COLT CZGROUP

Report of the Board of Directors of Colt CZ Group SE

drawn up in accordance with the provisions of Section 488(4) of Act No. 90/2012 Coll., on Companies and Cooperatives (the Companies Act), as amended (the "**Companies Act**"), on the reasons for the exclusion of the pre-emptive right of the shareholders of Colt CZ Group SE to subscribe new shares.

Dear Shareholders,

The Board of Directors of **Colt CZ Group SE**, with its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, ID No: 291 51 961, entered in the Commercial Register maintained by the Municipal Court in Prague, File No. H 962 (the "**Company**"), submits to the Company's shareholders this written report of the Board of Directors on the draft resolutions of the Company's General Meeting acting outside of the General Meeting (per rollam resolutions) – **Resolution to authorise the Company's Board of Directors to increase the share capital and to exclude the pre-emptive right to subscribe for new shares** (the "**Resolution**"), in order to comply with the requirements of Section 488(4) of the Companies Act, i.e. as an explanation of the reasons and the important interest substantiating the proposed exclusion of the pre-emptive right to subscribe shares of the Company's shareholders in this case.

CIRCUMSTANCES OF THE PROPOSED ACTION

Under a *Share Purchase Agreement* dated on 18 December 2023 (the "**Agreement**"), the parties to which are **CBC Europe S.à r.l.**, with its registered office at 1616 Luxembourg, Place de la Gare 5, Grand Duchy of Luxembourg, Registration No: B167046 ("**CBC Europe**"), as the seller, **Vocatus Investment a.s.**, with its registered office at náměstí Republiky 2090/3a, Nové Město, 110 00 Prague 1, ID No.: 194 17 772, entered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 28195 ("**Vocatus Investment**"), as the buyer, and the Company, as a party to the Agreement, securing partial payment of the purchase price, a group of companies controlled by the Company (the "**Group of Colt CZ**") acquired 100% of the shares of **Sellier & Bellot a.s**, ID No.: 289 82 347, entered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 15674 ("**Sellier & Bellot**") for a combination of a cash consideration of USD 350 million and the issue of 13,476,440 new shares in Colt CZ (the "**Transaction**").

The transfer of ownership of Sellier & Bellot shares has already taken place and Sellier & Bellot is now being gradually integrated into the Group of Colt CZ. The current sole shareholder of Sellier & Bellot is Vocatus Investment, a subsidiary of which the Company is the sole shareholder.

The transaction and its terms have been described in detail in a presentation entitled "ACQUISITION OF SELLIER & BELLOT - KEY HIGHLIGHTS" available on the Company's website at https://www.coltczgroup.com/en under the "News and Regulatory Announcement" link in the "Archives" section. The documents are also published on the Company's website under "Investors" in the "General Meeting" section. The above is already known to the Company's shareholders, as they were informed of this matter in the context of the draft resolution to authorise the Company's Board of Directors to increase the Company's share capital and to exclude the pre-emptive right to subscribe for new shares, and the Company's General Meeting adopted this resolution on 27 February 2024, thus enabling the Company's share capital to be increased for the issue of the shares necessary to settle the Transaction in favour of the seller, i.e. CBC Europe.

Due to its size, the transaction has significantly boosted the growth of the entire Group of Colt CZ. However, the transaction's scale necessitates a lengthier process and multiple steps for the Company to complete it, both formally and substantively.

As part of the Transaction, Vocatus Investment and the Company have undertaken to increase the Company's share capital by issuing new shares with a value equivalent to US$ 100 million by 31 December 2025. In case the Company fails to subscribe for its shares in the amount and on the date set out above, CBC Europe would be entitled to additional compensation in the form of the Company's shares and a cash refund of the lost dividends for the years 2024 and 2025. The maximum amount of this additional compensation in shares could be up to 1,640,947 shares of the Company. Similarly, the maximum cash compensation for lost dividends could reach up to CZK 98,456,820 with a dividend of CZK 30 per share.

The executed Agreement allows for the obligation of the Company to increase the share capital to be offset against the issue price of shares issued in the process of offsetting (capitalisation) of dividends against the newly subscribed shares. As a result, the Company commenced the fulfilment of its obligations under the Agreement during June-August this year when it allowed all shareholders entitled to a dividend to subscribe for new shares in the Company at an issue price of CZK 570 per new share. New shares with a total value of CZK 1,250,624,460 were subscribed for as part of this subscription of new shares.

As a result of this step and the positive attitude of the Company's shareholders, the Company has already partially fulfilled its contractual obligation. It can use the subscription of new shares with a value of approximately equivalent to 45 to 50 million US dollars to fully comply with this commitment.

