

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6M PERIOD ENDED 30 JUNE 2020

Name of the Company: CZG - Česká zbrojovka Group SE

Registered Office: Opletalova 1284/37, Nové Město, 110 00 Praha 1

Legal Status: Joint Stock Company/Limited Liability Company

Corporate ID: 291 51 961

Components of the Consolidated Financial Statements:

Consolidated Profit and Loss Account

Consolidated Balance Sheet

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Notes to the Consolidated Financial Statements

These consolidated financial statements were prepared on 4 September 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 6 MONTHS PERIOD ENDED 30 JUNE

		30 June 2020	30 June 2019*
	Note	CZK '000	CZK '000
Continued operations			
Revenues from the sale of own products, goods and services	8	3 363 399	2 963 241
Other operating income		43 632	134 222
Changes in inventories of finished goods and works in progress		-215 972	13 728
Own work capitalised		62 018	52 429
Raw materials and consumables used		-1 278 833	-1 355 149
Services		-495 971	-423 325
Personnel costs		-615 029	-533 141
Depreciation and amortisation		-193 452	-186 169
Other operating expenses	9.1.	5 984	-39 893
Operating profit		675 776	625 943
Interest income		10 600	11 210
Interest expense		-68 363	-41 961
Other financial income		328 733	150 861
Other financial expenses		-478 542	-116 034
Share in the profit of associates		5 368	181
Profit before tax		473 572	630 200
Income tax	9.2	-91 609	-131 146
Profit for the period from continued operations		381 963	499 054
Discontinued operations			
Post-tax profit from discontinued operations		0	14 915
Post-tax profit for the period		381 963	513 969
Items that may be subsequently reclassified to the statement of profit or loss			
Cash Flow Hedges - remeasure of effective portion of hedging instruments		-76 644	94 379
Foreign currency translation of foreign operations		21 825	7 415
Other comprehensive income:		-54 819	101 794
Comprehensive income for the period		327 144	615 763
Profit attributable to owner of the parent			
Profit for the period from continued operations		381 744	485 054
Profit for the period from discontinued operations		0	14 915
Profit for the period attributable to owner of the parent		381 744	499 969
Profit attributable to non-controlling interests			
Profit for the period from continued operations		219	14 000
Total comprehensive income for the period attributable to:			
Shareholder of the parent company		327 270	599 391
Non-controlling interests		-126	16 372
Net earnings per share attributable to the owner of the parent company (CZK '000 per share)			
Basic	19	13	17
Diluted	19	13	17

**All comparative amounts for the half-year ended 30 June 2019 have been restated to reflect the reclassification of discontinued operations (see Note 7).*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2020

	Note	30 June 2020 CZK '000	31 Dec 2019 CZK '000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2 021 572	1 994 748
Intangible assets	10	797 295	834 242
Long-term receivables		295 532	45 322
Equity-accounted securities and investments	15	92 351	17 160
Deferred tax asset		0	1 464
Goodwill		280 686	280 686
Total non-current assets		3 487 436	3 173 622
Current assets			
Inventories	12	1 655 571	1 747 427
Trade receivables		892 436	915 799
Current tax receivables		46 939	7 385
Other receivables		96 531	137 080
Financial derivatives	16	225 739	236 486
Cash and cash equivalents		1 196 419	805 503
Assets held for sale and for distribution to owners	7	0	525 273
Total current assets		4 113 635	4 374 953
Total assets		7 601 071	7 548 575
EQUITY AND PAYABLES			
Capital and funds			
Share capital		2 984	2 984
Capital funds		1 478 644	1 533 118
Accumulated profits		1 744 895	1 921 501
Equity attributable to the shareholder of the Company		3 226 523	3 457 603
Equity attributable to the shareholder of the Company		3 226 523	3 457 603
Non-controlling interests		-2 431	11 358
Total equity		3 224 092	3 468 961
Non-current liabilities			
Bank loans and borrowings		2 252 995	2 252 688
Lease payables		62 392	57 313
Deferred tax liability		235 434	248 033
Provisions	13	7 060	25 053
Other long-term payables		88	905
Total Non-current liabilities		2 557 969	2 583 992
Current liabilities			
Trade payables		354 449	284 906
Short-term bank loans and overdrafts	14	292 785	36 958
Lease payables		5 581	6 173
Provisions	13	66 792	45 837
Current tax payables		101 347	70 127
Other payables		418 279	394 387
Financial derivatives	16	579 777	339 252
Liabilities related to assets held for sale and for distribution to owners	7	0	317 982
Total Current liabilities		1 819 010	1 495 622
Total liabilities		4 376 979	4 079 614
Total liabilities and equity		7 601 071	7 548 575

