination accounting to combinations with entities or business under common control. In common control transactions, the Group recognises 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 recognised 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 recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3.6. 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 discounts. The Group recognises revenue from contracts with customers as follows:

- Contract with customer is identified.
- Performance obligation is identified.
- Transaction price is determined.
- Transaction prices are allocated to individual performance obligations.
- Revenue is recognised upon meeting the performance obligation.

Revenues are recognised when the Group meets its performance obligation with respect to a client. If a contract contains multiple partial performance obligations the total contractual price is distributed to individual performance obligations and the Group recognises revenue when each partial performance obligation is met. Payments received before a performance obligation is satisfied are reported as liabilities. Expenses incurred before the performance obligation is satisfied are recognised as assets under IFRS.

3.7. Sale of products, goods, and related additional services

Products, goods, and services are delivered based on orders following master sales agreements or based on individual sales contracts. In respect of sales of products and goods, a performance obligation is the obligation to deliver its products or goods to a customer in the agreed upon amount at the agreed place. Individual orders are always considered to be separate performance obligations, because a customer may use the products and goods delivered separately. At the delivery of products and goods, a performance obligation is satisfied at the moment when the customer takes control over the products or goods. The price is determined in a framework contract, orders or individual purchase contracts. The price for products or goods delivery is always fixed, the Group provides no significant bulk discounts or any similar price adjustments linked to the volume of purchases for a specified period.

The Company has identified each individual delivery as a separate performance obligation. The revenue is recognised 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 recognised when goods or products are dispatched.

The delivery of goods may be combined with the provision of additional services (such as transportation or insurance). In such case, the performance obligations of all combined transactions are considered to be satisfied at the same point of time.

The Group only provides standard warranties to the products delivered in line with laws of a specific country.

Expenses for contract satisfaction in case of own production are recognised in compliance with IAS 2.

The 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 recognised 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 the Group. 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 recognised 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 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 gross carrying amount of the financial asset.

3.10. Leases

The Group as a lessor

Income from lease contracts in which the Group acts as a lessor is recognised on a straight-line basis over the term of the contract.

The Group as a lessee

For short-term and low-value asset leases (office technology and equipment), costs are accounted for on a straight-line basis over the lease term.

For other leases, the Group recognises right-of-use assets and lease liabilities as of the lease commencement date.

As of the lease commencement date, the lease liability is measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease (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 recognised 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 recognised at the rates of exchange prevailing at the dates of the transactions. The functional currencies in the US subsidiaries are US and Canadian dollars, in the Czech subsidiaries Czech crowns, and in the Swedish subsidiaries Swedish krona.

During the course of the reporting period, assets and liabilities denominated in foreign currencies are translated by the Group using the exchange rate promulgated by the Czech National Bank on the previous business day; as of the end of the reporting period, the exchange rate promulgated by the Czech National Bank as of 31 December is used.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange rate differences on monetary items are recognised in the profit or loss for the period in which they occurred, except for exchange rate differences on transactions designated to hedge certain monetary risks (see Note 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 recognised 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 recognised in profit or loss in the period in which they are incurred.

3.13. Government grants and investment incentives

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

3.14. Employee benefits

The Group does not operate its own private pension and post-retirement benefit plans in the Czech Republic. In the Czech Republic, similar plans can only by operated by licensed pension funds. Therefore, it does not have any performance or constructive obligations to make such contributions to funds. The Group provides bonuses in relation to life jubilees and retirement for the work performed. Bonuses are differentiated based on the length of employment at the Company and recognised as a payable to employees using the projected unit credit method. The value of the bonuses did not exceed CZK 1,000 thousand in any period.

The Group has a pension plan in the US, 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 recognised in the Group‘s consolidated financial statements over the active working lives of the employees. In USA, the Group also operates a so called NQDC Plan (A Non-Qualified Deferred Compensation Plan) enabling 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. Share-based payments

The fair value of agreements on equity-settled share-based payments granted to an entity’s employees is usually recognised as an expense as at the grant date with a corresponding increase in equity over the vesting period.

The amount recognised as an expense is adjusted to correspond with the number of cases which are expected to meet the relevant condition of employment term/function term and the non-market performance condition, so that the amount finally recognised is based on the number of cases meeting the condition of the employment term/function term and the non-market performance condition on the vesting date.

As for remuneration in the form of share-based payments with non-vesting conditions, the grant date fair value of share-based payments is determined considering those conditions and no adjustments are made to reflect differences between the expected and actual result.

3.16. Taxation

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

3.16.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the Consolidated statement of profit or loss, because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated individually for each Group entity under tax legislation of the country in which the entity is domiciled.

3.16.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.16.3. Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

3.17. Property, plant, and equipment – non-current tangible assets

Property, plant, and equipment is recognised at acquisition cost net of accumulated depreciation and accumulated impairment losses.

Purchased property, plant and equipment is carried at cost upon acquisition. The cost includes the direct costs of acquisition, transportation costs, customs duty and other costs related to acquisition.

Non-current tangible 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 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)
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, non-current tangible assets under construction and a collection of firearms are not depreciated.

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.

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 of use is depreciated over the period of expected use. The table below summarises the useful lives by lease item.

Lease item	Number of years (from – to)
Warehouses, offices, and other spaces	2–10
Machinery, devices, and equipment	2–5
Vehicles	2–7

3.18. Intangible assets

3.18.1. Intangible assets acquired separately

Intangible assets acquired separately, and assets acquired within business combinations with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives as follows:

	Number of years (from – to)
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 amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets acquired separately, and assets acquired within business combinations with indefinite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

3.18.2. Internally developed intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all 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 recognised for internally generated intangible assets is the sum of the expenditure incurred from the date (mostly the date of the external examination board meeting) when the intangible asset first meets the recognition criteria listed above. Assets with the aggregate expenditure exceeding CZK 100,000 are recognised. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.18.3. 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 recognised 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 derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.19. 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 in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Intangible assets with indefinite useful lives, intangible assets that have not yet been used and goodwill are tested for impairment every year regardless of whether any indication of impairment exists.

3.20. Cash and cash equivalents

Cash comprises of 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 includes any purchase costs, transfer costs, and other costs incurred in bringing the inventories to their present condition and location. 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 recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Provisions recognised by the Group principally relate to legal disputes 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 recognised at the date of sale of the relevant products at the directors' best estimate of the expenditure, based on historical data, required to settle the Group's obligation.

3.23. Financial instruments

Financial assets and financial liabilities are recognised when the Group 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.

3.24. 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 amortised 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 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.

In 2022 and 2021, 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, the Group determines an impairment loss by means of the simplified model. Therefore, the impairment loss for current 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 current receivables into groups with a similar expected loss; impairment losses are then determined as a percentage of the value of receivables. The amount of expected losses for each class of receivables is based on historical experience and information about the future that is available without unreasonable cost or effort. The amount of the expected losses for each class of receivables is assessed annually by the Group's management.

For non-current receivables, the impairment loss is determined as the amount of the twelve-month loss, unless there is a significant deterioration 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 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 gross 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.

3.25. 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 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/ Other financial expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

3.25.3.1. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost.

3.25.3.2. Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability or, as the case may be, over a shorter period to their net carrying amount at the time of initial recognition.

3.25.3.3. Bonds

The bonds are publicly traded and listed on the regulated market of the Prague Stock Exchange. Issued bonds are recognised at fair value. Unpaid interest on bonds is recognised in the Current bonds, bank loans and borrowings position. Transaction costs are accrued and recognised in Long-term or Short-term bonds, bank loans and borrowings.

3.25.3.4. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- Loss allowance determined in accordance with IFRS 9, and
- Initial recognition decreased by revenues recognised in line with IFRS 15.

The Group provided no financial guarantees in 2022 and 2021.

3.25.3.5. Derecognition of financial liabilities

The Group derecognises 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 derecognised and the consideration paid and payable is recognised 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 and options. Derivative instruments are classified as trading or hedging. Hedging derivatives are arranged by the Group for the purpose of cash flow hedges.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair values of trading derivatives are recognised to financial expenses, or financial income as appropriate.

Changes in the fair value of derivative instruments classified as fair value hedges are also recognised under financial expenses, or financial income, along with the respective change in the fair value of the hedged asset or liability relating to the hedged risk. 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 the consolidated statement of profit or loss and other comprehensive income and presented as Gains/losses from derivative transactions.

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 Group 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 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.
(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 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 derivative instruments are measured at fair value as at the end of the reporting period and the fair value is reported under Cash flow hedge reserve 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 recognised in other comprehensive income under cash flow hedges – remeasurement 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 line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3.28. Use of estimates
The presentation of financial statements in line with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and presentation of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Management of the Group has made these estimates based on all the relevant information available to it as of the balance sheet date. 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 23),
- Impairment of inventory is based on the expected production and price development (Notes 3.21. and 25),
- Expected credit losses on receivables portfolio are based on historical experience and expected credit losses (Notes 3.24. and 28),
- The valuation of derivative instruments is based on market parameters (interest rates, foreign exchange rates) existing as at 31 December 2022 (Notes 3.23, 3.24., 3.25., 3.26.,3.27., and 40),
- 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., 23.1, and 23.2),
- The use of estimates is also applied to the creation of provisions (Note 14), the recognition of employee benefits (Note 15) and the recognition of share-based payments (Note 10).

3.29. 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:

- Regulation of firearm trading: Stricter regulation of firearm sales may negatively affect the Group's performance in the 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 analyses and assesses factors that may influence the Group's financial results and adopts measures (such as using hedging financial instruments) to reduce the impact of possible negative development in the above-described areas on the Group.

4. 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 at 31 December 2022 and 2021, 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		
	2022	**2021**
Czech Republic (home country)	1,926,379	824,128
USA	6,983,933	6,248,038
Canada	1,773,822	551,509
Europe (excluding the Czech Republic)	1,584,169	1,053,754
Africa	243,317	752,850
Asia	1,483,412	727,426
Other	594,742	531,222
Total	**14,589,774**	**10,688,927**

The Group has production facilities in the Czech Republic, USA, Canada, and Sweden. Out of the total carrying value of property, plant and equipment of CZK 3,066,251 thousand as at 31 December 2022 (CZK 2,810,115 thousand as at 31 December 2021) the value of items located in the USA is CZK 524,576 thousand (CZK 475,243 thousand as at 31 December 2021), in Canada CZK 186,851 thousand (CZK 139,887 thousand as at 31 December 2021) and in Sweden CZK 49,315 thousand (CZK 0 thousand as at 31 December 2021); the remaining part is in the Czech Republic.

Out of the total amount of intangible assets of CZK 3,462,131 thousand (CZK 3,505,464 thousand as at 31 December 2021), located outside the Czech Republic as at 31 December 2022, CZK 1,942,710 thousand (CZK 2,172,557 thousand as at 31 December 2021) was in the USA, CZK 570,177 thousand (CZK 641,657 thousand as at 31 December 2021) was in Canada and CZK 348,000 thousand (CZK 0 thousand as at 31 December 2021) was in Sweden.

