Report of the Board of Directors of Colt CZ Group SE

prepared within the meaning of Section 488(4) of Act No. 90/2012 Sb., on Companies and Cooperatives (the Companies Act), as amended (the "**Companies Act**"), to inform about the reasons for limiting the rights of shareholders of Colt CZ Group SE in connection with the subscription of new shares

Dear Shareholders,

The Board of Directors of **Colt CZ Group SE**, with its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, ID No.: 291 51 961, entered in the Commercial Register kept by the Municipal Court in Prague, file number H 962 (the "**Company**"), hereby submits to the Company's shareholders the following written report of the Board of Directors on the draft resolution of the Company's General Meeting to be passed in writing outside its meeting (*per rollam*) – **Approval of the distribution of profit for 2022 and retained profit from previous years and the decision to increase the Company's registered capital by subscription of new shares and set-off of the issue price of the newly subscribed shares against the profit share (Draft III)** (the "**Resolution**") in order to meet the requirements of Section 488(4) of the Companies Act, i.e. to explain the reasons for and important interest in the proposed limitation of the rights of the Company's shareholders in connection with the subscription of shares.

The limitation of rights is proposed solely in relation to the option to choose to receive a dividend in the form of shares in the Company.

Under the proposal, a share of the Company's profits is to be paid and its shareholders are to be allowed to choose to receive their respective share in the profits in the form of subscription of new shares in the Company. In such case, the right to receive a profit share in the form of the Company's shares may be exercised by the Company's shareholders who will be entitled, as at 19 June 2023, the relevant date for exercising the right to a profit share, to priority subscription for 30 (in words: thirty) shares of the Company or a multiple of 30 (in words: thirty) shares of the Company, and at the same time, the right to a profit share corresponding to the profit from 30 (in words: thirty) shares of the Company or a multiple of 30 (in words: thirty) shares of the Company (the "**Entitled Shareholder**").

If an Entitled Shareholder of the Company chooses to receive a profit share in the form of Company shares:

- for every 30 (in words: thirty) shares, or, more precisely, for the right to a profit share corresponding to the profit from 30 (in words: thirty) shares, the shareholder will receive 1 (in words: one) new share of the Company, with the issue price of 1 (in words: one) new share corresponding to the payment of a share of profit in the amount of CZK 585,- (in words: five hundred and eighty-five Czech crowns), meaning that each 1 (one) share to which the right to a share of profit in the form of shares is attached will be subject to set-off in the amount of CZK 19.50 (nineteen Czech crowns and fifty hellers);

- the remaining portion of the share of profit attributable to 1 (one) share of the Company, after deduction of applicable withholding taxes, will be paid to the shareholder of the Company in cash;

- a shareholder of the Company may only ever exercise the right to choose their profit in the form of new Company shares that are whole. The relevant date for the right to a share of profits and for exercising the priority right are identical, namely 19 June 2023 as the fourth (fourth) business day following the adoption of the resolution by the Company's General Meeting, and these prerequisites must also be fulfilled at the time of the choice (the "**Right of Choice**");

- No person other than an Entitled Shareholder may exercise the Right of Choice. The Right of Choice of the Company's Entitled Shareholder may be exercised within 3 (in words: three) weeks from 26 June 2023 (inclusive); after that, the Right of Choice ceases to exist. If the Right of Choice is not exercised by an Eligible Shareholder within the prescribed time limit, the profit share will be paid to the Entitled Shareholder in cash.

In order to achieve the possibility of paying out a share of the Company's profits in the form of new shares, and only if the above-described prerequisites are met, the Company's General Meeting will decide to increase the Company's registered capital as follows:

- The Company's fully paid-up registered capital in the amount of CZK 3,446,720.20 (in words: three million four hundred and forty-six thousand seven hundred and twenty Czech crowns and twenty hellers) is increased by up to CZK 114,890.60 (in words: one hundred fourteen thousand eight hundred ninety Czech crowns and sixty hellers). The Company's registered capital is thereby increased from CZK 3,446,720.20 (in words: three million four hundred and forty-six thousand seven hundred and twenty Czech crowns and twenty hellers) up to CZK 3,561,610.80 (in words: three million five hundred sixty-one thousand six hundred ten Czech crowns and eighty hellers);