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS PERIOD ENDED 30 JUNE

	Share capital	Capital funds and funds from the translation of foreign currencies	Accumulated profits	Equity attributable to the shareholder of the parent company	Non-controlling interests	Equity
Balance at 31 December 2018	2 984	1 393 554	1 884 709	3 281 247	28 128	3 309 375
Profit for the period from continued operations	0	0	485 054	485 054	14 000	499 054
Profit for the period from discontinued operations	0	0	14 915	14 915	0	14 915
Other comprehensive income	0	99 422	0	99 422	2 372	101 794
<i>Total comprehensive income for the period</i>	<i>0</i>	<i>99 422</i>	<i>499 969</i>	<i>599 391</i>	<i>16 372</i>	<i>615 763</i>
Dividends	0	0	-560 000	-560 000	0	-560 000
Transactions under common control	0	0	-145 363	-145 363	0	-145 363
Change in non-controlling interests and treasury holdings	0	0	20 272	20 272	-11 608	8 664
Balance at 30 June 2019	2 984	1 492 976	1 699 587	3 195 547	32 892	3 228 439
Balance at 31 December 2019	2 984	1 533 118	1 921 501	3 457 603	11 358	3 468 961
Profit for the period from continued operations	0	0	381 744	381 744	219	381 963
Profit for the period from discontinued operations	0	0	0	0	0	0
Other comprehensive income	0	-54 474	0	-54 474	-345	-54 819
<i>Total comprehensive income for the period</i>	<i>0</i>	<i>-54 474</i>	<i>381 744</i>	<i>327 270</i>	<i>-126</i>	<i>327 144</i>
Dividends	0	0	-328 218	-328 218	-4 049	-332 267
Distribution to owners (note 7)	0	0	-207 291	-207 291	0	-207 291
Change in non-controlling interests and treasury holdings	0	0	-22 841	-22 841	-9 614	-32 455
Balance at 30 June 2020	2 984	1 478 644	1 744 895	3 226 523	-2 431	3 224 092

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 6 MONTHS PERIOD ENDED 30 JUNE

	Note	30 June 2020 CZK '000	30 June 2019 CZK '000
<i>Cash flows from principal economic activity (operating activity)</i>			
Profit from ordinary activity before tax		468 206	647 185
Depreciation/amortisation of non-current assets		193 452	207 989
Change in allowances and provisions	13	-26 382	-28 522
Loss from the sale of non-current assets		-371	-221
Interest expense and interest income		57 763	33 070
Adjustments for other non-cash operations (write off on assets and inventories, unrealised foreign exchange gains/losses, remeasurement of derivative transactions)		93 512	-28 716
Net cash flow from operating activities before changes in working capital		786 180	830 785
Change in working capital		109 626	236 563
Change in receivables and deferred expenses/ accrued income		-22 247	-88 173
Change in payables and accrued expenses/ deferred income		-111 152	437 468
Change in inventories	12	243 025	-112 732
Cash generated by operations		895 806	1 067 348
Interest paid		-44 541	-36 122
Interest received		4 877	11 372
Income tax paid for ordinary activity	9.2	-54 306	-96 936
Net cash flow from operating activities		801 836	945 662
<i>Cash flows from investing activities</i>			
Acquisition of non-current assets	11, 12	-121 412	-159 251
Income from the sale of non-current assets		458	221
Income from the sale of subsidiaries		-	-1 114
Acquisition of investment in an associate	15	-69 823	-
Net cash flow from investing activities		-190 777	-160 144
<i>Cash flows from financing activities</i>			
Proceeds from issued bonds		-	-
Repayments of loans and borrowings	14	-28 966	-216 500
Proceeds from loans and borrowings	14	34 739	23 050
Dividends paid to shareholders	17	-328 218	-560 000
Dividends paid to non-controlling interests		-4 049	-
Net cash flow from financing activities		-326 494	-753 450
Net change in cash and cash equivalents		316 104	29 295
Opening balance of cash and cash equivalents		880 315	1 345 628
Effects of exchange rate changes on cash and cash equivalents		31 539	-2 773
Closing balance of cash and cash equivalents		1 196 419	1 374 923

These notes are an integral part of the interim financial statements.

CZG - Česká zbrojovka Group SE

**Condensed Consolidated Interim Financial Statements for the 6 Months Period Ended 30 June 2020
prepared under International Financial Reporting Standards as Adopted by the European Union**

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1. GROUP DESCRIPTION

CZG - Česká zbrojovka Group SE, (hereinafter the “Consolidating Entity” or the “Company” or the “Parent Company”) is a European company recorded in the Register of Companies held by the Municipal Court in Prague on 10 January 2013, having its registered office at Opletalova 1284/37, Nové Město, 110 00 Prague 1, Czech Republic, corporate ID No. 291 51 961.