Goodwill as at 31 December 2022 recorded in the Czech Republic amounts to CZK 280,686 thousand (CZK 280,686 thousand as at 31 December 2021), in the USA CZK 1,925,741 thousand (CZK 1,925,741 thousand as at 31 December 2021), in Canada CZK 183,700 thousand (CZK 183,700 thousand as at 31 December 2021) and in Sweden CZK 67,289 thousand (CZK 0 thousand as at 31 December 2021). Goodwill represents the expected synergies arising from the integration of the companies' activities within the existing Group.

5. REVENUES FROM THE SALE OF OWN PRODUCTS, GOODS AND SERVICES

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

	2022	2021
Revenues from the sale of own products	12,319,610	8,841,911
Revenues from goods	2,105,124	1,706,280
Revenues from provision of services	165,040	140,736
Total	**14,589,774**	**10,688,927**

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 the sales of firearms, ammunition and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting, and other civilian uses.

Customers with a share on consolidated revenues exceeding 10% threshold are as follows:

	2022	2021
Ministry of Defence of the Czech Republic	1,466,873	520,353
Total	**1,466,873**	**520,353**

As at 31 December 2022, the Group has agreed to contracts relating to the delivery of products and services 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 recognised in 2022 or 2021 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.

6. OTHER OPERATING INCOME

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

	2022	2021
Profit from the sale of non-current assets	12	2,340
Profit from the sale of material	16,025	21,279
Charge, utilisation, and release of provisions	44,474	–
Insurance claims	593	688
Other income from leases and subleases	8,384	7,399
Other income from the sale of a licence	19,110	11,086
Other	44,672	18,887
Total	**133,270**	**61,679**

7. RAW MATERIAL AND CONSUMABLES USED

The table below shows a breakdown of consumption and costs of goods sold in individual years (CZK '000):

	2022	2021
Consumed material	5,866,527	4,062,942
Costs of goods sold	1,161,579	942,617
Consumed energy	298,227	107,514
Total	**7,326,333**	**5,113,073**

8. SERVICES

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

	2022	2021
Outsourcing costs and other external costs	438,158	489,225
Services of manufacturing nature and sub-supplies	276,459	351,601
Transportation and travel	455,881	355,218
IT costs, connectivity, SW license	117,021	80,641
Repairs and maintenance	114,755	65,589
Variable lease costs	10,746	4,882
Costs of short-term leases	23,993	24,053
Costs relating to low-value assets not included in the short-term leases above	2,468	1,398
Commission costs	144,314	245,201
Marketing costs	144,578	108,528
Other services	40,655	38,563
Total	**1,769,028**	**1,764,899**

9. PERSONNEL COSTS

Breakdown of employee personnel expenses excluding executives (CZK '000):

	2022	2021
Average FTE number of employees	2,181	2,174
Wages and salaries	1,965,708	1,439,970
Social security and health insurance	480,129	414,551
Other financial expenses	62,677	43,160
Post-retirement benefit plan	–	25,207
Employee bonuses	70,053	32,342
Employee bonuses - Equity-settled share-based payments	75,218	–
Total	**2,653,785**	**1,955,230**

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

	2022	2021
Average FTE number of key management personnel	23	22
Wages and salaries	68,226	91,849
Social security and health insurance	12,641	15,010
Other financial expenses	620	229
Employee bonuses	30,400	25,828
Employee bonuses - Equity-settled share-based payments	123,141	–
Total	**235,028**	**132,916**

In 2022 a 2021, the key management personnel included all Members of the Board of Directors and Supervisory Boards of the respective companies. The Group did not provide any additional benefits to its key management personnel in 2022 and 2021 that are not included in the table above (e.g., post-employment benefits, termination benefits).

10. SHARE-BASED PAYMENT ARRANGEMENTS

10.1. Description of share-based payment arrangements – stock option plans (equity-settled)
On 27 December 2021, the Company's Supervisory Board approved the Share Program.

The Share Program entitles the Group's key executives and employees (option holders) to purchase the Company's shares. The plan is currently only available to executives and senior employees.

The basic principles of the Share Program are as follows:

- to the extent, at the times and subject to the conditions of the Share Program, the participant will acquire the following options by way of vesting by the Company.

a) 15% of the allocated stock options in the period from June 2022 to June 2024
b) 35% of the allocated stock options in July 2024 if Target 1 is met
c) 50% of the allocated stock options in July 2026 if Target 2 is met

- Target 1 – achieving consolidated EBITDA for the 2021 to 2023 period of USD 275,000,000
- Target 2 – achieving the following performance parameters at the consolidated level as at 31 December 2025:

i. a turnover of EUR 1,000,000,000
ii. EBITDA of EUR 200,000,000, and
iii. net liabilities to EBITDA ratio below 3.5, in compliance with the Group's strategy.

Shares designated for the Share Program will be newly issued. The maximum number of shares issued will be 3,373 thousand. Agreements for 2,807 thousand shares were signed with the Group's executives for the period ended 31 December 2022.

The Share Program comprises of five tranches:

- Tranche 1-3: conditional only on employment term/function term
- Tranche 4: employment term/function term condition and a non-vesting condition (EBITDA related Target 1)
- Tranche 5: employment term/function term condition and vesting non-market performance condition (EBITDA related Target 2).

The participants in share-based payment arrangements must not sell or transfer the options.

Employees terminating their employment are divided into two groups:

- Leaving on good terms (over the entire term of 10 years): unexercised options granted are not forfeited
- Leaving on bad terms (over the entire term of 10 years): unexercised options granted are forfeited.

Grant date/entitlement date	Number of instruments	Vesting conditions	Contractual maturity of the option
Granted options			
Tranche 1			
May 2022	44,500	employment term/function term from the grant date to 1 June 2022	The option may be exercised until 30 September 2029.
June 2022	17,850	ditto	ditto
July 2022	48,150	ditto	ditto
August 2022	14,350	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
Tranche 2			
May 2022	44,500	employment term/function term from the grant date to 1 June 2023	The option may be exercised until 30 June 2029.
June 2022	17,850	ditto	ditto
July 2022	48,150	ditto	ditto
August 2022	14,350	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
Tranche 3			
May 2022	44,500	employment term/function term from the grant date to 1 June 2024	The option may be exercised until 30 June 2029.
June 2022	17,850	ditto	ditto
July 2022	48,150	ditto	ditto
August 2022	14,350	ditto	ditto
September 2022	1,950	ditto	ditto
December 2022	13,565	ditto	ditto
Tranche 4			
May 2022	311,500	employment term/function term from the grant date to 1 July 2024 and non-vesting condition (EBITDA related Target 1)	The option may be exercised until 30 June 2029.
June 2022	124,950	ditto	ditto
July 2022	337,050	ditto	ditto
August 2022	100,450	ditto	ditto
September 2022	13,650	ditto	ditto
December 2022	94,955	ditto	ditto
Tranche 5			
May 2022	445,000	employment term/function term from the grant date to 1 July 2026 and vesting non-market performance condition (EBITDA related Target 2)	The option may be exercised until 30 June 2031.
June 2022	178,500	ditto	ditto
July 2022	481,500	ditto	ditto
August 2022	143,500	ditto	ditto
September 2022	19,500	ditto	ditto
December 2022	135,650	ditto	ditto
Total stock options	**2,807,300**		

10.2. Fair value measurement

To determine the fair values of equity-settled share-based payments (stock option plans settled with equity instruments) as at the grant date, the following input information was used:

Stock option plan (equity-settled)					
Key executives	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**	**Tranche 5**
Fair value at the grant date (in CZK) (average)	481.97	481.97	481.97	481.97	444.87
Share price at the grant date (in CZK) (average)	565.75	565.75	565.75	565.75	565.75
Exercise price of the option	0.10	0.10	0.10	0.10	0.10
Expected volatility (weighted average)	26.16%	26.16%	26.16%	26.16%	26.16%
Expected maturity of the option (weighted average) in years	4.0	4.0	4.0	4.0	6.0
Dividend income	4.00%	4.00%	4.00%	4.00%	4.00%
Risk-free interest rate (based on the CZK IRS* rate)	4.61%	4.61%	4.61%	4.61%	4.31%

* Interest rate swaps in CZK with corresponding validity

The expected volatility was based on an assessment of the historical volatility of the Company's share price for the historical period corresponding to the expected maturity.

10.3. Reconciliation of stock options

The following table shows the number and weighted average exercise price of shares in the Share Program.

	2022	
Total options	**Number of options**	**Weighted average exercise price**
Not settled as at 1 January	–	–
Granted during the period	2,807,300	0.10
Not settled as at 31 December	2,807,300	–

10.4. Expenses recorded in the statement of profit or loss

For more details on the Share Program expenses see Notes 9 and 12.

10.5. Items recorded in the statement of financial position

The fair value of 2,807,300 stock options allocated to own employees of CZK 198,360 thousand is recognised in retained earnings with a corresponding double entry in the statement of profit or loss (see Note 9).

The related social security and health insurance liabilities as at 31 December 2022 of CZK 10,168 thousand are recognised in non-current provisions with a corresponding double entry in the statement of profit or loss (see Note 12). The Group also recognised deferred tax in respect of these liabilities (see Note 20).

11. DEPRECIATION AND AMORTISATION

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

	2022	2021
Amortisation of non-current intangible assets (Note 23.1)	514,977	478,547
Depreciation of non-current tangible assets (Note 23.3)	369,262	290,320
Depreciation of right of use assets (Note 23.4)	26,196	20,756
Total	**910,435**	**789,623**

12. OTHER OPERATING EXPENSES

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

	2022	2021
Charge, utilisation, and release of provisions	–	36,965
Taxes and levies	26,620	22,851
Insurance premiums	97,614	72,307
Gifts	11,202	3,412
Write-off of financial assets	2,788	64
Damage compensation	928	–
Liquidation of inventories	15,550	5,478
Other operating expenses	83,384	49,013
Total	**238,086**	**190,090**

13. ALLOWANCES

Allowances constituting an impairment of assets and their changes were as follows (CZK '000):

Allowances for:	Balance as at 31 Dec 2020	Business combination – balance at the date of entry into consolidation*	Charge for allowances	Utilisation of allowances	Release of allowances	Impact of FX rate fluctuations	Balance as at 31 Dec 2021	Charge for allowances	Utilisation of allowances	Release of allowances	Impact of FX rate fluctuations	Balance as at 31 Dec 2022
Intangible assets	5,056	–	–	–	-807	–	4,249	–	-724	-3,350	–	175
Property, plant, and equipment	20,424	–	5,136	-6,692	–	–	18,868	2,661	-7,797	–	–	13,732
Inventories	136,712	134,938	159,336	-66,290	-1,813	6,516	369,399	279,424	-197,688	-15,411,	5,642	441,366
Trade and other receivables	13,934	7,731	21,285	-10,284	–	685	33,351	17,620	-5,564	-4,673	352	41,086
Total	**176,126**	**142,669**	**185,757**	**-83,266**	**-2,620**	**7,201**	**425,867**	**299,705**	**-211,773**	**-23,434**	**5,994**	**496,359**

* Acquisition of Colt on 21 May 2021.

Net change in allowances of CZK 64,498 thousand (2021 – CZK 99,871 thousand) is presented under Allowances line in the consolidated statement of profit or loss and other comprehensive income.