In view of the above, it is necessary to raise additional financial resources for the Company, not by debt but by capital financing. The Company has therefore decided to proceed with a further increase in the share capital in order to be able to raise these funds operationally.

The Company's proposed course of action is thus merely a continuation of what has already been initiated by the Company, what the shareholders have been informed of and what they have agreed to in previous resolutions of the General Meeting. Therefore, it is also the case that the exclusion of the pre-emptive right is proposed in this case following the implementation of the purchase of 100% of the shares of Sellier & Bellot and the subsequent need to raise new capital for the Company, where the exclusion of the pre-emptive right will allow this process to be implemented and to meet all the requirements within the prescribed deadlines.

REASONS FOR EXCLUDING THE PRE-EMPTIVE RIGHT TO SUBSCRIBE FOR NEW SHARES

In this case, the increase in the Company's share capital and the strengthening of the Company's equity capital will be carried out through a non-public offer mediated by a securities dealer, which was not a shareholder of the Company as of the record date, and which is authorised to provide principal investment services under Act No. 256/2004 Coll., on Capital Market Business, as amended (the "**Investment Bank**"), which will subscribe for all new shares through a non-public offer exclusively to qualified investors or other persons who are exempt from the obligation to publish a prospectus for securities within the meaning of Regulation 2017/1129 of the European Parliament and of the Council (EU) 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 (“**Investors**”).

Targeting Qualified Investors (in particular, large institutional investors including banks, investment companies and investment funds) will enable the Company to reach equity investors focused on long-term investments and ensure that the Company can effectively take advantage of current market opportunities and focus on reducing the leverage of the Transaction financing.

The Company expects to subscribe for up to 3,900,000 (three million nine hundred thousand) new registered book-entry shares issued by the Company with a par value of CZK 0.10 per share (ten hellers) (“**New Shares**”).

In order to issue the New Shares, a draft Resolution is being submitted to the Company's shareholders. The New Shares may be subscribed for exclusively by the Investment Bank on the basis of Investors’ demand in the form of so-called bookbuilding. No one else will be entitled to exercise the exclusion of the shareholders' pre-emptive subscription rights.

Although the subscription for the New Shares will result in a partial dilution of the shareholdings held by the Company's existing shareholders, the Company believes that **several factors are important reasons for excluding the pre-emptive rights of the Company's shareholders to subscribe for the shares:**

A. **Reduction of the Company's existing debt**

The acquisition of Sellier & Bellot has increased the Company's indebtedness associated with the loan financing for this acquisition (for further details, see the Company's website https://www.coltczgroup.com/ under "Investors" in the "General Meetings" section). The strengthening of the Company's equity will thus enable the Company to repay its liabilities efficiently and quickly, which will reduce financial costs and improve the Company's financial stability. In this context, the aim of the Company is to keep the debt to EBITDA ratio below a multiple of 2.

B. **Strategic investments and acquisitions**

The change in the Company's equity structure creates financial room for:

a) further strategic investments in the modernisation of production capacities related to the manufacture of small arms and, last but not least, ammunition at the manufacturers Sellier & Bellot and saltech AG (acquired in the last two years); and

b) acquisition of manufacturers of complementary products to the product portfolio of the Group of Colt CZ.

C. **A quick and effective way to strengthen equity**

In the opinion of the Company's Board of Directors, the other alternatives considered in connection with the Company's equity capital increase would result in a significant time delay in raising the necessary funds and would expose the Company's shares to increased market volatility. However, on the other hand, if the New Shares are subscribed for by the Investment Bank, a significant amount of the Company's equity capital will be raised in a matter of days, thereby significantly reducing these risks.

D. Stability of the market price of the Company's shares

Raising new equity exclusively from Investors with long-term investment commitments through the Investment Bank offers significant advantages for both the Company and its shareholders. It may help to reduce volatility caused by short-term speculative purchases and sales of the Company's shares. The involvement and interest of Investors also significantly bolsters the Company's credibility and reputation, particularly its renown and name in the global markets. The proposed steps could boost investor interest in the Company's shares, enhance their liquidity, and ultimately increase shareholder value.

E. Excluding the pre-emptive right is necessary to capitalize on existing market opportunities

Excluding the shareholders' pre-emptive subscription rights is an effective measure for the Company to reduce its existing debt, gain financial flexibility to fund future investments and acquisitions which would not be possible through standard share capital increases or external financing. Restricting the pre-emptive rights of all shareholders is a necessary step to effectively capitalise on the current market opportunities and opportunities related to the Transaction.

F. Inclusion of new Investors

By subscribing shares through an Investment Bank with an extensive network of contacts, the Company will be able to quickly and efficiently raise equity capital. The Investment Bank's broad reach allows it to connect the Company with a wider range of new Investors. At the same time, this procedure helps eliminate speculative interests, creating a more stable shareholder base that better aligns with the interests of the Company and its other shareholders.