CZG - Česká zbrojovka Group SE is a leading European producer of firearms and tactical accessories for military and law enforcement, personal defence, hunting, sport shooting and other civilian uses. Its products are marketed and sold under the Česká zbrojovka, CZ-USA, Dan Wesson, Zbrojovka Brno and 4M SYSTEMS brands.

The following table shows individuals and legal entities with an equity interest greater than 10 percent:

Shareholder	Ownership percentage as of	
	30 June 2020	31 Dec 2019
Česká zbrojovka Partners SE	100 %	100 %

The majority owner of the Consolidating Entity is Česká zbrojovka Partners, SE, based at Opletalova 1284/37, Nové Město, Prague 1.

The Consolidating Entity and consolidated entities are part of a larger consolidation group of the parent company European Holding Company, SE, based at Opletalova 1284/37, Nové Město, Prague.

Members of the statutory bodies as of 30 June 2020:

Board of Directors	
Chairman:	Lubomír Kovařík
Vice-chairman:	Jan Drahota
Vice-chairman:	Alice Poluchová
Member:	Ladislav Britaňák
Member:	Andrej Chrzanowski
Member:	David Aguilar
Member:	Jana Růžičková
Supervisory Board	
Chairman:	René Holeček
Member:	Věslava Piegzová
Member:	Vladimír Dlouhý

The consolidation group (hereinafter the “Group”) comprises the Group and its subsidiaries.

Information in these condensed consolidated financial statements is presented in thousands of Czech crowns (CZK ‘000) if not stated otherwise.

As of 30 June 2020, the Group was composed of the following entities:

Entity	Principal activity	Place of foundation and business operation	Consolidation method	Share of the Group in Equity		
				30 June 2020	31 Dec 2019	30 June 2019
CZG - Česká zbrojovka Group SE	Holding company	Prague, Czech Republic	full	100%	100%	100%
CZ USA HOLDINGS Inc.	Holding company	Kansas City, USA	full	100%	100%	100%
CZ-USA	Purchase and sales of firearms and ammunition	Kansas City, USA	full	100%	100%	100%
CZ-MFG	Production	Little Rock, USA	full	100%	100%	-
EHC 4 M, SE	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
4M SYSTEMS a.s.	Trade with military material	Prague, Czech Republic	full	54%	54%	54%
Česká zbrojovka a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	99%	99%	98%
Česká zbrojovka CZ-AUTO a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	-	99%	98%
CZ - Slovensko s. r. o.	Production, purchase and sale of firearms and ammunition	Bratislava, Slovakia	full	99%	99%	98%
ZBROJOVKA BRNO, s.r.o.	Purchase and sale of firearms and ammunition	Brno, Czech Republic	full	99%	99%	98%
CZ BRASIL LTDA	Purchase and sale of firearms and ammunition	Brazil	equity	49%	49%	48%
Latin America Holding, a.s.	Lease of real estate	Uherský Brod, Czech Republic	full	99%	99%	98%
CARDAM s.r.o.	Development of firearms	Dolní Břežany, Czech Republic	equity	33%	33%	32%
CZG VIB s.r.o.	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
VIBROM s.r.o.	Production	Třebechovice pod Orebem, Czech Republic	equity	25%	25%	25%
CZG- Česká zbrojovka Group International s.r.o. (renamed CZG Tisem s.r.o.)	Lease of real estate	Prague, Czech Republic	full	100%	100%	100%
CZ-AUTO SYSTEMS a.s.	Production, purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	-	100%	-
CZ Export Praha, s.r.o.	Purchase and sale of firearms and ammunition	Uherský Brod, Czech Republic	full	100%	100%	-
EG-CZ Academy	Academy	Quimper, France	equity	20%	20%	-
Spuhr i Dalby AB	Production of scope mounts	Löddeköpinge, Sweden	equity	25%	-	-

2. SIGNIFICANT EVENTS IN THE CURRENT REPORTING PERIOD

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

- On 2 January 2020, the production of components for automotive and aviation industry was spun off outside of the Group, a description of impacts on the Group is provided in Note 7 to the Consolidated financial statements for the year ended 31 December 2019.
- As of 31 December 2019, the Group had reported receivables past their due dates of CZK 579,986 thousand from HM Arzenal. The receivables were fully collected by 30 June 2020.
- Since March 2020, the global economy was affected by the COVID 19 pandemic. The rapid spread of COVID-19 has resulted in authorities implementing numerous measures to try to contain COVID-19 and these measures have adversely impacted and may further impact the majority of economic sectors including portions or all of the Group's workforce and operations, the operations of its customers, and those of its respective vendors and suppliers. To date, the COVID-19 pandemic has caused significant financial market volatility and uncertainty and international supply changes, which have already significantly depressed global business activities and could restrict access to capital and result in a long-term economic slowdown or recession that could negatively affect the Group's operating results. The Group's sales have increased in certain markets during the first six months of 2020 and since the COVID-19 outbreak and the start of civil unrest in May 2020, demand in the USA has increased significantly in comparison with previous years, however, the Group is unable to assess whether or for how long the increased or stable demand in those markets will last and believes this may be a temporary effect. In addition, due to the near halt of passenger air flights from and/or to key markets of the Group, the Group has had to switch from using the excess cargo capacity of passenger air flights to more costly specialized cargo plane flights. Consequently, the cost of transportation of the Group's products has increased substantially.