14. PROVISIONS

The table below shows changes in current provisions (CZK '000):

Current provisions	Balance as at 31 Dec 2020	Business combination – balance at the date of entry into consolidation*	Charge of provisions	Utilisation of provisi-ons	Release of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2021	Charge of provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance as at 31 Dec 2022
Warranty repairs	10,054	9,007	44,952	-15,818	-554	688	48,329	45,834	-22,545	-27,098	1,743	46,263
Other provisions	595	2,045	–	-108	-182	101	2,451	2,686	–	–	-29	5,108
Total	**10,649**	**11,052**	**44,952**	**-15,926**	**-736**	**789**	**50,780**	**48,520**	**-22,545**	**-27,098**	**1,714**	**51,371**

* Acquisition of Colt on 21 May 2021.

The table below shows changes in non-current provisions (CZK '000):

Non-current provisions	Balance 31 Dec 2020	Business combination – balance at the date of entry into consolidation*	Charge of provisions	Release of provisions	Impact of FX rate fluctuations	Balance at 31 Dec 2021	Charge of provisions	Utilisation of provisions	Release of provisions	Impact of FX rate fluctuations	Balance as at 31 Dec 2022
Warranty repairs	761	–	9,759	–	–	10,520	15	-124	–	–	10,411
Share-based payments	–	–	–	–	–	–	10,168	–	–	–	10,168
Other provisions	-7	52,346	–	-1,084	1,920	53,175	–	-8,021	-45,389	3,310	3,075
Total	**754**	**52,346**	**9,759**	**-1,084**	**1,920**	**63,695**	**10,183**	**-8,145**	**-45,389**	**3,310**	**23,654**

* Acquisition of Colt on 21 May 2021.

The provision for warranty repairs is the management's best estimate concerning the future outflow of resources embodying economic damage 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 of potential commitments from the industrial cooperation programme in the Colt Group and provisions for share-based payments.

15. EMPLOYEE BENEFIT LIABILITIES

Employee benefit liabilities (CZK '000):

	31 Dec 2022	31 Dec 2021
Net employee benefit liability	141,889	187,910
Liability for medical (healthcare) benefits	143,024	187,913
Total net employee benefit liability	**284,913**	**375,823**
Non-current net employee benefit liabilities	265,280	357,707
Current net employee benefit liabilities	19,633	18,116
Total net employee benefit liability	**284,913**	**375,823**

The Company did not record any net assets arising from employee benefits in 2022 and 2021. 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 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 2022 was 5% (2021 – 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 recognised in the Group'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).

2022	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 as at 1 Jan	1,715	–	1,715	6,478	–	6,478	627,649	-447,932	179,717	187,913	–	187,913
Included in the statement of profit or loss												
Present contractual costs	108	–	108	–	–	–	14,600	–	14,600	350	–	350
Interest expense (income)	–	–	–	–	–	–	18,244	–	18,244	4,719	–	4,719
	108	**–**	**108**	**–**	**–**	**–**	**32,844**	**–**	**32,844**	**5,069**	**–**	**5,069**
Included in the statement of profit or loss												
Profit (loss) from remeasurement:												
- Actuarial loss (profit) arising from:												
- financial assumptions	–	–	–	–	–	–	-137,801	–	-137,801	-36,278	–	-36,278
- experience-based adjustments	–	–	–	–	–	–	10,325	80,685	91,011	- 7,896	–	-7,896
- Return of assets of the plan without interest income	–	–	–	–	–	–	–	-12,708	-12,708	–	–	–
Impact of FX rate fluctuations	–	–	–	–	–	–	25,154	-18,102	7,052	7,368	–	7,368
	–	**–**	**–**	**–**	**–**	**–**	**-102,322**	**49,876**	**-52,446**	**-36,806**	**–**	**-36,806**
Other												
Contributions paid by the employer	–	–	–	–	–	–	–	-24,528	-24,528	–	–	–
Settlement	–	–	–	–	–	–	561	–	561	–	–	–
Paid-out benefits	-351	–	-351	-2,209	–	-2,209	-98,836	98,836	–	-13,152	–	-13,152
	-351	**–**	**-351**	**-2,209**	**–**	**-2,209**	**-98,276**	**74,308**	**-23,967**	**-13,152**	**–**	**-13,152**
Balance as at 31 Dec	**1,472**	**–**	**1,472**	**4,269**	**–**	**4,269**	**459,896**	**-323,748**	**136,148**	**143,025**	**–**	**143,025**

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 as 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
Included in 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	–	–	–	–	–	–	2,346	-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 as at 31 Dec	**1,715**	**–**	**1,715**	**6,478**	**–**	**6,478**	**627,649**	**-447,932**	**179,717**	**187,913**	**–**	**187,913**

* Acquisition of Colt on 21 May 2021.

Employee plan assets

The fair value of the asset-by-asset category and level is as follows (CZK '000):

2022	Total	Allocation percentage	Level 1
Equity funds	168,517	52%	168,517
Fixed income mutual funds	108,607	34%	108,607
Money market funds	9,588	3%	9,588
Total	**286,711**	**89%**	**286,711**
Stable value	37,040	11%	–
Total investments	**323,751**	**100%**	**–**

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%**	

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 2022 and 2021, 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.

	2022				2021			
	Life jubilee bonus	**Retirement bonus**	**Pension plan**	**Post-retirement healthcare plan**	**Life jubilee bonus**	**Retirement bonus**	**Pension plan**	**Post-retirement healthcare plan**
Discount rate	5.00%	5.00%	5.00%	5.00%	2.01%	2.01%	2.5%	2.5%
Expected return of plan assets	–	–	1.79%	–	–	–	1.74%	–
Healthcare cost trend rate	–	–	–	4.50%	–	–	–	4.5%
Turnover	19.39%	79.27%	–	–	21.66%	76.62%	–	–
Mortality	0.73%	14.04%	–	–	0.94%	13.86%	–	–
Average retirement age (in years)	–	64.93	–	–	–	64.88	–	–

*In 2022, the structure of the above table was adjusted, and for the sake of comparability the Company also adjusted the information for 2021.

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 emphasise 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 2022.

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.

	2022		2021	
	Increase	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	155,037	140,980	194,836	177,326
Healthcare cost trend rate (1%)	136,715	160,362	170,797	202,952
Turnover (1% movement)	468	-418	-677	776

16. INTEREST INCOME AND OTHER FINANCIAL INCOME

Interest income and other financial income in individual years (CZK '000):

	2022	2021
Interest income	440,453	50,038
Total interest income	**440,453**	**50,038**
Other financial income	79,231	32,488
Exchange rate gains	412,280	–
Exchange rate losses	-318,678	–
Total other financial income	**172,833**	**32,488**

Other financial income of CZK 79,231 thousand (2021 – CZK 32,488 thousand) represents income arising from the revaluation of employee benefits liabilities in amount of CZK 65,759 thousand (2021 – CZK 0) See Note 15.

17. INTEREST EXPENSE AND OTHER FINANCIAL EXPENSES

	2022	2021
Interest expense	610,222	203,626
Interest on lease contracts	1,834	1,359
Total interest expense	**612,056**	**204,985**
Other financial expenses	133,802	152,808
Exchange rate losses	–	407,056
Exchange rate gains	–	-391,355
Total other financial expenses	**133,802**	**168,509**

Other financial expenses of CZK 133,802 thousand (2021 – CZK 152,808 thousand) primarily comprise of the remeasurement of Other financial assets of CZK 86,110 thousand (2021 – CZK 0 thousand) and the remeasurement of contingent consideration of CZK 21,671 thousand (2021 – CZK 118,868 thousand) arising from the acquisition of Colt. See Notes 22, 27 and 37.1.

18. GAINS/LOSSES FROM DERIVATIVE TRANSACTIONS

Gains or losses from derivative transactions in individual years (CZK ‘000):

	2022	2021
Income from derivative transactions	262,231	191,986
Expenses from derivative transactions	-25,405	-7,847
Total	**236,826**	**184,139**

19. INCOME TAX

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

	2022	2021
Current tax	648,210	362,610
Deferred tax	-326,232	-191,524
Total	**321,978**	**171,086**

The table below shows the reconciliation of the profit or loss with current tax (CZK ‘000):

	2022	%	2021	%
Profit before tax	2,356,170		931,548	
Income tax calculated using parent company tax rate (19%)	447,672	19.00%	176,994	19.00%
Effect of tax rates in foreign jurisdictions	66,233	2.81%	-15,264	-1.64 %
Non-deductible expenses	35,373	1.50%	9,487	1.02%
Income exempt from tax	-22,697	-0.96%	-17,259	-1.85%
Current year losses for which no deferred tax asset was recognised in the current year	33,872	1.44%	–	–
Remeasurement of contingent consideration – Colt	5,396	0.23%	32,784	3.52%
Impact of restructuring in the Colt Group	-257,918	-10.95%	–	–
Tax bonuses	-955	-0.04%	-930	-0.10%
Other	15,002	0.64 %	-796	-0.08 %
Utilisation of prior years’ tax losses for which no deferred tax asset has been recognised	–	–	-13,930	-1.50 %
Income tax/ effective tax rate	**321,978**	**13.67 %**	**171,086**	**18.37 %**

In 2022, the Colt Group was restructured. As a result of these adjustments, a significant portion of the deferred tax liability representing potential withholding tax on dividends from foreign entities in the Colt Group was released. The impact of this restructuring on the Group's income tax in 2022 amounts to CZK 257,918 thousand (2021 – CZK 0 thousand) and significantly affects the Group's effective tax rate.

20. DEFERRED TAX

The Group calculated deferred tax as follows (CZK '000):

2022	As at 1 Jan 2022	Change in 2022				As at 31 Dec 2022
Deferred tax components	**Deferred tax asset (+) /liability (-)**	**Business combination – balance at the date of entry into consolida-tion*** **	**Recognised in profit or loss**	**Recognised in equity**	**Effect of exchange rate movements**	**Deferred tax asset (+) /liability (-)**
Intangible assets	-443,858	-78,606	54,488	–	290	-467,686
Property, plant, and equipment	-244,006	–	-10,493	–	-1,754	-256,253
Other remeasurement – Colt*	-209,412	–	32,704	–	-7,387	-184,095
Receivables	1,126	–	765	–	–	1,891
Inventories	78,570	–	38,154	–	941	117,665
Provisions	6,341	–	1,962	–	400	8,703
Liabilities	4,281	–	-1,759	–	-	2,522
Other payables	20,409	–	5,949	–	1,685	28,043
Other liability items – Colt**	-304,830	–	224,736	–	21,655	-58,439
Unutilised tax losses and interest on loans	326,798	–	-36,628	–	16,162	306,332
Remeasurement of effective portion of hedging instruments	-28,145	–	–	-222,424	–	-250,569
Other temporary differences	3,080	–	16,354	–	1,144	20,578
Total	**-789,646**	**-78,606**	**326,232**	**-222,424**	**33,136**	**-731,308**
Deferred tax asset (+) / liability (-)	**-789,646**					**-731,308**

* Deferred tax liability arising from remeasurements in business combinations within the Colt Group.
** The deferred tax liability represents potential withholding tax on dividends from foreign entities in the Colt Group.
*** Acquisition of Spuhr i Dalby AB on 12 October 2022.

