

FINANCIAL RESULTS

Q3 2022

COLT
CZGROUP

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE-MONTHS PERIOD ENDED 30 SEPTEMBER 2022

Name of the company:	Colt CZ Group SE
Registered office:	Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic
Legal form:	European Company
Id. no.:	291 51 961

Components of the condensed consolidated interim financial statements:

- ▶ Consolidated statement of profit and loss and other comprehensive income
- ▶ Consolidated statement of financial position
- ▶ Consolidated statement of changes in equity
- ▶ Consolidated cash flow statement
- ▶ Notes to condensed consolidated interim financial statements

These condensed consolidated interim financial statements were prepared on 22 November 2022.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER

	Note	30 Sep 2022 CZK '000	30 Sep 2021 CZK '000
Revenues from the sale of own products, goods and services	8	10,219,903	7,601,998
Other operating income		70,087	54,764
Change in inventories developed internally		1,130,239	113,226
Own work capitalized		122,437	101,458
Raw materials and consumables used		-5,576,845	-3,515,536
Services		-1,379,589	-1,339,224
Personnel costs		-2,155,109	-1,386,874
Depreciation and amortization		-658,726	-525,858
Other operating expenses		-262,797	-201,989
Allowances		-22,210	-
Operating profit		1,487,390	901,965
Interest income	9.1	325,837	12,665
Interest expense	9.1	-446,619	-117,011
Other financial income	9.1	280,117	643,323
Other financial expenses	9.1	-19,516	-372,332
Gains or losses from derivative transactions	9.1	62,019	-
Share in the profit of associates after tax		14,113	10,404
Profit before tax		1,703,341	1,079,014
Income tax	9.2	-375,445	-176,179
Profit for the period		1,327,896	902,835

	Note	30 Sep 2022 CZK '000	30 Sep 2021 CZK '000
Items that may be subsequently reclassified to the statement of profit or loss			
Cash flow hedges – remeasurement of effective portion of hedging instruments		394,076	-219,903
Foreign currency translation of foreign operations		-215,887	-111,149
Other comprehensive income		178,189	-331,052
Comprehensive income for the period		1,506,085	571,783
Profit for the period attributable to:			
Owner of the parent company		1,327,896	900,565
Non-controlling interests		-	2,270
Comprehensive income for the period attributable to:			
Owner of the parent company		1,506,085	569,791
Non-controlling interests		-	1,992
Net earnings per share attributable to the owner of the parent company (CZK per share)			
Basic	20	39	27
Diluted	20	39	27

Notes are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER

	Note	30 Sep 2022 CZK '000	31 Dec 2021 CZK '000
ASSETS			
Non-current assets			
Intangible assets	10	3,502,159	3,505,464
Goodwill	8	2,390,127	2,390,127
Property, plant and equipment	11	2,985,220	2,810,115
Equity-accounted securities and investments	16	100,429	109,445
Financial derivatives	17	534,200	171,195
Trade and other receivables		39,235	58,999
Other receivables		2,864	11,163
Total non-current assets		9,554,234	9,056,508
Current assets			
Inventories	12	4,456,541	2,861,673
Trade and other receivables		1,195,611	1,012,879
Provided loans		20,344	197,973
Financial derivatives	17	134,069	156,118
Other receivables		361,566	148,098
Tax assets		42,024	6,357
Cash and cash equivalents		3,649,020	3,573,467
Total current assets		9,858,175	7,956,565
Total assets		19,412,409	17,013,073

	Note	30 Sep 2022 CZK '000	31 Dec 2021 CZK '000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		3,410	3,374
Share premium		1,366,386	1,139,211
Capital funds		1,641,512	1,641,512
Cash flow hedge reserve		514,059	119,983
Foreign exchange translation reserve		-417,285	-201,398
Accumulated profits		3,146,796	2,539,146
Equity attributable to the owner of the Company		6,254,878	5,241,828
Equity attributable to the owner of the Company		6,254,878	5,241,828
Non-controlling interests		-	-
Total equity		6,254,878	5,241,828

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER

	Note	30 Sep 2022 CZK '000	31 Dec 2021 CZK '000
Non-current liabilities			
Bonds, bank loans and borrowings	15	6,962,343	4,972,647
Financial derivatives	17	554,996	270,515
Lease liabilities		22,071	32,606
Other financial liabilities	17	200,949	372,531
Trade and other payables		5,737	5,422
Other payables		31,679	27,357
Provisions	13	99,498	63,695
Deferred tax liability		859,133	789,646
Employee benefit liabilities	14	395,724	357,707
Total non-current liabilities		9,132,130	6,892,126

	Note	30 Sep 2022 CZK '000	31 Dec 2021 CZK '000
Current liabilities			
Bonds, bank loans and borrowings	15	40,596	2,317,579
Financial derivatives	17	201,089	20,097
Lease liabilities		21,085	20,695
Other financial liabilities	17	199,449	185,568
Trade and other payables		1,420,693	1,116,373
Other payables		1,837,535	1,073,755
Provisions	13	80,747	50,780
Tax liabilities		202,267	76,156
Employee benefit liabilities	14	21,940	18,116
Total current liabilities		4,025,401	4,879,119
Total liabilities		13,157,531	11,771,245
Total equity and liabilities		19,412,409	17,013,073

Notes are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTHS ENDED 30 SEPTEMBER