- Shares may be subscribed for below the proposed maximum amount as specified in the following text, but at least in the amount of CZK 18,464 (in words: eighteen thousand four hundred and sixty-four Czech crowns), i.e. at least 184,640 (in words: one hundred and eighty-four thousand six hundred and forty) registered shares in book-entry form, with a nominal value of CZK 0.10 (in words: ten hellers) per each share. Subscription for shares above the proposed amount is not permitted;

- The Company's registered capital will be increased via subscription of new shares, the issue price of which will only be paid by cash deposits, exclusively by offsetting the Company's claim arising from the issue price against the Entitled Shareholder who has exercised the Right of Choice, on one part, against the claim of the Entitled Shareholder who has exercised the Right of Choice for payment of the profit share, on the other. The deposit obligation may not be fulfilled in any other form.

- The number of newly subscribed shares of the Company will not exceed 1,148,906 (in words: one million one hundred forty-eight thousand nine hundred six) registered shares in book-entry form, with a nominal value of CZK 0.10 (in words: ten hellers) per each share (the "**New Shares**"). The issue price of each New Share of the Company will be CZK 585 (in words: five hundred eighty-five Czech crowns). The issue premium of each New Share is therefore CZK 584.90 (in words: five hundred eighty-four Czech crowns and ninety hellers), while the issue premium attributable to the total number of New Shares will not exceed CZK 671,995,119.40 (in words: six hundred seventy-one million nine hundred ninety-five thousand one hundred nineteen Czech crowns and forty hellers). It is not possible to subscribe for New Shares by non-monetary contributions;

- New shares may only be subscribed by exercising the priority subscription right. New Shares cannot be subscribed without exercising the priority subscription right.

- If the increase in the Company's registered capital does not reach the amount by which the Company's registered capital is to be increased, the Company's Board of Directors will decide, in relation to the final amount of the increase in the Company's registered capital, on the increase in the registered capital or the final number of New Shares in accordance with a resolution of the Company's Board of Directors. The Company's Board of Directors will pass the resolution no later than 19 September 2023;

- Entitled Shareholders owning at least 30 (in words: thirty) shares of the Company have a priority right to subscribe for the New Shares subscribed to increase the registered capital and to do so in proportion to their share in the Company's registered capital.

The Company, after entering the Prime Market of Burza cenných papírů Praha, a.s., with its registered office at Prague 1, Rybná 14/682, ID No.: 471 15 629, registered in the Commercial Register maintained by the Municipal Court in Prague, file number B 1773, intends to become as close as possible to international standards of business of companies operating on the world's regulated markets whose shares are publicly traded. In foreign countries, it is quite common to pay out a share of profits not only in cash but also in the form of new shares in the company. The Company also wishes to use this option, taking into account the specifics of the domestic legal system, although the Company still assumes that the primary method of payment of the share of profit is in cash. The purpose of this step is that the Company's shareholders who meet the requirements will receive new shares in the Company instead of a cash dividend, where the dividend that will remain in the Company as a result of this election will be used to further develop the Company, in particular acquisition activities. The Company has been intensively engaged in this activity in recent years which has brought economic growth. It intends to continue this trend in the coming years as well.

Given the specifics of the Czech legal system and the Companies Act, the share dividend will be achieved:

- in the form of a resolution on the payment of a share in the Company's profit;

- by the shareholder's Right of Choice in the form of share dividend exercised by the Company's shareholders who will be entitled, as at 19 June 2023, the relevant date for exercising the right to a profit share, to priority subscription for 30 (in words: thirty) shares of the Company or a multiple of 30 (in words: thirty) shares of the Company, and at the same time, the right to a profit share corresponding to the profit from 30 (in words: thirty) shares of the Company or a multiple of 30 (in words: thirty) shares of the Company;

- by a resolution to increase the Company's share capital to acquire new shares to the extent necessary (but not more) to distribute a dividend in shares; and

- by offsetting mutual claims, namely the Company's claims for payment of the issue price of the Company's shares and shareholders' claims for payment of dividends.