2021	As at 1 Jan 2021	Change in 2021				As at 31 Dec 2021
Deferred tax components	**Deferred tax asset (+) /liability (-)**	**Business combination – balance at the date of entry into consolida-tion*** **	**Recognised in profit or loss**	**Recognised 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 remeasurement – acquisition of Colt*	–	-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 liability items – acquisition of Colt**	–	-274,922	-17,022	–	-12,887	-304,830
Unutilised tax losses and interest on loans	496	334,503	-23,919	–	15,718	326,798
Remeasurement of effective portion of hedging instruments	-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**

* Deferred tax liability arising from remeasurements in business combinations within the Colt Group.
** The deferred tax liability represents potential withholding tax on dividends from foreign entities in the Colt Group.
*** Acquisition of Colt on 21 May 2021.

21. OTHER COMPREHENSIVE INCOME

	2022	2021
Cash flow hedges – remeasurement of effective portion of hedging instruments, before tax	1,170,655	-52,884
Cash flow hedges – remeasurement of effective portion of hedging instruments, deferred tax	-222,424	10,048
Cash flow hedges – remeasurement of effective portion of hedging instruments	**948,231**	**-42,836**
Foreign currency translation of foreign operations	-125,035	-153,438
Foreign currency translation of foreign operations	**-125,035**	**-153,438**
Total other comprehensive income	**823,196**	**-196,274**

22. ACQUISITION OF SPUHR

On 12 October 2022, the Group completed the acquisition of the remaining 75% interest in Spuhr i Dalby AB, thus acquiring a 100% ownership interest in this company.

Spuhr i Dalby AB is a Swedish manufacturer of optical mounting solutions for weapons, based in Löddeköping, Sweden. Spuhr's product portfolio consists of optical mounts, accessories, and enhanced weapon kits, thus fittingly complementing the Group's core business. Spuhr mounts and accessories are used by many military and armed forces around the world. Spuhr also offers a popular hunting line of products.

The Group believes that the merger will deliver significant operational, commercial, and R&D synergies.

The acquisition will provide the Group with additional manufacturing capabilities and position it to become the leading supplier of optical mounting solutions for weapons and key global partner to both military, law enforcement and civilian customers.

Revenues from the sale of Spuhr i Dalby AB's own products, goods and services from the date of acquisition until 31. December 2022 amount to CZK 96,369 thousand. Pro-forma revenues from the sale of own products, goods and services from January 1, 2022 to December 31, 2022 amount to CZK 231,390 thousand.

Profit from the date of acquisition until 31 December 2022 amounts to CZK 26,737 thousand. Pro-forma profit from 1 January 2022 to 31 December 2022 amounts to CZK 99,607 thousand.

22.1. Consideration transferred

	12 Oct 2022 CZK '000
Monetary settlement	226,189
Contingent consideration (earn-out)	74,257
	300,446

Contingent consideration

The consideration transferred includes a deferred payment based on the results achieved (earn-out) up to a maximum of SEK 15,000 thousand for each specified period (approx. CZK 33,780 thousand) provided that the Company's gross profit for the first period, i.e., until September 2023, and for the second period, i.e., until September 2024, reaches a predetermined value. The transferred consideration also includes a bonus based on the results achieved (earn-out) up to a maximum of SEK 8,250 thousand for each specified period (approx. CZK 18,579 thousand) provided that the Company's gross profit for the first period, i.e., until September 2023, and for the second period, i.e. until September 2024, reaches a predetermined value.

As at the date of the consolidated financial statements, the Group expects that the gross profit targets will be achieved and therefore the contingent consideration of CZK 37,308 thousand is included in Other non-current financial liabilities and CZK 36,949 thousand in Other current financial liabilities.

Acquisition-related costs

In connection with the acquisition, the Group incurred costs of CZK 93 thousand, primarily relating to advisory services. These costs are recognised in the Services item in the consolidated statement of profit and loss and other comprehensive income.

22.2. Assets acquired and liabilities assumed at the acquisition date

	12 Oct 2022 CZK '000
Intangible assets	368,916
Property, plant, and equipment	56,834
Other non-current assets	2,568
Inventories	101,880
Trade and other receivables	16,519
Cash and cash equivalents	28,674
Long-term loans and borrowings	-10,500
Lease liabilities	-27,590
Short-term loans and borrowings	-6,639
Deferred tax liability	-78,606
Trade and other payables	-99,251
Other current liabilities	-3,659
Tax liabilities	-15,840
Fair value of acquired identifiable net assets	**333,306**

22.3. Goodwill

	12 Oct 2022 CZK '000
Consideration transferred	300,446
Fair value of previously held interest of 25 %	100,149
Fair value of acquired identifiable net assets	333,306
Goodwill	**67,289**

Goodwill primarily includes expected synergies arising from the integration of Spuhr i Dalby AB into the Group's existing activities. The recognised goodwill is not expected to be tax effective.

23. NON-CURRENT ASSETS

23.1. Intangible assets

COST

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation**	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Software	219,241	–	20,619	-13,748	15,669	-249	241,532
Intangible assets under construction or being acquired	48,678	–	42,752	-9,305	-17,683	–	64,442
Other intangible assets	883,984	–	2,790	-7,020	205	10,655	890,614
Trademarks and logos*	1,541,483	71,058	–	-584	–	26,805	1,638,762
Capitalised development	531,535	–	3,528	-3,632	1,809	-362	532,878
Concessions, licence rights and other intellectual property rights	340,280	19,414	9,544	-13,032	–	-5,961	350,245
Contractual customer relations	1,384,022	278,444	–	–	–	5,222	1,667,688
Total	**4,949,223**	**368,916**	**79,233**	**-47,321**	**–**	**36,110**	**5,386,161**

*Due to their nature, the Group considers these assets to be intangible assets with indefinite useful lives.
** Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – 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
Other intangible assets	57,956	794,393	–	-1,172	–	32,807	883,984
Trademarks and logos*	–	1,479,193	–	–	–	62,290	1,541,483
Capitalised 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**

*Due to their nature, the Group considers these assets to be intangible assets with indefinite useful lives.
** Acquisition of Colt on 21 May 2021.

ACCUMULATED AMORTISATION AND ALLOWANCES

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Amortisation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	-166,713	–	-17,457	8,503	–	223	-175,444	66,088
Intangible assets under construction or being acquired	-3,348	–	–	–	3,350	-2	–	64,442
Other intangible assets	-142,738	–	-155,419	63	–	6,731	-291,363	599,251
Trademarks and logos	–	–	–	584	–	-584	–	1,638,762
Capitalised development	-178,558	–	-47,163	3,015	724	991	-220,991	311,887
Concessions, licence rights and other intellectual property rights	-51,698	–	-201,739	5,660	–	12,231	-235,546	114,699
Contractual customer relations	-900,704	–	-93,199	–	–	-6,783	-1,000,686	667,002
Total	**-1,443,759**	**–**	**-514,977**	**17,825**	**4,074**	**12,807**	**-1,924,030**	**3,462,131**

* Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Amortisation	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	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
Other intangible assets	-26,917	–	-113,395	–	–	-2,426	-142,738	741,246
Trademarks and logos	–	–	–	–	–	–	–	1,541,483
Capitalised 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**	**–**	**-478,547**	**2,242**	**807**	**-3,829**	**-1,443,759**	**3,505,464**

* Acquisition of Colt on 21 May 2021.

Major additions to intangible assets include the acquisition of Spuhr, which is described in detail in Note 22.

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 2022 and 31 December 2021, no impairment was identified. Goodwill is described in Note 23.2.

Apart from development costs of CZK 16,150 thousand (2021 – CZK 26,137 thousand) recognised as intangible assets, the Group recognised research expenditure of CZK 209,648 thousand (2021 – CZK 149,734) as an expense in 2022.

23.2. Goodwill

COST

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Goodwill	2,390,127	67,289	–	–	–	2,457,416
Total	**2,390,127**	**67,289**	**–**	**–**	**–**	**2,457,416**

* Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – 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**

* Acquisition of Colt on 21 May 2021.

Goodwill of CZK 2,457,416 thousand (2021 – CZK 2,390,127 thousand) presented in the statement of financial position relates to the acquisition of Česká zbrojovka a.s. in 2014 (CZK 280,686 thousand), to the acquisition of the Colt Group in 2021 (CZK 2,109,441 thousand), and to the acquisiton of Spuhr in 2022 (CZK 67,289 thousand). The acquisition of the Spuhr company is described in Note 22.

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 2027 are also used for periods following 2027. 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. This value was set at a range of 7.6% - 8.3% for 2022 (2021 – 9.4%). As at 31 December 2022 and 31 December 2021, no impairment was identified.

23.3. Property, plant, and equipment

COST

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Transfers	Impact of FX rate fluctuations	Closing balance
Buildings	1,513,277	2,394	30,243	-8,325	6,730	1,293	1,545,612
Machinery, devices, and equipment	3,334,299	74,167	331,213	-243,651	133,161	-2,278	3,626,911
Other non-current operating assets	23,994	3,054	18,217	-329	–	-40	44,896
Non-current tangible assets under construction	90,354	–	71,556	-4,397	-54,799	-3,353	99,361
Prepayments made for non-current tangible assets	114,304	–	103,795	-9,536	-85,092	743	124,214
Land	270,714	–	49,547	–	–	4,278	324,539
Total	**5,346,942**	**79,615**	**604,571**	**-266,238**	**–**	**643**	**5,765,533**

* Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – 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
Non-current tangible assets under construction	146,402	6,884	52,111	-21,273	-94,620	850	90,354
Prepayments made for non-current tangible 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**

* Acquisition of Colt on 21 May 2021.

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Depreciation	Disposals, sale, liquidation	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	-550,185	-658	-59,810	3,668	–	-2,981	-609,966	935,646
Machinery, devices, and equipment	-2,008,538	-47,056	-303,015	234,200	–	-435	-2,124,844	1,502,067
Other non-current operating assets	-4,933	-2,657	-6,437	273	–	-381	-14,135	30,761
Non-current tangible assets under construction	-17,529	–	–	–	4,948	–	-12,581	86,780
Prepayments made for non-current tangible assets	-1,337	–	–	–	188	–	-1,149	123,065
Land	–	–	–	–	–	–	–	324,539
Total	**-2,582,522**	**-50,371**	**-369,262**	**238,141**	**5,136**	**-3,797**	**-2,762,675**	**3,002,858**

* Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

GROUP	Opening balance	Business combination – balance at the date of entry into consolidation*	Depreciation	Disposals, sale, liquidation	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	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
Non-current tangible assets under construction	-18,552	–	–	–	1,023	–	-17,529	72,825
Prepayments made for non-current tangible 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**

* Acquisition of Colt on 21 May 2021.

Major additions to non-current tangible assets include the acquisition of Spuhr (see Note 22) and the acquisition of machinery, devices, and equipment, including provided advances for non-current tangible assets.

23.4. Right of use

COST

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

	Opening balance	Business combination – balance at the date of entry into consolidation*	Additions	Disposals	Impact of FX rate fluctuations	Closing balance
Right of use of buildings and land	51,853	26,482	13,059	-6,815	-102	84,477
Right of use of machinery, devices, and equipment	34,469	1,108	7,463	-7,247	81	35,874
Total	**86,321**	**27,590**	**20,522**	**-14,062**	**-21**	**120,351**

* Acquisition of Spuhr i Dalby AB on 12 October 2022.