CZK '000	Share capital	Own shares	Share premium	Capital funds	Cash flow hedge reserve	Foreign exchange translation reserve	Accumulated profits	Equity attributable to the owner of the parent company	Non-controlling interests	Total equity
Balance 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
Issue of shares	110	-	416,267	-	-	-	-	416,377	-	416,377
Changes in non-controlling interest 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	-	-	-	-	-	-	1,327,896	1,327,896	-	1,327,896
Other comprehensive income	-	-	-	-	394,076	-215,887	-	178,189	-	178,189
Total comprehensive income for the period	-	-	-	-	394,076	-215,887	1,327,896	1,506,085	-	1,506,085
Dividends*	-	-	-	-	-	-	-843,416	-843,416	-	-843,416
Issue of shares	36	-	227,175	-	-	-	-	227,211	-	227,211
Share-based payments	-	-	-	-	-	-	123,170	123,170	-	123,170
Balance as at 31 December 2022	3,410	-	1,366,386	1,641,512	514,059	-417,285	3,146,496	6,254,878	-	6,254,878

Notes are an integral part of these consolidated interim financial statements.

*For detailed information about dividends refer to note 3 and 18.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTHS ENDED 30 SEPTEMBER

CZK '000	Share capital	Share premium	Capital funds	Cash flow hedge reserve	Foreign exchange translation reserve	Accumulated profits	Equity attributable to the owner of the parent company	Non-controlling interests	Total equity
Balance 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	-	-	-	-	-	900,565	900,565	2,270	902,835
Other comprehensive income	-	-	-	-219,625	-111,149	-	-330,774	-278	-331,052
Total comprehensive income for the period	-	-	-	-219,625	-111,149	900,565	569,791	1,992	571,783
Dividends	-	-	-	-	-	-253,025	-253,025	-8,101	-261,126
Change in other capital funds	-	-	-297	-	-	-	-297	-	-297
Issue of shares	110	416,267	-	-	-	-	416,377	-	416,377
Impact of Colt acquisition as at 21 May 2021	-	-	-	-	-	-995	-995	-	-995
Impact of Colt acquisition as at 21 May 2021 - Earnout	-	416,377	-	-	-	-	416,377	-	416,377
Changes in non-controlling interest and treasury holdings	-	-	-	-278	-	-	-278	-	-278
Balance as at 30 September 2021	3,374	1,555,588	1,641,810	-58,109	-159,109	2,674,539	5,658,093	6,434	5,664,527

Notes are an integral part of these consolidated interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR NINE-MONTHS ENDED 30 SEPTEMBER 2022

	Note	30 Sep 2022 CZK '000	30 Sep 2021 CZK '000
Cash flows from principal economic activity (operating activity)			
Profit from ordinary activity before tax		1,703,341	1,079,014
Depreciation/amortization of non-current assets	10, 11	658,726	525,858
Change in allowances and provisions	13	74,630	78,846
Loss from the sale of non-current assets		-	49
Interest expense and interest income		120,782	104,346
Share in the profit of associates		-14,113	-10,404
Unrealized foreign exchange gain and losses		-536,046	-286,560
Contingent consideration - revaluation		-24,804	-
Share premium (Impact of Colt acquisition - earnout)		227,211	416,377
Cash flow hedging – revaluation of the effective part of hedging instruments		394,076	-219,625
Share-based payments		123,170	-
Adjustments for other non-current operations		55,048	108,482
Net operation cash flows before changes in working capital		2,782,021	1,796,383
Change in working capital			
Change in receivables and deferrals		-690,365	-121,922
Change in liabilities and accruals		1,425,275	208,880
Change in inventories	12	-1,649,381	-294,344
Net cash flow from operating activities		1,867,550	1,588,997
Paid interest		-473,601	-108,664
Interest received		309,677	9,956
Income tax paid for ordinary activity	9.2	-212,563	-214,487
Net cash flow from operating activities		1,491,063	1,275,802

	Note	30 Sep 2022 CZK '000	30 Sep 2021 CZK '000
Cash flows from investing activities			
Acquisition of non-current assets	10, 11	-446,248	-393,386
Income from the sale of non-current assets		-	426
Acquisition of subsidiaries – cash and cash equivalents		-	-4,695,237
Provided loans		177,181	-
Employee benefit liabilities		-7,477	-
Net cash flow from investing activities		-276,544	-5,088,197
Cash flows from financing activities			
Proceeds from the bond issue	18	1,984,796	4,971,416
Dividends paid to owners	15	-843,416	-222,166
Dividends paid to non – controlling interests		-	-36,908
Loan and interest repayment		-2,317,579	-
Net cash flow from financing activities		-1,176,199	4,712,342
Net change in cash and cash equivalents		38,320	942,066
Opening balance of cash and cash equivalents		3,573,467	2,358,608
Effect of exchange rate on cash and cash equivalents		37,233	42,118
Closing balance of cash and cash equivalents		3,649,020	3,300,674

Notes are an integral part of these consolidated interim financial statements.