The Group operates its principal production facility in Uherský Brod, Czech Republic. This facility is critical to the Group's operations. In 2019, the Group produced more than 85% of its products (firearms) at this facility. The Group does not have any other significant production capacity which could substitute this facility. The Group has managed to operate efficiently and safely even during the government lockdown restrictions, but if significant portions of the Group's workforce based in Uherský Brod were unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, the Group's operations would be materially adversely impacted.

Despite the Group has experienced interruptions to its supply chain, it did not cause significant disruptions to production as the Group has pre-emptively stocked higher level of inventories of parts, but if these or other interruptions are long-lasting or spread to a wider supplier base, this could cause shortages in certain materials, parts and labour supplies.

The COVID-19 crisis also heavily influenced foreign exchange markets developments and as a result CZK has depreciated against both EUR and USD which impacted mark-to-market value of the Group's hedging instruments and thus negatively impacted the Group's P/L and Group's Equity level.

The Company cannot predict the degree to, or the time period over which, the Group's sales and operations will be impacted by the COVID-19 pandemic, and the effects could be material. It is likely that the COVID-19 pandemic will cause an economic slowdown, and it is possible that it could cause a global recession.

- A dividend payable to the owner in the amount of CZK 328,218 thousand was approved and paid during the current reporting period.
- In May 2020, the Group acquired a 25 % share in the Swedish company Spuhr i Dalby AB. Further details about the transaction are provided in Note 15.
- With effect from 1 June 2020, the shares of CZG – Česká zbrojovka Group SE have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares.

3. BASIC PRINCIPLES OF PREPARATION OF HALF-YEAR REPORT

These condensed interim consolidated financial statements for the half-year ended 30 June 2020 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 have to be read together with the consolidated financial statements for the year ended 31 December 2019, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted 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.

5. 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, revenue and expenses. The actual results may differ from these estimates. Further to this, The Group's future business may be adversely impacted by factors out of 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 2019.

6. 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 of 31 December 2019. No changes in the rules and policies of managing these risks have been made since the end of 2019.

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 of 30 June 2020 and 31 December 2019 are disclosed in Note 16 Financial Assets and Liabilities at Fair Value.

7. ASSETS AND LIABILITIES HELD FOR DISTRIBUTION TO OWNERS AND DISCONTINUED OPERATIONS

In 2019, the Group owner decided to spin-off the production of automotive and aviation components outside the Group. As of 31 December 2019, the spin-off assets and liabilities were reported as assets and liabilities held for distribution to owners and discontinued operations under IFRS 5. The spin-off assets and liabilities were reported at their carrying value. The spin-off activity was classified as discontinued operation as it represented a significant segment for the Group, which is transferred outside of the Group with no consideration received. The spin-off was completed in January 2020.

The carrying amount of assets held for distribution to owners as of 31 December 2019 was CZK 525,273 thousand, the carrying value of the liabilities relating to these assets amounts to CZK 317,982 thousand. Completion of the transaction led to a decrease in equity in amount of CZK 207,291 thousand in the half-year to 30 June 2020 (see also Condensed consolidated statement of changes in equity).

Comparative amounts related to discontinued operations were restated for the half-year ended 30 June 2019 for the reclassification of discontinued operations. Profit from discontinued operations recognized item in the profit or loss and other comprehensive income for the half-year ended 30 June 2019 was comprised:

Discontinued operation	30 June 2019
	CZK '000
Revenues from the sale of own products, goods and services	247 489
Other operating income	10 218
Changes in inventories of finished goods and works in progress	22 960
Raw materials and consumables used	-135 409
Services	-34 608
Personnel costs	-66 080
Depreciation and amortization	-21 820
Other operating expenses	-2 723
Operating profit	20 027
Interest income	162
Interest expenses	-2 481
Other financial income	352
Other financial expenses	-904
Profit before tax	17 156
Income tax	-2 241
Profit for the period from discontinued operations	14 915

The impact of discontinued operations on the individual categories of cash flows for the half-year ended 30 June 2019 were as follows: cash flow from operating activities CZK 52,754 thousand, cash flow from investment activities CZK -20,915 thousand and cash flow from financing activities CZK -2,481 thousand.

