

REPORT OF THE BOARD OF DIRECTORS

OF

CZG - Česká zbrojovka Group SE

drawn up pursuant to the provisions of Section 488(4) of Act no. 90/2012 Sb., on Companies and Cooperatives (the Companies Act), as amended (the "CA") on reasons for the exclusions of the pre-emptive right of the shareholders of CZG - Česká zbrojovka Group SE to subscribe for new shares

Dear Shareholders,

The Board of Directors of **CZG - Česká zbrojovka Group SE**, with its registered office at 1284/37, Nové Město, 110 00 Praha 1, ID no.: 291 51 961, registered in the Commercial Register kept by the Municipal Court in Prague, file no. H 962 (the "**Company**") hereby submits this report of the Board of Directors to the Company's shareholders for a draft decision of the General Meeting adopted outside the General Meeting (decision *per rollam*) - **Decision on authorisation of the Board of Directors to increase the registered capital and on the exclusion of the pre-emptive right to subscribe for new shares (Draft XI)** for the purpose of ensuring compliance with the requirements of Section 488(4) of the CA, i.e. as an explanation of reasons for which the exclusion of the pre-emptive right of the Company's shareholders to subscribe for shares is proposed in the case in question.

The purpose of the exclusion of the pre-emptive right is to enable the introduction a management option program for key persons within the consolidation group (the "**Group**"). This management option program aims to motivate these key persons based on economic parameters so that they contribute to the development of the whole Group through their activities while directly participating in the profits of the Company and the whole Group.

The exact rules of the management option program will be determined during 2021 and we anticipate that the management option program will be launched already during 2021. The main motivational aspect of the option program will be fixing the Company's share price in a future contract, which will then allow the Company's shares to be acquired at that predetermined price and under clear terms and conditions that will be more advantageous for the designated persons than the standard market price. The option program will be offered to employees of the Company or the Group companies, to members of statutory bodies of the Company or the Group companies, or to persons in a similar position vis-a-vis the Company or the Group companies. There will be no entitlement to claim enrolling in the option program from the Company. Participants in this management option program will be selected by the Company's Board of Directors upon prior approval by the Company's Supervisory Board and the Company's Remuneration Committee. Enrolling in this management option program will be voluntary. At the same time, however, the program will enhance motivation of the Group's key persons not to leave the Group, but rather to participate in the long-term development of the Group, and thus the stability of the Group's personnel, which forms one of the key elements for the Company's and the Group's business.

At the same time, the Company expects to obtain the Company's shares for this purpose which will be made available to the designated interested persons under the management option program, either by subscribing for them as part of the increase of the Company's registered capital or by acquiring its own shares, which the Company will then make available to those selected persons. The chosen course of action will always be at the discretion of the Company's Board of Directors upon a prior consultation with the Company's Supervisory Board and the Company's Remuneration Committee.

The Company anticipates that up to 10% of the Company's current registered capital, i.e. up to 3,373,660 registered book-entry shares with the nominal value of CZK 0.10 each, will be distributed in this manner, with the rights carried by the new shares being the same as those carried by to the Company's existing shares.

In light of the aforementioned facts, these shares of the Company must be secured for that purpose, and to that end, to enable flexible implementation of the management option program, it is proposed to adopt two decisions of the Company's General Meeting outside its meeting (decisions *per rollam*), namely **Draft Decision - Decision on authorisation of the Board of Directors to increase the registered capital and on the exclusion of the pre-emptive right to subscribe for new shares (Draft XI)** and **Draft Decision – Approval of the acquisition of own shares (Draft XII)**. Under these points, a possibility is proposed to subscribe for and/or acquire up to 3,373,660 registered book-entry shares with a nominal value of CZK 0.10 each and to subsequently distribute these shares to the designated interested persons under the conditions set out in the option management program.

As one of the alternatives for the implementation of the management option program will be the possibility for the Board of Directors to increase the registered capital under the authorisation of the General Meeting, whereby the Board of Directors will allow subscription for the Company's shares to pre-selected interested persons, the Company's Board of Directors should also be enabled to implement this decision to increase the registered capital and the subsequent subscription without the obligation to offer shares for subscription to the Company's current shareholders, i.e. to exclude their pre-emptive right to subscription for new shares. To this end, it is also proposed in the context of the General Meeting's decision-making *per rollam* - Draft Decision - Decision on authorisation of the Board of Directors to increase the registered capital and on the exclusion of the pre-emptive right to subscribe for new shares (Draft XI) - to exclude the pre-emptive right of the Company's current shareholders.

The Company regards stabilisation and long-term retention of key persons within the Group, as well as recruitment of other such persons, and motivation to maximize performance of the Group's business, as an important reason for excluding the pre-emptive right as these persons will subsequently participate in the Group's profits through the management option program.

Therefore, it is proposed that the Company's General Meeting exclude, in accordance with Section 475(g) and Section 488 of the CA, the pre-emptive right of the Company's existing shareholders to subscribe for new shares of the Company that will be issued based a decision of the Board of Directors authorised by the General Meeting subject to the following conditions:

- the Company's registered capital may be increased, based on the authorisation of the Board of Directors, by a maximum of CZK 337,366;

- within the framework of the registered capital increase based on the Board of Directors' authorisation, up to 3,373.660 registered book-entry shares with the nominal value of CZK 0.10 each will be issued, with the rights carried by the new shares being the same as those carried by the existing shares of the Company;
- when the Company's registered capital is increased by a decision of the Board of Directors on the basis of this authorisation, the issue price of the shares can only be paid up by cash contributions;
- based on the authorisation, the Board of Directors may increase the registered capital more than once, provided that the total amount of the increase does not exceed the specified limit;
- the authorisation is granted for the period of 5 years from the date on which the General Meeting resolved on the authorisation;
- the shares to be subscribed for as part of the registered capital increase based on this authorisation of the Company's Board of Directors may be offered for subscription only to pre-determined interested persons, i.e. without exercising the pre-emptive right, namely to employees of the Company or Group companies, members of statutory or other bodies Company or Group companies or persons in a similar position vis-à-vis the Company or Group companies.