COLT CZ GROUP SE

Condensed consolidated interim financial statements for the period of nine-months from 1 January to 30 September 2022 prepared under the International Financial Reporting Standards as adopted by the European Union

(non-audited)

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1 PARENT COMPANY

Colt CZ Group SE, (the “Consolidating Entity” or the “Company”) is a *societas Europaea* company recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961. Company, together with its subsidiaries, is one of the leading European producers of firearms for military and law enforcement, personal defense, hunting, sport shooting and other commercial 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	
	30 Sep 2022	31 Dec 2021
Česká zbrojovka Partners SE	76.51 %	81 %

Since 2017, the majority owner of the Consolidating Entity 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. Ultimate owner of the entities is Mr. 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

The consolidation group (the “Group”) comprises the Company and the consolidated entities of the Group (subsidiaries). The consolidation group includes the Company and entities controlled by the Company, i.e. entities in which the Company holds more than 50 % of voting rights.

All amounts in these financial statements and the related notes are reported in thousands of Czech crowns (CZK ‘000), which are also the functional currency.

2 GROUP DESCRIPTION

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group		
				30 Sep 2022	31 Dec 2021	30 Sep 2021
Colt CZ Group North America, Inc. (Formerly CZ-US Holdings, Inc.)	Holding company	Kansas City, Missouri, USA	full	100 %	100 %	100 %
CZ-USA, LLC	Purchase and sale of firearms and ammunition	Kansas City, Missouri, USA	full	100 %	100 %	100 %
CZ-MFG, LLC*	Production	Little Rock, Arkansas, USA	full	–	100 %	100 %
EHC-4M, SE	Holding company	Prague, Czech Republic	full	100 %	100 %	100 %
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	100 %	100 %	100 %
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100 %	100 %	100 %
CZ – Slovensko s.r.o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	100 %	100 %	100 %
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	100 %	100 %	100 %
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49 %	49 %	49 %
Latin America Holding, a.s.	Holding company	Uherský Brod, Czech Republic	full	100 %	100 %	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 %	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 %	100 %
EG-CZ Academy	Academy	Quimper, France	equity	20 %	20 %	20 %
CZG VIB s.r.o.	Holding company	Prague, Czech Republic	full	100 %	100 %	100 %
VIBROM spol. s r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25 %	25 %	25 %
Spuhr i Dalby AB	Manufacture and assembly of optics	Löddeköpinge, Sweden	equity	25 %	25 %	25 %
CARDAM s.r.o.	Research and development	Dolní Břežany, Czech Republic	equity	33 %	33 %	33 %
Colt Holding Company LLC	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
CDH II Holdco Inc	Holding company	West Hartford, Connecticut, USA	full	100 %	100 %	100 %

Company name	Principal activity	Place of foundation and business operation	Consolidation method	Share in voting rights held by the Group		
				30 Sep 2022	31 Dec 2021	30 Sep 2021
Colt Defence LLC	Holding company	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
New Colt Holding Corp.	Holding company	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
Colt's Manufacturing Company LLC	Production, purchase and sale of firearms	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
Manufacturing IP Holding Company LLC	Holds, maintains, and licenses Colt USA trademarks	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
Colt Defence Technical Services LLC	Holding company	West Hartford, Connecticut, USA	full	100 %	100 %	100 %
Colt International Cooperatief U.A.	Holding company	Amsterdam, the Netherlands	full	100 %	100 %	100 %
Colt Canada Corporation	Production, purchase and sale of firearms	Kitchener, Ontario, Canada	full	100 %	100 %	100 %
Colt Canada IP Holding Company**	Holding company	Kitchener, Ontario, Canada	full	–	100 %	100 %
Colt Canada IP Holding Partnership**	Possession of trademarks and intellectual property	Kitchener, Ontario, Canada	full	–	100 %	100 %
Nova Scotia Company 43 81079**	Possession of trademarks and intellectual property	Kitchener, Ontario, Canada	full	–	100 %	–

On 21 May 2021, the Group completed the acquisition of a 100% share in Colt Holding Company LLC (“Colt”), the parent company of the US firearms manufacturer Colt’s Manufacturing Company LLC, and its Canadian subsidiary Colt Canada Corporation.

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.

* On 21 February 2021, company was liquidated.

** During 2022, the companies were liquidated and their assets and liabilities were transferred to Colt Canada Corporation.

3 SIGNIFICANT EVENTS IN THE CURRENT REPORTING PERIOD

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

As at of 1 January 2022, Colt CZ Defence Solutions, s.r.o. (formerly CZ Export Praha s.r.o.) transferred 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. The subsidiary Česká zbrojovka a.s. used the loan to repay its bonds in nominal value CZK 2,250,000 thousand, which also matured on 27 January 2022. This transaction was fully hedged by the Group through cross currency interest rate swaps. The derivatives were purchased at the same currency and interest rate terms as the bond issue or loan to the subsidiary.

On 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, the Russian invasion of Ukraine began. The world reacted to Russia's act of violence by adopting the historically toughest economic and trade embargoes. An exodus of the Ukrainian population ensued, with several hundred thousand Ukrainians fleeing to the Czech Republic, and more still arriving. Energy prices have begun to rise, as have shortages of certain commodities necessary for production. This situation may have a significant impact on the European and global economies.

The Group has immediately responded to the situation and mapped out potential risks related to embargoes, rising energy prices, and commodity shortages.

In terms of the volume of orders, the Group's sales to Russia, Belarus, and Ukraine are insignificant in the total volume of the Company's annual sales (accounted for less than 1% of the turnover in 2021); cooperation with a Russian partner was already terminated during 2021. Any transactions were always conducted under applicable legislation and based on export licenses granted by the Ministry of Industry and Trade of the Czech Republic. The Group does not make any direct purchases from these countries.