Year ended 31 December 2021 with the opening balance as at 31 December 2020. Amounts in the table are presented in CZK '000.

	Opening balance	Business combination – 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**

* Acquisition of Colt on 21 May 2021.

ACCUMULATED DEPRECIATION AND ALLOWANCES

Year ended 31 December 2022 with the opening balance as at 31 December 2021. Amounts in the table are presented in CZK '000.

	Opening balance	Depreciation	Disposals, sale, liquidation	Impact of FX rate fluctuations	Closing balance	Carrying amount
Right of use of buildings and land	-21,807	-16,120	6,815	-355	-31,467	53,010
Right of use of machinery, devices, and equipment	-18,820	-10,076	3,426	-21	-25,491	10,383
Total	**-40,626**	**-26,196**	**10,241**	**-376**	**-56,958**	**63,393**

Year ended 31 December 2021 with the 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**

24. EQUITY-ACCOUNTED SECURITIES AND INVESTMENTS

The carrying amount of all equity-accounted securities and investments changed as follows in the year ended 31 December 2022:

	31 Dec 2022 CZK '000	31 Dec 2021 CZK '000
Beginning of the period	109,445	110,524
Successive acquisition of a company – Spuhr i Dalby	-61,217	–
Share in the profit of associates after tax	14,302	27,196
Received dividends – Spuhr i Dalby	-23,130	-28,238
Other	1	-37
End of the period	**39,401**	**109,445**

Profit from the investments in associates (successive acquisition) of CZK 38,932 thousand in 2022 (2021 – CZK 0 thousand) relates to the acquisition of the remaining 75% interest in Spuhr i Dalby AB and comprises of the difference between the fair value of previously held 25% interest of CZK 100,149 thousand and the value of equity-accounted investments of CZK 61,217 thousand which was disposed of in 2022.

25. INVENTORIES

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

	31 Dec 2022	31 Dec 2021
Material	1,495,410	1,066,005
Finished products	1,334,103	936,913
Goods	270,246	267,009
Production in progress and semi-finished products	663,939	570,133
Prepayments made for inventories	33,859	21,613
Total	**3,797,557**	**2,861,673**

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 13) 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, centrefire rifles, semi-automatic rifles, semi-automatic carbines, submachine guns, assault rifles, bolt-action rifles, and accessories.

26. PROVIDED LOANS

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

			31 Dec 2022	31 Dec 2021
	Maturity date	**Aggregate limit as at 31 Dec 2022 (CZK '000)**	**CZK '000**	**CZK '000**
CZ-AUTO SYSTEMS a.s.	27 Jan 2022	–	–	190,000
EHC zdravotní s.r.o.	31 Dec 2023	7,000	7,000	7,000
Total			**7,000**	**197,000**
Repayments in the following year, incl. outstanding interest			7,700	197,973
Total			**7,700**	**197,973**

Total interest income relating to provided loans recognised on the interest income line amounted to CZK 175 thousand in 2022 (2021 – CZK 5,865 thousand).

27. OTHER FINANCIAL ASSETS

	31 Dec 2022	31 Dec 2021
Other financial assets at fair value through profit or loss	756,834	–
Total	**756,834**	**–**

Other financial assets represent the Group's short-term investment in listed shares held for trading. The Group completed this investment through an intermediary, i.e., a securities dealer. The fair values of these shareholdings are determined based on prices quoted in an active market – see Note 38.

28. TRADE AND OTHER RECEIVABLES

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

	31 Dec 2022	31 Dec 2021
Trade receivables	1,234,833	949,348
Other receivables	128,501	96,253
Estimated receivables	11,011	16,747
Accrued income	7,313	9,530
Total	**1,381,658**	**1,071,878**
Non-current	35,515	58,999
Current	1,346,143	1,012,879
Total	**1,381,658**	**1,071,878**

The ageing structure and impairment losses recognised for current trade receivables are as follows (CZK '000):

	31 Dec 2022			31 Dec 2021		
	Receivables	**Allowances**	**Net receivables**	**Receivables**	**Allowances**	**Net receivables**
Within due date	1,064,317	-19,714	1,044,603	771,649	-14,876	756,773
Up to 3 months overdue	181,180	-1,207	179,973	158,875	-2,111	156,764
3 to 6 months overdue	5,124	-543	4,581	28,502	-999	27,503
6 to 12 months overdue	6,813	-3,409	3,404	8,642	-879	7,763
More than 12 months overdue	18,485	-16,213	2,272	15,031	-14,486	545
Total	**1,275,919**	**-41,086**	**1,234,833**	**982,699**	**-33,351**	**949,348**

The credit quality of trade receivables is discussed in Note 39.

The Group has pledged current receivables in favour of the Group's creditors.

Receivables pledged in favour of the Group's creditors as at 31 December 2022 (CZK '000):

Receivables	Amount	Description
Current trade receivables pledged in favour of Komerční banka, a.s.	646,314	Agreement on a pledge on receivables from business contracts
Current trade receivables pledged in favour of Česká spořitelna, a.s.	4,817	Pledge under an overdraft agreement

Receivables pledged in favour of the Group's creditors as at 31 December 2021 (CZK '000):

Receivables	Amount	Description
Current trade receivables pledged in favour of Komerční banka, a.s.	467,651	Agreement on a pledge on receivables from business contracts
Current trade receivables pledged in favour of Česká spořitelna, a.s.	720	Pledge under an overdraft agreement

29. OTHER RECEIVABLES

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

	31 Dec 2022	31 Dec 2021
Provided advances	154,649	52,005
Deferred expenses	124,150	69,110
Other receivables – non-financial	–	147
Value added tax	31,018	37,999
Other taxes	748	–
Total	**310,565**	**159,261**
Non-current	6,560	11,163
Current	304,005	148,098
Total	**310,565**	**159,261**

30. CASH AND CASH EQUIVALENTS

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

	31 Dec 2022	31 Dec 2021
Cash on hand	1,431	3,618
Cash at bank	2,824,350	3,569,849
Total	**2,825,781**	**3,573,467**

31. SHARE CAPITAL AND SHARE PREMIUM

On 30 May 2022, the share capital was increased through the issue of 365,291 shares in book-entry form with a nominal value of CZK 0.1 per share. The newly issued shares were subscribed by Colt CZ Group North America, Inc. (former CZ-US Holdings, Inc.) at a price of CZK 622 per share, solely in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021. On 15 July 2022, a total of 365,291 shares of the Company were handed over to the original owners of Colt. The difference between the net proceeds from the subscription of the new ordinary shares and their nominal value of CZK 227,175 thousand was recorded as share premium. As at 31 December 2022, the Company's share capital comprises of 34,102 thousand ordinary registered shares totalling CZK 3,410 thousand.

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 1,098,620 shares 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 comprised of 33,737 thousand ordinary registered shares.

32. OTHER COMPONENTS OF EQUITY

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

	31 Dec 2022	31 Dec 2021
Share premium	1,366,386	1,139,211
Capital funds	1,641,512	1,641,512
Cash flow hedge reserve	1,068,214	119,983
Foreign exchange translation reserve	-326,433	-201,398
Total	**3,749,679**	**2,699,308**

Other capital funds represent additional capital contributions relating to the acquisition of a 50% interest in Česká zbrojovka a.s. in 2013.

33. BONDS, BANK LOANS AND BORROWINGS

33.1. Bonds

As at 31 December 2022, the Group used the following external financing in the form of issued bonds (CZK '000):

				31 Dec 2022	31 Dec 2021
	Terms	**Interest rate %**	**Aggregate limit as at 31 Dec 2022 (CZK '000)**	**CZK ‘000**	**CZK ‘000**
Issued bonds	27 Jan 2022	6M Pribor + margin % p.a.	–	–	2,250,000
Issued bonds – unpaid interest				–	25,379
Issued bonds	23 Mar 2027	6M Pribor + margin % p.a.	5,000,000	5,000,000	5,000,000
Issued bonds – unpaid interest				124,839	42,200
Issued bonds - costs of subscription				-22,118	-27,353
Issued bonds	27 Jan 2029	6M Pribor + margin % p.a.	1,998,000	1,998,000	–
Issued bonds – unpaid interest				77,606	–
Issued bonds - costs of subscription				-11,725	–
Total			**6,998,000**	**7,166,602**	**7,290,226**
Repayments in the following year				202 445	2 290 226
Repayments in future years				6 964 157	5 000 000

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 issues were repaid in January 2022.

In 2022, the company issued bonds totalling CZK 1,998,000 thousand and maturing in 2029. In 2021, the company issued bonds totalling CZK 5,000,000 thousand and maturing in 2027. The company does not expect to call the bonds in 2023.

As at 31 December 2022, interest expense amounted to CZK 474,209 thousand (2021 – CZK 151,677 thousand), of which outstanding interest expense amounted to CZK 202,445 thousand (31 December 2021 – CZK 67,579 thousand).

Costs related to the issue of bonds in 2022 of CZK 13,508 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining balance of these accruals is CZK 11,725 thousand as at 31 December 2022. Costs related to the issue of bonds in 2021 of CZK 31,412 thousand are accounted for on an accrual basis over the maturity of the bonds. The remaining balance of these accruals as at 31 December 2022 is CZK 22,118 thousand (31 December 2021 – 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 2022.

33.2. Bank loans and borrowings

As at 31 December 2022 and 31 December 2021, the Group had the following bank loans and borrowings (CZK '000):

				31 Dec 2022	31 Dec 2021
Bank	**Terms**	**Interest rate %**	**Aggregate limit as at 31 Dec 2022 (CZK '000)**	**CZK '000**	**CZK '000**
Komerční banka, a.s. and Česká spořitelna, a.s.	31 Dec 2023	1M Pribor + margin % p.a.	500,000	–	–
Česká spořitelna, a.s.	31 May 2023	1D Pribor + margin % p.a.	40,000	–	–
Sparbanken Skåne	30 Nov 2026	6.1 - 6.4%	14,893	14,893	
Total			**686,617**	**14,893**	**–**
Repayments in the following year		6,152	–	6 152	–
Repayments in future years		8,741	–	8 741	–

Payables arising from the loans are secured with a pledge of the receivables (as stated in Note 28) or a pledge of equity investments.

34. TRADE AND OTHER PAYABLES

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

	31 Dec 2022	31 Dec 2021
Trade and other payables	852,242	934,208
Accrued expenses	10,665	1,424
Estimated payables	216,491	164,171
State subsidies	924	4,975
Other current liabilities – financial	82,458	17,017
Total	**1,162,780**	**1,121,795**
Non-current	7,825	5,422
Current	1,154,955	1,116,373
Total	**1,162,780**	**1,121,795**

As at 31 December 2022 and 31 December 2021, the Group did not record any liabilities with a maturity of more than five years.