This procedure will fulfil the provisions of Section 21(3) of the Companies Act, but substantially it will still be a distribution of dividend in the form of shares of the Company, as the distribution will be fully made using the share of the Company's profit and no new capital will be injected into the Company. In the Notice of intention to take decisions of the Company's General Meeting outside its meeting (resolutions per rollam) and in other public announcements, the Company has previously announced that it will allow the election of profit-sharing in the form of shares. At the same time, in view of legal and tax regulations, it is necessary that the possibility of choosing to participate in profits in the form of shares is limited to a certain amount of capital participation of the Company's shareholders. It follows from the above that there will be a partial limitation of the possibility for some shareholders of the Company to subscribe for new shares and, in view of the specific nature of the share dividend (legal inseparability of this right from the persons of the Entitled Shareholders), there will also be a limitation of the transferability of the priority right to subscribe for shares and possibly also the transferability of the right to a share of the profit, since the right to subscribe for shares must be linked exclusively to the dividend paid on the Company's shares and not using external resources, also in view of the exception referred to in Article 1(4)(h) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC *(the obligation to publish a prospectus does not apply to a public offer of securities in the case where dividends are paid to existing shareholders in the form of shares of the same class as the shares on which such dividends are paid, if a document containing information on the number and nature of the shares and the reasons for and details of the offer is made available)*. Accordingly, the right to receive the Company's share dividend will vest only in those shareholders of the Company who, in addition to reaching a certain number of shares, will have the right to that number of shares as of the record date for the payment of the dividend and for the vesting of the priority subscription right, and at the same time, that right will continue to vest in the same shareholders when they elect to receive the Company's share dividend.

The above procedure is the only possible way in the domestic legal environment to enable the implementation of a share dividend by issuing New Shares. Although the above procedure will potentially affect the rights of the Company's shareholders, as it will either restrict their priority subscription right or will not allow them (at their will) to freely dispose of their priority subscription right and profit sharing right, the Company considers this procedure to be proportionate to what the Company and its shareholders may gain from this procedure. This is because the share dividend will bring available resources to the Company that the Company can use to fund the Company's other activities, particularly acquisition activities, which is an important reason for the Company to use the share dividend in the manner proposed. This should, if the current economic trend continues, bring the Company increased profits in the years to come. An option that would also bring available resources to the Company is not to pay out profits in full and to retain a portion of the profits for future investments and in particular the Company's acquisition activities. This procedure, however, is not in accordance with the statutory regulation and the established case law of the Czech courts, and hence the Company decided to use the share dividend option in the way that is currently possible under Czech law, i.e. ultimately not to restrict the shareholders' right to a dividend and to decide on the distribution of all profits and, on the contrary, to give the shareholders the right to voluntarily leave some of the profits in the Company.

As the right to receive the share dividend does not vest until the 4 (fourth) business day following the passing of the resolution at the General Meeting, the Company's shareholders interested in the share dividend will be allowed to acquire the necessary number of shares on the regulated market to exercise the share dividend and the Right of Choice. On the other hand, shareholders of the Company who are not interested in this procedure, or who would not receive the share dividend, may offer the Company's shares for sale or, alternatively, may choose not to react to the development in the Company and receive the appropriate part of the dividend.

If it appears that the Company will not benefit sufficiently from the funds in the form of a share dividend to provide the Company with adequate capital, the Board of Directors of the Company may elect not to increase the Company's share capital. In such a case, the Company's shareholders will receive a share of the profits paid in cash, regardless of whether or not they have exercised the Right of Choice. The Board of Directors of the Company will make the above decision within 3 (three) months of the record date for exercising the right to a share of profits and the priority right to a share of profits, i.e. by 19 September 2023.

An Entitled Shareholder has the choice of whether or not to elect to receive a share of profit in the form of New Shares in the Company. The right to receive a share of profit in the form of the Company's shares may be exercised by the Company's shareholders who hold at least 30 (thirty) shares in the Company and at the same time have the right to a share of profit as of 19 June 2023. The right of the Company's shareholder to choose a share of profit in the form of the Company's shares may be exercised within the period from 26 June 2023 (inclusive) to 17 July 2023 (inclusive). If a shareholder of the Company does not choose to receive a distribution in the form of New Shares, the shareholder does not need to take any action and will automatically receive a cash dividend.