Secondary purchases of e.g., steel from ironworks with Ukrainian iron ore suppliers, are backed up by alternative steel suppliers from Sweden and Spain. The Group has a sophisticated cyber security system for data stored in secondary locations.

The Group has recently seen an increased interest in its products from both the Czech military and law enforcement and the commercial market. With the situation changing every day, we can expect further growth in the interest in our products.

On 2 March 2022, the Group announced its intention to vote outside the General Meeting (per rollam) between 17 March and 6 April 2022, with the results of the vote announced on 12 April 2022. The General Meeting approved the change of the Company's name from CZG – Česká zbrojovka Group SE to Colt CZ Group SE (approved by amending Articles of Association) and confirmed the appointment of Ms Jana Růžičková as a member of the Supervisory Board.

On 30 May 2022, the registered capital was increased through the issue of 365,291 book-entry shares with a unit price of CZK 622. 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 a consideration in the settlement of the acquisition of Colt Company in 2021. As at the balance sheet date, this settlement has not been performed and the newly issued shares are reported under Own shares.

On 31 May 2022 the Company's general meeting decided to pay a dividend for 2021 in the amount of 852,548 thousand CZK. On 29 June 2022 dividends were paid.

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

- ▶ to the extent, at the times and subject to the conditions of the Share Plan, the participant will acquire the following options by way of vesting by the Company
 - 15% of the allocated stock options in the period from June 2022 to June 2024
 - 35% of the allocated share options in July 2024 if Target 1 is met
 - 50% of the allocated share options in July 2026 if Target 2 is met
- ▶ Target 1 – the achievement of the consolidated EBITDA of 275,000,000 USD for the period 2021 to 2023
- ▶ Target 2 – the achievement of the following targets by 31 December 2025: (i) a consolidated turnover of the Company of EUR 1,000,000,000, (ii) a consolidated EBITDA of EUR 200,000,000 and a NET DEBT/EBITDA ratio of less than 3.5.

Shares determined for Option Plan will be newly issued and the maximal amount of this emission will be 3,373 thousand shares. For nine-month period ended 30 September 2022 was signed contracts with Group management on 2,497 thousand of these shares.

Option plan impact on interim financial statements for the period of nine-months ended 30 September 2022 is CZK 123,170 thousand recognized in profit for the period and retained earnings. The Company recognized provision for social and health insurance in total amount CZK 34,042 thousand. Deferred tax receivables in respect of the Option plan as at 30 September 2022 amounted CZK 6,465 thousand.

On 30 June 2022, a project of demerger by spin-off with acquisition was carried out, with Colt CZ Group SE as the successor company and Česká zbrojovka a.s. as the demerged company. Subjects of the demerger project are own shares owned by subsidiary and trademarks. The effective date of the demerger was set as at 1 January 2022. On 29 August 2022, the opening balances of Colt CZ Group SE and Česká zbrojovka a.s. were approved by Boards of Directors of both companies and on 1 September 2022 the changes were recorded in the Commercial Register. This change has no impact on consolidation.

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

As at 29 July 2022 Colt CZ Group SE made loan capitalization in total amount CZK 229,713 thousand provided to company Colt CZ Group North America, Inc.

As at 11 August 2022 Mrs. Alice Poluchova submitted her resignation as a Vice-Chair of the Board of Directors.

4 BASIC PRINCIPLES OF PREPARATION OF INTERIM REPORT

These condensed interim consolidated financial statements for the nine-months period ended 30 September 2022 have been prepared in line with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements do not include all the notes normally included in the annual financial statements. Accordingly, the condensed interim consolidated financial statements must be read together with the consolidated financial statements for the year ended 31 December 2021, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The condensed interim consolidated financial statements have not been reviewed by an auditor in accordance with applicable regulations.

5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used are consistent with those of the most recent annual financial statements. A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

6 ESTIMATES AND SOURCES OF UNCERTAINTY

During the preparation of the condensed interim consolidated financial statements, the Group’s management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. The actual results may differ from these estimates. Apart from this, the Group’s future business may be adversely impacted by factors beyond the Group’s control.

In the preparation of these condensed interim consolidated financial statements, the significant judgements made by the management and the key sources of uncertainty in making estimates were the same as those used in the consolidated financial statements for the year ended 31 December 2021.

7 FINANCIAL RISK MANAGEMENT

The Group’s activities give rise to many financial risks: market risk, credit risk and liquidity risk. The condensed interim consolidated financial statements do not include all the financial information on risk management and other information required in annual consolidated financial statements and they should be assessed together with the annual consolidated financial statements of the Group as at 31 December 2021. No changes in the rules and policies of managing these risks have been made since the end of 2021.

The Group uses financial derivatives to manage financial risks. The method of measurement of financial derivatives and information on the fair value of financial assets and liabilities as at 30 September 2022 and 31 December 2021 are disclosed in note 17 Financial assets and liabilities at fair value.

8 INFORMATION ABOUT THE SEGMENTS AND REVENUES

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 30 September 2022 and 30 September 2021 substantially all assets and liabilities, expenses and revenues of the Group related to the Production, purchase and sale of firearms and accessories.