As at 31 December 2022, 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	6 Jan 2023	Customs guarantee
38,000	EUR	11 Nov 2023	Bank guarantee
2,670	USD	14 Jan 2023	Bank guarantee
18,302	USD	14 Jan 2023	Bank guarantee
19,043	USD	30 Jun 2023	Bank guarantee
100,000	USD	28 Feb 2024	Bank guarantee
9,495	USD	30 Apr 2023	Bank guarantee
18,852	USD	28 Feb 2023	Bank guarantee
102,138	USD	30 Apr 2023	Bank guarantee
123,000	USD	18 Mar 2023	Bank guarantee
552,000	USD	18 Mar 2023	Bank guarantee
439,000	USD	18 Mar 2023	Bank guarantee
87,000	USD	7 Dec 2023	Bank guarantee
128,000	USD	12 months after delivery	Bank guarantee
95,580	SEK	25 Jul 2023	Bank guarantee
20,000	USD	30 June 2023	Letter of credit
5,946,000	USD	19 Jan 2023	Letter of credit
1,260,000	USD	21 Jan 2023	Letter of credit
636,000	USD	17 Feb 2023	Letter of credit
368,000	USD	21 Feb 2023	Letter of credit
23,000	USD	1 Dec 2023	Letter of credit
6,000	USD	30 Jun 2023	Non-bank guarantee
6,000	USD	30 Apr 2023	Non-bank guarantee
6 000	USD	30. 04. 2023	Nebankovní záruka

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

35. OTHER PAYABLES

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

	31 Dec 2022	31 Dec 2021
Prepayments received	818,867	567,636
Employee liabilities	252,555	245,838
Liabilities of untaken holiday	25,261	28,386
Employee liabilities arising from bonuses	111,067	92,538
Social security and health insurance	29,579	32,048
Other non-financial liabilities	438	280
Value added tax	13,576	–
Other taxes	205,488	95,289
Deferred income	43,605	39,098
Total	**1,500,436**	**1,101,113**
Non-current	21,169	27,357
Current	1,479,267	1,073,755
Total	**1,500,436**	**1,101,113**

36. OTHER FINANCIAL LIABILITIES

	31 Dec 2022	31 Dec 2021
Contingent consideration (earn-out Colt)	404,804	558,009
Contingent consideration (earn-out Spuhr)	74,257	–
Total	**479,061**	**558,009**
Non-current	240,468	372,531
Current	238,593	185,568
Total	**479,061**	**558,099**

37. LEASES

37.1. The Group as a lessor

In 2022, the Group recognised income from operating lease of CZK 8,348 thousand (2021 – CZK 7,399 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.

37.2. 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 lease term is 2-10 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, 11, 17 and 23.4. Total cash outflows arising from lease contracts amounted to CZK 24,735 thousand in 2022 (2021 – CZK 21,811 thousand).

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

	31 Dec 2022	31 Dec 2021
Lease liabilities – non-current	46,796	32,606
Lease liabilities – current	23,939	20,695
Total	**70,735**	**53,301**

The table below shows the terms of lease liabilities and their nominal value (CZK '000):

	31 Dec 2022			31 Dec 2021		
	Nominal interest rate	Nominal value	Carrying amount	Nominal interest rate	Nominal value	Carrying amount
Liabilities from building and land leases	4% p.a.	57,730	54,530	2% p.a.	31,050	29,218
Liabilities from lease of machinery, devices, and equipment	4% p.a.	17,194	16,205	2% p.a.	25,129	24,083
Total		**74,924**	**70,735**		**56,179**	**53,301**

Reconciliation of movements of lease liabilities with cash flows:

	2022	2021
Opening balance of lease liability as at 1 Jan	**53,301**	**87,375**
Lease payments	-24,735	-21,811
Total cash flows	**-24,735**	**-21,811**
Interest expense	1,834	1,359
Lease additions and modifications	40,335	-13,622
Closing balance as at 31 Dec	**70,735**	**53,301**

As at 31 December 2022, the Group recorded the following in the statement of profit or loss in connection with leases:

	2022	2021
Depreciation of right of use of assets	26,196	20,756
Interest expense of lease liability (included in finance costs)	1,834	1,359
Costs of short-term leases (included in service costs)	23,993	24,053
Costs relating to low-value assets not included in the short-term leases above (included in service costs)	2,468	1,398
Costs relating to variable lease payments not included in lease liabilities (included in service costs)	10,746	4,882
Total	**65,237**	**52,448**

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

Ageing structure of lease liabilities	Balance at 31 Dec 2022	Balance at 31 Dec 2022
Within 3 months	6,149	5,605
3 months to 1 year	17,790	15,090
1 to 2 years	17,484	16,849
2 to 3 years	10,510	10,939
3 to 4 years	3,535	3,848
4 to 5 years	2,531	970
More than 5 years	12,736	–
Total	**70,735**	**53,301**

38. 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 2022	31 Dec 2021
Short-term portion		
Trade and other receivables	1,346,143	1,012,879
Provided loans	7,700	197,973
Other financial assets	756,834	–
Financial derivatives	217,123	156,118
Cash and cash equivalents	2,825,781	3,573,467
Total	**5,153,581**	**4,940,437**
Long-term portion		
Financial derivatives	1,181,097	171,195
Trade and other receivables	35,515	58,999
Total	**1,216,612**	**230,194**

Financial liabilities	31 Dec 2022	31 Dec 2021
Short-term portion		
Bonds, bank loans and borrowings	208,597	2,317,579
Financial derivatives	38,610	20,097
Lease liabilities	23,939	20,695
Other financial liabilities	238,593	185,568
Trade and other payables	1,154,955	1,116,373
Total	**1,664,694**	**3,660,312**
Long-term portion		
Bonds, bank loans and borrowings	6,972,898	4,972,647
Financial derivatives	28,684	270,515
Lease liabilities	46,796	32,606
Other financial liabilities	240,468	372,531
Trade and other payables	7,825	5,422
Total	**7,296,671**	**5,653,721**

38.1. 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 2022 (CZK ,000). CZK 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		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	40	–	64,557	64,557	–	64,557	64,557
Currency swaps held for trading	40	–	24,581	24,581	–	24,581	24,581
Currency options held for trading	40	–	70,142	70,142	–	70,142	70,142
Financial derivatives used for hedge accounting							
Currency forwards used for hedge accounting	40	114,620	–	114,620	–	114,620	114,620
Currency swaps used for hedging	40	327,129	–	327,129	–	327,129	327,129
Currency options used for hedge accounting	40	113,135	–	113,135	–	113,135	113,135
Cross currency interest rate swaps for hedging	40	585,796	–	585,796	–	585,796	585,796
Interest rate swaps used for hedging	40	98,260	–	98,260	–	98,260	98,260
Other financial assets							
Other financial assets	27	–	756,834	756,834	756,834	–	756,834
Total		**1,238,940**	**916,114**	**2,155,054**	**756,834**	**1,398,220**	**2,155,054**

		Carrying amount			Fair value		
2022	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**Level 1**	**Level 2**	**Total**
Financial liabilities measured at fair value							
Financial derivatives held for trading							
Currency forwards held for trading	40	–	20,126	20,126	–	20,126	20,126
Currency options held for trading		–	1,550	1,550	–	1,550	1,550
Financial derivatives used for hedge accounting	40						
Currency forwards used for hedge accounting	40	30,826	–	30,826	–	30,826	30,826
Currency options used for hedge accounting	40	14,792	–	14,792	–	14,792	14,792
Other financial liabilities							
Contingent consideration from the acquisition of Colt	36	–	404,804	404,804	404,804	–	404,804
Contingent consideration from the acquisition of Spuhr	36	–	74,257	74,257	74,257	–	74,257
Total		**45,618**	**500,737**	**546,355**	**479,061**	**67,294**	**546,355**

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 recognised in 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
Financial derivatives used for hedge accounting						
Interest rate 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**

		Carrying amount			Fair value		
2021	**Note**	**Hedging instruments measured at fair value**	**Mandatorily recognised in profit or loss – other**	**Total**	**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**

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

No transfers between levels were made during the period.

38.2. 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
Currency forwards and 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 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
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
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
Contingent consideration from the acquisition of Spuhr	The fair value of the contingent consideration is based on current estimate of Spuhr's gross profit for the periods defined in the Sale and purchase agreement.	None
Share-based payment arrangements	The fair value of employee stock options was determined using the Black Scholes measurement model. The options are subject to the employment term/function term and non-market performance condition which were not considered in fair value determination.	None
Other financial assets	The fair value is determined based on the quoted bid price in an active market.	None

39. 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 minimisation 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 40.

39.1. 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.

No concentration of credit risk occurs.

Impairment losses on financial assets recognised in the statement of profit or loss are presented in Note 13.

The table below shows an overview of credit risk based on territory for 2022 (CZK '000):

31 Dec 2022	Czech Republic	USA	Canada	Europe (excluding the Czech Republic)	Asia	Other	Total
Provided loans	7,700	–	–	–	–	–	**7,700**
Other financial assets	–	756,834	–	–	–	–	**756,834**
Financial derivatives	1,398,220	–	–	–	–	–	**1,398,220**
Trade and other receivables	24,480	496,351	251,544	227,166	82,085	300,034	**1,381,658**
Cash and cash equivalents	2,047,929	478,464	198,161	74,226	–	–	**2,825,781**
Total	**3,505,329**	**1,731,649**	**449,705**	**301,392**	**82,085**	**300,034**	**6,370,193**

The table below shows an overview of credit risk based on territory for 2021 (CZK '000):

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**

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: 2021 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 2022 based on the external credit rating equivalent (CZK '000):

31 Dec 2022	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	2.6%	1,124,219	-29,500	1,094,720	No
Grade 7-9: Reasonable risk	BB-to BB+	23.38%	24,080	-5,629	18,450	No
Grade 10: Non-standard	B-to CCC-	3.62%	126,237	-4,574	121,663	No
Grade 11: Doubtful	C to CC	–	–	–	–	No
Grade 12: Loss-making	D	100.0%	1,383	-1,383	–	Yes
Total			**1,275,919**	**-41,086**	**1,234,833**	

The table below shows information on credit risk exposure and the expected credit loss rate for trade receivables for 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	–	–	–	–	No
Grade 12: Loss-making	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 based on ageing structure as at 31 December 2022 (CZK ‘000):

31 Dec 2022	Expected credit loss rate	Gross carrying amount	Allowances for credit loss	Net carrying amount	Credit-impaired
Within due date	1.85%	1,064,317	-19,714	1,044,603	No
1-90 days overdue	0.67%	181,180	-1,207	179,973	No
90-180 days overdue	10.59%	5,124	-543	4,581	No
180-360 days overdue	50.04%	6,813	-3,409	3,404	No
More than 360 days overdue	87.71%	18,485	-16,213	2,271	Yes
Total		**1,275,919**	**-41,086**	**1,234,833**	

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**	**949,348**	

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 recognised 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 2022, the Group held cash and cash equivalents of CZK 2,825,781 thousand (2021 – CZK 3,573,467 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.

39.2. 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 current 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 quick ratio indicator, which is calculated as the ratio of current financial assets to current financial liabilities, is 3.10 as at 31 December 2022 (1.35 as at 31 December 2021).