If a shareholder of the Company chooses to receive a dividend in the form of shares, he/she will receive 1 (one) new share for every 30 (thirty) shares. This 1 (one) new share will correspond to a payment of CZK 585 (five hundred eighty-five Czech crowns), where each 1 (one) share to which the right to a share of profit is attached will be subject to set-off in the amount of CZK 19.50 (nineteen Czech crowns and fifty hellers). The remaining portion of the share of profit attributable to 1 (one) share of the Company, after deduction of applicable withholding taxes, will be paid to the shareholder of the Company in cash. New shares may only be subscribed by exercising the priority subscription right. The amount for the subscription of shares (CZK 585) was set as the market price.

The fact that a shareholder will receive 1 (one) new share for every 30 (thirty) shares in the Company if the Right of Choice is exercised is based on the assumption that the applicable withholding taxes for certain foreign shareholders of the Company may reach up to 35% (thirty-five percent) and it is not possible to differentiate the priority right of the Company's shareholders according to the applicable amount of withholding tax. To differentiate between the Company's shareholders according to the applicable withholding tax amount (and thus to increase or decrease the number of shares for the Right of Choice per one new share for different shareholders - in particular domestic and foreign shareholders) would be contrary to the principle of equal treatment of the Company's shareholders, which is fully respected in the case of the exercise of the Right of Choice and the election of a share dividend and none of the Company's shareholders is thus disadvantaged in any way. The ratio of 30 (in words: thirty) shares and 65% (in words: sixty-five percent) of the amount of the dividend paid per share (CZK 19.50 (in words: nineteen Czech crowns and fifty hellers)) was chosen by the Company as the lowest possible ratio that a shareholder must achieve in the event of exercising the Right of Choice in order for the share dividend to be viable under Czech law and the applicable tax regulations (in particular with regard to withholding tax), as it is the Company that is obliged to withhold the relevant withholding tax before paying the dividend to the Company's shareholder. The amount representing the remaining portion of the share of profit attributable to 1 (one) share of the Company after deduction of such withholding taxes will be paid to the shareholder of the Company in cash and the shareholder of the Company will not

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thereby be deprived of his share of the profit in the amount attributable to such shareholder according to the number of shares held.

If an Entitled Shareholder does not exercise the priority right to subscribe for New Shares, such New Shares will not be issued. Shareholders of the Company are also prohibited, in view of the nature of the share dividend, from assigning the right to subscribe for New Shares on a priority basis. The priority right is not freely transferable.

The limitation of rights as described above is, in the opinion of the Company's Board of Directors, **one of the important interests of the Company** and in accordance with the information provided to date regarding the dividend to be paid.

Although there will be a partial dilution of the shares held by the Company's shareholders as part of the subscription of the New Shares, the Company believes that **an important reason for the limitation of the Company shareholders' priority right is precisely to raise additional resources that would otherwise be paid out by way of a dividend (the Company, in accordance with the requirements imposed on public joint-stock companies, will pay out 100% (in words: one hundred percent) of the profit for the financial year as well as a portion of retained earnings from previous years). However, this election will be made by the Entitled Shareholders themselves and no profits whatsoever will be retained by the Company solely at the Company's discretion.** Moreover, it cannot be overlooked that this saving will also demonstrably increase the value of the Company and, as a result, improve the position of all shareholders of the Company. The maximum increase in the share capital is only 1/30 (one thirtieth) of the current level, which will not cause a significantly disproportionate increase in the shareholding of certain shareholders.

Under the proposed criteria, the proposed limitation of the subscription right is applied equally to all shareholders of the Company.

Place: Prague	Place: Prague
Date: 22 May 2023	Date: 22 May 2023
______________________	______________________
Name: **Jan Drahota**	Name: **JUDr. Josef Adam, LL.M.**
Title: Chairman of the Board of Directors	Title: Vice-chairman of the Board of Directors