The table below specifies revenues from the sale of own products, goods and services by the most significant regions (in CZK '000)

Revenues from the sale to external customers	30 Sep 2022	30 Sep 2021
Czech Republic (origin country)	875,946	522,398
United States	5,709,242	4,497,731
Canada	768,731	329,560
Europe (apart from the Czech Republic)	1,137,150	733,338
Africa	76,185	673,315
Asia	1,326,471	548,398
Others	326,178	297,258
Total	10,219,903	7,601,998

The Group has production facilities in the Czech Republic, USA and Canada. Out of the total carrying amount of property, plant and equipment of CZK 2,985,220 thousand as at 30 September 2022 (31 December 2021: CZK 2,810,115 thousand), the value of items located in the USA is CZK 567,306 thousand (31 December 2021: CZK 475,243 thousand) and in Canada CZK 204,547 thousand (31 December 2021: CZK 139,887); the remainder is in the Czech Republic.

As for intangible assets located outside the Czech Republic, out of the total amount of intangible assets of CZK 3,502,159 thousand (31 December 2021: CZK 3,505,464 thousand), CZK 2,245,464 thousand (31 December 2021: CZK 2,172,557 thousand) was located in the USA and CZK 638,443 thousand (31 December 2021: CZK 641,657) in Canada as at 30 September 2022.

As at 30 September 2022, goodwill in total amount CZK 2,390,127 thousand (31 December 2021: CZK 2,390,127 thousand) while CZK 280,686 thousand (31 December 2021: CZK 280,686 thousand) relates to activities in the Czech Republic, CZK 1,925,741 thousand (31 December 2021: CZK 1,925,741) relates to the USA and CZK 183,700 thousand to Canada (31 December 2021: CZK 183,700).

9 PROFIT AND LOSS INFORMATION

9.1 SIGNIFICANT EVENTS AND TRANSACTIONS

The Consolidated Statement of Profit and Loss and Other Comprehensive Income and the Consolidated Statement of Cash Flows for the period from 1 January to 30 September 2021 included the Colt group transactions only for the period from 21 May 2021 to 30 September 2021, when the Colt group became part of the Group. For this reason, the data for individual periods are not fully comparable with the current year.

Profit/Loss on financial derivatives: The Group manages its exposure to the currency and interest rate risk by using derivative instruments. As not all of the derivatives are accounted for as hedging instruments, the amount of financial expenses was impacted by the decrease in fair value of open financial derivatives. In the nine-months period ended 30 September 2022, the Group recognized profit from derivative instrument of CZK 62,019 thousand (gain CZK 148,833 thousand in the nine-months period ended 30 September 2021 is recognized in Other financial income and loss CZK 20,545 thousand in the nine-months period ended 30 September 2021 recognized in Other financial expenses).

In nine-months period ended 30 September 2022 in other comprehensive income, the Group recognized gain of CZK 394,076 thousand from the remeasurement of financial derivatives classified as hedging instruments (loss CZK 220,928 thousand in nine-months period ended 30 September 2021).

Other financial revenues in the amount of CZK 280,117 thousand (CZK 643,323 thousand in nine-months period ended 30 September 2021) mainly represent foreign exchange rate difference in total net amount CZK 239,665 thousand and revaluation of the contingent consideration as a result of Colt acquisition in CZK 24,804 thousand.

Interest expenses in CZK 446,619 thousand (CZK 117,011 thousand in nine-months period ended 30 September 2021) are mainly represented by interest from issued bonds in CZK 312,360 thousand (CZK 101,045 thousand in nine-months period ended 30 September 2021) The issued bonds overview is given in Note 15. Interest expenses in CZK 134,231 thousand represent interest from currency interest rate swaps. This swaps also generates interest income in amount CZK 226,738 thousand recognized in Interest income.

9.2 INCOME TAX

Income tax expense is recognized based on the estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate for the period from 1 January to 30 September 2022 is 22.4% (30 September 2021: 16.3%).

The amount of the effective tax rate is affected by the level of tax rates in the individual countries, in which the Group operates (Czech Republic – 19%, USA – 22-28%, Canada – 25%).

10 INTANGIBLE ASSETS

Acquisition costs

The following tables summarize the changes in intangible assets from 1 January 2022 to 30 September 2022 (in CZK '000):

GROUP	Opening balance	Additions	Disposals	Transfers	Impact of FX fluctuations	Closing balance
Software	219,241	6,534	-3,922	15,297	1,080	238,230
Intangible assets under construction or being acquired	48,678	32,499	-9,305	-17,971	-	53,901
Other intangible assets	883,984	1,591	-	1,404	103,646	983,668
Trademarks and logos	1,541,483	-	-6,957	-	202,597	1,753,264
Capitalized development	531,535	873	-3,012	1,270	186	530,852
Concessions, license rights and other intellectual property rights	340,280	9,215	-17,467	-	11,671	334,515
Contractual customer relations	1,384,022	-	-	-	76,412	1,460,434
Total	4,949,223	50,712	-40,663	-	395,592	5,354,864

Accumulated amortization and carrying value

The following tables summarize the changes in intangible assets from 1 January 2022 to 30 September 2022 (in CZK '000):

GROUP	Opening balance	Amortization	Disposals, liquidation	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Software	-166,713	-13,202	3,922	-	-142	-176,135	62,095
Intangible assets under construction or being acquired	-3,348	-	-	3,348	-	-	53,901
Other intangible assets	-142,738	-111,689	-	-	-20,172	-274,598	709,070
Trademarks and logos	-	-58	-	-	-	-	1,753,264
Capitalized development	-178,558	-37,822	593	387	-2,103	-214,809	316,043
Concessions, license rights and other intellectual property rights	-51,698	-146,105	10,660	-	-31,655	-221,604	112,911
Contractual customer relations	-900,704	-64,855	-	-	-	-965,559	494,875
Total	-1,443,759	-373,731	15,121	3,735	-54,072	-1,852,705	3,502,159

The Group's management has considered and assessed all assumptions used in determining the value-in-use calculations of the recoverable amount of the cash generating unit to which goodwill and intangible assets with indefinite useful lives belong. The Group's management has concluded its assumptions as disclosed in the most recent annual financial statements are still appropriate and that there is no indication of impairment.