G. Cost savings

The cost of subscribing for shares in favour of Investors through the Investment Bank is substantially lower than the cost of increasing the share capital using the pre-emptive subscription right or through a public offer. The costs are limited to the costs of subscription, which reduces subscription-related expenses for a broader range of interested parties (which do not exist in this case). This in turn lowers investment intermediary fees and legal costs, as the volume of required documentation is lower. Additionally, there are no extra advertising or marketing costs.

H. Reasonable interference with the rights of existing shareholders

In the opinion of the Board of Directors of the Company, in addition to the above justification of the benefits of the Transaction, the proposed measure of excluding the pre-emptive right to subscribe for New Shares is also a reasonable interference with the rights of existing shareholders. As stated above, the Company has offered existing shareholders a pre-emptive subscription for shares under the stock dividend, allowing them to acquire shares at an attractive issue price.

Further, given the size of the Transaction and the financial resources required, the subscription for the New Shares allows the Company to access market opportunities more quickly and thereby strengthens the Company's market position. As a result, the Company will continue to be able to make other necessary strategic investments in the development of the Group of Colt CZ's product portfolio and will not be significantly limited in its ability to pay a share of profits (dividend) to its shareholders.

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In addition, it cannot be left aside that the Transaction has increased the overall value of the Company (see also the value of the shares traded on the Prime Market of the Prague Stock Exchange at the time of this Report) and hence improved the position of the Company's shareholders. The Board of Directors of the Company believes that the Transaction will continue to have a positive effect on the value of the Company's shares in the future.

The proposed exclusion of the pre-emptive right is applied equally to all shareholders of the Company, i.e. all shareholders are treated equally and without any distinction in the context of the encroachment on their pre-emptive rights.

In view of the above, the Company's Board of Directors summarises that there is a material interest in the proposed exclusion of the pre-emptive rights to subscribe for the New Shares. At the same time, this encroachment upon the shareholders' pre-emptive rights are indeed necessary and proportionate. Therefore, the exclusion of the pre-emptive subscription right complies with the law.

As a result, the Company's Board of Directors proposes that the General Meeting, in accordance with Section 475(g) of the Companies Act in conjunction with Section 488 of the Companies Act, exclude the pre-emptive rights of the existing shareholders of the Company to subscribe for New Shares that may be issued upon satisfaction of the conditions for the Transaction Consideration under a resolution of the Board of Directors authorised by the General Meeting, subject to the following conditions:

- the Company's share capital may be increased on the basis of authorisation from the Company's Board of Directors by a maximum of CZK 390,000 (in words: three hundred ninety thousand Czech crowns);
- in connection with the increase of the share capital based on an authorisation issued to the Board of Directors of the Company, a maximum of 3,900,000 (in words: three million nine hundred thousand) registered shares will be issued in book-entry form, with a par value of CZK 0.10 (in words: ten hellers) per share, provided that the rights attached to the new shares will be the same as those attached to the hitherto outstanding shares of the Company;
- in connection with the increase of the Company's share capital by decision of the Board of Directors based on this authorisation, the issue price for the shares may only be paid by contributions in cash;
- based on the authorisation, the Board of Directors of the may increase the share capital multiple times insofar as the aggregate amount of the increase does not exceed the stipulated limit;
- the authorisation is granted for 1 (one) year from the date the General Meeting of the Company passed the resolution regarding the authorisation;
- the New Shares to be subscribed for as part of the share capital increase under this authorisation of the Company's Board of Directors may be offered for subscription only to a pre-determined bidder, i.e. without exercising the pre-emptive right, namely to the Investment Bank;
- the lowest price at which the Investment Bank may acquire the newly subscribed shares of the Company is CZK 0.10 (in words: ten hellers) for 1 (one) registered book-entry share with a par value of CZK 0.10 (in words: ten hellers), and the maximum price at which the Investment Bank may acquire newly subscribed shares of the Company is CZK 1,500 (in

words: one thousand five hundred Czech crowns), for 1 (one) registered book-entry share with a par value of CZK 0.10 (in words: ten hellers) ("Price Range"), provided that the final amount of such price within the Price Range shall be determined by the Company's Board of Directors; and the amount by which the price exceeds the par value of the newly subscribed share will constitute the share premium;

- the issue price of the newly subscribed shares will be paid in cash.

Place:	Place:
Date: 11 September 2024	Date: 11 September 2024
_______________________	_______________________
Name: **Jan Drahota**	Name: **JUDr. Josef Adam, LL.M.**
Title: Chairman of the Board of Directors	Title: Vice-chairman of the Board of Directors