8. SEGMENT AND REVENUE INFORMATION

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. In previous periods differences in Group's products were chosen by the management as a key factor to identify the Group's operating and reportable segments. In previous periods the Group reported three separate operating segments – Production, Purchase and Sale of Firearms and Accessories; Production of Automotive Components; and the Aero and Other segments. As specified in the consolidated financial statement for the year ended 31 December 2019, the production of components for the automotive and aviation industry represented discontinued operations as of 31 December 2019 and aggregate financial information relating to the previously identified reportable segment is reported separately for the half-year period ended 30 June 2019 in Note 7.

As of 30 June 2020, the Production, Purchase and Sale of Firearms and Accessories represents the only activity of the Group and related revenues and expenses represent substantially all revenues and expenses of the Group. However, the Group might have revenues (and related expenses) from transactions not reported to the management as part of the Production, Purchase and Sale of Firearms and Accessories (such as revenues

from non-firearms related production on temporarily available production capacities of the Group). Such activities do not represent a reportable operating segment and the results of these operations are reported in the “Other” column.

As of 30 June 2020 and 31 December 2019, substantially all assets and liabilities related to the Production, Purchase and Sale of Firearms and Accessories.

The Group’s management, as chief operating decision makers, uses EBITDA (Profit before Interest, Taxes, Depreciation and Amortization) as the segment performance measure in deciding how to allocate resources and in assessing performance. The segment performance measure and related information presented is based on IFRS measurement and recognition principles.

Revenues and profit by individual segments as of 30 June 2020 (in CZK ‘000):

	Production, purchase and sale of firearms and accessories	Other	Total
Revenues from the sale of own products, goods and services	3 299 771	63 628	3 363 399
Profit before Interest, Taxes, Depreciation and Amortization (EBITDA)	717 921	6 866	724 787
Depreciation and amortization	189 815	3 637	193 452
Profit before Interest and Taxes (EBIT)	528 106	3 229	531 335
Interest income and interest expense	56 371	1 392	57 763
Profit before Taxes (EBT)	471 735	1 837	473 572

Revenues and profit by individual segments as of 30 June 2019 (in CZK ‘000):

	Production, purchase and sale of firearms and accessories	Other	Total
Revenues from the sale of own products, goods and services	2 920 457	42 784	2 963 241
Profit before Interest, Taxes, Depreciation and Amortization (EBITDA)	839 405	7 715	847 120
Depreciation and amortization	183 984	2 185	186 169
Profit before Interest and Taxes (EBIT)	655 431	5 530	660 951
Interest income and interest expense	29 853	898	30 751
Profit before Taxes (EBT)	625 578	4 632	630 200

The table below specifies income from the sale of own products, goods and services arising from continued operations by the most significant regions (CZK '000):

	Sales to external customers	
	30 June 2020	30 June 2019
Czech Republic (home country)	308 362	728 970
USA	2 337 896	1 486 903
Europe (outside of the Czech Republic)	285 247	398 565
Africa	121 940	48 156
Asia	198 425	110 841
Other	111 529	189 806
Total	3 363 399	2 963 241

The Group has production facilities in the Czech Republic and in the USA. Out of the total carrying value of Property, plant and equipment of CZK 2,021,572 thousand as of 30 June 2020 (31 December 2019: CZK 1,994,748 thousand), the value of items located in the USA is CZK 244,387 thousand as of 30 June 2020 (31 December 2019: CZK 230,976 thousand), the remainder is in the Czech Republic. No material intangibles were located outside the Czech Republic; also, goodwill relates to Czech operations only.

9. PROFIT AND LOSS INFORMATION

9.1 Significant events and transactions

- Loss on financial derivatives: The Group manages its exposure to 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 half-year ended 30 June 2020, the Group has recognized a loss from derivative instruments in other financial expenses in amount of CZK 331,708 thousand (CZK 70,454 thousand in the half-year ended 30 June 2019). In the half-year ended 30 June 2020, the Group has recognized a gain from derivative instruments in other financial income in amount of CZK 137,120 thousand (CZK 111,154 thousand in the half-year ended 30 June 2019). Further to this, the Group has recognized in other comprehensive income a loss of CZK 76,644 thousand from the remeasurement of financial derivatives designated as hedging instruments (gain CZK 94,379 thousand in the half year ended 30 June 2019).
- IPO costs and listing costs: with effect from 1 June 2020, the shares of CZG – Česká zbrojovka Group SE have been admitted to trading on the Prime Market of the Prague Stock Exchange in the form of a so-called technical listing without a prior public offering of the shares. The IPO costs and listing costs, including mainly legal and other advisory services, amounted to CZK 17,600 thousand in the half-year ended 30 June 2020.
- The Other operating expenses also represent release of allowances, which is effectively causing 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 half-year ended 30 June 2020 is 19.3 % (30 June 2019: 20.8 %).