11 PROPERTY, PLANT AND EQUIPMENT

Acquisition costs

The following tables summarize the changes in property, plant and equipment from 1 January 2022 to 30 September 2022 (in CZK '000):

GROUP	Opening balance	Additions	Disposals	Transfers	Impact of FX fluctuations	Closing balance
Buildings	1,565,130	13,396	-1,322	828	34,199	1,612,231
Machinery, instruments and equipment	3,368,768	175,556	-159,713	100,756	33,221	3,518,588
Other non-current tangible assets	23,994	10,401	-172	-	3,279	37,502
Other non-current tangible assets under construction	90,354	91,327	-4,553	-13,843	6,566	169,851
Prepayments made for non-current tangible assets	114,304	34,922	-192	-87,741	2,624	63,917
Lands	270,714	52,693	-	-	29,352	352,759
Total	5,433,264	378,295	-165,952	-	109,241	5,754,848

Accumulated amortization and carrying value

The following tables summarize the changes in intangible assets from 1 January 2022 to 30 September 2022 (in CZK '000):

GROUP	Opening balance	Amortization	Disposals	Changes in allowances, reversal of allowances	Impact of FX rate fluctuations	Closing balance	Carrying amount
Buildings	-571,992	-49,704	1,316	-	-5,206	-625,586	986,645
Machinery, instruments and equipment	-2,027,358	-231,227	156,205	-	-17,326	-2,119,705	1,398,883
Other non-current tangible assets	-4,933	-4,064	112	-	-1,031	-9,916	27,586
Other non-current tangible assets under construction	-17,529	-	-	4,855	-	-12,674	157,177
Prepayments made for non-current tangible assets	-1,337	-	-	-410	-	-1,747	62,170
Lands	-	-	-	-	-	-	352,759
Total	-2,623,149	-284,995	157,791	4,445	-23,563	-2,769,628	2,985,220

Machinery, instruments and equipment and Buildings as at 30 September 2022 include rights of use arising from lease contracts of CZK 37,450 thousand (CZK 45,695 thousand as at 31 December 2021). Additions to the rights of use arising from lease contracts amounted to CZK 6,216 thousand in 2022 (CZK 32,423 thousand in a nine-months period ended 30 September 2021). These primarily include lease contracts for warehouses and office space, cars and office technical equipment.

Depreciation for the nine-months period ended 30 September 2022 includes depreciation of rights of use arising from lease contracts of CZK 18,265 thousand (CZK 13,927 thousand in nine-months period ended 30 September 2021).

12 INVENTORIES

The structure of inventories as at 30 September 2022 and 31 December 2021 is as follows (in CZK '000):

	30 Sep 2022	31 Dec 2021
Material	1,460,357	1,066,005
Work-in-progress and semi-finished products	814,013	570,133
Finished products	1,801,010	936,913
Goods	376,127	267,009
Prepayments made for inventories	5,034	21,613
Total	4,456,541	2,861,673

The valuation of redundant, obsolete and slow-moving inventories is decreased to the selling price net of the costs of sale. As at 30 September 2022, allowances for inventories of CZK 423,912 thousand (31 December 2021: CZK 369,399 thousand) were included in the statement of financial position. In the nine-months period ended 30 September 2022, an impairment loss of CZK 25,970 thousand was established in the profit and loss (loss of CZK 2,778 thousand in the nine-months period ended 30 September 2021). The remainder of the change in the allowances for inventories is mainly due to exchange rate differences on the translation of foreign subsidiaries.

13 CURRENT AND NON-CURRENT PROVISIONS

Table below shows current and non-current provisions as at 30 September 2022 and 31 December 2021 (CZK '000):

Provisions	Balance at 30 Sep 2022	Balance at 31 Dec 2021
Warranty repairs	53,210	48,329
Other current provisions	27,537	2,451
Total current provisions	80,747	50,780
Warranty repairs	9,758	10,520
Other non-current provisions	89,740	53,175
Total non-current provisions	99,498	63,695
Total provisions	180,245	114,475

14 EMPLOYEE BENEFIT LIABILITIES

Employee benefit liabilities (CZK '000):

	30 Sep 2022	31 Dec 2021
Net employee benefit liability	209,941	187,910
Liability for medical (healthcare) benefits	207,723	187,913
Total net employee benefit liability	417,664	375,823
Non-current net employee benefit liabilities	395,724	357,707
Current net employee benefit liabilities	21,940	18,116
Total net employee benefit liability	417,664	375,823