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 2022 (CZK '000):

		Contractual cash flows					
31 Dec 2022	**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	70,735	70,735	6,149	5,930	11,860	34,060	12,736
Other financial liabilities	479,061	479,061	–	201,644	36,949	240,468	–
Trade and other payables	1,162,780	1,162,779	1,144,563	7,564	–	10,652	–
Bonds, bank loans and borrowings	7,181,495	9,350,291	361,301	471,471	507,157	5,908,033	2,102,329
Total non-derivative financial liabilities	**8,894,071**	**11,062,866**	**1,512,013**	**686,609**	**555,966**	**6,193,213**	**2,115,065**
Derivative financial liabilities							
Currency forwards held for trading	20,126	20,126	6,120	14,006	–	–	–
Currency options held for trading	1,550	1,550	31	1,519	–	–	–
Currency forwards used for hedge accounting	30,826	30,826	–	13,299	–	17,527	–
Currency options used for hedge accounting	14,792	14,792	–	1,958	1,679	11,155	–
Total derivative financial liabilities	**67,294**	**67,294**	**6,151**	**30,782**	**1,679**	**28,682**	**–**
Total	**8,961,365**	**11,130,160**	**1,518,164**	**717,391**	**557,645**	**6,221,895**	**2,115,065**

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**

39.3. 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 analysis.

39.3.1. 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 minimise 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 2022	CZK	EUR	USD	CAD	SEK	Other	Total
Financial assets							
Provided loans	7,700	–	–	–	–	–	7,700
Financial derivatives	1,398,220	–	–	–	–	–	1,398,220
Trade and other receivables	43,645	257,301	858,486	198,116	22,393	1,717	1,381,658
Other financial assets	–	–	756,834	–	–	–	756,834
Cash and cash equivalents	1,752,846	201,327	611,944	191,950	66,423	1,291	2,825,781
Total financial assets	**3,202,411**	**458,628**	**2,227,264**	**390,066**	**88,816**	**3,008**	**6,370,193**
Financial liabilities							
Financial derivatives	67,294	–	–	–	–	–	67,294
Lease liabilities	25,201	493	15,334	3,822	25,885	–	70,735
Other financial liabilities	74,257	–	404,804	–	–	–	479,061
Trade and other payables	462,861	90,363	482,562	64,480	60,531	1,983	1,162,780
Bonds, bank loans and borrowings	7,166,601	–	–	–	14,894	–	7,181,495
Total financial liabilities	**7,796,214**	**90,856**	**902,700**	**68,302**	**101,310**	**1,983**	**8,961,365**
Effect of currency derivatives – nominal value	**–**	**–**	**830,007**	**–**	**–**	**–**	**830,007**
Total currency risk exposure	**-4,593,803**	**367,772**	**494,557**	**321,764**	**-12,494**	**1,025**	**-3,421,179**

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**

39.3.2. Sensitivity to exchange rate fluctuations

The Group is exposed to currency risk, especially in relation to EUR, USD, CAD, and SEK.

The Company used the following most important exchange rates:

	Average exchange rate		Exchange rate at the end of the period	
In CZK	**2022**	**2021**	**2022**	**2021**
EUR	24.565	25.645	24.115	24.86
USD	23.36	21.682	22.616	21.951
CAD	16.706	17.374	17.952	17.275
SEK	2.23	2.528	2.167	2.425

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.

	Impact on profit before tax 2022		Impact on profit before tax 2021	
In CZK	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	-67,886	67,886	-100,342	46,670
USD	49,456	-49,456	43,043	-43,043
CAD	32,176	-32,176	25,038	-25,038
SEK	-1,249	1,249	–	–

	Impact on equity 2022		Impact on equity 2021	
In CZK	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**	**Foreign currency appreciation by 10%**	**Foreign currency depreciation by 10%**
Foreign currency				
EUR	-843,628	805,036	-669,360	669,360
USD	-561,351	520,054	-180,176	162,842

39.3.3. Interest rate risk management

The Group is exposed to the risk of interest rate changes as the Group 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 rate. Amount of interest--bearing liabilities using other reference rates is not significant (Note 33).

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 2022, interest rate risk exposure was as follows:

31 Dec 2022 CZK '000	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
Provided loans	7,700	7,731	–	7,731
Total interest-bearing financial assets	**7,700**	**7,731**	**–**	**7,731**
Bonds, bank loans and borrowings	7,181,495	9,350,291	9,350,291	–
Lease liabilities	70,735	70,735	–	70,735
Other financial liabilities	479,061	479,061	–	479,061
Total interest-bearing financial liabilities	**7,731,291**	**9,900,087**	**9,350,291**	**549,796**
Effect of cross currency interest rate swaps and interest rate swaps – nominal value	**–**	**–**	**5,212,700**	**–**
Total interest rate risk exposure	**-7,723,591**	**-9,892,356**	**-4,137,591**	**-542,065**

As at 31 December 2021, interest rate risk exposure was as follows:

31. 12. 2021 v tis. Kč	Účetní hodnota	Smluvní peněžní toky	Variabilní úroková míra	Fixní úroková míra
31 Dec 2021	Carrying amount	Contractual cash flows	Variable interest rate	Fixed interest rate
CZK '000 CZK				
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**

39.3.4. 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 2022		Impact on profit before tax 2021	
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	-67,884	67,884	-63,911	63,911
Sensitivity of interest rates changes	**-67,884**	**67,884**	**-63,911**	**63,911**

	Impact on equity 2022		Impact on equity 2021	
CZK '000 CZK	**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	206,474	-206,474	126,811	-133,703
Interest rate swaps	17,875	-17,875	–	–
Sensitivity of interest rates changes	**224,349**	**-224,349**	**126,811**	**-133,703**

40. DERIVATIVE INSTRUMENTS

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks. To manage these risks, the Company uses the following derivative instruments:

- Cross currency interest rate swaps,
- Interest rate swaps,
- Foreign currency put options,
- Foreign currency call options,
- Currency forwards, and
- Currency swaps.

Derivative instruments are classified as trading or hedging.

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 forwards, currency swaps, and currency options. Usual hedging maturity for the FX hedging contracts is up to five years. At the same time, the Group has a few long-term commercial contracts meaning the future exposure can be hedged even without the current existence of the particular contract.

This can result in an over-hedged or under-hedged position, unexpected losses or profits in case the estimates of future foreign exchange exposure do not materialise. 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 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 reserves.

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 3.27. The Group expects to continue its hedging activities in the future.

40.1. Currency contracts

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 2022 and 31 December 2021 (CZK '000):

	31 Dec 2022			31 Dec 2021		
		Fair value			Fair value	
CZK '000 CZK	Nominal	Positive	Negative	Nominal	Positive	Negative
Put option	965,806	70,142	–	299,563	13,274	–
Call option	1,555,779	–	1,550	1,595,391	–	23,043
Forwards	2,020,123	64,557	20,126	292,636	14,814	–
Swaps	830,007	24,581	–	–	–	–
Total	**5,371,715**	**159,280**	**21,676**	**2,187,590**	**28,088**	**23,043**

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 2022 and 31 December 2021 (CZK '000):

	31 Dec 2022			31 Dec 2021		
		Fair value			Fair value	
CZK '000 CZK	Nominal	Positive	Negative	Nominal	Positive	Negative
Interest rate swap	500,000	98,260	–	1,700,000	70,432	–
Put option	1,911,409	113,135	–	3,827,197	114,646	–
Call option	1,911,409	–	14,792	3,827,197	–	75,081
Currency swap	4,503,470	327,129	–	4,084,071	4,041	106,491
Forwards	4,456,425	114,620	30,826	4,574,648	110,106	36,531
Cross currency interest rate swaps - USD	3,212,700	274,828	–	–	–	–
Cross currency interest rate swaps - EUR	1,500,000	310,968	–	–	–	–
Total	**17,995,413**	**1,238,940**	**45,618**	**18,013,113**	**299,225**	**218,103**

Valuation techniques are described in Note 38.2.

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	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
trading	24.234	23.18	60,000	10,500	1,356,960	243,389	64,557	11,388
trading - SWAP	23.250	–	36,700	–	830,007	–	24,581	–
hedging - SWAP	23.667	23.574	14,000	11,000	331,343	259,310	8,182	593
hedging	23.354	23.394	144,000	72,500	3,363,019	1,696,069	41,727	-2,134
hedging - USD/EUR	1.106	1.106	22,119	103,683	20,000	93,750	13,299	77,611
EUR	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
trading	–	26.222	–	2,500	–	65,555	–	3,426
hedging	27.310	26.772	29,750	26,250	812,490	702,760	55,366	-1,901
hedging - SWAP	27.552	27.422	173,620	154,570	4,783,512	4,238,545	318,947	-103,044

Open put options	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
hedging	23.067	–	36,000	–	830,400	–	40,581	–
EUR	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
trading	26.134	26.051	40,050	12,050	1,046,632	313,911	70,141	13,274
hedging	26.070	26.152	45,500	153,950	1,186,163	4,026,177	72,554	114,645

Open call options	Average exchange rate		Foreign currency		Nominal value		Fair value	
USD	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
hedging	27.633	–	36,000	–	994,800	–	11,814	–
EUR	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
trading	–	26.103	–	64,175	–	1,676,659	–	-23,042
hedging	26.250	26.152	45,500	153,950	1,194,363	4,026,177	1,132	-75,081

The tables below show the maturity of individual financial derivatives as at 31 December 2022 and 31 December 2021 based on their fair and nominal values (CZK '000):

		31 Dec 2022		31 Dec 2021	
Ageing structure	**Type of transaction**	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**
Within 3 months	trading	32,056	1,292,926	24,320	936,287
	hedging	–	–	8,669	124,300
3-6 months	trading	40,990	2,721,829	1,789	429,803
	hedging	75,674	2,905,923	79,201	4,313,029
6-12 months	trading	–	–	-3,058	213,299
	hedging	29,793	1,126,238	25,099	1,801,108
1-2 years	trading	12,111	226,160	-18,006	608,200
	hedging	78,652	2,651,323	34,571	5,705,741
2-3 years	trading	14,409	226,160	–	–
	hedging	107,700	2,724,427	-26,394	1,724,738
3-4 years	trading	10,675	226,160	–	–
	hedging	138,992	2,190,266	-67,560	2,266,484
4-5 years	trading	27,362	678,480	–	–
	hedging	78,455	1,184,536	-41,717	1,577,714
6-7 years	trading	–	–	–	–
	hedging	–	–	69,253	500,000
Total		**646,869**	**18,154,428**	**86,167**	**20,200,703**

As mentioned above, the Group designated certain currency derivative as hedging items in respect of changes in cash flows arising from forecasted highly probable sales in foreign currency. The table below summarises 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
2022	12,782,713	523,804	523,804
2021	18,013,113	69,901	69,901

Changes in the fair value of hedging derivatives recognised in other comprehensive income and the amount reclassified to the statement of profit or loss in respective years 2022 and 2021 are as follows:

Cash flow hedges from expected sale	Change in the fair value of hedging instruments	Recognised in OCI	Hedge ineffectiveness recognised in the statement of profit or loss	Reclassified to the statement of profit or loss
2022	428,144	453,903	-474	-25,285
2021	-160,657	-131,111	17,155	-46,701

*In 2022, the structure of the above table was adjusted, and for the sake of comparability the Group adjusted the information for 2021.