10. INTANGIBLE ASSETS

The following tables summarise the changes in intangible assets from 1 January 2020 to 30 June 2020:

Cost

GROUP	Opening balance	Additions	Disposals	Decrease in cost/transfers - subsidy	Impact of exchange rate fluctuations	Closing balance
Trademark and logos	233 000	-	-	-	-	233 000
Research and development	215 134	19 543	-33	-	-	234 644
Software	192 475	1 278	-25	-	-	193 728
Licenses, patents and other valuable rights	61 628	56	-	-	-	61 684
Contractual customer relations	864 727	-	-	-	-	864 727
Other intangible fixed assets	71 005	2 671	-275	-	281	73 682
Intangible fixed assets under construction	29 653	11 837	-5 417	-55	-	36 018
Prepayments made for intangible fixed assets	420	-	-420	-	-	-
Total	1 668 042	35 385	-6 170	-55	281	1 697 483

Accumulated depreciation and carrying value

GROUP	Opening balance	Amortization	Sales, liquidation, disposals	Disposals	Impact of exchange rate fluctuations	Allowance for intangible fixed assets	Closing balance	Carrying amount
Trademarks and logos	-	-	-	-	-	-	-	233 000
Research and development	-127 809	-10 835	-	-	-	-	-138 644	96 000
Software	-141 443	-6 329	25	-	-	-	-147 747	45 981
Licenses, patents and other valuable rights	-30 727	-2 492	-	-	-	-	-33 219	28 465
Contractual customer relations	-497 218	-43 237	-	-	-	-	-540 455	324 272
Other intangible fixed assets	-34 826	-2 137	-	275	-682	597	-36 773	36 909
Intangible fixed assets under construction	-1 777	-1 941	368	-	-	-	-3 350	32 668
Prepayments made for intangible fixed assets	-	-	-	-	-	-	-	-
Total	-833 800	-66 971	393	275	-682	597	-900 188	797 295

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 the impairment.

11. PROPERTY, PLANT AND EQUIPMENT

The following tables summarize the changes in property, plant and equipment from 1 January 2020 to 30 June 2020:

Cost

GROUP	Opening balance	Additions	Disposals	Impact of exchange rate fluctuations	Closing balance
Land	120 373	-	-	3 011	123 384
Buildings	1 053 878	1 370	-281	2 074	1 057 041
Machinery, instruments and equipment	2 957 990	112 031	-48 395	7 136	3 028 762
Other tangible fixed assets	40 069	73	-18	1 831	41 955
Tangible fixed assets under construction	76 014	115 262	-92 454	2 196	101 018
Prepayments made for tangible fixed assets	58 054	61 015	-47 587	-	71 482
Total	4 306 378	289 751	-188 735	16 248	4 423 642

Accumulated depreciation and carrying value

GROUP	Opening balance	Depreciation	Sales, liquidation	Impact of exchange rate fluctuations	Allowance for tangible fixed assets	Closing balance	Carrying amount
Land	-	-	-	-	-	-	123 384
Buildings	-485 403	-15 017	281	-628	-3 818	-504 585	552 456
Machinery, instruments and equipment	-1 811 981	-109 932	41 375	-2 797	-	-1 883 335	1 145 427
Other tangible fixed assets	-1 851	-75	-	18	-	-1 908	40 047
Tangible fixed assets under construction	-9 191	-1 191	709	-	-	-9 673	91 345
Prepayments made for tangible fixed assets	-3 204	-266	-	901	-	-2 569	68 913
Total	-2 311 630	- 126 481	42 365	-2 506	-3 818	-2 402 070	2 021 572

Machinery, instruments and equipment and Buildings as of 30 June 2020 include rights of use resulting from lease contracts in the amount of CZK 116,912 thousand (CZK 102,297 thousand as of 31 December 2019). Additions to the rights of use resulting from lease contracts amounted to CZK 6,470 thousand in 2020 (CZK 68,396 thousand in 2019). These namely include namely lease contracts for warehouses and office space, cars and office technical equipment.

Depreciation for the half-year ended 30 June 2020 includes depreciation of rights of use arising from lease contracts in the amount of CZK 7,574 thousand (CZK 12,732 thousand in 2019).

12. INVENTORIES

The structure of inventories as of 30 June 2020 and 31 December 2019 is as follows (in CZK '000):

	30 June 2020	31 December 2019
Material	333 505	321 616
Production in progress and semi-finished products	302 977	292 604
Products	759 194	943 122
Goods	252 224	187 618
Prepayments made for inventories	7 671	2 467
Total	1 655 571	1 747 427

The valuation of redundant, obsolete and slow-moving inventories is decreased to the selling price net of the costs of sale. As of 30 June 2020, impairment losses included in inventories on the statement of financial position amounted to CZK 141,700 thousand (31 December 2019: CZK 197,314 thousand). In the half-year ended 30 June 2020, an impairment loss of CZK 59,317 thousand was released to the profit and loss (CZK 25,038 thousand in the half-year ended 30 June 2019).