15 BONDS, BANK LOANS AND BORROWINGS

	Terms	Interest rate %	Aggregate limit as at 30 Sep 2022 (CZK '000)	30 Sep 2022 CZK '000	31 Dec 2021 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				8,178	42,200
Issued bonds – issue cost				-23,437	-27,353
Issued bonds	27 Jan 2029	6M Pribor + margin % p.a.	1,998,000	1,998,000	-
Issued bonds – unpaid interest				32,418	-
Issued bonds – issue cost				-12,220	-
Total			6,998,000	7,002,939	7,290,226
Repayments in the following year				40,596	2,317,579
Repayments in future years				6,962,343	4,972,647

16 INTEREST IN ASSOCIATES

The carrying amount of all equity-accounted investments changed as follows in the nine-months period ended 30 September 2022 (in CZK '000):

	30 Sep 2022 CZK '000
Beginning of the period	109,445
Share in profit/loss of equity accounted investments	14,113
Dividends received – Spuhr i Dalby AB	-23,129
End of the period	100,429

17 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

This note provides an update on the judgements and estimates made by the Group in determining the fair value of the financial instruments since the last annual financial statements.

As at 30 September 2022, assets and liabilities representing financial derivatives and liabilities due to contingent consideration from the Colt acquisition in 2021 are measured at fair value.

17.1. Financial derivatives

The fair value of interest rate swaps and currency forwards is determined based on the present value of future cash flows based on market data (yield curves of referential interest rate swaps, spot foreign exchange rates and forward points). 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 realization rates of individual transactions (“volatility smile”).

The fair values of derivative transactions are classified as level 2, whereby the market data used in models originate from active markets.

The following table provides an overview of nominal values and positive or negative fair values of open trading derivatives as at 30 September 2022 and 31 December 2021 (CZK '000):

CZK '000	30 Sep 2022 Fair value			31 Dec 2021 Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Put Option	216,594	12,150	–	299,563	13,274	–
Call Option	974,315	–	12,074	1,595,391	–	23,043
Currency swap	–	–	–	–	–	–
Forwards	1,696,125	–	103,275	292,636	14,814	–
Total	2,887,034	12,150	115,349	2,187,590	28,088	23,043

The following table provides an overview of nominal values and positive or negative fair values of open hedging derivatives as at 30 September 2022 and 31 December 2021 (CZK '000):

CZK '000	30 Sep 2022 Fair value			31 Dec 2021 Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Interest rate swap	500,000	98,898	–	1,700,000	70,432	–
Put Option	2,998,344	121,362	–	3,827,197	114,646	–
Call Option	2,998,344	–	51,501	3,827,197	–	75,081
Currency swap	4,827,961	150,183	26,170	4,084,071	4,041	106,491
Forwards	5,507,100	30,261	455,215	4,574,648	110,106	36,531
Cross currency swap	4,714,800	255,415	107,850	3,214,800	–	49,466
Total	21,546,549	656,119	640,736	21,227,913	299,225	267,569

17.2. Financial liabilities at fair value through profit or loss

CZK '000	30 Sep 2022 Fair value			31 Dec 2021 Fair value		
	Nominal	Positive	Negative	Nominal	Positive	Negative
Contingent consideration - Colt	277,932	–	400,398	416,378	–	558,099

The fair value of the contingent consideration is determined based on market price Company's shares listed on the Prague Stock Exchange as at 30 September 2022 (level 1). The liability fair value change in amount CZK 185,568 thousand and its nominal value change in amount CZK 138,446 thousand are related to the transfer of the first tranche of the contingent consideration of 365,291 shares of the Company to the original owners of the Colt company on 15 July 2022. The change in fair value of liability in total amount CZK 24,804 thousand is attributable to change in the market price of the Company share and the related loss is recognized in Other financial expenses. The remaining change in fair value of the liability in the total amount CZK 52,671 thousand represents a foreign exchange loss and is recognized in Other financial income on a net basis.

The remaining financial assets and liabilities are measured at amortized cost. The fair value of all these instruments does not differ significantly from their carrying amount, as the interest rate is close to current market rates or they are short-term.

18 PROFIT DISTRIBUTION

The Group decided to pay out dividends of CZK 852,548 thousand (CZK 25 per share). In the consolidated statement of changes in equity, this amount was reduced by the dividend related to own shares held by the subsidiary Colt CZ Group North America, Inc., (formerly CZ-US Holdings, Inc.) in the amount CZK 9,132 thousand until 15 July 2022.

An unpaid liability (including withholding tax) to shareholders totalling CZK 11,526 thousand is presented under Trade and other payables.

19 TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include subsidiaries, associated companies and key management personnel and their family members. Transactions that the Group ensures for related parties primarily include trade receivables and provided loans, and costs of transactions with related parties include remuneration to members of the Supervisory Board, Board of Directors and trade payables. Transactions with related parties are part of regular activity and are implemented at arm's length.

During the nine-months period ended 30 September 2022 the Group conducted the following transactions with related parties:

Key management personnel:

During the nine-months period ended 30 September 2022, key management personnel included all members of the Board of Directors and Supervisory Board. Short-term benefits provided to key management personnel (including gross remuneration, annual bonuses, health and social insurance and additional pension insurance) amounted to CZK 13,669 thousand.

The Company provided its key management personnel with the Option plan described in Note 3. The Company provided no other benefits (e.g. monetary or non-monetary benefits related to the termination of office of a body's member, or share-based payments) to its key management personnel.