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 "Recognised in OCI" also contains 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:

	2022	2021
1 January	56,619	162,818
Change in fair value	403,310	-160,657
Reclassification to the statement of profit or loss	25,759	29,546
Tax on movements in funds during the year	-81,523	24,912
31 December	404,165	56,619

40.2. 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 or EUR 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 or EUR and CZK to achieve the following objectives:

- to hedge the currency risk associated with the provided loan (a USD or EUR-denominated loan with a fixed interest rate) or the expected foreign currency sales in EUR
- 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:

- The cross-currency interest rate swap in which the Group is the payer of fixed interest derived from the nominal value in USD or EUR 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 or EUR and CZK. This cross-currency interest rate swap is used to hedge the currency risk on the provided USD loan or foreign currency sales in EUR, whereby the exchange rate differences on the hedged portion of the loan or sales (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 3.14) 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 Group began applying hedge accounting on 21 May 2021 for USD/CZK interest rate swaps and on 27 January 2022 for EUR/CZK interest rate swaps. Until the initial application of hedge accounting, the cross-currency interest rate swaps negotiated were classified as trading derivatives.

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 or a reduction in the volume of sales (for currency hedges) and bonds issued (for interest rate hedges) is very low.

40.3. 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. The interest rate swap agreement has been agreed with the financing bank for the period from 27 January 2022 to 27 January 2027. 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. This interest rate swap is classified by the Group as held for hedging.

The hedge ratio is set as 1:0.996 due to a mismatch of 0.04% between the principal amounts of the hedging derivative and the hedged item, which the Group does not consider significant. The sources of hedge ineffectiveness are mainly the credit risk of the counterparty to the hedging instrument, which the Group considers to be minimal due to the fact that the hedging instrument has been negotiated with a bank with a high credit rating, and the risk of early repayment of the issued bonds.

As at 31 December 2022, the Group held the following instruments to hedge its exposure to changes in foreign exchange rates and interest rates.

2022	Due date		
CZK '000	**1–6 months**	**6–12 months**	**More than 1 year**
Currency risk			
Net exposure - USD	–	–	3,392,400
Net exposure - EUR	-	-	1,478,662
Average exchange rate CZK/USD	–	–	21.418
Average exchange rate CZK/EUR	–	–	24.463
Interest rate risk			
Net exposure - split USD/CZK interest rate swap	–	–	3,212,700
Net exposure - split EUR/CZK interest rate swap	–	–	1,500,000
Net exposure - interest rate swap	–	–	500,000
Average fixed interest rate - split USD/CZK interest rate swap	–	–	3.52 %
Average fixed interest rate - split EUR/CZK interest rate swap	–	–	5.18 %
Average fixed interest rate - interest rate swap	–	–	0.74 %

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/USD	–	–	21.418
Interest rate risk			
Net exposure	–	–	3,212,700
Average fixed interest rate	–	–	3.53 %

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

CZK ‘000	31 Dec 2022		
	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	112,593	67,395	–
Volume of hedged sales in EUR	207,373	147,378	–
Interest rate risk			
Issued bonds with variable interest rate	272,673	449,276	–
Total	**592,639**	**664,049**	**–**

CZK ‘000	31 Dec 2021		
	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:

31 Dec 2022					
CZK '000	**Nominal value**	**Receivable (+)**	**Changes in value of hedging instrument recognised in Other comprehensive income.**	**Hedge ineffectiveness recognised in the statement of profit**	**Amount reclassified from the hedge fund to the statement of profit or loss**
Currency risk					
Cross currency interest rate swaps	4,871,062	-25,827	-325,148	13,058	-86,378
Interest rate risk					
Interest rate swap*	500,000	98,261	-98,140	121	14,632
Cross currency interest rate swaps	4,712,700	611,623	-320,089	–	73,537
Deferred tax effect	–	–	140,901	–	–
Total	**–**	**684,057**	**-602,476**	**13,179**	**1,791**

* The Company purchased the interest rate swap from Česká zbrojovka a.s. for CZK 66,100 thousand. The fair value as at 31 December 2022 is CZK 98,261 thousand.

31 Dec 2021					
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	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**

Receivables from hedging derivatives of CZK 684,057 thousand (liabilities of CZK 49,466 thousand as at 31 December 2021) are recognised in Non-current financial derivatives.

Hedge ineffectiveness of CZK 13,179 thousand (31 December 2021 - CZK 6,663 thousand) is recognised in Gains/losses from derivative transactions.

The following amounts were reclassified from the cash flow hedge reserve to the statement of profit or loss: CZK 86,377 thousand (31 December 2021 - CZK 175,849 thousand) to Other financial income/expenses, CZK 0 thousand (31 December 2021 - CZK 3,043 thousand) to Interest expense, CZK 0 (31 December 2021 - CZK 6,011 thousand) to Gains/Losses from derivative transactions, and CZK 88,168 (31 December 2021 - CZK 0 thousand) to Interest income.

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.

	Cash flow hedge reserve	
CZK '000 CZK	**2022**	**2021**
Opening balance as at 1 Jan	**63,364**	**–**
Cash flow hedges		
Change in fair value:		
– Currency risk	325,148	-326,918
– Interest rate risk	418,229	220,242
Values reclassified to the statement of profit or loss:		
- Currency risk - other items	86,378	180,545
– Interest rate risk	-88,169	4,358
Tax on movements in funds during the year	-140,901	-14,863
Closing balance as at 31 Dec	**664,049**	**63,364**

41. INFORMATION ON RELATED PARTIES

The Group had the following transactions with its related parties in 2022:

		Liabilities as at 31 Dec 2022	Purchases for the period from 1 Jan to 31 Dec 2022	Receivables as at 31 Dec 2022	Sales for the period from 1 Jan to 31 Dec 2022
Česká zbrojovka Partners SE	parent company	–	14	212	–
Keriani, a.s.	associate of parent company	418	10,141	2,299	30
B:TECH, a.s.	company in the ultimate owner's group	23	3,613	1,122	–
EHC zdravotní s.r.o.	company in the ultimate owner's group	–	–	9,873	1,361
CZUB zdravotní s.r.o.	company in the ultimate owner's group	64	5,880	15	53
CZ-SKD Solutions a.s.	subsidiary of parent company	67	6,313	312	–
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	2,249	18,750	13,193	61,641
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	–	–	17	792
ITeuro, a.s.	company in the ultimate owner's group	–	5,201	–	–
Total		**2,906**	**50,752**	**27,043**	**63,877**

Receivables due from EHC zdravotní s.r.o. also include loans provided by the Group and outstanding interest. See Note 26.

Further, the Group paid a dividend of CZK 652,262 thousand (2021 – CZK 253,025 thousand) to Česká zbrojovka Partners SE.

The Group had the following transactions with its related parties in 2021:

		Liabilities as at 31 Dec 2021	Purchases for the period from 1 Jan to 31 Dec 2021	Receivables as at 31 Dec 2021	Sales for the period from 1 Jan to 31 Dec 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.	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.	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
Minezit Property Investments a.s. (formerly 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 included loans provided by the Group and outstanding interest. See Note 26.

42. OFF-BALANCES SHEET COMMITMENTS

As at 31 December 2022 and 31 December 2021, the Group issued no guarantees in respect of third-party liabilities.

As at 31 December 2022, the Group records no significant legal disputes where the Group acts as a defendant or investment, environmental and other off-balance sheet commitments.

43. AUDITOR'S FEE

The table below shows a breakdown of auditor's fee in 2022:

CZK '000	Colt CZ Group SE	Other Group companies
Statutory audit	2,989	9,808
Other services:		
Assurance services	1,203	–
TOTAL (excl. VAT)	**4,192**	**9,808**

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**

44. NET EARNINGS PER SHARE

Basic and diluted earnings per share were determined as follows:

	2022	2021
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	2,034,192	760,462
Denominator (average number of shares in CZK '000)		
Basic	34,172	33,462
Diluted	34,397	33,553
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	60	23
Diluted	59	23

The diluted average number of shares of 34,397 thousand is increased from the basic average number of shares of 34,172 thousand by the expected weighted average number of shares that will be issued by the Company in 2023 in connection with the provision of consideration as part of the partial settlement of the acquisition of Colt in 2021.

45. SUBSEQUENT MATERIAL EVENTS

On 20 January 2023, the remaining part of the provided loan of CZK 7,000 thousand was paid by EHC zdravotní s.r.o.

In the context of increasing labour productivity and in response to fluctuations in demand on some markets, especially in the USA, Česká zbrojovka a.s. is responding by adjusting the production flow, the structure of the product mix, optimising the number of employees and other measures. The aim is to increase competitiveness and cost efficiency on global markets. The management of Česká zbrojovka a.s. informed the employees in detail about these initiatives. Partial production outage took place from 29 March to 10 April 2023.

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 2022.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on 21 April 2023.

Jan Drahota
Chairman of the Board of Directors

Josef Adam
Vice-Chairman of the Board of Directors

Deloitte.

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„THE REPORT BELOW REPRESENTS THE TRANSLATION OF THE AUDITOR'S REPORT THAT RELATES SOLELY AND EXCLUSIVELY TO THE OFFICIAL ANNUAL FINANCIAL REPORT PREPARED IN THE XHTML FORMAT."

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 2022, separate statement of financial position as of 31 December 2022, separate statement of changes in equity for the year ended 31 December 2022, separate cash flow statement for the year ended 31 December 2022, 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 2022, consolidated statement of financial position as of 31 December 2022, consolidated statement of changes in equity for the year ended 31 December 2022 and consolidated cash flow statement for the year ended 31 December 2022, 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 2022, 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 2022, 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 2022, revenues from the sales of own products, goods and services amounted to CZK 14,590 million (Note 5 to the consolidated financial statements). The most significant part of these revenues is revenue from the sale of firearms, ammunition and tactical accessories. 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.
Share-based payment arrangements	
On 27 December 2021, the Supervisory Board of the Company approved an employee stock option plan (the "Option Plan"). The Option Plan gives key executives and employees of the Group (option holders) the right to purchase shares of the Company. The plan is currently restricted to executives and senior employees only. During 2022, the Company granted 2,807,300 options to purchase shares at a nominal value of CZK 0.10 to selected key employees of the Company. In connection with this Option Plan, the Company recognised a total expense of CZK 198,359 thousand for the 12 months ended 31 December 2022 (Note 9 to the consolidated financial statements). The recognition of this Option Plan requires the Company's management to use a mathematical model to determine the fair value of these options, to use estimates relating to the satisfaction of the terms of the Option Plan and to assess what type of Option Plan it is. Based on the above, we consider compliance with the conditions for recognising remuneration associated with the Option Plan during 2022 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 the contractual documentation relating to the Option Plan. We verified the conditions of the Company's and the selected employee's acceptance of the Plan on a selected sample. We performed an assessment of all input parameters to the mathematical model, including the actual determination of the independent variables of the model. We performed a remeasurement of the value of the Option Plan and assessed its classification in accordance with the requirements of IFRS 2 Share-based Payment. We also performed an assessment of the recognition of the values determined.

Other Information in the Annual Financial Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Financial 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 and the Audit Committee are 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 2022 and our uninterrupted engagement has lasted for 9 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 20 April 2023 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 annual financial 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 annual financial 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 annual financial 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 annual financial 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 2022 included in the annual financial report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

Other Matter

Due to possible technical limitations of the consolidated financial statements preparation tools in accordance with the requirements of the ESEF Regulation, it is possible that the content of some block tags in the machine-readable format of the notes to these consolidated financial statements may not be reproduced in the same form as in the human-readable layer of the audited consolidated financial statements.

In Prague on 25 April 2023

Audit firm:

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

Deloitte

Statutory auditor:

Martin Tesař
registration no. 2030