13. CURRENT AND NON-CURRENT PROVISIONS

Provisions	Balance at 30 June 2020	Balance at 31 Dec 2019
Legal disputes	-	2 600
Warranty repairs	13 546	11 206
For outstanding vacation days	34 156	1 892
For employee benefits – bonuses	19 086	30 128
Other	4	11
Total current provisions	66 792	45 837
Legal disputes	-	17 000
Warranty repairs	761	761
For outstanding vacation days	-	-
For employee benefits – bonuses	6 299	6 299
Other	-	993
Total non-current provisions	7 060	25 053
Total provisions	73 852	70 890

In the half-year ended 30 June 2020, net increase in provisions amounted to CZK 2,962 thousand (half-year ended 30 June 2019: net decrease of CZK 15,274 thousand).

The provision for a legal dispute amounting to CZK 19,600 thousand as of 31 December 2019 was released as the dispute was settled.

14. BORROWINGS

The Group obtained a financial borrowing of CZK 250,000 thousand from parent company Česká zbrojovka Partners SE in 2019, which was attributed to liabilities held for distribution to owners and discontinued operations.

The Group obtained financial borrowings of CZK 257,535 thousand from banks in the half-year ended 30 June 2020.

The cash flow statement for the period ended 30 June 2020 shows net impact on the line Proceeds from loans and borrowings of the described effects above as the cash flow statement for the period ending 30 June 2019 and year ended 31 December 2019 is not restated for discontinued operations, see note 7.

15. INTEREST IN ASSOCIATES

In May 2020, the Group has purchased a 25 % share in Spuhr i Dalby AB, a Swedish manufacturer of optical solutions for a consideration of CZK 69,823 thousand. At the date of the transaction, the carrying amount of the Group's interest in the associate could be summarized as follows:

	6 May 2020
	CZK '000
Net assets of the associate	218 263
Proportion of the Group's interest (25%)	54 566
Goodwill	15 257
Carrying amount	69 823

The carrying amount of all equity-accounted investments has changed as follows in the half-year ended 30 June 2020.

	30 June 2020
	CZK '000
Beginning of the period	17 160
Purchase of share in Spuhr i Dalby	69 823
Share on profit/ (loss) of equity accounted investments	5 368
Other	0
End of the period	92 351

The table below provides aggregated financial information about the Group's share on affiliates current and non-current assets, current and non-current liabilities, revenue and profit from continuing operations as of 30 June 2020 and for the half-year ended 30 June 2020.

	30 June 2020
	CZK '000
Current assets	44 099
Non-current assets	83 212
Current liabilities	-2 560
Non-current liabilities	-24 896
Revenue	16 034
Profit from continuing operations	5 368

The Group had no significant transactions with its affiliates in the half-year ended 30 June 2020.

16. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

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

As of 30 June 2020 and 31 December 2019, only financial derivatives are measured at fair value. 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 realisation 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 of 30 June 2020 and 31 December 2019 (CZK '000):

	30 June 2020			31 December 2019		
	Nominal value	Positive fair value	Negative fair value	Nominal value	Positive fair value	Negative fair value
Interest rate swap	-	-	-	-	46 385	-
Put option	3 208 800	53 430	-	724 185	13 232	-
Call option	5 888 549	-	277 251	3 631 216	-	80 693
Currency swaps	340 000	510	3 676	226 210	770	880
Forwards	3 330 645	83 089	33 237	576 681	3 308	4 843
Total	12 767 994	137 029	314 164	5 158 292	63 695	86 416

The following table provides an overview of nominal values and positive or negative fair values of open hedging derivatives as of 30 June 2020 and 31 December 2019:

	30 June 2020			31 December 2019		
	Nominal value	Positive fair value	Negative fair value	Nominal value	Positive fair value	Negative fair value
Interest rate swap	-	3 339	3 010	-	-	-
Put option	4 861 332	66 038	-	7 905 051	125 143	-
Call option	4 861 332	-	206 029	7 905 051	-	237 029
Currency swaps	336 658	1 185	8 934	418 025	5 168	-
Forwards	2 561 542	18 148	47 643	3 011 931	42 480	15 807
Total	12 620 864	88 710	265 616	19 240 058	172 791	252 836

The Group also has a number of financial instruments which are not measured at fair value. For all of these instruments, the fair values are not materially different to their carrying value, since the interest rate is either close to the current market rates or the instruments are of a short-term nature.

17. PROFIT DISTRIBUTION

In the half-year ended 30 June 2020, the Group paid out a dividend of CZK 328,218 thousand to Česká zbrojovka Partners SE.