The Group records the following outstanding balances with related parties as at 30 September 2022 and the following transactions with related parties in the nine-months period ended 30 September 2022 (in CZK '000):

Entity	Relationship	Liabilities as at 30 Sep 2022	Purchases from 1 Jan to 30 Sep 2022	Receivables as at 30 Sep 2022	Income from 1 Jan to 30 Sep 2022
Česká zbrojovka Partners SE	parent company	–	–	212	–
Keriani, a.s.	associate of parent company	1,060	7,946	2,299	–
EHC zdravotní s.r.o.	company in the ultimate owner's group	–	–	9,516	871
CZUB zdravotní s.r.o.	company in the ultimate owner's group	45	4,136	14	39
CZ-SKD Solutions a.s. (Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	488	4,278	744	–
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	972	15,309	8,899	41,694
TRX, s.r.o.	company in the ultimate owner's group	169	630	–	8
ITeuro, a.s.	company in the ultimate owner's group	–	1,936	–	–
Total		2,734	34,235	21,684	42,612

Furthermore, the Group paid out dividends to Česká zbrojovka Partners SE in total amount of CZK 652,262 thousand (CZK 222,166 thousand in 2021).

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE-MONTHS PERIOD ENDED 30 SEPTEMBER 2022

The Group records the following outstanding balances with related parties as at 31 December 2021 and the following transactions with related parties in the nine-months period ended 30 September 2021 (in CZK '000):

Entity	Relationship	Liabilities as at 31 Dec 2021	Purchases from 1 Jan to 30 Sep 2021	Receivables as at 31 Dec 2021	Income from 1 Jan to 30 Sep 2021
European Holding Company, SE	ultimate parent company	-	-	-	229
Česká zbrojovka Partners SE	parent company	-	-	212	229
Česká zbrojovka Defence SE	subsidiary of parent company	-	-	-	60
Keriani, a.s.	associate of parent company	1,039	8,113	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	774
CZUB zdravotní s.r.o.	company in the ultimate owner's group	221	2,506	44	29
CZ-SKD Solutions a.s. (Formerly Česká zbrojovka CZ-AUTO a.s.)	subsidiary of parent company	3,989	7,220	-	207
CZ-AUTO SYSTEMS a.s.	subsidiary of parent company	1,085	10,836	197,439	35,549
AIT Group - Advanced Industrial Technology Group a.s.	subsidiary of parent company	-	-	19	20

The Group records the following outstanding balances with related parties as at 31 December 2021 and the following transactions with related parties in the nine-months period ended 30 September 2021 (in CZK '000):

Entity	Relationship	Liabilities as at 31 Dec 2021	Purchases from 1 Jan to 30 Sep 2021	Receivables as at 31 Dec 2021	Income from 1 Jan to 30 Sep 2021
TRX, s.r.o.	company in the ultimate owner's group	85	630	-	-
Lundmonte, s.r.o.	company in the ultimate owner's group	-	-	-	32
M&H Management a.s.	company in the ultimate owner's group	24	-	-	140
Kykulin Trade a.s.	company in the ultimate owner's group	-	-	2	17
CZ AGRO Servis a.s.	company in the ultimate owner's group	-	-	-	253
CZ AGRO zemědělská s.r.o.	company in the ultimate owner's group	-	-	-	17
Robousy, s.r.o.	company in the ultimate owner's group	-	-	-	183
RAIL CARGO a.s.	company in the ultimate owner's group	-	-	2	17
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	-	4,300	-	-
Total		6,443	33,605	208,675	37,844

20 NET EARNINGS PER SHARE

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

	30 Sep 2022	30 Sep 2021
Numerator (CZK '000)		
Profit after tax attributable to the owner of the parent company	1,327,896	900,565
Denominator (average number of shares in CZK '000)		
Basic	33,995	33,371
Diluted	34,320	33,737
Net earnings per share (CZK/share) attributable to the owner of the parent company		
Basic	39	27
Diluted	39	27

21 CONTINGENT LIABILITIES

As at 30 September 2022, the Group had issued no guarantees in respect of third-party liabilities.

As at 30 September 2022, the Group recorded no significant legal disputes where the Group acts as a defendant; it also did not record any investments or environmental or other off-balance sheet commitments, with exceptions in the USA mentioned below. In the USA, the Group is a subject of

several ongoing legal claims and litigations that are common in the Group's business activity. If it is probable that a loss will be incurred and if the loss can be plausibly estimated, the Group establishes a provision (see note 13). The Group's management regularly monitors and evaluates the development of individual legal claims and litigations. The Group's management is currently not aware of the existence of potential losses that may have a significant unfavorable impact on the Group's results of operation and its cash flows.

As at 30 September 2022, the Group records environmental liabilities of CZK 11,818 thousand to which a full provision was established. No other environmental liabilities are recorded.

22 SUBSEQUENT EVENTS

On 12 October 2022, the Group completed the acquisition of the remaining 75% share in Spuhr i Dalby AB and thereby acquired a 100% share in the company.

On 14 October 2022, the shares hold by the Company majority owner Česká zbrojovka SE was changed to 76.86%.

On 1 November 2022, the name of CZG - Česká zbrojovka Group International, s.r.o. was changed to Colt CZ Group International s.r.o.

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

No other subsequent events have occurred since the balance sheet date that would have any material impact on the condensed consolidated interim financial statements as at 30 September 2022.