18. RELATED PARTY TRANSACTIONS

During the half-year ended 30 June 2020, the Group had following transactions with related parties:

Key management personnel:

In the half-year ended 30 June 2020, the key management personnel included all Board of Directors and Supervisory Board members. The short-term benefits provided to the key management personnel (including gross salary, annual bonuses, health and social insurance and additional pension insurance) amounted to CZK 25,990 thousand.

In the half-year ended 30 June 2019, services provided by key management personnel were paid for by the parent company Česká zbrojovka Partners SE, and were not recharged to the company or its subsidiaries.

The Group provided no other benefits (e.g. post-employment benefits, termination benefits or share-based payments) to its key management personnel in 2019 or 2020.

The Group had the following outstanding balances as of 30 June 2020 and transactions in the half-year ended 30 June 2020 with its related parties:

Entity	Relationship	Payables as of 30 June 2020	Purchases 1 January - 30 June 2020	Receivables as of 30 June 2020	Income 1 January - 30 June 2020
European Holding Company SE	parent company	-	-	18	33
Česká zbrojovka Partners SE	intermediate parent company	-	646	22	36
Česká zbrojovka Defence SE	subsidiary of intermediate parent company	-	-	5	33
Keriani a.s.	associate of parent company	1 176	4 347	2 299	-
Silesia Invest SE	company controlled by the same ultimate owner	-	-	1	10
EHC zdravotní s.r.o.	company controlled by the same ultimate owner	-	-	10 248	488
CZUB zdravotní s.r.o.	company controlled by the same ultimate owner	-	2 419	437	20
CZ-AUTO SYSTEMS a.s.	subsidiary of intermediate parent company	1 889	7 816	267 444	24 244
AUTO-CZ International a.s.	subsidiary of intermediate parent company	-	-	1	10
TRX, s.r.o.	company controlled by the same ultimate owner	85	420	-	-
ITeuro, a.s.	company controlled by the same ultimate owner	-	2 443	2 083	-
Total		3 150	18 091	282 558	24 874

Further to this, the Group paid out a dividend of CZK 328,218 thousand to Česká zbrojovka Partners SE.

The Group had the following outstanding balances as of 31 December 2019 and transactions in the half-year ended 30 June 2019 with its related parties:

Entity	Relationship	Payables as of 31 December 2019	Purchases 1 January - 30 June 2019	Receivables as of 31 December 2019	Income 1 January - 30 June 2019
Česká zbrojovka Partners SE	intermediate parent company	5 618	10 133	-	-
Keriani a.s.	associate of parent company	1 040	3 554	2 299	-
Silesia Invest SE	company controlled by the same ultimate owner	-	-	-	20
EHC zdravotní s.r.o.	company controlled by the same ultimate owner	-	-	9 748	509
CZUB zdravotní s.r.o.	company controlled by the same ultimate owner	-	2 583	51	15
Česká zbrojovka CZ-AUTO a.s.	subsidiary of intermediate parent company	1 913	-	-	-
TRX, s.r.o.	company controlled by the same ultimate owner	169	420	-	-
ITeuro, a.s.	company controlled by the same ultimate owner	639	3 425	-	-
Total		9 379	20 115	12 098	544

19. NET EARNINGS PER SHARE

Basic and diluted earnings per share were determined as follows:

	30 June 2020	30 June 2019
Numerator (CZK '000)		
Profit after tax from continued operations attributable to the owner of the parent company	381 744	485 054
Profit after tax from discontinued operations attributable to the owner of the parent company	0	14 915
Denominator (average number of shares in '000)		
Basic	29 838	29 838
Diluted	29 838	29 838
Net earnings per share (CZK/ share) from continued operations attributable to the owner of the parent company		
Basic	13	16
Diluted	13	16
Net earnings per share (CZK/ share) from discontinued operations attributable to the owner of the parent company		
Basic	0	1
Diluted	0	1
Net earnings per share (CZK/ share) attributable to the owner of the parent company		
Basic	13	17
Diluted	13	17

As disclosed in the 2019 annual financial statements, the parent company's ordinary shares split in 2019 without any change in the share capital; specifically, 100 shares split into 29,838,000 shares. For calculating net earnings per share, the value of 29,838,000 shares was used for all periods presented.

20. CONTINGENT LIABILITIES

As of 30 June 2020, the Group had issued no guarantees in respect of third-party liabilities.

As of 30 June 2020, the Group recorded no significant legal disputes where the Group acts as a defendant or investment, environmental and other off-balance sheet commitments.

21. SUBSEQUENT EVENTS

No events occurred subsequent to the balance sheet date that would have a material impact on the condensed consolidated financial statements.

The group purchased remaining shares in the subsidiary 4M SYSTEMS a.s.